DFCC Bank Reports Strong Performance Amidst Economic Challenges

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DFCC Bank reported a Profit Before Tax (PBT) of 5,110 million rupees and a Profit After Tax (PAT) of 3,205 million rupees on June 30, 2023. The Group recorded a PBT of 5,867 million rupees and PAT of 3,923 million rupees for June 30, 2023. The Bank's Return on Equity (ROE) increased to 10.52 per cent during the period ended June 30, 2023, from 5.04 per cent recorded for the year ended December 31, 2022. The Bank's Return on Assets (ROA) before tax for June 30, 2023 is 1.62 per cent compared to 0.46 per cent for the year ending December 31, 2022.

The Bank's Net Interest Income (NII) increased 41 per cent over Q2 of 2022 to reach 15,475 million rupees 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 to 5.48 per cent by June 2023. 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 per cent to 1,945 million rupees for June 30, 2023, compared to 1,183 million rupees for the comparative period in 2022.

The impaired loan (stage 3) ratio increased from 4.36 per cent in December 2022 to 5.58 per cent as of June 30, 2023, continuing the prevalent trend amidst the present economic conditions. However, the Bank expects this trend to be moderate and potentially improve towards the end of the year, reflecting positive developments in the macroeconomic environment, coupled with the Bank's concerted efforts about 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 of reporting date to estimate the recoverable value of foreign currency-denominated investment securities issued by the Government of Sri Lanka. Accordingly, an impairment charge has been recognized to maintain a provision cover of 42 per cent on the above investments. Operating expenses for the period ended June 30, 2023 rose primarily due to the increase in inflation. Total assets increased by 8.1 billion rupees, recording a growth of 1.42 per cent 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 per cent increase in investment in financial assets at fair value through other comprehensive income as of June 30, 2023, compared to the balance as of December 31, 2022. With increased provision for expected credit losses, appreciation of the Sri Lanka Rupee compared to December 31, 2022, and considerable economic challenges, the net loan portfolio was recorded at 342 billion rupees as of June 30, 2023, which is 7 per cent lower than the balance as of December 31, 2022. The Bank's deposit base experienced a growth of 3.21 per cent during the period, recording an increase of 11.9 billion rupees to 382 billion rupees, up from 370 billion rupees as of December 31, 2022. This resulted in recording a loan-to-deposit ratio of 100.39 per cent. The CASA ratio was 19.75 percent as of June 30, 2023. The Bank's funding costs were also contained using medium to long-term concessionary credit lines, primarily used to grow the lending portfolio. The CASA ratio improved to 30.76 per cent, and the loans-to-deposit ratio improved to 89.60 per cent as of June 30, 2023. DFCC Bank's total equity increased to 59 billion rupees as of June 30, 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 3.2 billion rupees. Thimal Perera, Director/CEO, DFCC Bank said, "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."