



DFCC Bank Reports Strong Performance Amidst Economic Challenges for the 1st half of 2023

- Total operating income up by 61% to LKR 20.6 Bn
- DFCC Group records PAT of LKR 3.9 Bn and PBT of LKR 5.9 Bn
- Impairment charges of LKR 8.1 Bn reflective of present economic stresses

DFCC Bank continued its commitment to serving customers across the country, delivering high-quality customer centric banking services, despite the volatile and challenging economic environment and the Bank has recorded a resilient performance for the 1st half of 2023.

The Sri Lankan economy has experienced positive signs of economic recovery and a measure of stability in macro-economic factors compared to the previous period, with the appreciation of LKR against USD and the IMF bailout followed by the Domestic Debt Optimization (DDO) announcement. However, the Banking industry faced many challenges in managing the quality of the loan book while having high impairment charges which created pressure on the profitability and capital adequacy requirements over the last two years. The fluid government regulations and monetary policy of Central Bank of Sri Lanka (CBSL) aim to enable the economy to reach its potential and stabilize inflation at mid-single digit levels in the medium term, while easing pressures in the financial markets. Accordingly, CBSL decided to reduce the policy interest rates which will provide the impetus for market interest rates to adjust downwards. The Bank will align to these positive market trends by providing further assistance to customers in order to recover from the existing situation.

The following commentary relates to the unaudited Financial Statements for the period ended 30 June 2023, 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 5,110 Mn and a Profit After Tax (PAT) of LKR 3,205 Mn for the period ended 30 June 2023. This compares with a PBT of LKR 331 Mn and a PAT of LKR 513 Mn in 1H of 2022. The Group recorded a PBT of LKR 5,867 Mn and PAT of LKR 3,923 Mn for the period ended 30 June 2023 compared to LKR 690 Mn and LKR 824 Mn, respectively, in 2022. All the member entities of the Group made positive contributions to this performance. The Bank’s Return on Equity (ROE) increased to 10.52% during the period ended 30 June 2023 from 5.04% recorded for the year ended 31 December 2022. The Bank’s Return on Assets (ROA) before tax for the period ended 30 June 2023 is 1.62% compared to 0.46% for the year ended 31 December 2022.

Net Interest Income

The Bank's Net Interest Income (NII) increased 41% over Q2 of 2022 to reach LKR 15,475 Mn by the end of June 2023. Both deposit and lending interest rates have continued to adjust downwards with the market guidance provided by the Central Bank, along with improvement in liquidity conditions of the domestic money market. While lower interest rates may have resulted in reduced interest income and expenses, in nominal terms, Net Interest Income (NII) has continued to improve as a metric during the period under review, as a result of the time lag in repricing existing deposits and the lending portfolio, and due to the Bank's strategy of investing in high-yield government securities. Strategically, the Bank thus increased its fixed-income investment portfolio, contributing significantly to increased interest income. The interest margin increased from 4.43% in June 2022 to 5.48% by June 2023.

Fee and Commission Income

The Bank's dynamic strategies and the efforts of its dedicated teams led to increased remittances, trade-related commissions, and other fee income lines, which contributed to the increase in non-funded business during the period. Fee income generated by credit cards also increased significantly, in line with the volume of the transactions. Accordingly, net fee and commission income have increased by 64% to LKR 1,945 Mn for the period ended 30 June 2023, compared to LKR 1,183 Mn for the comparative period in 2022.

Impairment Charge on Loans and Other Losses

The impaired loan (stage 3) ratio increased from 4.36% in December 2022 to 5.58% as of 30 June 2023, a continuation of the prevalent trend amidst the present economic conditions. However, the Bank expects this trend to moderate and potentially improve towards the end of the year, reflecting positive developments in the macroeconomic environment, coupled with the Bank's concerted efforts with regard to recoveries. To address the current and potential future impacts of the present economic conditions on the lending portfolio, the Bank made adequate impairment provisions during the period by introducing changes to internal models to account for unseen risk factors in the present highly uncertain and volatile environment including additional provisions made for the Bank's exposure to risk elevated sectors.

The Bank has used significant judgement using the information available as at reporting date to estimate the recoverable value of foreign currency denominated investment securities issued by Government of Sri Lanka. Accordingly, an impairment charge has been recognized to maintain a provision cover of 42% on above investments.

Accordingly, with these provisions made to address the additional risks in the economic environment, the impairment charge recorded an increase of 19% against the comparative period, thus standing at LKR 8,096 Mn, for the period ended 30 June 2023, compared to LKR 6,808 Mn in the comparable period.

Operating Expenses

Operating expenses for the period ended 30 June 2023 rose primarily due to the increase in inflation. However, the Bank has taken numerous cost control measures within the Bank, resulting 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 reserves are recorded through other comprehensive income. Due to the application of hedge accounting, the impact on the total equity of the Bank due to exchange rate fluctuation was minimized. A fair value gain of LKR 2,759 Mn was recorded on account of equity securities outstanding as at 30 June 2023. The increase in the share price of Commercial Bank of Ceylon PLC during the period was the main contributor to the reported fair value gain in equity securities. The favourable movement in treasury bill and bond yields also resulted in a fair value gain of LKR 2,344 Mn during the period.

Business Growth

Assets

Despite the challenges faced by the economy and the banking sector, DFCC Bank's total assets increased by LKR 8.1 Bn, recording a growth of 1.42% from December 2022. In line with the bank's growth strategy and the present economic climate, an increase in investment in fixed income securities, combined with positive fair value movement in both fixed income securities and equity securities, has contributed to a 91% increase in investment in financial assets at fair value through other comprehensive income as of 30 June 2023 compared to the balance as of 31 December 2022. With increased provision for expected credit losses, appreciation of the Sri Lanka Rupee compared to 31 December 2022 and considerable economic challenges, the net loan portfolio was recorded at LKR 342 Bn as at 30 June 2023, which is 7% lower than the balance as at 31 December 2022.

Liabilities

The Bank's deposit base experienced a growth of 3.21% during the period, recording an increase of LKR 11.9 Bn to LKR 382 Bn, up from LKR 370 Bn as at 31 December 2022. This resulted in recording a loan-to-deposit ratio of 100.39%. Further, the CASA ratio was 19.75% as at 30 June 2023. The Bank's funding costs were also contained using medium to long-term concessionary credit lines, primarily used to grow the lending portfolio. Taking into consideration these concessionary term borrowings, the CASA ratio further improved to 30.76% and the loans-to-deposit ratio improved to 89.60% as at 30 June 2023.

Equity and Compliance with Capital Requirements

DFCC Bank's total equity increased to LKR 59 Bn as at 30 June 2023, supported by favourable movements in the equity portfolio and fixed income security portfolio classified as fair value through other comprehensive income, and positive movements in the hedging reserve, together with the recorded profit after tax of LKR 3.2 Bn. Accordingly, Tier 1 and Total Capital ratios recorded 10.085% and 13.148%, respectively as at 31 December 2022 improved to 11.416% and 14.085%, respectively by 30 June 2023. The Bank's Net Stable Funding Ratio (NSFR) was 131.77%, and Liquidity Coverage Ratio (LCR) – all currency – was 305.06% as at 30 June 2023 compared to 126.55% and 202.34% respectively as at 31 December 2022. All these ratios were thus maintained well above the minimum regulatory requirement.

CEO's Statement

"As we reflect on our performance in the first half of 2023, DFCC Bank PLC is pleased to report strong financial results across all business areas. Sri Lanka's resilient and adaptable economy and our commitment to innovation, operational excellence, and customer-centricity continue to pay off, as evidenced by our steady revenue growth and increased profitability. We are confident that our robust growth strategy and prudent risk management practices will enable us to continue delivering sustainable value to our stakeholders in the long term, helping to support Sri Lanka's economy as it enters into a period of significant recovery, supported by strong macroeconomic fundamentals."

Thimal Perera

Director / Chief Executive

14 August 2023

DFCC Bank PLC
Income Statement

For the six months ended 30 June	Notes	Bank						Group					
		For the period ended			For the quarter ended			For the period ended			For the quarter ended		
		30.06.2023 LKR 000	30.06.2022 LKR 000	Change %	30.06.2023 LKR 000	30.06.2022 LKR 000	Change %	30.06.2023 LKR 000	30.06.2022 LKR 000	Change %	30.06.2023 LKR 000	30.06.2022 LKR 000	Change %
Gross Income		56,057,501	27,639,100	103	27,176,625	15,452,602	76	56,356,799	27,951,273	102	27,328,286	15,597,528	75
Interest income		50,736,975	25,886,690	96	24,822,277	14,707,408	69	50,738,151	25,887,277	96	24,823,097	14,707,403	69
Interest expense		35,261,675	14,894,647	137	17,691,878	8,486,630	108	35,201,660	14,869,369	137	17,660,595	8,470,852	108
Net interest income		15,475,300	10,992,043	41	7,130,399	6,220,778	15	15,536,491	11,017,908	41	7,162,502	6,236,551	15
Fee and commission income		2,542,370	1,505,362	69	1,180,586	711,744	66	2,541,918	1,506,002	69	1,180,440	711,905	66
Fee and commission expenses		597,468	322,138	85	300,093	167,669	79	597,468	322,138	85	300,093	167,669	79
Net fee and commission income		1,944,902	1,183,224	64	880,493	544,075	62	1,944,450	1,183,864	64	880,347	544,236	62
Net gain/ (loss) from trading	5	1,434,587	(1,006,843)	242	46,042	(2,517,811)	102	1,434,587	(1,006,843)	242	46,042	(2,517,811)	102
Net (loss)/ gain from financial instruments at fair value through profit or loss	6	(42,212)	156,732	(127)	434,930	2,429,591	(82)	(42,212)	156,732	(127)	434,930	2,429,591	(82)
Net gains from derecognition of financial assets													
Fair value through other comprehensive income		782,104	10,407	7,415	649,314	170	381,849	782,104	10,407	7,415	649,314	170	381,849
Net other operating income	7	603,677	1,086,752	(44)	43,476	121,500	(64)	902,251	1,397,698	(35)	194,463	266,270	(27)
Total operating income		20,198,358	12,422,315	63	9,184,654	6,798,302	35	20,557,671	12,759,766	61	9,367,598	6,959,007	35
Impairment charge for loans and other losses													
Loans to and receivables from other customers		7,786,914	6,225,054	25	3,106,917	3,472,506	(11)	7,786,914	6,242,553	25	3,106,917	3,490,005	(11)
Other financial assets		309,487	585,410	(47)	298,568	520,730	43	309,487	585,410	(47)	298,568	520,730	43
Others		-	(2,927)	100	-	(2,927)	100	-	(2,927)	100	-	(2,927)	100
Net operating income		12,101,957	5,614,778	116	5,779,169	2,807,993	106	12,461,270	5,934,730	110	5,962,113	2,951,199	102
Operating expenses													
Personnel expenses		2,260,322	2,252,744	0	1,030,226	1,104,692	(7)	2,391,534	2,368,747	1	1,098,243	1,165,651	(6)
Depreciation and amortisation		559,527	559,906	(0)	286,798	284,751	1	591,528	590,300	0	298,153	300,014	(1)
Other expenses		2,667,926	2,018,289	32	1,333,411	1,021,419	31	2,633,508	1,981,866	33	1,309,244	991,985	32
Total operating expenses		5,487,775	4,830,939	14	2,650,435	2,410,862	10	5,616,570	4,940,913	14	2,705,640	2,457,650	10
Operating profit before taxes on financial services		6,614,182	783,839	744	3,128,734	397,131	688	6,844,700	993,817	589	3,256,473	493,549	560
Taxes on financial services		1,504,450	452,745	232	702,668	209,300	236	1,504,450	452,745	232	702,668	209,300	236
Operating profit after taxes on financial services		5,109,732	331,094	1,443	2,426,066	187,831	1,192	5,340,250	541,072	887	2,553,805	284,249	798
Share of profits of associate and joint venture		-	-	-	-	-	-	526,340	149,110	253	311,673	79,638	291
Profit before income tax		5,109,732	331,094	1,443	2,426,066	187,831	1,192	5,866,590	690,182	750	2,865,478	363,887	687
Income tax expense		1,904,455	(181,889)	1,147	969,528	41,405	2,242	1,943,332	(134,101)	1,549	1,004,174	66,468	1,411
Profit for the period		3,205,277	512,983	525	1,456,538	146,426	895	3,923,258	824,283	376	1,861,304	297,419	526
Profit attributable to:													
Equity holders of the Bank		3,205,277	512,983	525	1,456,538	146,426	895	3,838,049	754,462	409	1,823,733	267,772	581
Non-controlling interests		-	-	-	-	-	-	85,209	69,821	22	37,571	29,647	27
Profit for the period		3,205,277	512,983	525	1,456,538	146,426	895	3,923,258	824,283	376	1,861,304	297,419	526
Basic/Diluted earnings per ordinary share (LKR)		7.74	1.50	416	3.52	0.43	718	9.27	2.20	322	4.41	0.78	462

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

	Bank						Group					
	For the period ended			For the quarter ended			For the period ended			For the quarter ended		
For the six months ended 30 June	30.06.2023 LKR 000	30.06.2022 LKR 000	Change %	30.06.2023 LKR 000	30.06.2022 LKR 000	Change %	30.06.2023 LKR 000	30.06.2022 LKR 000	Change %	30.06.2023 LKR 000	30.06.2022 LKR 000	Change %
Profit for the period	3,205,277	512,983	525	1,456,538	146,426	895	3,923,258	824,283	376	1,861,304	297,419	526
Other comprehensive income / (expense) for the period, net of tax												
Items that are or may be reclassified subsequently to income statement												
Movement in fair value reserve(fair value through other comprehensive income debt instrument):												
Net change in fair value	2,344,316	814,474	188	1,435,824	2,316,925	38	2,344,316	814,474	188	1,435,824	2,316,925	38
Reclassified to income statement	117,769	(257,535)	146	61,278	-	100	117,769	(257,535)	146	61,278	-	100
Share of other comprehensive income of equity accounted associate and joint venture	-	-	-	-	-	-	(334,646)	787,646	(142)	(151,242)	288,143	(152)
Movement in hedging reserve:												
Cash flow hedge - effective portion of changes in fair value	(6,443,557)	6,674,257	197	(5,382,677)	749,678	(818)	(6,443,557)	6,674,257	(197)	(5,382,677)	749,678	(818)
Cash flow hedge - reclassified to income statement	6,941,250	(20,268,216)	134	2,542,500	(8,458,992)	130	6,941,250	(20,268,216)	134	2,542,500	(8,458,992)	130
Related deferred tax	(887,882)	3,312,378	(127)	390,315	2,290,046	(83)	(887,882)	3,312,378	(127)	390,315	2,290,046	(83)
Total other comprehensive income / (expense) that are or may be	2,071,896	(9,724,642)	121	(952,760)	(3,102,343)	69	1,737,250	(8,936,996)	119	(1,104,002)	(2,814,200)	61
Items that will not be reclassified to income statement												
Movement in fair value reserve (FVOCI equity instruments) :												
Equity investments at fair value through other comprehensive income - net change in fair value	2,758,821	(4,728,694)	158	724,447	(2,026,300)	136	2,758,821	(4,717,649)	158	724,447	(2,015,255)	136
Share of other comprehensive income of equity accounted associate and joint venture	-	-	-	-	-	-	-	405	(100)	-	405	(100)
Total other comprehensive income / (expense) on items that will not be reclassified to income statement	2,758,821	(4,728,694)	158	724,447	(2,026,300)	136	2,758,821	(4,717,244)	158	724,447	(2,014,850)	136
Other comprehensive income / (expense) for the period , net of tax	4,830,717	(14,453,336)	133	(228,313)	(5,128,643)	96	4,496,070	(13,654,240)	133	(379,556)	(4,829,050)	92
Total comprehensive income / (expense) for the period	8,035,994	(13,940,353)	158	1,228,225	(4,982,217)	125	8,419,328	(12,829,957)	166	1,481,748	(4,531,631)	133
Total comprehensive income / (expense) attributable to:												
Equity holders of the Bank	8,035,994	(13,940,353)	158	1,228,225	(4,982,217)	125	8,334,119	(12,899,778)	165	1,444,177	(4,561,278)	132
Non-controlling interests	-	-	-	-	-	-	85,209	69,821	22	37,571	29,647	27
Total comprehensive income / (expense) for the period	8,035,994	(13,940,353)	158	1,228,225	(4,982,217)	125	8,419,328	(12,829,957)	166	1,481,748	(4,531,631)	133

DFCC Bank PLC
Statement of Financial Position

As at	Notes	Bank			Group		
		30.06.2023	31.12.2022	Change	30.06.2023	31.12.2022	Change
		LKR 000	(Audited) LKR 000	%	LKR 000	(Audited) LKR 000	%
Assets							
Cash and cash equivalents		12,551,455	16,122,565	(22)	12,573,755	16,126,635	(22)
Balances with Central Bank of Sri Lanka		3,144,273	9,030,868	(65)	3,144,273	9,030,868	(65)
Placements with banks		7,446,517	15,224,692	(51)	7,480,977	15,242,493	(51)
Derivative financial assets		14,088,439	20,473,544	(31)	14,088,439	20,473,544	(31)
Financial assets measured at fair value through profit or loss		1,076,365	1,429,149	(25)	1,076,365	1,429,149	(25)
Financial assets at amortised cost - Loans to and receivables from banks		815,141	-	100	815,141	-	100
Financial assets at amortised cost - Loans to and receivables from other customers.	8	342,447,655	369,072,030	(7)	342,447,655	369,072,030	(7)
Financial assets at amortised cost - Debt and other instruments		51,563,523	50,947,926	1	51,563,523	50,947,926	1
Financial assets measured at fair value through other comprehensive income		120,893,336	63,319,060	91	120,893,336	63,319,060	91
Investments in subsidiaries		237,035	237,035	0	-	-	-
Investments in associate		33,169	33,169	(0)	36,145	35,394	2
Investments in joint venture		755,000	755,000	-	3,768,643	3,577,701	5
Investment property		9,879	9,879	-	463,316	439,973	5
Property, plant and equipment		3,328,961	3,198,553	4	3,518,168	3,389,441	4
Intangible assets and goodwill		1,993,998	2,198,042	(9)	2,166,629	2,375,055	(9)
Deferred tax asset		4,318,166	4,137,828	4	4,323,872	4,143,535	4
Other assets		9,275,421	9,737,079	(5)	9,495,987	9,920,180	(4)
Total assets		573,978,333	565,926,419	1	577,856,224	569,522,984	1
Liabilities							
Due to banks		21,142,097	15,857,994	33	21,142,097	15,857,994	33
Derivative financial liabilities		186,589	84,670	120	186,589	84,670	120
Financial liabilities at amortised cost - Due to depositors	10	382,189,029	370,314,026	3	381,511,400	369,746,855	3
Financial liabilities at amortised cost - Due to other borrowers		69,492,431	81,145,692	(14)	69,492,431	81,145,692	(14)
Debt securities in issue		15,342,115	16,304,115	(6)	15,342,115	16,304,115	(6)
Retirement benefit obligation		613,863	591,550	4	635,450	615,849	3
Current tax liabilities		3,828,202	2,479,562	54	3,832,266	2,575,008	49
Deferred tax liability		-	-	-	112,294	149,608	(25)
Other liabilities		7,020,655	10,027,872	(30)	7,455,040	10,322,400	(28)
Subordinated term debt		15,527,211	18,399,991	(16)	15,527,211	18,399,991	(16)
Total liabilities		515,342,192	515,205,472	0	515,236,893	515,202,182	0
Equity							
Stated capital		13,866,557	13,182,025	5	13,866,557	13,182,025	5
Statutory reserve		2,874,968	2,874,968	-	2,874,968	2,874,968	-
Retained earnings		25,011,594	22,600,898	11	29,775,325	26,731,857	11
Other reserves		16,883,022	12,063,056	40	15,711,122	11,225,802	40
Total equity attributable to equity holders of the Bank		58,636,141	50,720,947	16	62,227,972	54,014,652	15
Non-controlling interests		-	-	-	391,359	306,150	28
Total equity		58,636,141	50,720,947	16	62,619,331	54,320,802	15
Total equity and liabilities		573,978,333	565,926,419	1	577,856,224	569,522,984	1
Contingent liabilities and commitments							
		188,988,385	169,132,507	12	188,988,385	169,132,507	12
Net assets value per share, LKR		138.97	125.96	10	147.48	134.14	10

	Bank		Group	
	30.06.2023	31.12.2022	30.06.2023	31.12.2022
Memorandum Information				
Number of Employees	2,038	1,989	2,158	2,097
Number of Branches (Including Service centres)	139	139		

Statement of Changes in Equity

	Stated capital LKR 000	Statutory reserve	Other reserves			Retained earnings LKR 000	Total equity LKR 000
		Reserve fund LKR 000	Fair value reserve LKR 000	Hedging reserve LKR 000	General reserves LKR 000		
Bank							
Balance as at 01 January 2022	8,600,457	2,746,968	2,096,627	(329,442)	13,779,839	22,091,649	48,986,098
Adjustment on surcharge tax	-	-	-	-	-	(1,232,490)	(1,232,490)
Adjusted balance as at 01 January 2022	8,600,457	2,746,968	2,096,627	(329,442)	13,779,839	20,859,159	47,753,608
Profit for the period	-	-	-	-	-	512,983	512,983
Other comprehensive (expenses) / income , net of tax	-	-	(4,121,927)	(10,331,409)	-	-	(14,453,336)
Total comprehensive (expense) / income for the period	-	-	(4,121,927)	(10,331,409)	-	512,983	(13,940,353)
Transfer of gains on disposal of equity investments at fair value through other comprehensive income to retained earnings	-	-	(12,126)	-	-	12,126	-
Transactions with equity holders of the Bank, recognised directly in equity							
Rights issue	3,620,001	-	-	-	-	(36,089)	3,583,912
Final dividend for 2021 - Scrip	961,567	-	-	-	-	(961,567)	-
Total contributions from and distribution to equity holders	4,581,568	-	-	-	-	(997,656)	3,583,912
Balance as at 30 June 2022	13,182,025	2,746,968	(2,037,426)	(10,660,851)	13,779,839	20,386,612	37,397,167
Balance as at 01 January 2023	13,182,025	2,874,968	(1,832,190)	115,407	13,779,839	22,600,898	50,720,947
Profit for the period	-	-	-	-	-	3,205,277	3,205,277
Other comprehensive expenses net of tax	-	-	4,482,332	348,385	-	-	4,830,717
Total comprehensive (expense) / income for the period	-	-	4,482,332	348,385	-	3,205,277	8,035,994
Transfer of gains on disposal of equity investments at fair value through other comprehensive income to retained earnings	-	-	(10,751)	-	-	10,751	-
Transactions with equity holders of the Bank, recognised directly in equity							
Final dividend for 2022 – Scrip	684,532	-	-	-	-	(805,332)	(120,800)
Total contributions from and distribution to equity holders	684,532	-	-	-	-	(805,332)	(120,800)
Balance as at 30 June 2023	13,866,557	2,874,968	2,639,391	463,792	13,779,839	25,011,594	58,636,141

Statement of Changes in Equity

Group	Attributable to the equity holders of the Bank									
	Statutory reserve		Other reserves				Retained earnings	Total	Non- controlling interests	Total equity
	Stated Capital	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
Balance as 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	-	-	-	-	-	-	(1,307,849)	(1,307,849)	-	(1,307,849)
Adjusted balance as at 01 January 2022	8,600,457	2,746,968	655,255	163,201	(329,442)	13,779,839	24,523,740	50,140,018	317,158	50,457,176
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)
Total comprehensive (expense) / income for the period	-	-	(4,119,935)	796,699	(10,331,409)	-	754,867	(12,899,778)	69,821	(12,829,957)
Transfer of gains on disposal of equity investments at fair value through other comprehensive income to retained earnings	-	-	(12,126)	-	-	-	12,126	-	-	-
Transactions with equity holders of the Bank, recognized directly in equity										
Rights issue	3,620,001	-	-	-	-	-	(36,089)	3,583,912	-	3,583,912
Final dividend for 2021 - Scrip	961,567	-	-	-	-	-	(961,567)	-	-	-
Total contributions from and distribution to equity holders	4,581,568	-	-	-	-	-	(997,656)	3,583,912	-	3,583,912
Balance as at 30 June 2022	13,182,025	2,746,968	(3,476,806)	959,900	(10,660,851)	13,779,839	24,293,077	40,824,152	386,979	41,211,131
Balance at 01 January 2023	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
Profit for the period	-	-	-	-	-	-	3,838,049	3,838,049	85,209	3,923,258
Other comprehensive income / (expense) , net of tax	-	-	4,506,805	(359,119)	348,385	-	-	4,496,071	-	4,496,071
Total comprehensive income / (expense) for the period	-	-	4,506,805	(359,119)	348,385	-	3,838,049	8,334,120	85,209	8,419,329
Transfer of gains on disposal of equity investments at fair value through other comprehensive income to retained earnings	-	-	(10,751)	-	-	-	10,751	-	-	-
Transactions with equity holders of the Bank, recognized directly in equity										
Final dividend for 2022 – Scrip	684,532	-	-	-	-	-	(805,332)	(120,800)	-	(120,800)
Total contributions from and distribution to equity holders	684,532	-	-	-	-	-	(805,332)	(120,800)	-	(120,800)
Balance as at 30 June 2023	13,866,557	2,874,968	1,222,492	244,999	463,792	13,779,839	29,775,325	62,227,972	391,359	62,619,331

Statement of Cash Flows

	BANK		GROUP	
For the period ended 30th June	2023	2022	2023	2022
	LKR 000	LKR 000	LKR 000	LKR 000
Cash flows from operating activities				
Interest receipts	33,659,459	20,962,991	33,654,711	20,967,353
Interest payments	(30,593,464)	(14,602,099)	(30,578,334)	(14,581,391)
Net commission receipts	2,467,293	1,501,385	2,467,293	1,501,385
Net trading income	10,851	20,037	10,851	20,037
Recoveries from loans previously written off	-	130,521	-	130,521
Receipts from other operating activities	69,728	(17,605)	335,495	272,437
Payments on other operating activities	(3,072,532)	(2,476,747)	(2,905,042)	(2,476,057)
Cash payments to employees	(2,330,660)	(2,545,130)	(2,683,911)	(2,913,351)
Taxes on financial services	(1,467,599)	(323,079)	(1,467,599)	(323,079)
Operating Cash flows before changes in operating assets and liabilities	(1,256,924)	2,650,274	(1,166,536)	2,597,855
(Increase)/ decrease in operating assets:				
Balances with Central Bank / deposits held for regulatory or monetary control purposes	5,886,596	1,383,834	5,886,596	1,383,834
Financial assets at amortised cost - Loans to and receivables from other customers	7,045,774	(29,117,365)	7,045,774	(29,117,365)
Others	1,559,159	8,844,699	1,453,241	9,381,377
Increase /(decrease) in operating liabilities:				
Financial liabilities at amortised cost - Due to depositors	17,070,920	23,469,555	17,036,426	22,971,568
Negotiable certificates of deposits	(903,095)	(310,017)	(903,095)	(310,017)
Others	677,177	(538,615)	763,850	(539,513)
Net cash flows from operating activities before income tax	30,079,607	6,382,365	30,116,256	6,367,740
Surcharge tax paid	-	(616,245)	-	(618,288)
Income tax paid	(1,624,035)	(843,882)	(1,680,730)	(871,764)
Net cash flows from operating activities	28,455,572	4,922,238	28,435,526	4,877,688
Cash flows from investing activities				
Dividends received from investment in subsidiaries, joint venture, and associate	-	-	(89,861)	-
Dividend received from other investments	46,396	1,072,839	46,396	1,072,839
Interest received	15,953,923	3,078,331	16,017,399	3,099,770
Government Securities- net	(55,578,970)	12,045,798	(55,578,970)	12,045,798
Proceeds from sale and redemption of securities	180,016	99,305	180,016	114,342
Purchase of financial investments	(237,068)	(802,499)	(237,068)	(802,499)
Purchase of property, equipment, intangibles and investment property	(540,970)	(467,088)	(549,512)	(471,381)
Proceeds from sale of equipment, investment property and others	-	7,768	-	7,768
Net cash flows (used in)/ from investing activities	(40,176,673)	15,034,454	(40,211,600)	15,066,637
Cash flows from financing activities				
Redemption of debentures	(2,913,470)	-	(2,913,470)	-
Issue of new shares under Right Issue	-	3,620,001	-	3,620,001
Borrowing, medium and long - term	1,328,523	2,828,944	1,328,523	2,828,944
Other borrowings - net	7,002,500	(251,216)	7,002,500	(251,216)
Repayment of borrowing, medium and long - term	(4,924,859)	(13,802,569)	(4,924,859)	(13,802,569)
Dividends paid	(120,878)	673	(31,016)	673
Net Cash flows (used in) /from financing activities	371,816	(7,604,167)	461,678	(7,604,167)
Net increase /(decrease) in cash and cash equivalents	(11,349,285)	12,352,525	(11,314,396)	12,340,158
Cash and cash equivalents at the beginning of year	31,347,257	16,976,261	31,369,128	17,023,406
Cash and cash equivalents at the end of year	19,997,972	29,328,786	20,054,732	29,363,564
Reconciliation of cash and cash equivalents with items reported in the statement of financial position				
Cash and cash equivalents	12,551,455	16,387,723	12,573,755	16,422,501
Placements with banks	7,446,517	12,941,063	7,480,977	12,941,063
	19,997,972	29,328,786	20,054,732	29,363,564

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 30 June 2023 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 the 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 42% on above investments.

Note 5. Net profit / (loss) from trading

	Bank		Group	
For the period ended 30 June	2023	2022	2023	2022
	LKR 000	LKR 000	LKR 000	LKR 000
Foreign exchange from banks other customers	1,559,666	(820,728)	1,559,666	(820,728)
Government securities				
- Net marked to market loss	(8,750)	-	(8,750)	-
- Net capital gain	6,685	3,368	6,685	3,368
Equity securities				
- Net marked to market loss	(149,258)	(209,774)	(149,258)	(209,774)
- Net capital gain	4,166	16,669	4,166	16,669
- Dividend income	22,078	3,622	22,078	3,622
	1,434,587	(1,006,843)	1,434,587	(1,006,843)

Note 6. Net loss from financial instruments at fair value through profit or loss

	Bank		Group	
For the period ended 30 June	2023	2022	2023	2022
	LKR 000	LKR 000	LKR 000	LKR 000
Forward exchange fair value changes				
Contracts with commercial banks	(35,571)	174,633	(35,571)	174,633
Contracts with CBSL	(9,175)	(11,507)	(9,175)	(11,507)
Gain / (Loss) on financial assets fair value through profit or loss - equity securities	2,534	(6,394)	2,534	(6,394)
	(42,212)	156,732	(42,212)	156,732

Note 7. Net Other Operating Income

	Bank		Group	
For the period ended 30 June	2023	2022	2023	2022
	LKR 000	LKR 000	LKR 000	LKR 000
Financial assets measured at fair value through other comprehensive income				
Dividend income	576,150	1,069,217	576,150	1,069,217
Premises rental income	-	-	210,549	-
Gain on sale of property, plant and equipment	1,471	-	1,471	-
Foreign exchange (loss) / gain	(27,604)	(167,315)	(35,151)	(167,315)
Others	53,660	184,850	149,232	495,796
	603,677	1,086,752	902,251	1,397,698

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

As at	Bank		Group	
	30.06.2023	31.12.2022 (Audited)	30.06.2023	31.12.2022 (Audited)
	LKR 000	LKR 000	LKR 000	LKR 000
Gross loans and receivables (Note 8.1)	383,671,901	402,975,829	383,671,901	402,975,829
Less: Allowance for impairment (Note 8.2)	(41,224,246)	(33,903,799)	(41,224,246)	(33,903,799)
Net loans and receivables	342,447,655	369,072,030	342,447,655	369,072,030

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

As at	Bank		Group	
	30.06.2023	31.12.2022 (Audited)	30.06.2023	31.12.2022 (Audited)
	LKR 000	LKR 000	LKR 000	LKR 000
By product-Domestic Currency				
Overdrafts	51,077,041	53,985,736	51,077,041	53,985,736
Trade finance	17,627,936	18,965,291	17,627,936	18,965,291
Credit cards	6,142,433	5,552,271	6,142,433	5,552,271
Pawning	11,633,533	9,619,908	11,633,533	9,619,908
Staff loans	2,507,725	2,722,811	2,507,725	2,722,811
Term loans	219,967,565	221,023,597	219,967,565	221,023,597
Lease rentals receivable	14,278,006	17,237,903	14,278,006	17,237,903
Asset back notes	-	95,272	-	95,272
	323,234,239	329,202,789	323,234,239	329,202,789
By product-Foreign Currency				
Overdrafts	778,765	852,782	778,765	852,782
Trade finance	20,023,004	23,244,992	20,023,004	23,244,992
Term loans	39,635,893	49,675,266	39,635,893	49,675,266
	60,437,662	73,773,040	60,437,662	73,773,040
Gross loans and receivables	383,671,901	402,975,829	383,671,901	402,975,829

Note 8.2 Movement in Impairment during the period

	Bank		Group	
	30.06.2023	31.12.2022 (Audited)	30.06.2023	31.12.2022 (Audited)
	LKR 000	LKR 000	LKR 000	LKR 000
Stage 1				
Balance at beginning	4,495,287	2,202,668	4,495,287	2,202,668
(Reversal)/ charge to income statement	(746,219)	2,292,619	(746,219)	2,292,619
Write-off during the period	-	-	-	-
Balance at end	3,749,068	4,495,287	3,749,068	4,495,287
Stage 2				
Balance at beginning	5,677,290	1,989,584	5,677,290	1,989,584
Charge to income statement	3,284,310	3,687,706	3,284,310	3,687,706
Write-off during the period	-	-	-	-
Balance at end	8,961,600	5,677,290	8,961,600	5,677,290
Stage 3				
Balance at beginning	23,731,222	14,865,798	23,731,222	14,865,798
Charge to income statement	5,248,823	7,947,831	5,248,823	7,947,831
Other movements	(466,467)	917,593	(466,467)	917,593
Balance at end	28,513,578	23,731,222	28,513,578	23,731,222
Total Impairment	41,224,246	33,903,799	41,224,246	33,903,799

9 . Analysis of Commitments and Contingencies and Impairment

	As at	Bank		Group	
		30.06.2023	31.12.2022 (Audited)	30.06.2023	31.12.2022 (Audited)
		Rs 000	Rs 000	Rs 000	Rs 000
9.1	Gross commitment and contingencies	188,988,385	169,132,507	188,988,385	169,132,507
	Accumulated impairment under stage 1	515,153	519,425	515,153	519,425
	Accumulated impairment under stage 2	39,106	97,300	39,106	97,300
	Accumulated impairment under stage 3	-	-	-	-
	Net commitments and contingencies	188,434,126	168,515,782	188,434,126	168,515,782
9.2	Product-wise commitments and contingencies				
	Domestic currency				
	Credit related commitments & contingencies				
	Undrawn -Credit facilities	77,669,129	72,337,584	77,669,129	72,337,584
	Acceptances	6,162	12,038	6,162	12,038
	Documentary Letter of credit	54,982	77,434	54,982	77,434
	Guarantees	24,139,699	24,018,867	24,139,699	24,018,867
		101,869,972	96,445,923	101,869,972	96,445,923
	Other commitments & contingencies				
	Capital commitments	178,599	296,559	178,599	296,559
	Bid Bonds	572,457	310,790	572,457	310,790
		751,056	607,349	751,056	607,349
	Sub total	102,621,028	97,053,272	102,621,028	97,053,272
	Foreign currency				
	Credit related commitments & contingencies				
	Undrawn - Credit facilities	18,423,554	15,359,202	18,423,554	15,359,202
	Acceptances	3,974,266	2,813,862	3,974,266	2,813,862
	Documentary Letter of credit	5,528,691	2,725,835	5,528,691	2,725,835
	Guarantees	2,273,747	1,699,809	2,273,747	-
		30,200,258	22,598,708	30,200,258	20,898,899
	Other commitments & contingencies				
	Forward exchange contracts	55,849,078	49,480,528	55,849,078	49,480,528
		55,849,078	49,480,528	55,849,078	49,480,528
	Sub total	86,049,336	72,079,236	86,049,336	70,379,427
	Total gross commitments and contingencies	188,670,364	169,132,508	188,670,364	167,432,699

9.3	Bank	Stage 01 Rs 000	Stage 02 Rs 000	Stage 03 Rs 000	Total Rs 000
	Balance as at 1st January 2023	519,425	97,300	-	616,725
	Net charge to profit or loss	(4,272)	(58,832)	-	(63,104)
	Write-off during the year	-	-	-	-
	Balance as at 30 June 2023	515,153	38,468	-	553,621

	Group	Stage 01 Rs 000	Stage 02 Rs 000	Stage 03 Rs 000	Total Rs 000
	Balance as at 1st January 2023	519,425	97,300	-	616,725
	Net charge to profit or loss	(4,272)	(58,832)	-	(63,104)
	Write-off during the year	-	-	-	-
	Balance as at 30 June 2023	515,153	38,468	-	553,621

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

	Bank		Group	
As at	30.06.2023	31.12.2022	30.06.2023	31.12.2022
		(Audited)		(Audited)
	LKR 000	LKR 000	LKR 000	LKR 000
By product-Domestic Currency				
Demand deposits (current accounts)	9,622,684	8,317,768	9,622,619	8,314,555
Savings deposits	47,965,950	38,476,411	47,928,418	38,457,883
Fixed deposits	256,628,544	253,748,588	256,059,805	253,286,947
Other deposits	328,319	784,949	328,319	784,949
Certificate of deposits	984,395	1,976,859	984,395	1,976,859
	315,529,892	303,304,575	314,923,556	302,821,193
By product- Foreign Currency				
Demand deposits (current accounts)	1,657,029	953,618	1,657,029	953,618
Savings deposits	15,926,772	20,183,650	15,892,289	20,143,443
Fixed deposits	49,075,524	45,833,914	49,038,714	45,790,333
Other deposits	(188)	38,269	(188)	38,268
	66,659,137	67,009,451	66,587,844	66,925,662
Total	382,189,029	370,314,026	381,511,400	369,746,855

Note 11. Reclassifications of Financial Instrument

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 30 June 2023 amounted to LKR 8.5 Bn. and cumulative fair value loss thereon amounted to LKR 3.6 Bn. (net of tax LKR 2.7Bn.).

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 other than below.

Note 12.1 Proposed Debenture Issue

The Board of Directors and shareholders has decided to issue up to eighty million (80,000,000) Basel III compliant, subordinated, listed, rated, unsecured, redeemable debentures with a non-viability conversion option, each at an issue price (par value) of LKR 100 with a term up to seven years. This was approved by the shareholders at the extra ordinary general meeting (EGM) on 30 March 2023 subject to obtaining all necessary regulatory and other approvals.

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

	Number of shares	
As at	30.06.2023	31.12.2022
Number of shares of the Bank	421,948,655	402,666,056

13.3 Market price of a share

Information on shares of the Bank for the quarter ended	30.06.2023	31.12.2022
- Highest price LKR	47.50	37.00
- Lowest price LKR	37.60	31.00
- Market price LKR	46.60	32.00

13.4 Twenty Major Shareholders as at 30.06.2023

	Name of Shareholder/Company	Shareholding	%
1	Hatton National Bank PLC A/C No 1	52,629,168	12.47
2	Bank of Ceylon-No2 A/C (BOC PTF)	44,141,353	10.46
3	LOLC Investment Holding Three (Private) Limited	42,194,864	9.99
4	Mr. M.A.Yaseen	35,524,244	8.41
5	Sri Lanka Insurance Corporation Ltd-Life Fund	32,000,355	7.58
6	Don And Don Holdings Private Limited	30,256,510	7.17
7	Employee's Provident Fund	28,277,617	6.70
8	Melstacorp PLC	25,973,794	6.15
9	Seafeld International Ltd	20,558,446	4.87
10	Mr. H.H. Abdulhusein	10,630,000	2.51
11	People's Leasing & Finance PLC / Don And Don Holdings (Private) Limited	9,891,470	2.34
12	Renuka City Hotels PLC	8,037,892	1.90
13	Renuka Hotels PLC	4,726,698	1.12
14	Employees Trust Fund Board	4,627,590	1.09
15	Seylan Bank PLC / Senthilveri Holdings (Pvt) Ltd	3,717,486	0.88
16	Akbar Brothers Pvt Ltd A/C No 1	3,149,088	0.74
17	Anverally International (Pvt) Limited	3,089,081	0.73
18	Cargo Boat Development Company PLC	2,898,893	0.68
19	Sri Lanka Insurance Corporation Ltd - General Fund	2,499,191	0.59
20	Star Packaging (Pvt) Ltd	2,460,000	0.58

13.5 Public Holdings as at 30.06.2023

Public holdings percentage	67.02%
Number of Public shareholders	10,304
Float adjusted market capitalisation	LKR 13,178 million
Applicable option as per CSE Listing Rule 7.13.1 (a)	Option 1

13.6 Directors' Interests in Shares

	No of Shares As at 30.06.2023
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	25,814
V J Senaratne (Ms.)	2,101
A.L.Thambiayah (Ms)	105,094
N.V.Kumar	Nil
H.A.J. de Silva Wijeyeratne	12,905
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 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.						
					30.06.2023 LKR 000					
Fixed Rate										
2016/2023	Annually	12.75	12.75	24.01	6,524,567	N/T	N/T	N/T	N/A	N/A
2018/2025	Annually	13.00	13.00	25.60	4,211,393	N/T	N/T	N/T	N/A	N/A
2019/2024	Annually	13.50	13.50	24.91	3,929,303	N/T	N/T	N/T	N/A	N/A
2019/2026	Annually	13.75	13.75	24.46	1,841,685	N/T	N/T	N/T	N/A	N/A
2019/2029	Annually	13.90	13.90	21.38	4,551,416	N/T	N/T	N/T	N/A	N/A
2020/2025	Annually	9.00	9.00	25.83	4,573,863	N/T	N/T	N/T	N/A	N/A
2020/2025	Annually	11.00	11.00	26.67	5,019,711	N/T	N/T	N/T	N/A	N/A
2020/2027	Annually	9.25	9.25	24.02	217,389	N/T	N/T	N/T	N/A	N/A

N/T -Not traded

Selected Performance Indicators

	Bank		Group	
	30.06.2023	31.12.2022	30.06.2023	31.12.2022
Regulatory Capital (LKR '000)				
Common Equity Tier I	41,345,820	36,818,873	40,710,583	36,381,998
Tier 1 Capital	41,345,820	36,818,873	40,710,583	36,381,998
Total Capital	51,011,796	48,004,800	50,383,649	47,574,242
Regulatory Capital Ratios %				
Common Equity Tier 1 Capital Ratio (Minimum requirement - 7%)	11.416	10.085	11.223	9.937
Tier 1 Capital Ratio (Minimum requirement - 8.5%)	11.416	10.085	11.223	9.937
Total Capital Ratio (Minimum requirement - 12.5%)	14.085	13.148	13.890	12.993
Leverage Ratio (Minimum requirement is 3%)	6.45	5.93	6.36	5.87
Regulatory Liquidity				
Statutory liquid assets LKR 000				
Total bank operations	158,748,862	122,283,753		
Statutory liquid assets ratio % (Minimum requirement 20%)				
Total bank operations	31.88	26.36		
Total Stock of High-Quality Liquid Assets	145,160,510	101,602,039		
Liquidity Coverage Ratio (%) – Rupee (Minimum Requirement - 2023 - 100%, 2022 - 90%)	480.16	289.85		
Liquidity Coverage Ratio (%) – All Currency (Minimum Requirement - 2023 - 100% , 2022 -90%)	305.06	202.34		
Net Stable Funding Ratio (%) (Minimum requirement - 2023 - 100%, 2022 - 90%)	131.77	126.55		
Asset Quality				
Impaired Loans (Stage 3) Ratio (%)	5.58	4.36		
Impairment (Stage 3) to Stage 3 Loans Ratio (%)	49.85	51.73		
Profitability				
Interest margin %	5.48	4.96		
Return on assets (profit before tax) %	1.62	0.46		
Return on equity (profit after tax) %	10.52	5.04		
Other Ratios				
Debt to equity ratio (times)	2.19	2.51		
Interest cover (times)	2.15	1.47		

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 2023	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000
Financial Assets								
Cash and cash equivalents	-	-	12,551,455	12,551,455	-	-	12,573,755	12,573,755
Balances with Central Bank of Sri Lanka	-	-	3,144,273	3,144,273	-	-	3,144,273	3,144,273
Placements with banks	-	-	7,446,517	7,446,517	-	-	7,480,977	7,480,977
Derivative financial assets	14,088,439	-	-	14,088,439	14,088,439	-	-	14,088,439
Financial assets measured at fair value through profit or loss	1,076,365	-	-	1,076,365	1,076,365	-	-	1,076,365
Financial assets at amortised cost - Loans to and receivables from banks	-	-	815,141	815,141	-	-	815,141	815,141
Financial assets at amortised cost -Loans to and receivables from other customers	-	-	342,447,655	342,447,655	-	-	342,447,655	342,447,655
Financial assets at amortised cost - Debt and other instruments	-	-	51,563,523	51,563,523	-	-	51,563,523	51,563,523
Financial assets measured at fair value through other comprehensive income	-	120,893,336	-	120,893,336	-	120,893,336	-	120,893,336
Other assets	-	-	7,165,639	7,165,639	-	-	7,283,300	7,283,300
Total financial assets	15,164,804	120,893,336	425,134,203	561,192,343	15,164,804	120,893,336	425,308,624	561,366,764
Financial Liabilities								
Due to banks	-	-	21,142,097	21,142,097	-	-	21,142,097	21,142,097
Derivative financial liabilities	186,589	-	-	186,589	186,589	-	-	186,589
Financial liabilities at amortised cost -Due to depositors	-	-	382,189,029	382,189,029	-	-	381,511,400	381,511,400
Financial liabilities at amortised cost - Due to other borrowers	-	-	69,492,431	69,492,431	-	-	69,492,431	69,492,431
Debt securities issued	-	-	15,342,115	15,342,115	-	-	15,342,115	15,342,115
Other liabilities	-	-	5,143,859	5,143,859	-	-	5,535,692	5,535,692
Subordinated term debt	-	-	15,527,211	15,527,211	-	-	15,527,211	15,527,211
Total financial liabilities	186,589	-	508,836,742	509,023,331	186,589	-	508,550,946	508,737,535

	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
Financial Assets								
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
Total financial assets	21,902,693	63,319,060	468,189,555	553,411,308	21,902,693	63,319,060	468,377,885	553,599,638
Financial Liabilities								
Due to banks	-	-	15,857,994	15,857,994	-	-	15,857,994	15,857,994
Derivative financial liabilities	84,670	-	-	84,670	84,670	-	-	84,670
Financial liabilities at amortised cost -Due to depositors	-	-	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
Total financial liabilities	84,670	-	510,122,971	510,207,641	84,670	-	509,742,713	509,827,383

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 30 June 2023	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
Financial Assets				
Derivative financial assets				
Forward foreign exchange contracts		14,088,439		14,088,439
Financial assets measured at fair value through profit or loss				
Government of Sri Lanka Treasury Bonds	161,598			161,598
Equity securities - quoted	877,489			877,489
Units in Unit Trusts - Quoted	3,740			3,740
Units in Unit Trusts - Unquoted		33,538		33,538
Financial assets measured at fair value through other comprehensive income				-
Government of Sri Lanka Treasury Bills and Bonds	109,062,938			109,062,938
Sri Lanka Sovereign bonds	-			-
Equity shares- quoted	11,608,979			11,608,979
Equity shares- unquoted			221,419	221,419
	121,714,744	14,121,977	221,419	136,058,140
Financial Liabilities				
Derivative financial liabilities				
Forward foreign exchange contracts		186,589		186,589
	-	186,589	-	186,589

As at 31st December 2022	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
Financial Assets				
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				-
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
	64,495,786	20,504,548	221,419	85,221,753
Financial Liabilities				
Derivative financial liabilities				
Forward foreign exchange contracts	-	84,670	-	84,670
	-	84,670	-	84,670

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 30 June 2023		As at 31st December 2022	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	12,551,455	12,551,455	16,122,564	16,122,564
Balances with Central Bank of Sri Lanka	3,144,273	3,144,273	9,030,868	9,030,868
Placements with banks	7,446,517	7,446,517	15,224,692	15,224,692
Financial assets at amortised cost - Loans to and receivables from banks	815,141	815,141	-	-
Financial assets at amortised cost - Loans to and receivables from other customers	342,447,655	334,338,983	369,072,030	339,333,283
Financial assets at amortised cost - Debt and other instruments	51,563,523	51,646,568	50,947,926	50,780,504
Other assets	7,165,639	7,165,639	7,791,474	7,791,474
Financial Liabilities				
Due to banks	21,142,097	21,142,097	15,857,994	15,857,994
Financial liabilities at amortised cost - due to depositors	382,189,029	373,468,401	370,314,026	361,987,182
Financial liabilities at amortised cost - due to other borrowers	69,492,431	69,492,431	81,145,692	81,145,692
Debt securities in issue	15,342,115	11,714,806	16,304,115	11,786,904
Other liabilities	5,143,859	5,143,859	8,101,153	8,101,153
Subordinated term debt	15,527,211	9,110,829	18,399,991	15,010,515

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.

	Equity Securities	
	Bank/Group	
	2023 LKR 000	2022 LKR 000
Balance at 1 January	221,419	216,602
Purchased during the year		
Gain included in OCI		
– Net change in fair value (unrealised)	-	4,817
Balance at end of the period	221,419	221,419

Sensitivity analysis

For the fair values of equity securities, reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects.

	OCI Net of Tax	
	Increase LKR 000	Decrease LKR 000
Equity securities as at 30.06.2023		
Adjusted net assets value (5% movement)	11,071	(11,071)

OPERATING SEGMENTS - GROUP

Information about reportable segments

	30 June 2023					30 June 2022				
	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
External revenue										
Interest income	13,770,423	20,395,091	16,352,531	61,192	50,579,237	8,215,174	14,576,667	3,271,248	25,866	26,088,955
Net fees and commission income	1,324,626	1,159,097	-	-	2,483,723	618,403	797,034	-	-	1,415,437
Net gain from trading	266,394	137,971	1,030,222	-	1,434,587	-	-	(1,006,843)	-	(1,006,843)
Net loss from financial instruments at fair value through profit or loss			(42,212)	-	(42,212)	-	-	156,732	-	156,732
Net gain from derecognition of financial assets			782,104	-	782,104	-	-	10,407	-	10,407
Net other operating income	(2)	(2,077)	-	471,519	469,440	64,455	71,561		464,846	600,862
Income from external customers	15,361,441	21,690,082	18,122,645	532,711	55,706,879	8,898,032	15,445,262	2,431,544	490,712	27,265,551
Inter segment revenue				(233,412)	(233,412)	-	-	-	(178,538)	(178,538)
Total segment revenue	15,361,441	21,690,082	18,122,645	299,299	55,473,467	8,898,032	15,445,262	2,431,544	312,174	27,087,013
Impairment for loans and other losses	-	-	-	-	8,096,401	-	-	-	-	6,825,036
Interest Expense	-	-	-	-	35,201,660	-	-	-	-	14,869,369
Net operating income					12,175,406					5,392,608
Segment assets	138,946,400	196,248,905	202,051,701	1,098,281	538,345,287	107,755,606	275,365,651	104,253,828	1,052,461	488,427,547
Segment liabilities	60,298,159	321,667,081	121,690,443	568,530	504,224,213	55,358,282	287,636,367	127,887,052	610,421	471,492,121
Information on cash flows										
Cash flows from operating activities	-	-	-	-	28,435,526	-	-	-	-	4,877,688
Cash flows from investing activities	-	-	-	-	(40,211,600)	-	-	-	-	15,066,637
Cash flows from financing activities	-	-	-	-	461,678	-	-	-	-	(7,604,167)
Net cash flows generated during the year	-	-	-	-	(11,314,396)	-	-	-	-	12,340,158
Capital expenditure:										
Property, plant and equipment	-	31,440	-	-	31,440	-	25,457	-	-	25,457
Intangible assets	-	-	-	-	-	-	162,618	-	-	162,618

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

	2023 LKR.'000	2022 LKR.'000
Revenue		
Total revenue for reportable segments	55,706,879	27,265,551
Unallocated amounts	883,332	864,260
Elimination of inter-segment revenue	(233,412)	(178,538)
Consolidated revenue	<u>56,356,799</u>	<u>27,951,273</u>
Net Operating Income		
Total net operating income for reportable segments	12,175,406	5,392,608
Unallocated amounts	285,864	542,122
Consolidated net operating income	<u>12,461,270</u>	<u>5,934,730</u>
Assets		
Total assets for reportable segments	538,345,287	488,427,547
Other unallocated amounts	39,510,937	30,641,604
Consolidated total assets	<u>577,856,224</u>	<u>519,069,151</u>
Liabilities		
Total liabilities for reportable segments	504,224,213	471,492,121
Other unallocated amounts	11,012,680	6,365,899
Consolidated total liabilities	<u>515,236,893</u>	<u>477,858,020</u>