

DFCC Bank Forges Ahead Amidst A Challenging Environment





J. Durairatnam, Chairman, DFCC Bank.

Thimal Perera, Director/CEO, DFCC Bank.

Despite unprecedented challenges faced due to the pandemic resulting in volatility and economic slowdown, DFCC Bank continued its commitment to serving customers across the country, delivering high-quality, uninterrupted banking services.

The global recognition attests to this hard work that DFCC Bank received from Global Brands UK, being recognized as both the ‘Most Trusted Retail Banking Brand’ and the ‘Best Customer Service Banking Brand’ in Sri Lanka for 2021 in the ‘Banking and Finance’ category.

To become one of Sri Lanka’s most customer-centric digitally-enabled banks by 2025, and in line with the Bank’s corporate strategy, the T24 Temenos Core Banking System was implemented, along with a functionally rich online banking platform. The transition to the new core banking system will offer customers a digitally enabled, best-in-class banking service that is flexible and agile.

The Bank was able to achieve expected growth due to executing a focussed strategy driven by its purpose. The core objective is to help people and businesses prosper by embracing change through technological transformation to continue to seize new opportunities resulting from the challenges of the pandemic.

The Bank implemented several concessionary schemes to support customers affected by the pandemic, helping them emerge stronger through numerous moratoriums, relief measures, and advisory support and services, according to the directives issued by the Central Bank of Sri Lanka. As a result of this focused approach and agile maneuvering, DFCC Bank successfully concluded the year ended December 31, 2021, having delivered robust performance and growth amidst a challenging economic environment. Thus, the following commentary relates to the audited Financial Statements for the year ended December 31, 2021, and is presented following Sri Lanka Accounting Standard 34 (LKAS 34) on “Interim Financial Statements”.The DFCC Group comprises DFCC Bank (DFCC), and its subsidiaries – Lanka Industrial Estates Limited (LINDEL), DFCC Consulting (DCPL), and Synapsys Limited (SL), the joint venture company – Acuity Partners (APL), and associate company – National Asset Management Limited (NAMAL).

DFCC Bank, the largest entity within the Group, reported a profit before tax (PBT) of 4,326 million rupees and a profit after tax (PAT) of 3,222 million rupees for the year

ended December 31, 2021. This compares with a PBT of 3,398 million rupees and a PAT of 2,388 million rupees in the year prior.

The Group recorded a PBT of 4,859 million rupees and a PAT of 3,665 million rupees for the year ended December 31, 2021, compared with 3,944 million rupees and 2,847 million rupees, respectively, in 2020. All the member entities of the Group made positive contributions to this performance.

The basic earnings per ordinary share of the Bank improved to 10.14 rupees for the year ended December 31, 2021 from 7.83 rupees for the comparative year 2020, recording an increase of 29 percent. The Bank's Return on Equity improved to 6.55 percent during the year ended December 31, 2021 from 4.93 percent recorded for December 31, 2020.

The Bank's Return on Assets before tax for the year ended December 31, 2021 is 0.91 percent, against a figure of 0.78 percent for the year ended December 31, 2020.

The Bank recorded 12,653 million rupees in net interest income (NII), a 15 percent increase year on year. This contributed to an increase in interest margin from 2.53 percent in December 2020 to 2.66 percent in December 2021.

Impairment provisions for the year ended December 31, 2021, was 4,485 million rupees compared to 3,298 million rupees in the year prior.

The NPL ratio increased from 5.56 percent in December 2020 to 5.60 percent in December 2021. The Bank has made adequate impairment provisions to address the current and potential future impacts of COVID-19 and other prevailing economic conditions on the lending portfolio. As of 31 December 2021, it introduced changes to internal models to cover unseen risk factors in the present highly uncertain and volatile environment, including additional provisions for the Bank's exposure to high-risk sectors.

Investments in equity securities and treasury bills and bonds (fixed income securities) are classified as financial assets, and their change in fair value is recorded through other comprehensive income.

Accordingly, a reasonable value loss of 36 million rupees and a net fair value loss of 2,469 million rupees were recorded on account of equity and fixed income

securities, outstanding as of December 31, 2021 respectively. Unfavorable movements in Treasury bills and bond yields resulted in the fair value loss of 4,532 million rupees during the year.

A gain of 2,062 million rupees was recycled through the Income statement by disposing of selected Treasury bill and bond holdings, originally categorized under fair value through other comprehensive income (FVOCI), with the objective of cash flow management to support loans and advance growth in line with projections. The action also goes in tandem with the Bank's expectations concerning the domestic interest rate trend going forward. The loan portfolio grew by 63,991 million rupees to record 365,901 million rupees compared to 301,909 million rupees as of December 31, 2020, recording an increase of 21 percent.

The Bank's deposit base also experienced a growth of three percent, recording an increase of 9,834 million rupees to 319,861 million rupees from 310,027 million rupees as at December 31, 2020. This resulted in recording a loan to deposit ratio of 114 percent. Further CASA ratio improved to 31.25 percent as at December 31, 2021. The Bank's funding costs were also contained by using medium to long-term concessionary credit lines. When these concessionary term borrowings are considered, the CASA ratio improved to 36.47 percent as of December 31, 2021.

DFCC Bank continued its approach to tap local and foreign currency-related long to medium-term borrowing opportunities to facilitate lending to deserving market segments while maintaining a high-quality portfolio.

To support future growth as a full-service retail bank, the Bank has consistently maintained a capital ratio above the Basel III minimum capital requirements. As of December 31, 2021, the Bank has recorded Tier 1 and total capital adequacy ratios of 9.31 percent and 13.0 percent, respectively, which is comfortably above the minimum regulatory requirements of eight percent and 12 percent, including capital conservation buffer two percent. The Bank's Net Stable Funding Ratio was 122.43 percent, above the regulatory minimum of 100 percent.

Thimal Perera, Director and Chief Executive Officer of DFCC Bank said, "Ensuring that we run our business responsibly, delivering profit with purpose, DFCC Bank will always place our customers at the forefront of everything we do. As a customer-centric, digitally enabled Bank, we will remain a source of stability to our customers and deliver value through an unmatched, top-of-the-line customer experience. In line with our stated vision, the Bank embarked upon implementing a state-of-the-

art, core banking system, which went live in October 2021. Considering the magnitude and complexity of the implementation, we have had to face some unforeseen challenges. I take this opportunity to express our sincere thanks and gratitude to all our clients, who have been understanding and patient with us this year, as we continuously strive to ensure a more futuristic, digitally-enabled system for our clients. Despite the unprecedented challenges faced due to the ongoing pandemic, the staff of DFCC Bank have and will continue to work with a commitment to combat the negative socio-economic effects that have impacted our customers and assist them through tailor-made financial solutions. We will continue introducing banking services that put safety and security at the forefront and ensure that our internal processes align with these same principles to serve our customers better. We have a strong asset base to be deployed. Still, nothing is more important than the loyalty we earn from customers, not just by keeping their money and data safe but by offering products and services that meet their financial needs and requirements. This loyalty generates both more predictable returns and keen insights, enabling us to improve our services and exceed customer expectations continuously.”

DFCC Bank was ranked amongst Business Today’s Top 40 Corporates in Sri Lanka.