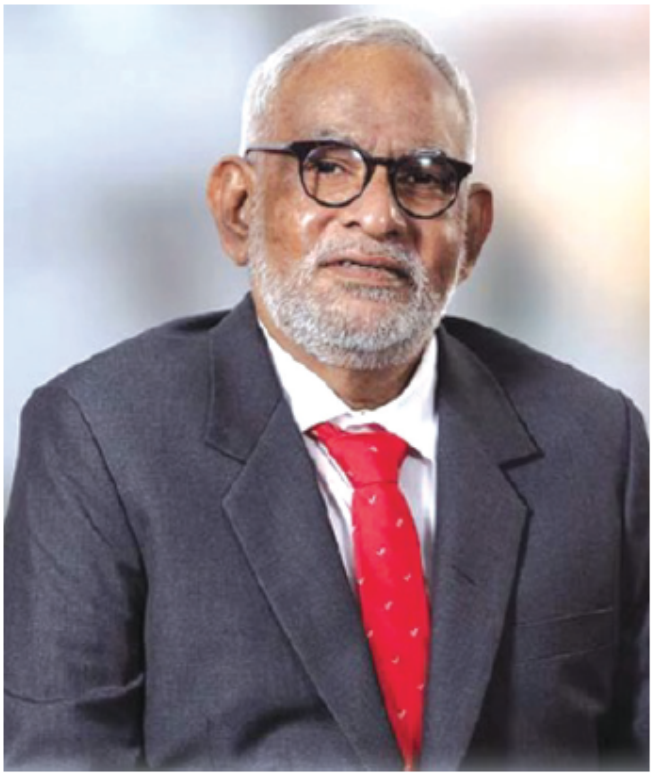




DFCC Bank Reports Strong Performance Amidst Heightened Economic Challenges



Jegan Durairatnam, Chairman, DFCC Bank.



Thimal Perera, Director/CEO, DFCC Bank.

DFCC Bank reported a Profit Before Tax of 2,684 million and a Profit After Tax of 1,749 million for the March 31, 2023 quarter. The Group recorded a PBT of 3,001 million rupees and PAT of 2,062 million rupees for the quarter that ended March 31, 2023, compared to 326 million rupees and 527 million rupees, respectively, in 2022. The Bank's Return on Equity increased to 10.88 percent during the quarter ended March 31, 2023 from 5.04 percent recorded for the year ended December 31, 2022. The Return on Assets (ROA) before tax for the quarter ended March 31, 2023 is 1.63 percent compared to 0.46 percent for the year ended December 31, 2022. The Net Interest Income (NII) increased by 75 percent over Q1 of 2022 to reach 8.34 billion rupees by the quarter end of March 2023. The tight liquidity conditions in the domestic money market have resulted in 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 continued to depress the lending portfolio, it led to an overall improvement in Net Interest income (NII). Strategically, the Bank increased the fixed-income investment portfolio, contributing significantly to increased interest income. In line

with the increase in the AWPLR over the past 12 months, the interest margin increased from 3.80 percent in March 2022 to 5.93 percent by March 2023.

The untiring efforts of the Bank’s staff led to increased remittances, trade-related commissions, and other fee income lines, which contributed to the increase of 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 to 1,064 million rupees for the quarter ended March 31, 2023, compared to 639 million rupees in the comparative period in the year 2022.

The impaired loan (stage 3) ratio has increased from 4.36 percent in December 2022 to 4.80 percent as of March 31, 2023. To address the current and potential future impacts of the current 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 current highly uncertain and volatile environment. With these provisions made to cover the additional risks in the economic environment, the impairment charge increased 67 percent against the comparative period and stood at 4.69 billion rupees for the quarter ended March 2023 compared to 2.81 billion rupees in the comparable period. The operating expenses for the quarter ended on March 31, 2023 increased due to an increase in IT-related expenses as a result of infrastructure upgrades, and cost increases due to inflation and the Sri Lanka Rupee devaluation. However, the numerous process automation and workflow management systems introduced over the period helped curtail and manage operating expenses at reduced levels. Changes in the 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 bank equity due to the exchange fluctuation was minimized. A fair value gain of 2,034 million rupees was recorded on account of equity securities outstanding as of March 31, 2023. DFCC Bank’s total assets increased by 9.8 billion rupees, recording a growth of 1.75 percent from December 2022. In line with the bank’s growth strategy and the current economic situation, 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 49 percent increase in investment in financial assets at fair value through other comprehensive income as of March 31, 2023 compared to the balance as of December 31, 2022. With increased provision for expected credit losses and appreciation of the Sri Lanka

Rupee, the net loan portfolio has recorded 357 billion rupees as of March 31, 2023. The Bank’s deposit base experienced a growth of 2.29 percent, recording an increase of 8,490 million rupees to 378,805 million rupees from 370,314 million rupees as of December 31, 2022. This resulted in recording a loan-to-deposit ratio of 104.33 percent. The CASA ratio is 18.05 percent as of March 31, 2023. 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 further improved to 29.86 percent, and the loans-to-deposit ratio improved to 89.02 percent as of March 31, 2023.

DFCC Bank’s total equity increased to 57 billion rupees as of March 31, 2023, with the recorded profit after tax of 1.75 billion rupees. “Reflecting on last quarter’s performance, we are pleased to report strong financials 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, which bodes well for the overall economic situation of Sri Lanka,” Thimal Perera, Director/CEO, DFCC Bank. DFCC Bank was ranked among Business Today’s Top 40 Corporates in Sri Lanka.