



### **DFCC Bank forges ahead amidst heightened economic challenges**

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

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

In line with the Bank's corporate strategy and its stated goal of becoming one of Sri Lanka's most customer-centric, digitally enabled banks by 2025, a new T24 Temenos Core Banking System was implemented on 21 October 2022, along with a feature-rich online banking platform. This transition has resulted in an improved, digitally enabled banking service that is highly flexible, agile, and highly beneficial to customers.

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

The following commentary relates to the audited Financial Statements for the year ended 31 December 2022, presented in accordance with Sri Lanka Accounting Standard 34 (LKAS 34) on "Interim Financial Statements".

## **Financial Performance**

### **Profitability**

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

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

DFCC declared a final dividend of LKR 2.00 per share in the form of a scrip dividend for the year 2022. The Bank's Return on Equity (ROE) reduced to 5.04% during the year ended 31 December 2022 from 6.55% recorded for the year ended 31 December 2021. The Bank's Return on Assets (ROA) before tax for the year ended 31 December 2022 is 0.46% compared to 0.91% for the year ended 31 December 2021.

### **Net Interest Income**

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

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

## **FEE AND COMMISSION INCOME**

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

Although trade operations were severely impacted in the early part of the year, they improved to a certain extent as more foreign funding became available. Additionally, inward remittances

significant improvement, enabling the Bank to accommodate more trade operations. Fee based business have shown a slight improvement in profitability due to the higher tariffs levied, though the actual volume of operations is lower than before.

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

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

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

The main uncertainties regarding the recoverability of the Bank's total sovereign debt exposure relate to the debt service capacity of the Government of Sri Lanka. This is, in turn, affected by the development of the prevailing macroeconomic environment as well as the levels of liquidity of the Government. The ongoing debt restructuring negotiations with the International Monetary Fund (IMF) and the resultant comprehensive debt restructuring programme could have other adverse outcomes. Based on the currently available data, the Bank has used its discretion and informed judgment to estimate the recoverable value. Accordingly, it has been decided to maintain a minimum impairment provision cover of 35% of our overall sovereign debt investment.

With these provisions made to cover the additional risk in the economic environment, the impairment charge recorded an increase of 280% against the comparative period and stood at LKR 17.04Bn for the year ended 31 December 2022 compared to LKR 4.5Bn in the comparable year.

### **Operating Expenses**

With the implementation of the core banking system during the last quarter of 2021, the Bank upgraded to its IT infrastructure to provide multiple channels for service delivery to customers through a robust digital drive. Due to the increase in IT related expenses as a result of infrastructure upgrades carried out, and increases in cost due to inflation and SLR devaluation, the operating expenses for the year ended 31 December 2022 increased to LKR 10,116 Mn compared with LKR 8,381 Mn during the corresponding period in 2021. However, the numerous process automation

and workflow management systems introduced during the period helped curtail and manage operating expenses at reduced levels.

### **Other Comprehensive Income**

Changes in the 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.

Due to the application of hedge accounting, the impact on equity due to the exchange fluctuation was minimised. A fair value loss of LKR 4,506 Mn was recorded on account of equity securities outstanding as at 31 December 2022.

### **Business Growth**

#### **Assets**

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

Bank curtailed its foreign currency lending portfolio significantly during the year ended 31 December 2022.

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

#### **Liabilities**

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

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

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

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

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

**Thimal Perera**

**Director / Chief Executive Officer**

**17 February 2023**

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

		Bank						Group					
		For the year ended			For the quarter ended			For the year ended			For the quarter ended		
Notes		31.12.2022 (Audited)	31.12.2021 (Audited)	Change	31.12.2022	31.12.2021	Change	31.12.2022 (Audited)	31.12.2021 (Audited)	Change	31.12.2022	31.12.2021	Change
		LKR 000	LKR 000	%	LKR 000	LKR 000	%	LKR 000	LKR 000	%	LKR 000	LKR 000	%
	<b>Gross Income</b>	<b>73,008,272</b>	42,648,762	71	<b>24,679,725</b>	10,677,209	131	<b>73,520,140</b>	43,029,280	71	<b>24,741,554</b>	10,692,738	131
	Interest income	67,460,357	36,599,000	84	22,680,349	9,969,965	127	67,464,328	36,599,512	84	22,683,868	9,970,051	128
	Interest expense	41,391,046	23,946,256	73	15,187,782	6,017,343	152	41,317,083	23,918,895	73	15,165,989	6,010,940	152
	<b>Net interest income</b>	<b>26,069,311</b>	12,652,744	106	<b>7,492,567</b>	3,952,622	90	<b>26,147,245</b>	12,680,617	106	<b>7,517,879</b>	3,959,111	90
	Fee and commission income	3,643,039	2,888,346	26	1,100,764	770,567	43	3,641,487	2,887,711	26	1,098,410	770,373	43
	Fee and commission expenses	766,002	292,468	162	255,031	104,074	145	766,002	292,468	162	255,031	104,074	145
	<b>Net fee and commission income</b>	<b>2,877,037</b>	2,595,878	11	<b>845,733</b>	666,493	27	<b>2,875,485</b>	2,595,243	11	<b>843,379</b>	666,299	27
	Net (loss) / gain from trading	(213,103)	436,675	(149)	787,239	(338,648)	(332)	(213,103)	436,675	(149)	787,239	(338,648)	(332)
	Net gain / (loss) from financial instruments at fair value through profit or loss	276,319	(247,268)	212	159,284	702,139	(77)	276,319	(247,268)	212	159,284	702,139	(77)
	Net gains from derecognition of financial assets												
	Fair value through other comprehensive income	99,112	1,391,008	(93)	59,674	65,261	(9)	99,112	1,391,008	(93)	59,674	65,261	(9)
	Net other operating income	1,742,548	1,581,002	10	(107,585)	(492,074)	(78)	2,251,996	1,961,642	15	(46,923)	(476,438)	(90)
	<b>Total operating income</b>	<b>30,851,224</b>	18,410,038	68	<b>9,236,912</b>	4,555,792	103	<b>31,437,054</b>	18,817,917	67	<b>9,320,532</b>	4,577,724	104
	Impairment charge for loans and other losses												
	Loans to and receivables from other customers	13,928,156	3,846,100	262	3,812,064	1,332,769	186	13,945,657	3,846,100	263	3,812,066	1,332,769	186
	Other financial assets	3,078,918	599,994	413	1,223,757	595,377	(106)	3,078,918	599,994	413	1,223,757	595,377	(106)
	Others	34,397	39,194	(12)	43,374	25,287	72	34,397	39,194	(12)	43,374	25,287	72
	<b>Net operating income</b>	<b>13,809,753</b>	13,924,750	(1)	<b>4,157,717</b>	2,602,359	60	<b>14,378,082</b>	14,332,629	0	<b>4,241,335</b>	2,624,291	62
	Operating expenses												
	Personnel expenses	4,444,212	3,897,725	14	1,066,802	976,261	9	4,678,123	4,078,512	15	1,131,202	1,012,848	12
	Depreciation and amortisation	1,124,666	1,023,851	10	285,972	288,246	(1)	1,188,433	1,074,173	11	305,848	301,740	1
	Other expenses	4,548,101	3,459,642	31	1,382,115	951,844	45	4,478,732	3,400,862	32	1,383,108	943,740	47
	<b>Total operating expenses</b>	<b>10,116,979</b>	8,381,218	21	<b>2,734,890</b>	2,216,351	23	<b>10,345,288</b>	8,553,547	21	<b>2,820,158</b>	2,258,328	25
	<b>Operating profit before taxes on financial services</b>	<b>3,692,774</b>	5,543,532	(33)	<b>1,422,826</b>	386,008	269	<b>4,032,794</b>	5,779,082	(30)	<b>1,421,177</b>	365,963	288
	Taxes on financial services	1,253,301	1,217,068	3	403,557	164,813	145	1,253,301	1,217,068	3	403,557	164,813	145
	<b>Operating profit after taxes on financial services</b>	<b>2,439,473</b>	4,326,464	(44)	<b>1,019,269</b>	221,195	361	<b>2,779,493</b>	4,562,014	(39)	<b>1,017,620</b>	201,150	406
	Share of profits of associate and joint venture	-	-	-	-	-	-	332,719	296,662	12	333,045	149,586	123
	<b>Profit before income tax</b>	<b>2,439,473</b>	4,326,464	(44)	<b>1,019,269</b>	221,195	361	<b>3,112,212</b>	4,858,676	(36)	<b>1,350,665</b>	350,736	285
	Income tax expense	(73,879)	1,104,601	(107)	(450,816)	69,273	(751)	70,301	1,193,565	(94)	(371,086)	98,769	(476)
	<b>Profit for the year</b>	<b>2,513,352</b>	3,221,863	(22)	<b>1,470,086</b>	151,922	868	<b>3,041,911</b>	3,665,111	(17)	<b>1,721,751</b>	251,967	583
	<b>Profit attributable to:</b>												
	Equity holders of the Bank	2,513,352	3,221,863	(22)	1,470,086	151,922	868	2,932,475	3,548,938	(17)	1,726,113	230,044	650
	Non-controlling interests	-	-	-	-	-	-	109,436	116,173	(6)	(4,362)	21,923	(120)
	<b>Profit for the year</b>	<b>2,513,352</b>	3,221,863	(22)	<b>1,470,086</b>	151,922	868	<b>3,041,911</b>	3,665,111	(17)	<b>1,721,751</b>	251,967	583
	Basic/Diluted earnings per ordinary share (LKR)	<b>6.75</b>	10.14	(33)	<b>3.95</b>	3.30	20	<b>7.88</b>	11.17	(29)	<b>4.64</b>	3.64	27

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

	Bank						Group					
	For the year ended			For the quarter ended			For the year ended			For the quarter ended		
	31.12.2022 LKR 000 (Audited)	31.12.2021 LKR 000 (Audited)	Change %	31.12.2022 LKR 000	31.12.2021 LKR 000	Change %	31.12.2022 LKR 000 (Audited)	31.12.2021 LKR 000 (Audited)	Change %	31.12.2022 LKR 000	31.12.2021 LKR 000	Change %
Profit for the year	2,513,352	3,221,863	(22)	1,470,086	151,922	868	3,041,911	3,665,111	(17)	1,721,751	251,967	583
<b>Other comprehensive income / (expense) for the year, net of tax</b>												
<b>Items that are or may be reclassified subsequently to income</b>												
<b>Movement in fair value reserve(fair value through other comprehensive income debt instrument):</b>												
Net change in fair value	1,060,332	(2,469,369)	143	72,070	(703,227)	110	1,060,332	(2,469,384)	143	72,070	(703,242)	110
Reclassified to income statement	(257,535)	(2,062,305)	88	-	-	-	(257,535)	(2,062,305)	88	-	-	-
Share of other comprehensive income of equity accounted associate and joint venture	-	-	-	-	-	-	440,917	61,748	614	(236,076)	3,735	(6,421)
Movement in hedging reserve:												
Cash flow hedge - effective portion of changes in fair value	20,807,094	673,546	2,989	9,359,527	(413,406)	2,364	20,807,094	673,546	2,989	9,359,527	(413,406)	2,364
Cash flow hedge - reclassified to income statement	(20,208,750)	(795,779)	(2,439)	(26,250)	(52,462)	(50)	(20,208,750)	(795,779)	(2,439)	(26,250)	(52,462)	50
Related deferred tax	(198,904)	1,142,242	(117)	(2,286,223)	161,768	(1,513)	(198,904)	1,142,242	(117)	(2,286,223)	161,768	(1,513)
<b>Total other comprehensive income / (expense) that are or may be reclassified subsequently to income statement</b>	<b>1,202,237</b>	<b>(3,511,665)</b>	<b>134</b>	<b>7,119,124</b>	<b>(1,007,327)</b>	<b>807</b>	<b>1,643,154</b>	<b>(3,449,932)</b>	<b>148</b>	<b>6,883,048</b>	<b>(1,003,607)</b>	<b>786</b>
<b>Items that will not be reclassified to income statement</b>												
Gains / (losses) on remeasurement of defined benefit assets	325,828	(59,388)	649	325,828	(59,388)	649	332,442	(56,323)	690	332,442	(56,323)	690
Movement in fair value reserve (FVOCI equity instruments) :												
Equity investments at fair value through other comprehensive income - net change in fair value	(4,505,992)	(35,606)	(12,555)	(845,503)	(540,603)	(56)	(4,494,947)	(35,599)	(12,527)	(845,502)	(540,596)	(56)
Share of other comprehensive income of equity accounted associate and joint venture	-	-	-	-	-	-	(1,067)	1,108	(196)	(1,721)	1,124	(253)
Related deferred tax	(155,492)	4,204	(3,799)	(155,492)	4,204	(3,799)	(157,477)	4,277	(3,782)	(157,477)	4,277	(3,782)
<b>Total other comprehensive expense on items that will not be reclassified to income statement</b>	<b>(4,335,656)</b>	<b>(90,790)</b>	<b>(4,675)</b>	<b>(675,167)</b>	<b>(595,787)</b>	<b>(13)</b>	<b>(4,321,049)</b>	<b>(86,537)</b>	<b>(4,893)</b>	<b>(672,258)</b>	<b>(591,518)</b>	<b>(14)</b>
<b>Other comprehensive (expense) / income for the year , net of tax</b>	<b>(3,133,419)</b>	<b>(3,602,455)</b>	<b>13</b>	<b>6,443,957</b>	<b>(1,603,114)</b>	<b>502</b>	<b>(2,677,895)</b>	<b>(3,536,469)</b>	<b>24</b>	<b>6,210,790</b>	<b>(1,595,125)</b>	<b>489</b>
<b>Total comprehensive (expense) / income for the year</b>	<b>(620,067)</b>	<b>(380,592)</b>	<b>(63)</b>	<b>7,914,043</b>	<b>(1,451,192)</b>	<b>645</b>	<b>364,016</b>	<b>128,642</b>	<b>183</b>	<b>7,932,541</b>	<b>(1,343,158)</b>	<b>691</b>
<b>Total comprehensive (expense) / income attributable to:</b>												
Equity holders of the Bank	(620,067)	(380,592)	(63)	7,914,043	(1,451,192)	645	254,238	12,173	1,989	7,936,561	(1,365,377)	681
Non-controlling interests	-	-	-	-	-	-	109,778	116,469	(6)	(4,020)	22,219	(118)
<b>Total comprehensive (expense) / income for the year</b>	<b>(620,067)</b>	<b>(380,592)</b>	<b>(63)</b>	<b>7,914,043</b>	<b>(1,451,192)</b>	<b>645</b>	<b>364,016</b>	<b>128,642</b>	<b>183</b>	<b>7,932,541</b>	<b>(1,343,158)</b>	<b>691</b>

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

		Bank			Group		
As at		31.12.2022 (Audited) LKR 000	31.12.2021 (Audited) LKR 000	Change %	31.12.2022 (Audited) LKR 000	31.12.2021 (Audited) LKR 000	Change %
	Notes						
<b>Assets</b>							
Cash and cash equivalents		16,122,565	10,688,255	51	16,126,635	10,690,873	51
Balances with Central Bank of Sri Lanka		9,030,868	9,359,241	(4)	9,030,868	9,359,241	(4)
Placements with banks		15,224,692	6,288,006	142	15,242,493	6,332,533	141
Derivative financial assets		20,473,544	280,235	7,206	20,473,544	280,235	7,206
Financial assets measured at fair value through profit or loss		1,429,149	218,875	553	1,429,149	218,875	553
Financial assets at amortised cost - Loans to and receivables from other customers.	8	369,072,030	365,900,540	1	369,072,030	365,900,540	1
Financial assets at amortised cost - Debt and other instruments		50,947,926	26,674,962	91	50,947,926	26,674,962	91
Financial assets measured at fair value through other comprehensive income		63,319,060	54,329,436	17	63,319,060	54,333,429	17
Investments in subsidiaries		237,035	217,436	9	-	-	-
Investments in associate		33,169	35,270	(6)	35,394	35,608	(1)
Investments in joint venture		755,000	755,000	-	3,577,701	2,804,871	28
Investment property		9,879	9,879	-	439,973	469,841	(6)
Property, plant and equipment		3,198,553	3,237,124	(1)	3,389,441	3,389,102	0
Intangible assets and goodwill		2,198,042	2,227,577	(1)	2,375,055	2,408,816	(1)
Deferred tax asset		4,137,828	1,358,895	204	4,143,535	1,358,895	205
Other assets		9,737,079	3,924,505	148	9,920,180	3,998,987	148
<b>Total assets</b>		<b>565,926,419</b>	<b>485,505,236</b>	<b>17</b>	<b>569,522,984</b>	<b>488,256,808</b>	<b>17</b>
<b>Liabilities</b>							
Due to banks		15,857,994	3,844,701	312	15,857,994	3,844,701	312
Derivative financial liabilities		84,670	814,219	(90)	84,670	814,219	(90)
Financial liabilities at amortised cost - Due to depositors	9	370,314,026	319,861,013	16	369,746,855	319,362,372	16
Financial liabilities at amortised cost - Due to other borrowers		81,145,692	69,094,264	17	81,145,692	69,094,264	17
Debt securities in issue		16,304,115	16,297,256	0	16,304,115	16,297,256	0
Retirement benefit obligation		591,550	688,598	(14)	615,849	716,477	(14)
Current tax liabilities		2,479,562	951,645	161	2,575,008	1,031,557	150
Deferred tax liability		-	-	-	149,608	112,514	33
Other liabilities		10,027,872	6,580,166	52	10,322,401	6,831,147	51
Subordinated term debt		18,399,991	18,387,276	0	18,399,991	18,387,276	0
<b>Total liabilities</b>		<b>515,205,472</b>	<b>436,519,138</b>	<b>18</b>	<b>515,202,183</b>	<b>436,491,783</b>	<b>18</b>
<b>Equity</b>							
Stated capital		13,182,025	8,600,457	53	13,182,025	8,600,457	53
Statutory reserve		2,874,968	2,746,968	5	2,874,968	2,746,968	5
Retained earnings		22,600,898	22,091,649	2	26,731,857	25,831,589	3
Other reserves		12,063,056	15,547,024	(22)	11,225,802	14,268,853	(21)
<b>Total equity attributable to equity holders of the Bank</b>		<b>50,720,947</b>	<b>48,986,098</b>	<b>4</b>	<b>54,014,652</b>	<b>51,447,867</b>	<b>5</b>
<b>Non-controlling interests</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>306,150</b>	<b>317,158</b>	<b>(3)</b>
<b>Total equity</b>		<b>50,720,947</b>	<b>48,986,098</b>	<b>4</b>	<b>54,320,802</b>	<b>51,765,025</b>	<b>5</b>
<b>Total equity and liabilities</b>		<b>565,926,419</b>	<b>485,505,236</b>	<b>17</b>	<b>569,522,984</b>	<b>488,256,808</b>	<b>17</b>
<b>Contingent liabilities and commitments</b>							
		169,132,507	144,277,788	17	169,132,507	144,277,788	17
<b>Net assets value per share, LKR</b>							
		125.96	152.83	(18)	134.14	160.51	(16)

	Bank		Group	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021
<b>Memorandum Information</b>				
Number of Employees	1,989	2,072	2,097	2,182
Number of Branches (Including Service centres)	139	139		



# Statement of Changes in Equity

	Stated capital LKR 000	Statutory reserve Reserve fund LKR 000	Fair value reserve LKR 000	Other reserves Hedging reserve LKR 000	General reserves LKR 000	Retained earnings LKR 000	Total equity LKR 000
<b>Bank (Audited)</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 year	-	-	-	-	-	3,221,863	3,221,863
Other comprehensive (expenses) / income , net of tax	-	-	(3,441,924)	(105,347)	-	(55,184)	(3,602,455)
<b>Total comprehensive (expense) / income for the year</b>	<b>-</b>	<b>-</b>	<b>(3,441,924)</b>	<b>(105,347)</b>	<b>-</b>	<b>3,166,679</b>	<b>(380,592)</b>
Transfers	-	163,000	-	-	-	(163,000)	-
Transfer of gains on disposal of equity investments at fair value through other comprehensive income to retained earnings	-	-	(344,260)	-	-	344,260	-
<b>Transactions with equity holders of the Bank, recognised directly in equity</b>							
Forfeiture of unclaimed dividends	-	-	-	-	-	9,533	9,533
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>(908,459)</b>	<b>9,533</b>
<b>Balance as at 31 December 2021</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>
<b>Balance as at 01 January 2022</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	-	-	-	-	-	(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 year	-	-	-	-	-	2,513,352	2,513,352
Other comprehensive expenses net of tax	-	-	(3,748,604)	444,849	-	170,336	(3,133,419)
<b>Total comprehensive (expense) / income for the year</b>	<b>-</b>	<b>-</b>	<b>(3,748,604)</b>	<b>444,849</b>	<b>-</b>	<b>2,683,688</b>	<b>(620,067)</b>
Transfers	-	128,000	-	-	-	(128,000)	-
Transfer of gains on disposal of equity investments at fair value through other comprehensive income to retained earnings	-	-	(180,213)	-	-	180,213	-
<b>Transactions with equity holders of the Bank, recognised directly in equity</b>							
Rights issue	3,620,001	-	-	-	-	(36,089)	3,583,912
Forfeiture of unclaimed dividends	-	-	-	-	-	3,494	3,494
Final dividend for 2021 – Scrip	961,567	-	-	-	-	(961,567)	-
<b>Total contributions from and distribution to equity holders</b>	<b>4,581,568</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(994,162)</b>	<b>3,587,406</b>
<b>Balance as at 31 December 2022</b>	<b>13,182,025</b>	<b>2,874,968</b>	<b>(1,832,190)</b>	<b>115,407</b>	<b>13,779,839</b>	<b>22,600,898</b>	<b>50,720,947</b>

## Statement of Changes in Equity

	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	LKR 000	
Group (Audited)											
Balance as at 01 January 2021	7,682,465	2,583,968	4,439,846	103,054	(224,095)	13,779,839	23,061,084	51,426,161	282,589	51,708,750	
Profit for the year	-	-	-	-	-	-	3,548,938	3,548,938	116,173	3,665,111	
Other comprehensive (expense) / income, net of tax	-	-	(3,440,331)	60,147	(105,347)	-	(51,234)	(3,536,765)	296	(3,536,469)	
Total comprehensive (expense) / income for the year	-	-	(3,440,331)	60,147	(105,347)	-	3,497,704	12,173	116,469	128,642	
Transfers	-	163,000	-	-	-	-	(163,000)	-	-	-	
Transfer of gains on disposal of equity investments at fair value through other comprehensive income to retained earnings	-	-	(344,260)	-	-	-	344,260	-	-	-	
Transactions with equity holders of the Bank, recognized directly in equity											
Forfeiture of unclaimed dividends	-	-	-	-	-	-	9,533	9,533	-	9,533	
Final dividend for 2020 - Scrip	917,992	-	-	-	-	-	(917,992)	-	-	-	
Dividend distributed to non-controlling interest by subsidiaries	-	-	-	-	-	-	-	-	(81,900)	(81,900)	
Total contributions from and distribution to equity holders	917,992	-	-	-	-	-	(908,459)	9,533	(81,900)	(72,367)	
Balance as at 31 December 2021	8,600,457	2,746,968	655,255	163,201	(329,442)	13,779,839	25,831,589	51,447,867	317,158	51,765,025	
Balance at 01 January 2022	8,600,457	2,746,968	655,255	163,201	(329,442)	13,779,839	25,831,589	51,447,867	317,158	51,765,025	
Adjustment on surcharge tax	-	-	-	-	-	-	(1,274,906)	(1,274,906)	(34,986)	(1,309,892)	
Adjusted balance as at 01 January 2022	8,600,457	2,746,968	655,255	163,201	(329,442)	13,779,839	24,556,683	50,172,961	282,172	50,455,133	
Profit for the year	-	-	-	-	-	-	2,932,475	2,932,475	109,436	3,041,911	
Other comprehensive (expense) / income , net of tax	-	-	(3,737,559)	440,917	444,849	-	173,556	(2,678,237)	342	(2,677,895)	
Total comprehensive (expense) / income for the year	-	-	(3,737,559)	440,917	444,849	-	3,106,031	254,238	109,778	364,016	
Transfers	-	128,000	-	-	-	-	(128,000)	-	-	-	
Transfer of gains on disposal of equity investments at fair value through other comprehensive income to retained earnings	-	-	(191,258)	-	-	-	191,258	-	-	-	
Transactions with equity holders of the Bank, recognized directly in equity											
Rights issue	3,620,001	-	-	-	-	-	(36,089)	3,583,912		3,583,912	
Forfeiture of unclaimed dividends	-	-	-	-	-	-	3,494	3,494	-	3,494	
Change in holding through joint venture	-	-	-	-	-	-	47	47	-	47	
Final dividend for 2021 – Scrip	961,567	-	-	-	-	-	(961,567)	-	-	-	
Dividend distributed to non-controlling interest by subsidiaries	-	-	-	-	-	-	-	-	(85,800)	(85,800)	
Total contributions from and distribution to equity holders	4,581,568	-	-	-	-	-	(994,115)	3,587,453	(85,800)	3,501,653	
Balance as at 31 December 2022	13,182,025	2,874,968	(3,273,562)	604,118	115,407	13,779,839	26,731,857	54,014,652	306,150	54,320,802	

## Statement of Cash Flows

For the Year ended ended 31st December

	BANK		GROUP	
	2022 (Audited) LKR 000	2021 (Audited) LKR 000	2022 (Audited) LKR 000	2021 (Audited) LKR 000
<b>Cash flows from operating activities</b>				
Interest receipts	53,603,227	29,236,733	53,608,427	29,237,450
Interest payments	(34,013,778)	(24,670,396)	(33,952,168)	(24,647,946)
Net commission receipts	3,683,160	2,755,472	3,683,160	2,755,472
Net trading income	28,469	159,859	28,469	159,859
Recoveries from loans previously written off	162,518	66,380	162,518	66,380
Receipts from other operating activities	527,653	453,633	1,077,113	1,074,363
Payments on other operating activities	(5,308,678)	(3,049,870)	(5,044,500)	(3,049,870)
Cash payments to employees	(4,660,084)	(3,167,398)	(5,080,846)	(3,595,460)
Taxes on financial services	(1,173,413)	(1,295,997)	(1,173,413)	(1,295,997)
Operating Cash flows before changes in operating assets and liabilities	12,849,074	488,416	13,308,760	704,251
<b>(Increase)/ decrease in operating assets:</b>				
Balances with Central Bank / deposits held for regulatory or monetary control purposes	1,569,108	(4,457,488)	1,569,108	(4,457,488)
Financial assets at amortised cost - Loans to and receivables from other customers	29,673,313	(63,909,924)	29,673,313	(63,909,924)
Others	(6,847,527)	1,711,343	(6,880,994)	2,085,675
<b>Increase /(decrease) in operating liabilities:</b>				
Financial liabilities at amortised cost - Due to depositors	10,101,883	10,583,256	9,626,584	10,217,972
Negotiable certificates of deposits	(412,141)	(148,495)	(412,141)	(148,495)
Others	(991,233)	(1,978,684)	(1,058,272)	(1,981,879)
<b>Net cash flows from / (used in) operating activities before income tax</b>	<b>45,942,477</b>	<b>(57,711,576)</b>	<b>45,826,358</b>	<b>(57,489,888)</b>
Surcharge tax paid	(1,232,490)	-	(1,309,892)	-
Income tax paid	(1,531,378)	(1,621,286)	(1,630,622)	(1,681,790)
<b>Net cash flows from /(used in) operating activities</b>	<b>43,178,609</b>	<b>(59,332,862)</b>	<b>42,885,844</b>	<b>(59,171,678)</b>
<b>Cash flows from investing activities</b>				
Dividends received from investment in subsidiaries, joint venture, and associate	89,861	89,277	-	-
Dividend received from other investments	695,331	685,279	695,331	685,272
Interest received	7,634,028	8,319,018	7,709,136	8,344,267
Government Securities- net	(30,362,319)	34,680,263	(30,362,319)	34,680,263
Proceeds from sale and redemption of securities	700,697	7,279,798	715,734	7,295,398
Purchase of financial investments	(1,342,486)	(6,888,634)	(1,359,955)	(6,888,634)
Purchase of property , equipment ,intangibles and investment property	(1,050,400)	(1,534,126)	(1,114,992)	(1,538,703)
Proceeds from sale of equipment, investment property and others	12,469	39,513	12,469	45,099
<b>Net cash flows (used in)/ from investing activities</b>	<b>(23,622,819)</b>	<b>42,670,388</b>	<b>(23,704,596)</b>	<b>42,622,962</b>
<b>Cash flows from financing activities</b>				
Redemption of debentures	-	(956,860)	-	(956,860)
Issue of new shares under Right Issue	3,620,001	-	3,620,001	-
Borrowing , medium and long - term	4,834,232	35,207,755	4,834,232	35,207,755
Other borrowings - net	12,771,705	(8,210,119)	12,771,705	(8,210,119)
Repayment of borrowing ,medium and long - term	(26,410,732)	(15,540,186)	(26,410,732)	(15,540,186)
Dividends paid	-	(506)	(85,800)	(89,399)
<b>Net Cash flows (used in) /from financing activities</b>	<b>(5,184,794)</b>	<b>10,500,084</b>	<b>(5,270,594)</b>	<b>10,411,191</b>
<b>Net increase /(decrease) in cash and cash equivalents</b>	<b>14,370,996</b>	<b>(6,162,390)</b>	<b>13,910,653</b>	<b>(6,137,525)</b>
Cash and cash equivalents at the beginning of year	16,976,261	23,138,651	17,458,475	23,160,931
<b>Cash and cash equivalents at the end of year</b>	<b>31,347,257</b>	<b>16,976,261</b>	<b>31,369,128</b>	<b>17,023,406</b>
<b>Reconciliation of cash and cash equivalents with items reported in the statement of financial position</b>				
Cash and cash equivalents	16,122,565	10,688,255	16,126,635	10,690,873
Placements with banks	15,224,692	6,288,006	15,242,493	6,332,533
	31,347,257	16,976,261	31,369,128	17,023,406

The Statement of Cash Flows of the Bank includes the results of associate, joint venture, and subsidiary companies only to the extent of the cash flows between Bank and respective companies as required by Sri Lanka Accounting Standards.

## **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 3. 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 3.1 31 March Financial Year Company**

This is Lanka Industrial Estates Ltd.

### **Note 4. Expected Credit Loss calculation**

In order to address the impacts of prevailing economic conditions on the lending portfolio, the Bank has made adequate impairment provision as at 31 December 2022 by introducing changes to internal models to cover unseen risk factors in the highly uncertain and highly volatile environment including additional provisions made as management overlay for the exposures to risk elevated sectors.

The main uncertainties regarding the estimations for the recoverability of the Bank's total exposure related to the debt service capacity of the Government of Sri Lanka, which, in turn, is affected by the development of the prevailing macroeconomic environment as well as by the levels of liquidity of the Government and the outcome of the Debt restructuring negotiations with the International Monetary Fund (IMF) and the resultant comprehensive debt restructuring program. Due to the uncertainties relating to the above, the Bank has used significant judgement using the information available as at reporting date to estimate to recoverable value of foreign currency denominated investments securities issued by Government of Sri Lanka. Accordingly, an impairment charge has been recognized to maintain a minimum provision cover of 35% on above investments.

**Note 5. Net (loss) / profit from trading**

For the year ended 31 December

	<b>Bank</b>		<b>Group</b>	
	<b>2022</b>	2021	<b>2022</b>	2021
	<b>(Audited)</b>	(Audited)	<b>(Audited)</b>	(Audited)
	<b>LKR 000</b>	LKR 000	<b>LKR 000</b>	LKR 000
Foreign exchange from banks	(11,024)	236,496	(11,024)	236,496
Government securities				
- Net marked to market gain	9,994	-	9,994	-
- Net capital gain /(loss)	11,800	(703)	11,800	(703)
Equity securities				
- Net marked to market (loss) / gain	(249,217)	37,946	(249,217)	37,946
- Net capital gain	16,669	160,561	16,669	160,561
- Dividend income	8,675	2,375	8,675	2,375
	<b>(213,103)</b>	436,675	<b>(213,103)</b>	436,675

**Note 6. Net profit / (loss) from financial instruments at fair value through profit or loss**

For the year ended 31 December

	<b>Bank</b>		<b>Group</b>	
	<b>2022</b>	2021	<b>2022</b>	2021
	<b>(Audited)</b>	(Audited)	<b>(Audited)</b>	(Audited)
	<b>LKR 000</b>	LKR 000	<b>LKR 000</b>	LKR 000
Forward exchange fair value changes				
Contracts with commercial banks	299,859	(217,548)	299,859	(217,548)
Contracts with CBSL	(20,835)	(2,332)	(20,835)	(2,332)
Loss on financial assets fair value through profit or loss - equity securities	(2,705)	(27,388)	(2,705)	(27,388)
	<b>276,319</b>	(247,268)	<b>276,319</b>	(247,268)

**Note 7. Net Other Operating Income**

For the year ended 31 December

	<b>Bank</b>		<b>Group</b>	
	<b>2022</b>	2021	<b>2022</b>	2021
	<b>(Audited)</b>	(Audited)	<b>(Audited)</b>	(Audited)
	<b>LKR 000</b>	LKR 000	<b>LKR 000</b>	LKR 000
Financial assets measured at fair value through other comprehensive income				
Dividend income	1,110,577	951,419	1,110,577	951,419
Dividend income from subsidiaries, joint venture and associate	89,861	89,277	-	-
Net gain from repurchase transactions	451,755	369,894	451,755	369,894
Premises rental income	-	-	383,792	329,545
Gain / (Loss) on sale of property, plant and equipment	13,555	(10,388)	13,555	1,723
Foreign exchange (loss) / gain	(159,510)	103,644	(140,929)	105,005
Recovery of loans written-off	162,518	66,380	162,518	66,380
Others	73,792	10,776	270,728	137,676
	<b>1,742,548</b>	1,581,002	<b>2,251,996</b>	1,961,642

**Note 8. Financial Assets at Amortized Cost - Loans to and Receivables from Other Customers**

As at	Bank		Group	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021
	(Audited)	(Audited)	(Audited)	(Audited)
	LKR 000	LKR 000	LKR 000	LKR 000
Gross loans and receivables (Note 8.1)	402,975,829	384,958,591	402,975,829	384,958,591
Less: Allowance for impairment (Note 8.2)	(33,903,799)	(19,058,051)	(33,903,799)	(19,058,050)
<b>Net loans and receivables</b>	<b>369,072,030</b>	<b>365,900,540</b>	<b>369,072,030</b>	<b>365,900,541</b>

**Note 8.1 Loans to and Receivables from Other Customers - By product**

As at	Bank		Group	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021
	(Audited)	(Audited)	(Audited)	(Audited)
	LKR 000	LKR 000	LKR 000	LKR 000
By product-Domestic Currency				
Overdrafts	53,985,736	45,718,734	53,985,736	45,718,734
Trade finance	18,965,291	23,698,670	18,965,291	23,698,670
Credit cards	5,552,271	3,669,701	5,552,271	3,669,701
Pawning	9,619,908	5,970,069	9,619,908	5,970,069
Staff loans	2,722,811	2,656,268	2,722,811	2,656,268
Term loans	221,023,597	230,954,588	221,023,597	230,954,588
Lease rentals receivable	17,237,903	23,761,600	17,237,903	23,761,600
Asset back notes	95,272	681,528	95,272	681,528
	<b>329,202,789</b>	<b>337,111,158</b>	<b>329,202,789</b>	<b>337,111,158</b>
By product-Foreign Currency				
Overdrafts	852,782	413,968	852,782	413,968
Trade finance	23,244,992	16,176,908	23,244,992	16,176,908
Term loans	49,675,266	31,256,557	49,675,266	31,256,557
	<b>73,773,040</b>	<b>47,847,433</b>	<b>73,773,040</b>	<b>47,847,433</b>
Gross loans and receivables	<b>402,975,829</b>	<b>384,958,591</b>	<b>402,975,829</b>	<b>384,958,591</b>

**Note 8.2 Movement in Impairment during the period**

	Bank		Group	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021
	(Audited)	(Audited)	(Audited)	(Audited)
	LKR 000	LKR 000	LKR 000	LKR 000
<b>Stage 1</b>				
Balance at beginning	2,202,668	1,305,740	2,202,668	1,305,740
Charge to income statement	2,292,619	896,995	2,292,619	896,995
Write-off during the period	-	(67)	-	(67)
Balance at end	<b>4,495,287</b>	<b>2,202,668</b>	<b>4,495,287</b>	<b>2,202,668</b>
<b>Stage 2</b>				
Balance at beginning	1,989,584	1,065,570	1,989,584	1,065,570
Charge to income statement	3,687,706	924,214	3,687,706	924,214
Write-off during the period	-	(200)	-	(200)
Balance at end	<b>5,677,290</b>	<b>1,989,584</b>	<b>5,677,290</b>	<b>1,989,584</b>
<b>Stage 3</b>				
Balance at beginning	14,865,798	12,951,966	14,865,798	12,951,966
Charge to income statement	7,947,831	2,024,891	7,947,831	2,024,891
Effect of foreign currency movement	964,205	102,856	964,205	102,856
Write-off during the period	(46,612)	(213,315)	(46,612)	(213,315)
Other movements	-	(600)	-	(600)
Balance at end	<b>23,731,222</b>	<b>14,865,798</b>	<b>23,731,222</b>	<b>14,865,798</b>
<b>Total Impairment</b>	<b>33,903,799</b>	<b>19,058,050</b>	<b>33,903,799</b>	<b>19,058,050</b>

**Note 9. Financial liabilities at amortized cost - Due to depositors**

As at	Bank		Group	
	31.12.2022 (Audited) LKR 000	31.12.2021 (Audited) LKR 000	31.12.2022 (Audited) LKR 000	31.12.2021 (Audited) LKR 000
<b>By product-Domestic Currency</b>				
Demand deposits (current accounts)	8,317,768	9,844,879	8,314,555	9,844,815
Savings deposits	38,476,411	65,299,886	38,457,883	65,263,188
Fixed deposits	253,748,588	197,597,692	253,286,947	197,173,942
Other deposits	784,949	1,272,521	784,949	1,272,521
Certificate of deposits	1,976,859	2,328,082	1,976,859	2,328,082
	<b>303,304,575</b>	<b>276,343,060</b>	<b>302,821,193</b>	<b>275,882,548</b>
<b>By product- Foreign Currency</b>				
Demand deposits (current accounts)	953,618	866,504	953,618	866,504
Savings deposits	20,183,650	22,494,093	20,143,443	22,474,930
Fixed deposits	45,833,914	19,934,389	45,790,333	19,915,423
Other deposits	38,269	222,967	38,268	222,967
	<b>67,009,451</b>	<b>43,517,953</b>	<b>66,925,662</b>	<b>43,479,824</b>
<b>Total</b>	<b>370,314,026</b>	<b>319,861,013</b>	<b>369,746,855</b>	<b>319,362,372</b>

**Note 10. Reclassifications of Financial Instrument**

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

The Bank used this option to reclassify long term debt instruments subsequent to the initial recognition. The fair value of the debt portfolio reclassified during year, 2022, and remaining as at 31 December 2022 amounted to Rs. 16.07 Bn., and the cumulative fair value loss thereon amounted to Rs. 4.5 Bn., (Net of tax Rs. 3.6 Bn).

**Note 11. 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 other than below.

**Note 11.1 First and Final Dividend**

The Directors have approved the payment of a first and final dividend of LKR 2 per share in the form of a scrip dividend, for the financial year ended 31 December 2022. The Board of Directors confirm that the Bank has satisfied the solvency test in accordance with Section 57 of the Companies Act No. 07 of 2007 and has obtained the certificate from the Auditor.

**Note 12. Disclosures under Listing Rules**

**12.1** 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

**12.2 Stated capital**

As at	Number of shares	
	31.12.2022	31.12.2021
Number of shares of the Bank	<b>402,666,056</b>	320,522,436

**12.3 Market price of a share**

Information on shares of the Bank for the quarter ended	31.12.2022	31.12.2021
- Highest price LKR	<b>37.00</b>	69.00
- Lowest price LKR	<b>31.00</b>	57.60
- Market price LKR	<b>32.00</b>	60.00

#### 12.4 Twenty Major Shareholders as at 31.12.2022

	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 (Pvt) Ltd	28,873,821	7.17
6	Employee's Provident Fund	26,985,361	6.70
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	10,110,000	2.51
11	People's Leasing & Finance PLC / Don And Don Holdings (Private) Limited	9,439,441	2.34
12	Commercial Bank of Ceylon PLC / Mr. M.A.Yaseen	8,216,644	2.04
13	Renuka City Hotels PLC	7,670,569	1.90
14	Renuka Hotels PLC	4,510,693	1.12
15	Employees Trust Fund Board	4,416,115	1.09
16	Seylan Bank PLC / Senthilvel 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	2,947,914	0.73
19	Cargo Boat Development Company PLC	2,766,417	0.68
20	Sri Lanka Insurance Corporation Ltd-General Fund	2,384,981	0.59

#### 12.5 Public Holdings as at 31.12.2022

Public holdings percentage	67.02%
Number of Public shareholders	10,443
Float adjusted market capitalisation	LKR 8,636 million
Applicable option as per CSE Listing Rule 7.13.1 (a)	Option 2

#### 12.6 Directors' Interests in Shares

	No of Shares As at 31.12.2022
J. Durairatnam	Nil
L.K.A.H. Fernando ( Ms.)	Nil
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
W.D. Batagoda	Nil
W.R.H.Fernando	Nil

#### 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 audited financial statements of the Bank and the Group.

**J. Durairatnam**  
Chairman

**Thimal Perera**  
Director & Chief Executive Officer



**Disclosures regarding the utilization of funds as per the objectives stated in the Rights issue Circular**

Objective No	Objective as per Circular	Amount allocated as per circular LKR	Proposed Date of utilization as per circular	Amount allocated upon the receipts of proceeds LKR(A)	% of Total Proceeds	Amount utilized as at 31.12.2022 in LKR (B)	% of utilization against allocation (B/A)	Clarification if not fully utilized including where the funds are invested (whether lent to related parties etc)
1	Further Strengthen the Equity Base of the Bank and there by Improve Capital Adequacy Ratios in line with Basel III Guidelines of the Central Bank of Sri Lanka.	3.620 Bn	By 31 December 2022	3.620 Bn	100	3.620 Bn	100	N/A
2	Support the Bank's Asset Growth.	3.620 Bn	Over the period of twelve months from the date of allotment.	3.620 Bn	100	3.620 Bn	100	N/A

## 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.						
					31.12.2022					
					LKR 000					
<b>Fixed Rate</b>										
2016/2023	Annually	12.75	12.75	26.12	6,144,475	N/T	N/T	N/T	N/A	N/A
2018/2023	Annually	12.60	12.60	23.80	3,188,232	N/T	N/T	N/T	N/A	N/A
2018/2025	Annually	13.00	13.00	27.77	4,478,704	N/T	N/T	N/T	N/A	N/A
2019/2024	Annually	13.50	13.50	26.65	4,187,527	N/T	N/T	N/T	N/A	N/A
2019/2026	Annually	13.75	13.75	27.16	1,965,315	N/T	N/T	N/T	N/A	N/A
2019/2029	Annually	13.90	13.90	26.45	4,860,926	N/T	N/T	N/T	N/A	N/A
2020/2025	Annually	9.00	9.00	28.02	4,380,599	N/T	N/T	N/T	N/A	N/A
2020/2027	Annually	9.25	9.25	26.85	207,982	N/T	N/T	N/T	N/A	N/A

N/T -Not traded

**Selected Performance Indicators**

	Bank		Group	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021
<b>Regulatory Capital ( LKR '000)</b>				
Common Equity Tier I	36,818,873	34,259,288	36,381,998	34,265,838
Tier I Capital	36,818,873	34,259,288	36,381,998	34,265,838
Total Capital	48,004,800	47,968,017	47,574,242	47,974,567
<b>Regulatory Capital Ratios %</b>				
Common Equity Tier 1 Capital Ratio (Minimum requirement - 7%)	10.085	9.305	9.937	9.283
Tier 1 Capital Ratio (Minimum requirement - 8.5% )	10.085	9.305	9.937	9.283
Total Capital Ratio (Minimum requirement - 12.5%)	13.148	13.029	12.993	12.997
<b>Leverage Ratio ( Minimum requirement is 3%)</b>	5.93	6.61	5.87	6.62
<b>Regulatory Liquidity</b>				
Statutory liquid assets LKR 000				
Total bank operations	122,283,753	N/A		
Domestic Banking Unit	-	93,333,115		
Off-Shore Banking Unit	-	31,186,738		
Statutory liquid assets ratio % (Minimum requirement 20%)				
Total bank operations	26.36	N/A		
Domestic Banking Unit	-	21.60		
Off-Shore Banking Unit	-	41.79		
Liquidity Coverage Ratio (%) – Rupee (Minimum Requirement - 2022 - 90%, 2021 - 100%)	289.85	152.86		
Liquidity Coverage Ratio (%) – All Currency (Minimum Requirement - 2022 -90% , 2021 -100%)	202.34	136.18		
Net Stable Funding Ratio (%) (Minimum requirement - 2022 - 90%, 2021 - 100%)	126.55	122.43		
<b>Asset Quality</b>				
Impaired Loans (Stage 3) Ratio (%)	4.36	3.03		
Impairment (Stage 3) to Stage 3 Loans Ratio (%)	51.73	48.76		
<b>Profitability</b>				
Interest margin %	4.96	2.66		
Return on assets ( profit before tax) %	0.46	0.91		
Return on equity (profit after tax) %	5.04	6.55		
<b>Other Ratios</b>				
Debt to equity ratio (times)	2.51	2.26		
Interest cover (times)	1.47	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 31 December 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	-	-	16,122,565	16,122,565	-	-	16,126,635	16,126,635
Balances with Central Bank of Sri Lanka	-	-	9,030,868	9,030,868	-	-	9,030,868	9,030,868
Placements with banks	-	-	15,224,692	15,224,692	-	-	15,242,493	15,242,493
Derivative financial assets	20,473,544	-	-	20,473,544	20,473,544	-	-	20,473,544
Financial assets measured at fair value through profit or loss	1,429,149	-	-	1,429,149	1,429,149	-	-	1,429,149
Financial assets at amortised cost -Loans to and receivables from other customers	-	-	369,072,030	369,072,030	-	-	369,072,030	369,072,030
Financial assets at amortised cost - Debt and other instruments	-	-	50,947,926	50,947,926	-	-	50,947,926	50,947,926
Financial assets measured at fair value through other comprehensive income	-	63,319,060	-	63,319,060	-	63,319,060	-	63,319,060
Other assets	-	-	7,791,474	7,791,474	-	-	7,957,933	7,957,933
<b>Total financial assets</b>	<b>21,902,693</b>	<b>63,319,060</b>	<b>468,189,555</b>	<b>553,411,308</b>	<b>21,902,693</b>	<b>63,319,060</b>	<b>468,377,885</b>	<b>553,599,638</b>
<b>Financial Liabilities</b>								
Due to banks	-	-	15,857,994	15,857,994	-	-	15,857,994	15,857,994
Derivative financial liabilities	84,670	-	-	84,670	84,670	-	-	84,670
Financial liabilities at amortised cost -Due to depositors	-	-	370,314,026	370,314,026	-	-	369,746,855	369,746,855
Financial liabilities at amortised cost - Due to other borrowers	-	-	81,145,692	81,145,692	-	-	81,145,692	81,145,692
Debt securities issued	-	-	16,304,115	16,304,115	-	-	16,304,115	16,304,115
Other liabilities	-	-	8,101,153	8,101,153	-	-	8,288,066	8,288,066
Subordinated term debt	-	-	18,399,991	18,399,991	-	-	18,399,991	18,399,991
<b>Total financial liabilities</b>	<b>84,670</b>	<b>-</b>	<b>510,122,971</b>	<b>510,207,641</b>	<b>84,670</b>	<b>-</b>	<b>509,742,713</b>	<b>509,827,383</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	-	-	3,844,701	3,844,701	-	-	3,844,701	3,844,701
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	-	-	69,094,264	69,094,264	-	-	69,094,264	69,094,264
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

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 31 December 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		20,473,544		20,473,544
Financial assets measured at fair value through profit or loss				-
Government of Sri Lanka Treasury Bonds	795,433			795,433
Equity securities - quoted	598,972			598,972
Units in Unit Trusts - Quoted	3,740			3,740
Units in Unit Trusts - Unquoted		31,004		31,004
Financial assets measured at fair value through other comprehensive income				-
Government of Sri Lanka Treasury Bills and Bonds	54,926,057			54,926,057
Sri Lanka Sovereign bonds	-			-
Equity shares- quoted	8,171,584			8,171,584
Equity shares- unquoted			221,419	221,419
	<b>64,495,786</b>	<b>20,504,548</b>	<b>221,419</b>	<b>85,221,753</b>
<b>Financial Liabilities</b>				
Derivative financial liabilities				
Forward foreign exchange contracts		84,670		84,670
	<b>-</b>	<b>84,670</b>	<b>-</b>	<b>84,670</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>814,219</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 31th December 2022		As at 31st December 2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Cash and cash equivalents	16,122,564	16,122,564	10,688,255	10,688,255
Balances with Central Bank of Sri Lanka	9,030,868	9,030,868	9,359,241	9,359,241
Placements with banks	15,224,692	15,224,692	6,288,006	6,288,006
Financial assets at amortised cost - Loans to and receivables from other customers	369,072,030	339,333,283	365,900,540	348,256,773
Financial assets at amortised cost - Debt and other instruments	50,947,926	50,780,504	26,674,962	26,162,922
Other assets	7,791,474	7,791,474	2,855,254	2,855,254
<b>Financial Liabilities</b>				
Due to banks	15,857,994	15,857,994	3,349,836	3,349,836
Financial liabilities at amortised cost - due to depositors	370,314,026	361,987,182	319,861,013	319,604,601
Financial liabilities at amortised cost - due to other borrowers	81,145,692	81,145,692	69,589,129	69,589,129
Debt securities in issue	16,304,115	11,786,904	16,297,256	14,932,065
Other liabilities	8,101,153	8,101,153	4,470,497	4,470,497
Subordinated term debt	18,399,991	15,010,515	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)	4,817	2,792
Balance at end of the period	221,419	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 31.12.2022</b>		
Adjusted net assets value (5% movement)	11,071	(11,071)



## OPERATING SEGMENTS - GROUP

### Information about reportable segments

	31 December 2022					31 December 2021				
	Corporate Banking LKR.'000	Retail Banking LKR.'000	Treasury LKR.'000	Other LKR.'000	Total LKR.'000	Corporate Banking LKR.'000	Retail Banking LKR.'000	Treasury LKR.'000	Other LKR.'000	Total LKR.'000
<b>External revenue</b>										
Interest income	22,385,937	34,462,091	10,196,988	77,936	<b>67,122,951</b>	10,763,221	18,019,188	7,326,793	27,874	<b>36,137,076</b>
Net fees and commission income	848,149	2,661,823	133,066	-	<b>3,643,037</b>	699,542	1,521,866	277,544	-	<b>2,498,952</b>
Net gain from trading			(213,103)	-	<b>(213,103)</b>	-	-	844,898	-	<b>844,898</b>
value through profit or loss			276,319	-	<b>276,319</b>	-	-	(247,268)	-	<b>(247,268)</b>
Net gain from derecognition of financial assets			99,112	-	<b>99,112</b>	-	-	1,391,008	-	<b>1,391,008</b>
Net other operating income	62,043	88,181	292,246	875,019	<b>1,317,489</b>	(7,864)	11,187	1,179,734	692,814	<b>1,875,871</b>
<b>Income from external customers</b>	<b>23,296,129</b>	<b>37,212,095</b>	<b>10,784,628</b>	<b>952,955</b>	<b>72,245,805</b>	<b>11,454,899</b>	<b>19,552,241</b>	<b>10,772,709</b>	<b>720,688</b>	<b>42,500,537</b>
<b>Inter segment revenue</b>	-	-	-	(441,086)	<b>(441,086)</b>	-	-	-	(340,170)	<b>(340,170)</b>
<b>Total segment revenue</b>	<b>23,296,129</b>	<b>37,212,095</b>	<b>10,784,628</b>	<b>511,869</b>	<b>71,804,719</b>	<b>11,454,899</b>	<b>19,552,241</b>	<b>10,772,709</b>	<b>380,518</b>	<b>42,160,367</b>
Impairment for loans and other losses	-	-	-	-	<b>17,058,972</b>	-	-	-	-	<b>4,485,288</b>
Interest Expense	-	-	-	-	<b>41,317,083</b>	-	-	-	-	<b>23,918,895</b>
<b>Net operating income</b>					<b>13,428,664</b>					<b>13,756,184</b>
<b>Segment assets</b>	<b>153,349,786</b>	<b>208,906,129</b>	<b>170,872,250</b>	<b>1,008,643</b>	<b>534,136,808</b>	<b>151,763,379</b>	<b>206,758,053</b>	<b>107,370,344</b>	<b>918,772</b>	<b>466,810,548</b>
<b>Segment liabilities</b>	<b>66,602,856</b>	<b>303,560,345</b>	<b>131,943,287</b>	<b>558,889</b>	<b>502,665,377</b>	<b>80,363,703</b>	<b>238,542,183</b>	<b>109,392,843</b>	<b>471,289</b>	<b>428,770,018</b>
<b>Information on cash flows</b>										
Cash flows from operating activities	-	-	-	-	<b>42,885,844</b>	-	-	-	-	<b>(58,260,801)</b>
Cash flows from investing activities	-	-	-	-	<b>(23,704,596)</b>	-	-	-	-	<b>41,712,085</b>
Cash flows from financing activities	-	-	-	-	<b>(5,270,594)</b>	-	-	-	-	<b>10,411,191</b>
<b>Net cash flows generated during the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,910,654</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(6,137,525)</b>
<b>Capital expenditure:</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>						
Property, plant and equipment	-	123,551	-	60,793	<b>184,344</b>	147	339,118	839	10,433	<b>350,537</b>
Intangible assets	-	-	-	4,076	<b>4,076</b>	-	868,337	-	145,037	<b>1,013,374</b>

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

	2022 LKR.'000	2021 LKR.'000
<b>Revenue</b>		
Total revenue for reportable segments	72,245,805	42,500,537
Unallocated amounts	1,715,421	868,913
Elimination of inter-segment revenue	(441,086)	(340,170)
Consolidated revenue	<u>73,520,140</u>	<u>43,029,280</u>
<b>Net Operating Income</b>		
Total net operating income for reportable segments	13,428,664	13,728,822
Unallocated amounts	871,482	576,446
Elimination of inter-segment adjustments	77,936	27,361
Consolidated net operating income	<u>14,378,082</u>	<u>14,332,629</u>
<b>Assets</b>		
Total assets for reportable segments	534,136,808	466,810,548
Other unallocated amounts	35,386,176	21,446,260
Consolidated total assets	<u>569,522,984</u>	<u>488,256,808</u>
<b>Liabilities</b>		
Total liabilities for reportable segments	502,665,377	428,770,018
Other unallocated amounts	12,536,806	7,721,765
Consolidated total liabilities	<u>515,202,183</u>	<u>436,491,783</u>