



DFCC Bank stands firm amidst challenges

Financial Results for the Quarter ended 31 March 2021

- DFCC Group recorded a PAT of LKR 1.6 Bn.
- Advances grew by LKR 13 Bn to 315 Bn (4% growth).
- Deposits grew by LKR 2 Bn to 312 Bn (1% growth).

In the backdrop of an extremely challenging environment supporting the efforts by the Government to uplift and stabilize the economy, DFCC Bank continued its committed service to customers across the country providing essential banking services without interruption during these challenging times. DFCC Bank concluded the quarter ended 31 March 2021 with sound performance and growth.

DFCC Bank really swung in to full gear as a full service Commercial Bank marking 65 years of being a pioneer in Sri Lanka's banking sector. The Bank has made great strides recently to capture market share by demonstrating agility to embrace its goal of becoming a customer centric digitally enabled bank. The Bank introduced several concessionary schemes to its clientele in accordance with the Directions/ Guidelines of Central Bank of Sri Lanka extending financial and advisory support to all segments of customers.

The following commentary relates to the unaudited Financial Statements for the quarter ended 31 March 2021, presented in accordance with Sri Lanka Accounting Standard 34 (LKAS 34) on "Interim Financial Statements".

Financial Performance

Profitability

The DFCC Group comprises of DFCC Bank PLC (DFCC), and its subsidiaries – Lanka Industrial Estates Limited (LINDEL), DFCC Consulting (Pvt) Limited (DCPL) and Synapsys Limited (SL), the joint venture company – Acuity Partners (Pvt) Limited (APL) and associate company – National Asset Management Limited (NAMAL).

DFCC Bank PLC, the largest entity within the Group, reported a profit before tax (PBT) of LKR 1,915 Mn and a profit after tax (PAT) of LKR 1,479 Mn for the quarter ended 31 March 2021. This compares with a PBT of LKR 1,295 Mn and a PAT of LKR 925 Mn in the comparative period.

The Group recorded a PBT of LKR 2,036 Mn and PAT of LKR 1,583 Mn for the quarter ended 31 March 2021 as compared to LKR 1,408 Mn and LKR 1,014 Mn respectively in the comparative period of year 2020. All the member entities of the Group made positive contributions to this performance.

The basic earnings per ordinary share (EPS) of the Bank improved to LKR 4.80 for the quarter ended 31 March 2021 from LKR 3.04 for the comparative period in year 2020 recording an increase of 58%. The Bank's Return on Equity (ROE) improved to 6% during the quarter ended 31 March 2021 from 4.93% recorded for the year ended 31 December 2020. The Bank's Return on Assets (ROA) before tax also improved to 0.91% during the quarter ended 31 March 2021 compared to 0.78% recorded for the year ended 31 December 2020.

Net Interest Income

The Bank recorded a LKR 2,679 Mn in net interest income (NII) which is a 10% decline year on year primarily due to the drop in AWPLR more than 370 bps over the past 12 months and due to the business implications that arose with the pandemic situation. In line with this trend and due to the time taken to re price the existing deposits to reflect market trends the interest margin also has slightly decreased from 2.53% in December 2020 to 2.35% in March 2021.

Other Operating Income.

The economic activities have been operating uninterrupted to a large extent during the current period compared with the comparative period which involved a stringent lockdown situation. The Bank was able to use the opportunities created in the market with a concentrated effort to increase non-funded business and the effort was rewarded with an increase of fee and commission income to LKR 651 Mn for the quarter ended 31 March 2021 from LKR 548 Mn in the comparative period.

Other operating income has increased mainly due to increase in Dividend income and gain on sale of fixed income securities during the period ended 31 March 2021.

Impairment Charge on Loans and Other Losses

Impairment provision has decreased to LKR 356 Mn for the quarter ended 31 March 2021 from LKR 637 Mn in the comparable period. While maintaining the same provision level for loans and advances to customers, impairment charge over other financial assets was reduced due to the reduction in loss ratio related to the government securities denominated in foreign currencies as per a guideline issued by the Central Bank of Sri Lanka.

In order to address the potential future impacts of COVID-19 on the lending portfolio, the Bank has made adequate impairment provision as at 31 December 2020 by introducing changes to internal models to cover unseen risk factors in the highly uncertain and volatile environment including additional provisions made for the exposures to risk elevated sectors. The same methods and the processes were followed during the quarter ended 31 March 2021 as there is no material change to the operating environment. The bank reported the NPL ratio of 5.53% in March 2021 compared to 5.56% in December 2020. As the impacts of the COVID-19 pandemic will continue to be felt for some time, the Bank continues to closely monitor its loan portfolio and provisioning levels.

Operating Expenses

During the quarter ended 31 March 2021, operating expenses increased from LKR 1,751 million to LKR 2,031 million compared to the corresponding period in the previous year. Staff related provisions for year 2019 which were not utilised were reversed during the period ended 31 March 2020 and if not for such reversal the increase in total operating expenses would have been only 6% during the quarter ended 31 March 2021 compared with the comparative period of year 2020. During the year the Bank created multiple channels for service delivery for customer's access and provided uninterrupted services during the pandemic situation which resulted in increasing IT related cost and other operating expenses. Close monitoring and effective cost control measures adopted during the period helped to maintain the operating expenses at these levels.

Other Comprehensive Income

Investments in equity securities and treasury bills and bonds (fixed income securities) are classified as financial assets and the change in fair value is recorded through other comprehensive income. Accordingly, fair value gain of LKR 534Mn and a net fair value loss of LKR 1,131Mn were recorded on account of equity and fixed income securities, respectively. The increase in the share price of Commercial Bank of Ceylon PLC during the period mainly contributed to the reported fair value gain in equity securities, whilst the movement of interest rates of treasury bills and bonds unfavourably resulted in the fair value loss that was recorded during the period.

Business Growth

Despite the challenging business environment, the Bank continued its growth strategy by increasing both deposit and loan portfolio as at 31 March 2021. The loan portfolio grew by LKR 12,652 Mn to record LKR 314,562 Mn compared to LKR 301,909 Mn as at 31 December 2020 recording an increase of 4%. The Bank's deposit base also experienced a growth of 1% recording an increase of LKR 2,059 Mn to LKR 312,086 Mn from LKR 310,027 Mn as at 31 December 2020.

With the 1% increase in deposits and 4% increase in loans, DFCC Bank reported loan to deposit ratio of 101%. The Bank's CASA ratio, which represents the proportion of low cost deposits in the total deposits of the Bank was 30.06% as at 31 March 2021. Funding costs for DFCC Bank were also contained due to access to medium to long-term concessionary credit lines. When these concessionary term borrowings are considered, the ratio improved to 35.94% as at 31 March 2021. DFCC Bank continued its approach to tap local and foreign currency related long to medium-term borrowing opportunities. DFCC Bank's total assets and total liabilities slightly decreased by 1% from December 2020 mainly due to the strategy followed by the Bank for utilizing the excess funds to settle high cost short term borrowings.

Equity and Compliance with Capital Requirements

The Bank has declared a final dividend of LKR 3.00 per share in the form of a scrip dividend for the year ended 31 December 2020, balancing the expectations of shareholders with business plans including the credit growth of the Bank. In order 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 at 31 March 2021, the Bank has recorded Tier 1 and total capital adequacy ratios of 10.21% and 14.52%, respectively, which is well above the minimum regulatory requirements of 8% and 12% including Capital Conservation buffer of 2%. The Bank's Net Stable Funding Ratio was 117.41%, well above the regulator mandated minimum of 90%. These strong capital adequacy and liquidity levels are clear affirmation of the Bank's stability.

CEO Comment

"Given the ongoing uncertainties we will pursue growth. Our focus will be to engage with our customers and ensure that we will be their pillar of strength to help them achieve success during these unprecedented times. We will also continue to expand our digital footprint to offer ease and convenience to our customers as we have now adopted the best practices in the industry and implemented systems to meet the future challenges that we foresee in the new normal.

About DFCC Bank

DFCC Bank is a full-service Commercial Bank with a legacy of 65 years as one of Sri Lanka's foremost financial conglomerates offers a gamut of commercial and development banking services. The Bank was ranked amongst Business Today's Top 30 Corporates in Sri Lanka and was also positioned amongst Brand Finance's Top 100 Most Valuable Brands, 2020. DFCC Bank is rated [SL] AA-Stable by ICRA Lanka Limited and A+ (lka) Stable by Fitch Ratings Lanka Limited.

Lakshman Silva
Director/Chief Executive Officer

04 May 2021

DFCC Bank PLC
Income Statement

For the three months ended 31 March

	Notes	Bank			Group		
		2021 LKR 000	2020 LKR 000	Change %	2021 LKR 000	2020 LKR 000	Change %
Gross Income		11,089,843	11,296,439	(2)	11,236,964	11,433,870	(2)
Interest income		8,970,875	10,251,046	(12)	8,981,936	10,251,380	(12)
Interest expense		6,292,177	7,267,224	(13)	6,296,298	7,258,368	(13)
Net interest income		2,678,698	2,983,822	(10)	2,685,638	2,993,012	(10)
Fee and commission income		714,634	586,092	22	714,507	585,668	22
Fee and commission expenses		63,731	38,580	65	63,731	38,580	65
Net fee and commission income		650,903	547,512	19	650,776	547,088	19
Net (loss) / gain from trading	6	(16,298)	153,023	(111)	(16,298)	153,023	(111)
Net loss from financial instruments at fair value through profit or loss	7	(867,691)	(403,887)	(115)	(867,691)	(403,887)	(115)
Net gains from derecognition of financial assets							
Fair value through other comprehensive income		434,398	10	4,343,877	434,398	10	4,343,877
Net other operating income	8	1,853,925	710,155	161	1,990,112	847,676	135
Total operating income		4,733,935	3,990,635	19	4,876,935	4,136,922	18
Impairment charge for loans and other losses							
Loans to and receivables from other customers		508,258	573,547	(11)	508,258	573,547	(11)
Other financial assets		(161,145)	41,099	(492)	(161,145)	41,099	(492)
Others		8,460	22,039	(62)	8,460	22,039	(62)
Net operating income		4,378,362	3,353,950	31	4,521,362	3,500,237	29
Operating expenses							
Personnel expenses		988,180	825,748	20	1,031,939	870,239	19
Depreciation and amortisation		234,721	220,474	6	246,812	234,344	5
Other expenses		807,967	704,380	15	805,198	714,417	13
Total operating expenses		2,030,868	1,750,602	16	2,083,949	1,819,000	15
Operating profit before taxes on financial services		2,347,494	1,603,348	46	2,437,413	1,681,237	45
Taxes on financial services		432,269	308,674	40	432,269	308,674	40
Operating profit after taxes on financial services		1,915,225	1,294,674	48	2,005,144	1,372,563	46
Share of profits of associate and joint venture		-	-	-	30,726	35,364	(13)
Profit before income tax		1,915,225	1,294,674	48	2,035,870	1,407,927	45
Income tax expense		436,673	369,226	18	452,945	394,220	15
Profit for the period		1,478,552	925,448	60	1,582,925	1,013,707	56
Profit attributable to:							
Equity holders of the Bank		1,478,552	925,448	60	1,547,777	983,218	57
Non-controlling interests		-	-	-	35,148	30,489	15
Profit for the period		1,478,552	925,448	60	1,582,925	1,013,707	56
Basic/Diluted earnings per ordinary share (LKR)		4.80	3.04	58	5.02	3.33	51

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

For the three months ended 31 March

	Bank			Group		
	2021 LKR 000	2020 LKR 000	Change %	2021 LKR 000	2020 LKR 000	Change %
Profit for the period	1,478,552	925,448	60	1,582,925	1,013,707	56
Other comprehensive income / (expenses) 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	(516,847)	567,310	(191)	(516,847)	567,310	(191)
Reclassified to income statement	(614,285)	-	(100)	(614,285)	-	(100)
Share of other comprehensive income of equity accounted associate and joint venture	-	-	-	61,950	35,171	76
Movement in hedging reserve:						
Cash flow hedge - effective portion of changes in fair value	210,804	(654,031)	132	210,804	(654,031)	132
Cash flow hedge - reclassified to income statement	(103,474)	462,545	(122)	(103,474)	462,545	(122)
Related deferred tax	409,833	(100,436)	508	409,833	(100,436)	508
Total other comprehensive (expense) / income that are or may be reclassified subsequently to income statement	(613,969)	275,388	(323)	(552,019)	310,559	(278)
Items that will not be reclassified to income statement						
Equity investments at fair value through other comprehensive income - net change in fair value	534,169	363	147,054	534,169	363	147,054
Share of other comprehensive income of equity accounted associate and joint venture	-	-	-	-	46	(100)
Total other comprehensive income on items that will not be reclassified to income statement	534,169	363	147,054	534,169	409	130,504
Other comprehensive (expense) / income for the period , net of tax	(79,800)	275,751	(129)	(17,850)	310,968	(106)
Total comprehensive income for the period	1,398,752	1,201,199	16	1,565,075	1,324,675	18
Total comprehensive income attributable to:						
Equity holders of the Bank	1,398,752	1,201,199	16	1,529,927	1,294,186	18
Non-controlling interests	-	-	-	35,148	30,489	15
Total comprehensive income for the period	1,398,752	1,201,199	16	1,565,075	1,324,675	18

DFCC Bank PLC
Statement of Financial Position

As at	Notes	Bank			Group		
		31.03.2021 LKR 000	31.12.2020 (Audited) LKR 000	Change %	31.03.2021 LKR 000	31.12.2020 (Audited) LKR 000	Change %
Assets							
Cash and cash equivalents		7,190,172	7,724,364	(7)	7,195,318	7,728,969	(7)
Balances with Central Bank of Sri Lanka		5,310,962	4,901,753	8	5,310,962	4,901,753	8
Placements with banks		4,527,562	15,414,287	(71)	4,533,669	15,431,962	(71)
Derivative financial assets		936,280	835,464	12	936,280	835,464	12
Financial assets measured at fair value through profit or loss		3,647,342	609,717	498	3,647,342	609,717	498
Financial assets at amortised cost - Loans to and receivables from banks		3,503,775	4,152,717	(16)	3,503,775	4,152,717	(16)
Financial assets at amortised cost -Loans to and receivables from other customers	9	314,561,835	301,909,337	4	314,561,835	301,909,337	4
Financial assets at amortised cost - Debt and other instruments		27,653,231	31,604,175	(13)	27,653,231	31,604,175	(13)
Financial assets measured at fair value through other comprehensive income		83,203,306	88,718,002	(6)	83,207,306	88,718,002	(6)
Investments in subsidiaries		217,435	217,435	-	-	-	-
Investments in associate		35,270	35,270	-	32,563	31,699	3
Investments in joint venture		755,000	755,000	-	2,541,074	2,449,262	4
Investment property		9,879	9,879	-	485,965	345,857	41
Property, plant and equipment		3,306,883	3,406,600	(3)	3,395,139	3,587,019	(5)
Intangible assets and goodwill		1,706,439	1,713,052	(0)	1,876,764	1,884,806	(0)
Deferred tax asset		32,438	-	100	35,357	2,919	1,111
Other assets		3,851,600	3,070,235	25	3,968,102	3,153,277	26
Asset held for sale		-	-	-	-	19,600	(100)
Total assets		460,449,409	465,077,287	(1)	462,884,682	467,366,535	(1)
Liabilities							
Due to banks		7,956,612	14,909,937	(47)	7,956,612	14,909,937	(47)
Derivative financial liabilities		442,154	267,883	65	442,154	267,883	65
Financial liabilities at amortised cost - Due to depositors	10	312,085,793	310,026,892	1	311,497,945	309,566,423	1
Financial liabilities at amortised cost - Due to other borrowers		47,175,656	46,847,076	1	47,175,656	46,847,076	1
Debt securities in issue		15,455,665	16,291,279	(5)	15,455,665	16,291,279	(5)
Retirement benefit obligation		687,044	643,118	7	713,637	671,041	6
Current tax liabilities		979,836	1,012,645	(3)	1,008,468	1,081,864	(7)
Deferred tax liability		-	243,949	(100)	98,985	341,691	(71)
Other liabilities		5,882,226	6,119,854	(4)	6,233,221	6,323,094	(1)
Subordinated term debt		19,028,514	19,357,497	(2)	19,028,514	19,357,497	(2)
Total liabilities		409,693,500	415,720,130	(1)	409,610,857	415,657,785	(1)
Equity							
Stated capital		8,600,457	7,682,465	12	8,600,457	7,682,465	12
Statutory reserve		2,583,968	2,583,968	-	2,583,968	2,583,968	-
Retained earnings		20,313,545	19,652,169	3	23,791,685	23,061,084	3
Other reserves		19,257,939	19,438,555	(1)	17,979,978	18,098,644	(1)
Total equity attributable to equity holders of the Bank		50,755,909	49,357,157	3	52,956,088	51,426,161	3
Non-controlling interests		-	-	-	317,737	282,589	12
Total equity		50,755,909	49,357,157	3	53,273,825	51,708,750	3
Total equity and liabilities		460,449,409	465,077,287	(1)	462,884,682	467,366,535	(1)
Contingent liabilities and commitments							
		158,400,653	130,764,147	21	158,400,653	130,764,147	21
Net assets value per share, LKR		158.35	161.30	(2)	165.22	168.06	(2)

Memorandum Information	Bank		Group	
	31.03.2021	31.12.2020	31.03.2021	31.12.2020
Number of Employees	2,115	2,072	2,230	2,182
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 2020	7,530,371	2,461,968	5,704,644	(225,389)	13,779,839	18,228,086	47,479,519
Profit for the period	-	-	-	-	-	925,448	925,448
Other comprehensive income / (expenses) net of tax	-	-	413,621	(137,870)	-	-	275,751
Total comprehensive income / (expense) for the period	-	-	413,621	(137,870)	-	925,448	1,201,199
Transfer of gains on disposal of equity investments at fair value through other comprehensive income to retained earnings	-	-	(3,321)	-	-	3,321	-
Balance as at 31 March 2020	7,530,371	2,461,968	6,114,944	(363,259)	13,779,839	19,156,855	48,680,718
Balance as at 01 January 2021	7,682,465	2,583,968	5,882,811	(224,095)	13,779,839	19,652,169	49,357,157
Profit for the period	-	-	-	-	-	1,478,552	1,478,552
Other comprehensive (expenses) / income , net of tax	-	-	(148,921)	69,121	-	-	(79,800)
Total comprehensive (expense) / income for the period	-	-	(148,921)	69,121	-	1,478,552	1,398,752
Transfer of gains on disposal of equity investments at fair value through other comprehensive income to retained earnings	-	-	(100,816)	-	-	100,816	-
Transactions with equity holders of the Bank, recognised directly in equity							
Final dividend for 2020 – Scrip	917,992	-	-	-	-	(917,992)	-
Total contributions from and distribution to equity holders	917,992	-	-	-	-	(917,992)	-
Balance as at 31 March 2021	8,600,457	2,583,968	5,633,074	(154,974)	13,779,839	20,313,545	50,755,909

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	
Group										
Balance as at 01 January 2020	7,530,371	2,461,968	4,260,073	78,377	(225,389)	13,779,839	21,278,288	49,163,527	262,965	49,426,492
Profit for the Period	-	-	-	-	-	-	983,218	983,218	30,489	1,013,707
Other comprehensive expense, net of tax	-	-	416,170	32,622	(137,870)	-	46	310,968	-	310,968
Total comprehensive income / (expense) for the period	-	-	416,170	32,622	(137,870)	-	983,264	1,294,186	30,489	1,324,675
Transfer of gains on disposal of equity investments at fair value through other comprehensive income to retained earnings	-	-	(3,321)	-	-	-	3,321	-	-	-
Balance as at 31 March 2020	7,530,371	2,461,968	4,672,922	110,999	(363,259)	13,779,839	22,264,873	50,457,713	293,454	50,751,167
Balance 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 period	-	-	-	-	-	-	1,547,777	1,547,777	35,148	1,582,925
Other comprehensive (expense) / income , net of tax	-	-	(149,009)	62,038	69,121	-	-	(17,850)	-	(17,850)
Total comprehensive income for the period	-	-	(149,009)	62,038	69,121	-	1,547,777	1,529,927	35,148	1,565,075
Transfer of gains on disposal of equity investments at fair value through other comprehensive income to retained earnings	-	-	(100,816)	-	-	-	100,816	-	-	-
Transactions with equity holders of the Bank, recognized directly in equity										
Final dividend for 2020 – Scrip	917,992	-	-	-	-	-	(917,992)	-	-	-
Total contributions from and distribution to equity holders	917,992	-	-	-	-	-	(917,992)	-	-	-
Balance as at 31 March 2021	8,600,457	2,583,968	4,190,021	165,092	(154,974)	13,779,839	23,791,685	52,956,088	317,737	53,273,825

Statement of Cash Flows

	Bank		Group	
	2021 LKR 000	2020 LKR 000	2021 LKR 000	2020 LKR 000
<i>For the three months ended 31st March</i>				
Cash flows from operating activities				
Interest receipts	7,470,685	7,744,709	7,469,748	7,743,536
Interest payments	(8,346,290)	(9,230,885)	(8,340,378)	(9,223,631)
Net commission receipts	773,776	568,179	773,776	568,179
Net trading income	728	2,394	728	2,394
Recoveries from loans previously written off	2,863	-	2,863	-
Receipts from other operating activities	1,270,249	925,508	1,506,685	1,100,030
Payments on other operating activities	(799,458)	(866,467)	(863,002)	(861,427)
Cash payments to employees	(985,162)	(869,047)	(985,162)	(1,006,156)
Taxes on financial services	(300,048)	(225,753)	(300,048)	(225,753)
Operating Cash flows before changes in operating assets and liabilities	(912,657)	(1,951,362)	(734,790)	(1,902,828)
(Increase) / decrease in operating assets:				
Balances with Central Bank / deposits held for regulatory or monetary control purposes	(409,209)	1,160,298	(409,209)	1,160,298
Financial assets at amortised cost - Loans to and receivables from other customers	(12,190,991)	(18,736,858)	(12,190,991)	(18,736,858)
Others	(1,004,230)	1,199,177	(701,062)	1,695,487
Increase /(decrease) in operating liabilities:				
Financial liabilities at amortised cost - Due to depositors	2,402,964	9,115,856	1,895,669	8,764,366
Negotiable certificates of deposits	20,996	96,797	20,996	96,797
Others	857,672	(375,969)	857,672	(550,288)
Net cash flows used in operating activities before income tax	(11,235,455)	(9,492,061)	(11,261,715)	(9,473,026)
Income tax paid	(313,902)	(242,691)	(327,422)	(298,686)
Net cash flows used in operating activities	(11,549,357)	(9,734,752)	(11,589,137)	(9,771,712)
Cash flows from investing activities				
Dividends received from investment in subsidiaries, joint venture, and associate	3,500	403,834	-	403,834
Dividend received from other investments	617,154	-	617,154	-
Interest received	2,499,580	2,039,697	2,504,840	2,047,222
Government Securities- net	8,227,336	(3,989,532)	8,227,335	(3,989,532)
Proceeds from sale and redemption of securities	265,425	415,974	281,025	436,373
Purchase of financial investments	(3,728,370)	(156,634)	(3,728,370)	(156,634)
Purchase of property, equipment, intangibles and investment property	(80,163)	(121,954)	(73,070)	(121,960)
Proceeds from sale of equipment and investment property	75	-	4,375	-
Net cash flows from/ (used in) investing activities	7,804,537	(1,408,615)	7,833,289	(1,380,697)
Cash flows from financing activities				
Borrowing, medium and long - term	4,095,659	7,270,220	4,095,659	7,270,220
Other borrowings - net	(5,067,474)	12,143,210	(5,067,474)	12,143,210
Repayment of borrowing, medium and long - term	(6,704,488)	(2,748,615)	(6,704,488)	(2,748,615)
Dividends paid	206	(228)	207	(228)
Net Cash flows (used in) /from financing activities	(7,676,097)	16,664,587	(7,676,096)	16,664,587
Net increase/(decrease) in cash and cash equivalents	(11,420,917)	5,521,220	(11,431,944)	5,512,178
Cash and cash equivalents at the beginning of year	23,138,651	5,615,239	23,160,931	5,659,800
Cash and cash equivalents at the end of period	11,717,734	11,136,459	11,728,987	11,171,978
Reconciliation of cash and cash equivalents with items reported in the statement of financial position				
Cash and cash equivalents	7,190,172	11,136,459	7,195,318	11,147,546
Placements with banks	4,527,562	-	4,533,669	24,432
	11,717,734	11,136,459	11,728,987	11,171,978

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. Taxation

Note 3. Impact due to corporate income tax rate change

The Gazette Notification dated 18 March 2021 was issued to amend the Inland Revenue Act, No. 24 of 2017 (effective from 1st January 2020) including corporate income tax rate applicable to the Banking Sector to 24% from 28%. The above amendment is considered as substantially enacted as at the reporting date as per the guidelines issued by CA Sri Lanka. Accordingly revised tax rate of 24% was considered in the computation of income tax and deferred tax as at 31 March 2021.

Note 4. 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 4.1 31 March Financial Year Company

This is Lanka Industrial Estates Ltd.

Note 5. Expected Credit Loss calculation

In order to address the potential future impacts of COVID-19 on the lending portfolio, the Bank has made adequate impairment provision as at 31 December 2020 by introducing changes to internal models to cover unseen risk factors in the highly uncertain and highly volatile environment including additional provisions made for the exposures to risk elevated sectors. The same methods and the processes were followed during the quarter ended 31 March 2021 as there is no material change to the operating environment.

Note 6. Net (loss) / gain from trading

For the period ended 31 March	Bank		Group	
	2021 LKR 000	2020 LKR 000	2021 LKR 000	2020 LKR 000
Foreign exchange from banks	(41,418)	150,763	(41,418)	150,763
Government securities				
- Net marked to market gain	-	695	-	695
- Net capital (loss) / gain	(728)	1,565	(728)	1,565
Equity securities				
- Net marked to market loss	(347)	-	(347)	-
- Net capital gain	26,045	-	26,045	-
- Dividend income	150	-	150	-
	(16,298)	153,023	(16,298)	153,023

Note 7. Net loss from financial instruments at fair value through profit or loss

For the period ended 31 March	Bank		Group	
	2021 LKR 000	2020 LKR 000	2021 LKR 000	2020 LKR 000
Forward exchange fair value changes				
Contracts with commercial banks	(879,602)	(403,887)	(879,602)	(403,887)
Gain on financial assets fair value through profit or loss - equity securities	11,911	-	11,911	-
	(867,691)	(403,887)	(867,691)	(403,887)

Note 8. Net Other Operating Income

For the period ended 31 March	Bank		Group	
	2021 LKR 000	2020 LKR 000	2021 LKR 000	2020 LKR 000
Financial assets measured at fair value through other comprehensive income				
Dividend income	885,400	417,656	885,400	417,656
Dividend income from subsidiaries, joint venture and associate	3,500	-	-	-
Net gain from repurchase transactions	61,008	127,190	61,008	127,190
Gains on revaluation of foreign exchange	899,766	164,662	899,766	164,662
Others	4,251	647	143,938	138,168
	1,853,925	710,155	1,990,112	847,676

Note 9. Financial Assets at Amortized Cost - Loans to and Receivables from Other Customers

As at	Bank		Group	
	31.03.2021	31.12.2020 (Audited)	31.03.2021	31.12.2020 (Audited)
	LKR 000	LKR 000	LKR 000	LKR 000
Gross loans and receivables (Note 9.1)	330,491,989	317,232,612	330,491,989	317,232,612
Less: Allowance for impairment (Note 9.2)	(15,930,154)	(15,323,275)	(15,930,154)	(15,323,275)
Net loans and receivables	314,561,835	301,909,337	314,561,835	301,909,337

Note 9.1 Loans to and Receivables from Other Customers - By product

As at	Bank		Group	
	31.03.2021	31.12.2019 (Audited)	31.03.2021	31.12.2019 (Audited)
	LKR 000	LKR 000	LKR 000	LKR 000
By product-Domestic Currency				
Overdrafts	39,369,641	36,464,999	39,369,641	36,464,999
Trade finance	18,916,155	19,328,876	18,916,155	19,328,876
Credit cards	2,411,282	2,199,543	2,411,282	2,199,543
Pawning	4,871,232	4,565,645	4,871,232	4,565,645
Staff loans	2,629,991	2,491,323	2,629,991	2,491,323
Term loans	193,416,120	186,621,584	193,416,120	186,621,584
Lease rentals receivable	25,019,589	25,127,337	25,019,589	25,127,337
Commercial papers and asset back notes	1,817,625	2,076,591	1,817,625	2,076,591
Preference shares	-	-	-	-
	288,451,635	278,875,898	288,451,635	278,875,898
By product-Foreign Currency				
Overdrafts	514,286	347,263	514,286	347,263
Trade finance	13,116,951	11,013,285	13,116,951	11,013,285
Term loans	28,409,117	26,996,166	28,409,117	26,996,166
	42,040,354	38,356,714	42,040,354	38,356,714
Gross loans and receivables	330,491,989	317,232,612	330,491,989	317,232,612

Note 9.2 Movement in Impairment during the period

	Bank		Group	
	31.03.2021	31.12.2019 (Audited)	31.03.2021	31.12.2019 (Audited)
	LKR 000	LKR 000	LKR 000	LKR 000
Stage 1				
Balance at beginning	1,305,740	901,871	1,305,740	901,871
(Write back) / charge to income statement	(26,114)	404,581	(26,114)	404,581
Write-off during the period	(1)	(712)	(1)	(712)
Balance at end	1,279,625	1,305,740	1,279,625	1,305,740
Stage 2				
Balance at beginning	1,065,570	1,563,877	1,065,570	1,563,877
Charge / (write back) to income statement	288,445	(494,452)	288,445	(494,452)
Write-off during the period	(10)	(3,855)	(10)	(3,855)
Balance at end	1,354,004	1,065,570	1,354,004	1,065,570
Stage 3				
Balance at beginning	12,951,965	9,940,734	12,951,965	9,940,734
Charge to income statement	245,928	3,030,682	245,928	3,030,682
Effect of foreign currency movement	107,337	44,440	107,337	44,440
Write-off during the period	(8,705)	(27,398)	(8,705)	(27,398)
Other movements	-	(36,493)	-	(36,493)
Balance at end	13,296,525	12,951,965	13,296,525	12,951,965
Total Impairment	15,930,154	15,323,275	15,930,154	15,323,275

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

As at	Bank		Group	
	31.03.2021	31.12.2020 (Audited)	31.03.2021	31.12.2019 (Audited)
	LKR 000	LKR 000	LKR 000	LKR 000
By product-Domestic Currency				
Demand deposits (current accounts)	7,581,101	7,476,335	7,581,051	7,476,287
Savings deposits	58,724,924	41,091,895	58,650,209	41,048,297
Fixed deposits	193,727,767	213,659,595	193,234,203	213,260,799
Other deposits	985,148	2,093,795	985,147	2,093,795
Certificate of deposits	2,524,292	2,473,374	2,524,292	2,473,374
	263,543,232	266,794,994	262,974,902	266,352,552
By product- Foreign Currency				
Demand deposits (current accounts)	616,537	540,454	616,537	540,454
Savings deposits	26,002,448	23,957,027	26,001,152	23,955,827
Fixed deposits	21,638,975	18,493,843	21,620,753	18,477,016
Other deposits	284,601	240,574	284,601	240,574
	48,542,561	43,231,898	48,523,043	43,213,871
Total	312,085,793	310,026,892	311,497,945	309,566,423

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.

Note 12. Disclosures under Listing Rules

12.1 During the period, there were no material changes in the composition of assets, liabilities and contingent liabilities and use of funds raised through debentures. 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	
	31.03.2021	31.12.2020
Number of shares of the Bank	320,522,436	305,997,250

12.3 Market price of a share

Information on shares of the Bank for the quarter ended	31.03.2021	31.12.2020
- Highest price LKR	80.40	70.50
- Lowest price LKR	57.50	59.90
- Market price LKR	59.60	65.30

12.4 Twenty Major Shareholders as at 31.03.2021

	Name of Shareholder/Company	Shareholding	%
1	Hatton National Bank PLC A/c No.1	47,789,949	14.91
2	Bank of Ceylon No.2 - A/C (BOC PTF)	40,082,584	12.51
3	Mr.M.A. Yaseen	32,052,242	10.00
4	Sri Lanka Insurance Corporation Ltd-Life Fund	29,057,943	9.07
5	Employee's Provident Fund	25,677,509	8.01
6	Melstacorp Plc	23,585,521	7.36
7	Seafeld International Limited	18,668,111	5.82
8	Mr.H.H. Abdulhusein	9,429,747	2.94
9	Renuka City Hotels Plc	7,298,813	2.28
10	People'S Leasing & Finance Plc / Don And Don Holdings (Private) Limited	5,013,759	1.56
11	Renuka Hotels PLC	4,292,082	1.34
12	Employee's Trust Fund Board	4,202,087	1.31
13	Akbar Brothers Pvt Ltd A/C No 1	2,819,399	0.88
14	Seylan Bank / Senthilverl Holdings (Pvt) Ltd	2,649,850	0.83
15	Cargo Boat Development Company PLC	2,632,342	0.82
16	Deutsche Bank AG as Trustee to Assetline Income plus Growth Fund	2,364,384	0.74
17	Sri Lanka Insurance Corporation Ltd-General Fund	2,269,393	0.71
18	Anverally International (Pvt) Limited	2,212,211	0.69
19	Stassen Exports (Pvt) Limited	1,998,639	0.62
20	Crescent Launderers And Dry Cleaners Pvt Limited	1,562,154	0.49

12.5 Public Holdings as at 31.03.2021

Public holdings percentage	62.55%
Number of Public shareholders	11,583
Float adjusted market capitalisation	LKR 11,950 million
Applicable option as per CSE Listing Rule 7.13.1 (a)	Option 1

12.6 Directors' Interests in Shares

	No of Shares As at 31.03.2021
P M B Fernando	2,106
S.R Thambiayah (Ms.)	Nil
V J Senaratne (Ms.)	1,909
L H A L Silva	26,200
L.K.A.H. Fernando (Ms.)	Nil
N.K.G.K. Nemawatta	Nil
J. Durairatnam	Nil
N.H.T.I.Perera	17,701
H.M.N.S Gunawardana (Ms.)	Nil
H.A.J. De Silva Wijeyeratne	8,850

Certification

We, the undersigned, being the Chairman, the Chief Executive Officer and the Chief Financial 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

Lakshman Silva
Director & Chief Executive Officer

Chinthika Amarasekera
Chief Financial Officer

Listed Debentures

Debenture Category	Interest rate Frequency	Effective Rate %	Coupon Rate %	Interest rate of Comparative Government Securities (Gross) p.a. %	Balance as at 31.03.2021 LKR 000	Market price LKR			Yield Last Traded %	Last Traded Date
						Highest	Lowest	Last Traded		
Fixed Rate										
2016/2021	Annually	12.15	12.15	5.06	1,000,252	N/T	N/T	N/T	N/A	N/A
2016/2023	Annually	12.75	12.75	6.25	6,324,521	N/T	N/T	N/T	N/A	N/A
2018/2023	Annually	12.60	12.60	6.03	2,910,768	N/T	N/T	N/T	N/A	N/A
2018/2025	Annually	13.00	13.00	6.83	4,109,208	N/T	N/T	N/T	N/A	N/A
2019/2024	Annually	13.50	13.50	6.38	3,846,039	N/T	N/T	N/T	N/A	N/A
2019/2026	Annually	13.75	13.75	7.05	1,781,706	N/T	N/T	N/T	N/A	N/A
2019/2029	Annually	13.90	13.90	8.00	4,403,878	N/T	N/T	N/T	N/A	N/A
2020/2025	Annually	9.00	9.00	6.87	4,471,289	N/T	N/T	N/T	N/A	N/A
2020/2027	Annually	9.25	9.25	7.44	212,477	N/T	N/T	N/T	N/A	N/A

N/T -Not traded

Selected Performance Indicators

	Bank		Group	
	31.03.2021	31.12.2020	31.03.2021	31.12.2020
Regulatory Capital (LKR '000)				
Common Equity Tier I	34,880,992	35,041,771	34,766,121	35,113,117
Tier 1 Capital	34,880,992	35,041,771	34,766,121	35,113,117
Total Capital	49,612,487	51,055,165	49,497,616	51,126,511
Regulatory Capital Ratios %				
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 6.5%)	10.210	10.820	10.151	10.816
Tier 1 Capital Ratio (Minimum Requirement - 8%)	10.210	10.820	10.151	10.816
Total Capital Ratio (Minimum Requirement - 12%)	14.521	15.764	14.452	15.749
Leverage Ratio (Minimum requirement is 3%)	6.73	6.79	6.72	6.82
Regulatory Liquidity				
Statutory liquid assets LKR 000				
Domestic Banking Unit	118,405,813	128,834,294		
Off-Shore Banking Unit	14,341,396	8,402,869		
Statutory liquid assets ratio % (Minimum requirement 20%)				
Domestic Banking Unit	30.02	33.78		
Off-Shore Banking Unit	52.44	35.45		
Liquidity Coverage Ratio (%) – Rupee (Minimum Requirement - 2021 - 90% , 2020 - 90%)	217.97	288.27		
Liquidity Coverage Ratio (%) – All Currency (Minimum Requirement - 2021 - 90 % , 2020 - 90%)	161.61	204.44		
Net Stable Funding Ratio (%) (Minimum requirement - 2021 - 90%, 2020 - 90%)	117.41	123.00		
Asset Quality				
Non-performing loans and advances - Gross exposure % (Net of interest in suspense)	5.53	5.56		
Non-performing loans and advances - Net exposure % (Net of interest in suspense and provisions)	2.13	2.32		
Profitability				
Interest margin %	2.35	2.53		
Return on assets (profit before tax) %	0.91	0.78		
Return on equity %	6.00	4.93		
Other Ratios				
Debt to equity ratio (times)	1.98	2.06		
Interest cover (times)	1.81	1.52		

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 March 2021	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000
Financial Assets								
Cash and cash equivalents	-	-	7,190,172	7,190,172	-	-	7,195,318	7,195,318
Balances with Central Bank of Sri Lanka	-	-	5,310,962	5,310,962	-	-	5,310,962	5,310,962
Placements with banks	-	-	4,527,562	4,527,562	-	-	4,533,669	4,533,669
Derivative financial assets	936,280	-	-	936,280	936,280	-	-	936,280
Financial assets measured at fair value through profit or loss	3,647,342	-	-	3,647,342	3,647,342	-	-	3,647,342
Financial assets at amortised cost - Loans to and receivables from banks	-	-	3,503,775	3,503,775	-	-	3,503,775	3,503,775
Financial assets at amortised cost -Loans to and receivables from other customers	-	-	314,561,835	314,561,835	-	-	314,561,835	314,561,835
Financial assets at amortised cost - Debt and other instruments	-	-	27,653,231	27,653,231	-	-	27,653,231	27,653,231
Financial assets measured at fair value through other comprehensive income	-	83,203,306	-	83,203,306	-	83,207,306	-	83,207,306
Other assets	-	-	2,735,039	2,735,039	-	-	2,825,714	2,825,714
Total financial assets	4,583,622	83,203,306	365,482,576	453,269,504	4,583,622	83,207,306	365,584,504	453,375,432
Financial Liabilities								
Due to banks	-	-	7,956,612	7,956,612	-	-	7,956,612	7,956,612
Derivative financial liabilities	442,154	-	-	442,154	442,154	-	-	442,154
Financial liabilities at amortised cost -Due to depositors	-	-	312,085,793	312,085,793	-	-	311,497,945	311,497,945
Financial liabilities at amortised cost - Due to other borrowers	-	-	47,175,656	47,175,656	-	-	47,175,656	47,175,656
Debt securities issued	-	-	15,455,665	15,455,665	-	-	15,455,665	15,455,665
Other liabilities	-	-	4,545,525	4,545,525	-	-	4,835,693	4,835,693
Subordinated term debt	-	-	19,028,514	19,028,514	-	-	19,028,515	19,028,515
Total financial liabilities	442,154	-	406,247,765	406,689,919	442,154	-	405,950,086	406,392,240

	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 2020	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000
Financial Assets								
Cash and cash equivalents	-	-	7,724,364	7,724,364	-	-	7,728,969	7,728,969
Balances with Central Bank of Sri Lanka	-	-	4,901,753	4,901,753	-	-	4,901,753	4,901,753
Placements with banks	-	-	15,414,287	15,414,287	-	-	15,431,962	15,431,962
Derivative financial assets	835,464	-	-	835,464	835,464	-	-	835,464
Financial assets measured at fair value through profit or loss	609,717	-	-	609,717	609,717	-	-	609,717
Financial assets at amortised cost - Loans to and receivables from banks	-	-	4,152,717	4,152,717	-	-	4,152,717	4,152,717
Financial assets at amortised cost -Loans to and receivables from other customers	-	-	301,909,337	301,909,337	-	-	301,909,337	301,909,337
Financial assets at amortised cost - Debt and other instruments	-	-	31,604,175	31,604,175	-	-	31,604,175	31,604,175
Financial assets measured at fair value through other comprehensive income	-	88,718,002	-	88,718,002	-	88,718,002	-	88,718,002
Other assets	-	-	1,999,405	1,999,405	-	-	2,006,621	2,006,621
Total financial assets	1,445,181	88,718,002	367,706,038	457,869,221	1,445,181	88,718,002	367,735,534	457,898,717
Financial Liabilities								
Due to banks	-	-	14,909,937	14,909,937	-	-	14,909,937	14,909,937
Derivative financial liabilities	267,883	-	-	267,883	267,883	-	-	267,883
Financial liabilities at amortised cost -Due to depositors	-	-	310,026,892	310,026,892	-	-	309,566,423	309,566,423
Financial liabilities at amortised cost - Due to other borrowers	-	-	46,847,076	46,847,076	-	-	46,847,076	46,847,076
Debt securities issued	-	-	16,291,279	16,291,279	-	-	16,291,279	16,291,279
Other liabilities	-	-	4,783,873	4,783,873	-	-	4,900,953	4,900,953
Subordinated term debt	-	-	19,357,497	19,357,497	-	-	19,357,497	19,357,497
Total financial liabilities	267,883	-	412,216,554	412,484,437	267,883	-	411,873,165	412,141,048

OPERATING SEGMENTS - GROUP

Information about reportable segments

	Corporate Banking		Retail Banking		Central Treasury		Other		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	LKR.'000	LKR.'000	LKR.'000	LKR.'000	LKR.'000	LKR.'000	LKR.'000	LKR.'000	LKR.'000	LKR.'000
External revenue										
Interest income	2,199,406	3,049,195	4,208,342	5,465,226	2,227,735	1,642,204	6,941	9,544	8,642,424	10,166,168
Net fees and commission income	164,859	95,755	411,761	334,163	138,015	-	-	-	714,635	429,918
Net (loss) / (gain) from trading	-	-	-	-	(16,297)	2,388	-	-	(16,297)	2,388
Net gain / (loss) from financial instruments at fair value through profit or loss	-	-	-	-	(867,691)	(403,887)	-	-	(867,691)	(403,887)
Net gain from derecognition of financial assets	-	-	-	-	434,398	-	-	-	434,398	-
Other (losses) / income - net	2,577	-	3,079	145	919,356	291,155	179,422	163,651	1,104,434	454,952
Income from external customers	2,366,842	3,144,950	4,623,182	5,799,534	2,835,516	1,531,860	186,363	173,195	10,011,903	10,649,539
Inter segment revenue	-	-	-	-	-	-	(39,242)	(35,764)	(39,242)	(35,764)
Total segment revenue	2,366,842	3,144,950	4,623,182	5,799,534	2,835,516	1,531,860	147,121	137,431	9,972,661	10,613,775
Segment assets	126,675,191	134,327,468	182,677,435	157,702,025	136,569,335	118,387,699	869,309	2,582,838	446,791,270	413,000,030
Segment liabilities	85,122,172	76,563,461	226,100,026	161,762,440	90,334,348	132,933,395	505,205	443,517	402,061,751	371,702,812

Information on cash flows

Cash flows from operating activities									(11,589,137)	(9,771,712)
Cash flows from investing activities									7,833,289	(1,380,697)
Cash flows from financing activities									(7,676,096)	16,664,587
Net cash flows generated during the year period									(11,431,944)	5,512,178

Capital expenditure:

Property, plant and equipment	-	148	8,841	70,785	-	3,183	-	10,154	8,841	84,270
Intangible assets	-	-	20,199	176	-	-	-	9,074	20,199	9,250

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

	2021	2020
	LKR.'000	LKR.'000
i. Revenues		
Total revenue for reportable segments	10,011,903	10,649,539
Unallocated amounts	1,264,303	820,095
Elimination of inter-segment revenue	(39,242)	(35,764)
Consolidated revenue	<u>11,236,964</u>	<u>11,433,870</u>
ii. Assets		
Total assets for reportable segments	446,791,270	413,000,030
Other unallocated amounts	16,093,412	21,970,871
Consolidated total assets	<u>462,884,682</u>	<u>434,970,901</u>
iii. Liabilities		
Total liabilities for reportable segments	402,061,751	371,702,814
Other unallocated amounts	7,549,106	12,516,920
Consolidated total liabilities	<u>409,610,857</u>	<u>384,219,734</u>

Segment performance is evaluated based on operating profits or losses which are measured differently from operating profits or losses in the consolidated financial statements. Expenses are managed on a group basis and are not allocated to operating segment.

Eliminations are the consolidation adjustments for inter company transactions.

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

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market

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 March 2021	In Rupee Thousands			
	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
Financial Assets				
Derivative assets held-for-risk management				
Forward foreign exchange contracts		936,280		936,280
Financial assets measured at fair value through profit or loss				-
Government of Sri Lanka Treasury Bonds				-
Equity securities - quoted	44,550			44,550
Units in Unit Trusts - Quoted	3,740			3,740
Units in Unit Trusts - Unquoted		3,599,052		3,599,052
Government of Sri Lanka Treasury Bills and Bonds				-
Financial assets measured at fair value through other comprehensive income				-
Government of Sri Lanka Treasury Bills and Bonds	68,470,862			68,470,862
Sri Lanka Sovereign bonds	1,069,084			1,069,084
Quoted ordinary shares	13,386,952			13,386,952
Units in Unit Trusts - Quoted				-
Units in Unit Trusts - Unquoted				-
Unquoted shares			276,408	276,408
Preference shares			-	-
Government grant receivable				-
	82,975,188	4,535,332	276,408	87,786,928
Financial Liabilities				
Derivative liabilities held-for-risk management				
Forward foreign exchange contracts		442,154		442,154
	-	442,154	-	442,154

As at 31 December 2020	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
Financial Assets				
Derivative assets held-for-risk management				
Forward foreign exchange contracts		835,464		835,464
Financial assets measured at fair value through profit or loss				-
Government of Sri Lanka Treasury Bonds				-
Equity securities - quoted	44,880			44,880
Units in Unit Trusts - Quoted	3,740			3,740
Units in Unit Trusts - Unquoted		561,097		561,097
Government of Sri Lanka Treasury Bills and Bonds				-
Financial assets measured at fair value through other comprehensive income				-
Government of Sri Lanka Treasury Bills and Bonds	75,272,434			75,272,434
Sri Lanka Sovereign bonds	931,706			931,706
Quoted ordinary shares	12,299,552			12,299,552
Units in Unit Trusts - Quoted				-
Units in Unit Trusts - Unquoted				-
Unquoted shares			213,810	213,810
Preference shares			500	500
	88,552,311	1,396,561	214,310	90,163,182
Financial Liabilities				
Derivative liabilities held-for-risk management				
Forward foreign exchange contracts		267,883		267,883
	-	267,883	-	267,883

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 31st March 2021		As at 31st December 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	7,190,172	7,190,172	7,724,364	7,724,364
Balances with Central Bank of Sri Lanka	5,310,962	5,310,962	4,901,753	4,901,753
Placements with banks	4,527,562	4,527,562	15,414,287	15,414,287
Financial assets at amortised cost - Loans to and receivables from banks	3,503,775	3,503,775	4,152,717	4,152,717
Financial assets at amortised cost - Loans to and receivables from other customers	314,561,835	306,152,451	301,909,337	295,969,708
Financial assets at amortised cost - Debt and other instruments	27,653,231	28,654,208	31,604,175	31,633,380
Other assets	2,735,044	2,735,044	1,999,405	1,999,405
Financial Liabilities				
Due to banks	7,956,612	7,956,612	14,909,937	14,909,937
Financial liabilities at amortised cost - due to depositors	312,085,793	311,217,827	310,026,892	304,408,686
Financial liabilities at amortised cost - due to other borrowers	47,175,656	47,175,656	46,847,076	46,847,076
Debt securities issued	15,455,665	16,772,647	16,291,279	17,124,659
Other liabilities	4,545,525	4,545,525	4,783,877	4,783,877
Subordinated term debt	19,028,514	20,199,072	19,357,497	20,476,257

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	
	2021 LKR '000'	2020 LKR '000'
Balance at beginning of the period	213,810	200,357
Purchased during the year	-	-
Gain included in OCI		
– Net change in fair value (unrealised)	-	13,453
Balance at end of the period	213,810	213,810

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 31.03.2021		
Adjusted net assets value (5% movement)	13820	(13,820)