

## Results for the First Quarter Ended 30 June 2011

This commentary relates to the interim non-audited financial statements for 3 months ended 30 June 2011.

### GROUP PERFORMANCE

The DFCC Group recorded a consolidated profit after tax of Rs 702 m for the 1st quarter ended 30 June 2011 compared with Rs 3,346 m in the corresponding period of the previous year (comparable period). This profit for the comparable period included a one off gain of Rs 2,921 m from the disposal of part of the equity stake in Commercial Bank of Ceylon PLC (CBC) consequent to which CBC ceased to be an associate company on 2 June 2010. After adjusting for this one off gain, the consolidated profit after tax recorded an increase of 65%. In this context it is also relevant that the comparable period included a contribution of Rs 193 m as the equity accounted profit of CBC.

Apart from the Banking Business which is analysed below, the investment banking joint venture, Acuity Partners (Pvt) Ltd, made a significantly higher contribution of Rs 52 m to consolidated profit compared with Rs 15 m in the comparable period. The stock broking business recorded strong growth and Acuity also managed several successful private placements and IPOs.

### BANKING BUSINESS

The Banking Business of the DFCC Group is undertaken by DFCC Bank (DFCC), a licensed specialized bank and 99 % owned subsidiary DFCC Vardhana Bank (DVB), a licensed commercial bank. In April 2011, Central Bank of Sri Lanka (CBSL) has granted permission for DFCC to own up to 100% of DVB and to functionally manage it and as such it is useful to analyse the consolidated performance of the two banks as DFCC Banking Business (DBB). A consolidated Income statement for DBB has been released to the Colombo Stock Exchange as supplementary financial information. This statement was derived from the interim financial statements with certain adjustments for ease of analysis. These adjustments relate to excluding the one off exceptional profit in the comparable period referred to earlier and treating CBC as if it was not an associate company during the comparable period. Since the financial year of DVB ends in December, the accounts of DVB are consolidated with a 3 month lag.

The high level of liquidity that prevailed during the reporting period and the resultant competition brought interest margin under pressure and net interest income of Rs 1,110 m was 9% lower than in the comparable period despite year on year growth of 29% in the gross loans and advances portfolio to Rs67,277 m. Strong growth was recorded on a year on year basis in finance leases, pawning and corporate working capital and trade finance related advances, although the latter provided through DVB yielded relatively low margins. The project finance business undertaken by DFCC showed encouraging signs of growth during the quarter with previous approvals converting to disbursements with a time lag which is usual in project finance. The pipeline for project financing requests has built up across diverse sectors and is much stronger than an year ago.

Other income in the current period was Rs 348 m, 21% lower when compared to the comparable period. This was mainly due to the difference in timing on the dividend paid by CBC. The final dividend for 2009 was approved by CBC shareholders in April 2010 whereas the final dividend for 2010 was approved in March 2011. The effect of this was partly offset by capital gains realized on sale of mature equity investments.

The DBB took concerted action to improve the quality of the credit portfolio which became particularly relevant in the context of narrowing interest margin on lending. The gross Non Performing Loan ratio which reduced from 12% in June 2010 to 6.6% in March 2011 further reduced to 6.3% in June 2011. In particular, the quality of the SME portfolio (including finance leases) which was showing signs of stress an year ago improved significantly. This enabled the DBB to discontinue general provisioning of 2% (over and above the mandated regulatory provision) for new finance leases with effect from 1 April 2011 although the legacy provisions continued to be retained. During the current period, recoveries net of provisions contributed Rs 48 m to profit before tax compared with a charge of Rs 349 m in the comparable period.

Operating expenses of the DBB which increased by 20% in the current period to Rs 628 m included expenses relating to expanding the distribution network and related staffing. DBB now provides services from 124 locations (including 19 combined DFCC/DVB branches) compared with 81 a year earlier. The ratio of operating expenses to operating income was 43% in the current period compared with 32% in the comparable period due to the significant upfront investments made in enhancing distribution and brand recognition in the personal financial services sector. Personal Financial Services is still only a small segment of the DBB business and has been identified as a key future growth area for the DBB.

The DBB recorded Rs 778 m as operating profit before taxes which was an increase of 26% over the comparable period. It benefitted from the lower taxes that came into effect in the current financial year and thereby DBB recorded a profit after tax attributable to DFCC shareholders of Rs 600 m being an increase of 45% when compared with the comparable period.

## **INVESTMENTS**

The quoted equity investment securities of DFCC are carried at a cost of Rs 2,807m as at 30 June 2011 and includes the residual investment in CBC of just under 15% of voting shares being the maximum holding approved by CBSL. The aggregate market value of the investments on 30 June 2011 amounted to Rs 15,018 m which reduced to Rs 15,001 m on 27 July 2011. .

DFCC acquired a further 3.5% and also invested in the recent rights issue of DVB and now owns 99% of DVB in which the total investment is Rs 3,619 m.

## **PRUDENTIAL INDICATORS**

The capital adequacy and liquidity ratios continued to be well above the minimum stipulated by CBSL. Specific provision cover for the DBB was 75% without taking into account the value of collateral held and unprovided NPL s as a proportion of equity was under 7%. The current credit ratings assigned by Fitch are AA (Ika) for DFCC and AA<sup>-</sup> (Ika) for DVB with outlook stable for both banks.

Nihal Fonseka  
Chief Executive Officer

12 August 2011

**DFCC Bank**

**Income Statement**

	Notes	Bank		Group	
		For the 3 months ended		For the 3 months ended	
For the period ended		30.06.11 Rs 000	30.06.10 Rs 000	30.06.11 Rs 000	30.06.10 Rs 000
<b>Income</b>		<b>1,653,938</b>	<b>8,517,561</b>	<b>2,641,807</b>	<b>7,005,684</b>
<b>Interest income</b>		<b>1,377,159</b>	<b>1,561,385</b>	<b>2,122,431</b>	<b>2,502,757</b>
Interest income on loans & advances		1,205,505	1,159,180	1,819,673	1,702,295
Interest income on other interest earning assets		171,654	402,205	302,758	800,462
<b>Less : Interest expenses</b>		<b>616,621</b>	<b>787,089</b>	<b>974,822</b>	<b>1,217,625</b>
Interest expense on deposits		98,194	157,663	429,553	547,304
Interest expense on other interest bearing liabilities		518,427	629,426	545,269	670,321
<b>Net interest income</b>		<b>760,538</b>	<b>774,296</b>	<b>1,147,609</b>	<b>1,285,132</b>
<b>Non interest income</b>	6	<b>276,779</b>	<b>6,956,176</b>	<b>519,376</b>	<b>4,502,927</b>
Foreign exchange income		1,948	(25,869)	22,162	(29,610)
Other income		274,831	6,982,045	497,214	4,532,537
<b>Less : Non interest expenses</b>		<b>296,679</b>	<b>272,275</b>	<b>710,106</b>	<b>580,525</b>
Personnel costs		128,171	121,640	312,826	249,421
Provision for staff retirement benefits		17,098	18,121	17,098	18,121
Premises, equipment & establishment expenses		67,306	57,255	167,888	137,511
Loss on trading / investment securities		0	0	0	0
Other operating expenses		79,299	71,106	197,084	158,679
Amortization of intangible assets					
Software		4,805	4,153	15,210	16,793
<b>Less : Provision for bad &amp; doubtful debts and loans written off</b>		<b>(86,842)</b>	<b>277,631</b>	<b>(48,545)</b>	<b>349,322</b>
Provisions - general		(49,042)	(19,474)	(38,000)	(19,726)
Provisions - specific		73,685	419,812	129,974	548,150
Recoveries		(111,574)	(122,802)	(142,439)	(179,843)
Loans written off		89	95	1,920	741
<b>Less : Provision for fall in value of dealing &amp; investment securities losses</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Operating profit on ordinary activities before taxes</b>		<b>827,480</b>	<b>7,180,566</b>	<b>1,005,424</b>	<b>4,858,212</b>
Less : Value added tax on financial services	7	86,554	1,432,872	101,273	1,493,511
<b>Operating profit on ordinary activities before corporate tax</b>		<b>740,926</b>	<b>5,747,694</b>	<b>904,151</b>	<b>3,364,701</b>
Share of profits/(Loss) of associates after tax		-	-	(4,080)	200,051
<b>Operating profit before corporate tax</b>		<b>740,926</b>	<b>5,747,694</b>	<b>900,071</b>	<b>3,564,752</b>
Less : Income tax on profit on ordinary activities	8	148,358	102,727	197,630	218,616
<b>Profit for the period</b>	9	<b>592,568</b>	<b>5,644,967</b>	<b>702,441</b>	<b>3,346,136</b>
Attributable to					
Equity holders of the Bank				683,038	3,323,906
Minority interest				19,403	22,230
		<b>592,568</b>	<b>5,644,967</b>	<b>702,441</b>	<b>3,346,136</b>
Basic earnings per share - Rs		<b>2.24</b>	<b>21.32</b>	<b>2.58</b>	<b>12.55</b>
Diluted earnings per share - Rs		<b>2.24</b>	<b>21.30</b>	<b>2.58</b>	<b>12.54</b>

## Balance Sheet

As at	Notes	Bank		Group	
		30.06.11 Rs 000	31.03.11 Rs 000 (Audited)	30.06.11 Rs 000	31.03.11 Rs 000 (Audited)
<b>On-Balance Sheet Assets</b>					
Cash in hand		376	409	943,324	943,289
Balances with Central Bank of Sri Lanka		0	0	897,058	894,235
Due from Banks and other financial institutions		1,496,774	1,656,220	1,968,442	2,601,072
<b>Investments - trading account</b>		<b>249,009</b>	<b>477,689</b>	<b>1,216,882</b>	<b>1,350,334</b>
Government securities		173,919	392,447	1,141,792	1,265,092
Other securities		75,090	85,242	75,090	85,242
<b>Investments - held to maturity ( net of provisions )</b>		<b>11,709,669</b>	<b>14,139,655</b>	<b>23,448,651</b>	<b>23,849,570</b>
Government securities		7,761,773	10,108,128	16,856,736	17,164,024
Investments in ordinary shares		2,939,285	2,835,036	5,461,064	5,356,815
Investments in preference shares		588,000	777,167	616,990	816,157
Investments in debentures		0	0	80,750	80,750
Investments in unit trusts		420,611	419,324	445,611	444,324
Less : Provision for decline in value of Investments		0	0	12,500	12,500
Investment in associate companies		35,270	35,270	173,211	177,291
Investment in subsidiary companies		3,773,978	2,441,320	1,332,658	16,000
Investment in joint venture company		655,000	655,000	-	-
<b>Total loans and advances</b>					
<b>Total performing loans and advances</b>		<b>40,123,423</b>	<b>38,727,397</b>	<b>60,868,753</b>	<b>56,333,286</b>
Bills of exchange discounted		0	0	276,599	282,761
Overdrafts		0	0	7,674,433	6,958,535
Finance leases		6,977,341	6,053,014	6,977,341	6,053,014
Other loans		33,146,082	32,674,383	45,940,380	43,038,976
<b>Total non performing loans and advances</b>		<b>3,868,345</b>	<b>3,836,120</b>	<b>6,446,703</b>	<b>6,179,232</b>
Bills of exchange discounted		0	0	34,966	35,102
Overdrafts		0	0	1,041,780	969,895
Finance leases		307,629	307,458	307,629	307,458
Other loans		2,296,241	2,311,673	3,274,127	3,162,130
Loan interest receivable		1,264,475	1,216,989	1,788,201	1,704,647
<b>Total gross loans and advances</b>		<b>43,991,768</b>	<b>42,563,517</b>	<b>67,315,456</b>	<b>62,512,518</b>
<b>Less :</b>					
Interest in suspense		1,264,475	1,216,989	2,324,503	2,185,679
Provision for credit losses - specific		1,694,024	1,707,828	2,536,554	2,528,249
Provision for credit losses - general		410,697	459,740	550,533	588,608
<b>Net loans and advances</b>		<b>40,622,572</b>	<b>39,178,960</b>	<b>61,903,866</b>	<b>57,209,982</b>
Group balances receivable		32,872	15,950	0	0
Prepayments		17,751	17,331	17,751	17,331
Other receivables		549,335	769,359	1,422,485	1,759,477
Deferred tax asset		0	0	1,574	1,781
Assets held for sale		0	0	2,875	2,875
Intangible assets		40,686	45,491	166,073	173,042
Investment property		0	0	209,328	233,579
Goodwill on consolidation		-	-	226,411	226,411
Property and equipment (Net of accumulated depreciation)		468,637	493,465	924,364	939,415
<b>Total On Balance Sheet Assets</b>		<b>59,651,929</b>	<b>59,926,119</b>	<b>94,854,953</b>	<b>90,395,685</b>

## Balance Sheet

As at	Notes	Bank		Group	
		30.06.11 Rs 000	31.03.11 Rs 000 (Audited)	30.06.11 Rs 000	31.03.11 Rs 000 (Audited)
<b>On Balance Sheet Liabilities</b>					
<b>Total deposits</b>		<b>4,266,754</b>	<b>3,688,183</b>	<b>26,613,152</b>	<b>25,416,397</b>
Demand deposits		0	0	1,545,348	1,428,724
Savings deposits		0	0	5,396,977	5,384,399
Time deposits		4,266,754	3,688,183	19,428,541	18,272,328
Margin deposits		0	0	143,772	230,357
Other deposits		0	0	98,514	100,589
<b>Total borrowings</b>		<b>32,832,022</b>	<b>32,260,523</b>	<b>39,995,223</b>	<b>35,376,893</b>
Borrowings from CBSL		621,948	739,704	621,948	739,704
Borrowings from Banks and financial institutions in Sri Lanka		3,910,000	3,419,819	6,897,195	3,451,939
Borrowings from Banks and financial institutions abroad		1,865,824	1,982,521	1,993,723	2,018,100
Borrowings under repurchase agreements		2,450,000	1,512,000	6,498,107	4,560,671
Debentures - Subordinated		2,000,000	2,000,000	2,000,000	2,000,000
Debentures - Others		1,200,000	1,200,000	1,200,000	1,200,000
Other Borrowings		20,784,250	21,406,479	20,784,250	21,406,479
Interest accrued		776,525	842,137	1,188,939	1,224,362
Current taxation		231,454	230,858	395,412	401,254
Deferred taxation		244,436	275,121	284,430	315,313
Other liabilities		478,499	555,754	1,499,740	1,637,430
Proposed Dividends		795,208	1,854,682	795,208	1,854,682
<b>Total On Balance Sheet Liabilities</b>		<b>39,624,898</b>	<b>39,707,258</b>	<b>70,772,104</b>	<b>66,226,331</b>
<b>Equity</b>					
Share capital	15.2	2,650,694	2,648,838	2,650,694	2,648,838
Share premium		2,063,500	2,054,546	2,063,500	2,054,546
<b>Stated Capital</b>		<b>4,714,194</b>	<b>4,703,384</b>	<b>4,714,194</b>	<b>4,703,384</b>
Reserve fund		1,015,000	1,015,000	1,015,000	1,015,000
Other reserves	13	11,523,114	11,433,439	11,523,114	11,433,439
Retained profit		2,774,723	3,067,038	6,329,020	6,530,865
<b>Shareholders' equity</b>		<b>20,027,031</b>	<b>20,218,861</b>	<b>23,581,328</b>	<b>23,682,688</b>
<b>Minority interest</b>		-	-	501,521	486,666
<b>Total equity</b>		<b>20,027,031</b>	<b>20,218,861</b>	<b>24,082,849</b>	<b>24,169,354</b>
<b>Total equity and liabilities</b>		<b>59,651,929</b>	<b>59,926,119</b>	<b>94,854,953</b>	<b>90,395,685</b>
<b>Off-Balance Sheet Items and Contra Accounts</b>					
Contingencies		1,055,673	2,028,434	11,185,531	10,641,416
Commitments		15,437,239	13,951,295	17,802,439	15,871,369
Net assets value per share, Rs		75.55	76.33	88.96	89.41
<b>Memorandum Information</b>					
Number of employees		454	451	1,305	1,278
Number of branches and extension offices		19	19	143	143
The highest, the lowest and the last traded market price recorded during the period ended					
		30.06.2011	30.06.2010 (Pre Bonus)*		
- Highest price Rs.		188.00	325.00		
- Lowest price Rs.		145.10	180.25		
- Last traded price Rs.		146.40	267.75		

\* Bonus share issue: 1 for every 1 held

## Statement of Changes in Equity - Bank

	Ordinary Shares Rs. 000	Share Premium Rs. 000	Reserve Fund Rs. 000	Other Reserves Rs. 000	Retained Earnings Rs. 000	Total Rs. 000
<b>Balance as at 01.04.2010</b>	1,323,753	3,371,911	655,000	9,379,839	992,321	15,722,824
Issue of shares under employee share option plan	333	3,577				3,910
Profit for the period					5,644,967	5,644,967
Final dividends approved on 30.06.2010					(794,452)	(794,452)
Transfers						
<b>Balance as at 30.06.2010</b>	<b>1,324,086</b>	<b>3,375,488</b>	<b>655,000</b>	<b>9,379,839</b>	<b>5,842,836</b>	<b>20,577,249</b>
<b>Balance as at 01.04.2011</b>	<b>2,648,838</b>	<b>2,054,546</b>	<b>1,015,000</b>	<b>11,433,439</b>	<b>3,067,038</b>	<b>20,218,861</b>
Issue of shares under employee share option plan	1,856	9,044				10,900
Profit for the period					592,568	592,568
Final dividends approved on 30.06.2011					(795,208)	(795,208)
Share issue expenses		(90)				(90)
Transfers				89,675	(89,675)	
<b>Balance as at 30.06.2011</b>	<b>2,650,694</b>	<b>2,063,500</b>	<b>1,015,000</b>	<b>11,523,114</b>	<b>2,774,723</b>	<b>20,027,031</b>

## Statement of Changes in Equity - Group

	Attributable to equity holders of the bank					Minority Interest Rs. 000	Total Rs. 000
	Ordinary Shares Rs. 000	Share Premium Rs. 000	Reserve Fund Rs. 000	Other Reserves Rs. 000	Retained Earnings Rs. 000		
<b>Balance as at 01.04.2010</b>	1,323,753	3,371,911	655,000	9,379,839	6,215,856	427,427	21,373,786
Profit of associate- Commercial Bank PLC Jan 10 to Mar 10					296,716	-	296,716
Adjusted Balance as at 31 March 2010	1,323,753	3,371,911	655,000	9,379,839	6,512,572	427,427	21,670,502
Issue of shares under employee share option plan	333	3,577					3,910
Profit for the year					3,323,906	22,230	3,346,136
First & Final dividends approved on 30.06.2010					(794,452)		(794,452)
Unrealized losses from translation of Bangladesh operation - associate company					(9,286)		(9,286)
Acquisition of Subsidiary by joint venture company						82,101	82,101
<b>Balance as at 30.06.2010</b>	<b>1,324,086</b>	<b>3,375,488</b>	<b>655,000</b>	<b>9,379,839</b>	<b>9,032,740</b>	<b>531,758</b>	<b>24,298,911</b>
<b>Balance as at 01.04.2011</b>	<b>2,648,838</b>	<b>2,054,546</b>	<b>1,015,000</b>	<b>11,433,439</b>	<b>6,530,865</b>	<b>486,666</b>	<b>24,169,354</b>
Issue of shares under employee share option plan	1,856	9,044					10,900
Profit for the year					683,038	19,403	702,441
Final dividends approved on 30.06.2011					(795,208)		(795,208)
Dividends distributed to minority interest by subsidiaries						(4,548)	(4,548)
Share issue expenses		(90)					(90)
Transfers				89,675	(89,675)		
<b>Balance as at 30.06.2011</b>	<b>2,650,694</b>	<b>2,063,500</b>	<b>1,015,000</b>	<b>11,523,114</b>	<b>6,329,020</b>	<b>501,521</b>	<b>24,082,849</b>

## Selected Performance Indicators

	Bank		Group	
	30.06.11	31.03.11	30.06.11	31.03.11
<b>Regulatory Capital Adequacy</b>				
Core capital (Tier - 1 Capital) Rs. Mn	16,494	17,965	19,977	21,131
Total capital base Rs. Mn	14,599	17,087	18,107	20,403
Core capital ratio (Minimum requirement 5%)	27.6	30.3	24.2	26.7
Total capital ratio (Minimum requirement 10%)	24.4	28.8	21.9	25.8
<b>Asset Quality</b>				
Non-performing loans and advances - Gross exposure % (Net of interest in suspense)	6.1	6.3	6.3	6.6
- Net exposure % (Net of interest in suspense and provisions)	1.2	1.1	1.6	1.5
<b>Profitability (Annualized)</b>				
Interest margin %	5.2	5.7	5.0	5.8
Return on assets %	5.0	13.5	3.9	6.9
Return on equity %	11.8	39.7	11.6	22.8
Statutory liquid assets Rs. Mn	8,230	11,450		
Statutory liquid assets ratio % (Minimum requirement 20%)	224	295		

## Cash Flow Statement

For the period ended	Bank		Group	
	30.06.2011	30.06.2010	30.06.2011	30.06.2010
	Rs.000	Rs.000	Rs.000	Rs.000
<b>Cash flow from operating activities</b>				
Interest Receipts	1,266,913	1,247,957	1,893,353	1,781,245
Interest payments	(711,844)	(1,005,782)	(1,069,059)	(1,484,186)
Recoveries on loans previously written off	26,066	36,030	26,066	36,030
Receipts from other operating activities	37,691	2,270	258,342	114,569
Cash payments to employees & suppliers	(407,760)	(370,423)	(831,714)	(579,065)
Value added tax	(109,670)	(1,432,872)	(119,823)	(1,476,760)
Operating profit before changes in operating assets and liabilities	101,396	(1,522,820)	157,165	(1,608,167)
(Increase )/decrease in operating assets:				
Deposits held for regulatory or monetary control purposes	0	0	(2,755)	(214,236)
Funds advanced to customers	(1,310,310)	(968,262)	(4,490,119)	(721,147)
Others	(60,490)	1,012,980	43,827	916,176
Increase /(decrease ) in operating liabilities:				
Security deposits from customers	(950)	0	(856)	(288)
Deposits from customers	578,570	(226,596)	1,177,210	(208,002)
Negotiable certificates of deposit	0	(1,537)	(639)	29,746
Others	73,923	0	43,767	0
Net cash flow from operating activities before income tax	(617,861)	(1,706,235)	(3,072,400)	(1,805,918)
Income tax paid	(163,223)	(134,583)	(205,427)	(223,407)
Net cash from/(used in) operating activities	(781,084)	(1,840,818)	(3,277,827)	(2,029,325)
<b>Cash flow from investing activities</b>				
Dividends received	277,971	351,363	260,563	351,363
Interest received	159,839	315,459	378,353	821,749
Treasury bills eligible for rediscounting with Central Bank	2,567,805	(4,756,831)	2,320,602	(2,703,418)
Proceeds from sale and redemption of securities	406,329	611,636	406,329	611,636
Purchase of securities	(155,206)	(2,023)	(164,496)	(228,272)
Disposal of associate shares -Commercial Bank of Ceylon PLC	0	5,833,708	0	5,833,708
Investment in additional shares of subsidiaries-DFCC Vardhana Bank	(1,332,658)	0	(1,332,658)	0
Acquisition of Subsidiary	0	0	0	(309,080)
Investment in additional shares of subsidiaries - (Synapsys Ltd)	0	(17,000)	0	(17,000)
Purchase of property , equipment ,intangibles and investment property	(3,117)	(3,324)	(56,378)	(157,497)
Proceeds from sale of equipment and investment property	1,875	0	34,540	4,704
Net cash from/(used in) investing activities	1,922,837	2,332,988	1,846,855	4,207,893
<b>Cash flow from financing activities</b>				
Issue of debentures	0	(500,000)	0	(500,000)
Issue of new shares under option	10,900	3,910	10,900	3,910
Share issue expenses	(90)	0	(90)	0
Borrowing , medium and long - term	285,749	587,888	3,292,371	(674,746)
Other borrowings	1,548,004	(115,000)	2,014,576	(890,895)
Repayment of borrowing ,medium and long - term	(1,111,151)	(1,152,234)	(897,936)	(1,152,234)
Dividends paid	(1,842,825)	(74)	(1,847,373)	(74)
Net Cash flow from/(used in) financing activities	(1,109,413)	(1,175,510)	2,572,448	(3,214,039)
Net increase/(decrease) in cash & cash equivalents	32,340	(683,340)	1,141,476	(1,035,471)
Cash & cash equivalents/(overdraft-net) at the beginning of period as previously stated	1,370,810	2,822,033	4,777,976	6,999,735
Consolidated adjustment -Investment in Synapsys	0	0	16,000	0
Cash & cash equivalents at the beginning of the period restated	1,370,810	2,822,033	4,793,976	6,999,735
Cash & cash equivalents at the end of period	1,403,150	2,138,693	5,935,452	5,964,264
<b>Reconciliation of cash &amp; cash equivalents</b>				
Cash & short - term funds	1,403,150	2,138,693	1,501,484	2,394,592
Treasury bills & other securities eligible for rediscounting with Central Bank	0	0	4,397,147	3,585,747
Securities purchased under resale agreements	0	0	91,408	0
Borrowing short term - Bank overdrafts	0	0	(54,587)	(16,075)
	1,403,150	2,138,693	5,935,452	5,964,264

The Cash Flow Statement 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. Accounting policies

The accounting policies and methods of computation are consistent with those policies and methods followed during the previous financial year except for reduction in general provision.

	30.06.2011	31.03.2011
	Pc	Pc
Mandatory provision by Central Bank		
Loans and Leases*	0.7	0.8
Bank's own general provision for Leases		
Leases granted prior to 30 June 10		3
Leases granted after 1 July 10		2

No General provision for leases are made from 1 April 2011.

\*On performing loans and leases and non performing loans and leases for which mandatory specific provisions are not required.

### Note 2. Accounting for investments in associate company and subsidiary companies

Accounted under cost method in Bank's financial statements. Amounts are based on unaudited financial statements of the associate and subsidiary companies.

### Note 3. Accounting for investment in Joint Venture Company

Accounted under partial consolidation method in group's financial statements. Amounts are based on unaudited financial statements of the joint venture company.

### Note 4. 31 December financial year companies

These are DFCC Vardhana Bank Ltd , Synapsys Ltd (subsidiaries) and Acuity Partners (Pvt) Limited (joint venture).

Results of these companies are consolidated with DFCC Bank with a three months gap. Thus the consolidated results for the period ended 30.06.2011 include profits of these companies for the period 01.01.2011 to 31.03.2011.

### Note 5. Foreign Exchange Income

All forward exchange contracts of the bank are in respect of funding swaps to take advantage of interest rate differential between LKR and USD. The income derived from LKR is included under net interest income while the premium on forward purchases to cover foreign exchange risk is expensed to foreign exchange income.

	Bank		Group	
	30.06.2011	30.06.2010	30.06.2011	30.06.2010
	Rs. 000	Rs. 000	Rs. 000	Rs. 000
SWAP Cost	(4,245)	(20,867)	(8,680)	(43,245)
Marked to market Gain on forward contracts	3,411	-	20,419	1,636
Other Gain/(Loss)	2,782	(5,002)	10,423	11,999
	<u>1,948</u>	<u>(25,869)</u>	<u>22,162</u>	<u>(29,610)</u>



**Note 6. Non-Interest Income**

	Bank		Group	
	30.06.2011	30.06.2010	30.06.2011	30.06.2010
	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Dividend income	75,312	328,915	55,148	36,988
Gain on disposal of shares of CBC*	0	6,601,727	0	4,241,606
As an associate	0	4,732,973	0	2,997,602
As investment securities	0	303,226	0	203,654
As dealing securities	0	1,565,528	0	1,040,350
Net gain on sale of other investment securities	167,492	15,056	169,736	23,426
Marked to market (loss)/ gain on other dealing	(10,152)	7,989	(10,152)	7,989
Other income	44,127	2,489	304,644	192,918
Non-interest income	276,779	6,956,176	519,376	4,502,927

\*CBC ceased to be an associate company with effect from 02 June 2010.

**Note 7. VAT on Financial Services**

	Bank		Group	
	30.06.2011	30.06.2010	30.06.2011	30.06.2010
	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Relating to divestment of shares in CBC	0	1,320,346	0	1,320,346
Others	86,554	112,526	101,273	173,165
	86,554	1,432,872	101,273	1,493,511

**Note 8. Taxation**

	Bank		Group	
	30.06.2011	30.06.2010	30.06.2011	30.06.2010
	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Current Income Tax	179,044	129,568	228,514	246,300
Deferred tax	(30,686)	(26,841)	(30,884)	(27,684)
	148,358	102,727	197,630	218,616

**Note 9. Profit for the Period**

	<b>Bank</b>		<b>Group</b>	
	<b>30.06.2011</b>	<b>30.06.2010</b>	<b>30.06.2011</b>	<b>30.06.2010</b>
	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>
Profit after tax excluding gain on disposal of shares of CBC	592,568	363,586	702,441	424,876
Profit on Sale of Shares & Marked to Market Gain on CBC	-	5,281,381	-	2,921,260
	<u>592,568</u>	<u>5,644,967</u>	<u>702,441</u>	<u>3,346,136</u>

**Note 10. Investment in Quoted Ordinary Shares**

	<b>Bank</b>	
	<b>30.06.2011</b>	<b>31.03.2011</b>
	<b>Rs. 000</b>	<b>Rs. 000</b>
Cost	2,807,092	2,762,035
Unrecognized gain	12,210,738	13,585,512
Gain on CBC shares	11,399,152	12,388,890
Others	811,586	1,196,622
Market Value	<u>15,017,830</u>	<u>16,347,547</u>

Market value on 27 July 2011 was reduced to Rs.15,001 million

**Note 11. Investment in DFCC Vardhana Bank Limited**

DFCC Bank invested Rs. 1,333 million in DFCC Vardhana Bank during the quarter ended 30 June 2011 to subscribe to the Rights Issue and purchasing shares. The Bank thereby increased its holding to 99% from 95.6%.

**Note 12. Consolidation Adjustments**

Transactions are eliminated on consolidation where the financial year of subsidiary company coincides with the financial year of the Bank except in instances where the consolidation is with a three months gap due to differences in financial years.

These transactions, which will be eliminated in quarter ending 30.09.2011, are;

<b>Entity</b>	<b>Transaction</b>	<b>Rs.'000</b>
DFCC Vardhana Bank Limited	Loan – short term	72,031
	Deposit – short term	381,289
	Equity investment by DFCC Bank	1,332,658

**Note 13. Other Reserves**

	<b>Bank</b>		<b>Group</b>	
	<b>30.06.2011</b>	<b>31.03.2011</b>	<b>30.06.2011</b>	<b>31.03.2011</b>
	<b>Rs.000</b>	<b>Rs.000</b>	<b>Rs.000</b>	<b>Rs.000</b>
General Reserve	11,379,839	11,379,839	11,379,839	11,379,839
Statutory Investment Fund Reserve	143,275	53,600	143,275	53,600
	<u>11,523,114</u>	<u>11,433,439</u>	<u>11,523,114</u>	<u>11,433,439</u>

Statutory Investment Fund Reserve represents cumulative savings of financial services VAT and Income tax arising from the reduction of tax rates. The amount is appropriated from profits. The Statutory Investment Fund Reserve will be utilized for the purposes prescribed by the Central Bank of Sri Lanka and this reserve is included under other reserves.

**Note 14. Post balance sheet events**

The employees have exercised options during the post Balance Sheet period. Increase in ordinary share capital corresponding to the options exercised was Rs.283,320/- and the increase in the share premium was Rs 1,380,618/-

No other circumstances have arisen which would require disclosure or adjustment to the accounts.

**Note 15. Disclosures under Appendix 7B of the Listing Rules****15.1 Bank has not incurred management fees or any other similar expenditure****15.2 Share Capital**

	<b>Number of shares</b>
Shares as at 31 March 2011	264,883,768
Issue under share option scheme	185,588
Shares as at 30 June 2011	<u>265,069,356</u>

The Financial Statements of the Bank has retained the concept of par value, authorized capital and share premium account instead of the Stated Capital introduced by the Companies Act No. 7 of 2007 in accordance with section 7 of the DFCC Bank Act No. 35 of 1955 as amended.

### 15.3 Twenty Major Shareholders as at 30.06.2011

	Name of Shareholder/Company	Shareholding	%
1	Bank of Ceylon No.2 A/c.	38,039,994	14.35
2	Sri Lanka Insurance Corporation Ltd-Life Fund	34,423,532	12.98
3	Hatton National Bank PLC A/c No.1	32,109,140	12.11
4	Mr M A Yaseen	22,886,700	8.62
5	Distilleries Company of Sri Lanka Limited	17,042,856	6.42
6	Seafeld International Limited	15,286,794	5.76
7	Employees Provident Fund	12,712,100	4.79
8	HSBC Intl Nom. Ltd-BPSS Lux-Aberdeen Global Asia Pacific Equity Fund	12,216,146	4.60
9	Renuka City Hotels Limited	6,926,870	2.61
10	HSBC Intl Nom Ltd-BPSS LDN-Aberdeen Asia Pacific Fund	6,750,000	2.54
11	HSBC Intl Nominees Ltd-BP2S London-Edinburg Dragon Trust PLC	4,728,800	1.78
12	Renuka Hotels Limited	4,048,360	1.52
13	HSBC Intl Nominees Ltd-SSBT- Aberdeen Institutional Commingled Funds, LLC	2,582,500	0.97
14	Cargo Boat Development Company PLC	2,048,200	0.77
15	Employee Trust Fund Board	2,001,666	0.75
16	HSBC Intl Nominees Ltd-BP2S London-Aberdeen Asia Smaller Companies Investment Trust	1,800,000	0.67
17	HSBC Intl Nominees Ltd-BP2S-London - Aberdeen New Dawn Investment Trust XCC6	1,800,000	0.67
18	Mellon Bank N.A. - Florida Retirement System	1,500,000	0.56
19	National Savings Bank	1,342,024	0.50
20	Sri Lanka Insurance Corporation Ltd-General Fund	1,243,800	0.47

### 15.4 Public holding as at 30.06.2011 is 60.39%

### 15.5 Directors' Interests in Shares

	No of Shares As at 30.06.2011
Brito, J M S - Chairman	18,760
Fonseka, A N – Ex-officio Director	142,006*
Abeywardena, A S	10,380
Bandaranayake, T K	1,478*
Dayasri, G K	1,036
Gunawardana, H M N S	Nil
Jansz, C R	1,000
Palihena, S N P	10,000
Thambiyah, R B	211,200
Thambiyah, S.R – Alternative Director	Nil

\*Directors' shareholding includes shares held by the spouse, and children under 18 years of age.

We, the undersigned, being the Chairman, the Chief Executive Officer and the Chief Financial Officer of DFCC Bank 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 unless indicated as audited .

J M S Brito  
Chairman

A.N Fonseka  
Ex-officio Director  
& Chief Executive

S. Nagarajah  
Chief Financial Officer

27/07/2011

**Business Segment Information**

For the three months ended 30 June	Lending		Financial Leasing		Investing in Equity		Commercial Banking		Other		Unallocated		Eliminations		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Revenue</b>																
Interest income	1,122,309	1,380,947	254,850	180,438	-	-	744,839	917,911	53,861	29,459	-	-	(29,025)	(36,072)	2,122,431	2,502,757
Other income	40,149	19,090	-	-	242,302	5,380,170	115,753	102,034	189,008	213,410	(5,672)	1,556,916	(86,566)	(2,684,458)	519,376	4,502,927
Income from external customers	1,162,458	1,400,037	254,850	180,438	242,302	5,380,170	860,592	1,019,945	242,869	188,708	(5,672)	1,556,916	(115,591)	(2,720,530)	2,641,807	7,005,684
Inter segment income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total income</b>	<b>1,162,458</b>	<b>1,400,037</b>	<b>254,850</b>	<b>180,438</b>	<b>242,302</b>	<b>5,380,170</b>	<b>860,592</b>	<b>1,019,945</b>	<b>242,869</b>	<b>188,708</b>	<b>(5,672)</b>	<b>1,556,916</b>	<b>(115,591)</b>	<b>(2,720,530)</b>	<b>2,641,807</b>	<b>7,005,684</b>
<b>Percentage*</b>	<b>44</b>	<b>20</b>	<b>10</b>	<b>3</b>	<b>9</b>	<b>77</b>	<b>33</b>	<b>15</b>	<b>9</b>	<b>3</b>	<b>3</b>	<b>22</b>	<b>-</b>	<b>-</b>	<b>100</b>	<b>100</b>
<b>Expense</b>																
Segment losses	(37,954)	264,616	(48,888)	13,015	-	-	38,297	71,691	-	-	-	-	-	-	(48,545)	349,322
Depreciation	-	-	-	-	-	-	33,281	34,242	7,826	6,834	-	-	-	-	41,107	41,076
Other operating & interest expenses	639,928	682,410	123,368	71,928	-	-	690,154	655,383	108,404	114,889	-	-	(68,038)	(72,562)	1,493,816	1,452,048
Inter segment expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>601,974</b>	<b>947,026</b>	<b>74,480</b>	<b>84,943</b>	<b>-</b>	<b>-</b>	<b>761,732</b>	<b>761,316</b>	<b>116,229</b>	<b>121,723</b>	<b>-</b>	<b>-</b>	<b>(68,038)</b>	<b>(72,562)</b>	<b>1,486,378</b>	<b>1,842,446</b>
<b>Result</b>	<b>560,484</b>	<b>453,011</b>	<b>180,370</b>	<b>95,495</b>	<b>242,302</b>	<b>5,380,170</b>	<b>98,860</b>	<b>258,629</b>	<b>126,640</b>	<b>66,985</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,155,429</b>	<b>5,163,238</b>
Unallocated expenses															150,005	305,026
Value Added Tax on financial services															101,273	1,493,511
Share of profits/(Loss) of associates															904,151	3,364,701
<b>Profit on ordinary activities before tax</b>															(4,080)	200,051
Income tax on profit on ordinary activities															900,071	3,564,752
<b>Profit on ordinary activities after tax</b>															197,630	218,816
Minority interest															702,441	3,346,136
<b>Profit for the period</b>															19,403	22,230
															<b>683,038</b>	<b>3,323,906</b>
<b>Assets</b>	<b>34,935,121</b>	<b>36,146,990</b>	<b>7,100,523</b>	<b>3,597,069</b>	<b>3,947,394</b>	<b>3,675,305</b>	<b>33,811,223</b>	<b>29,072,826</b>	<b>4,104,242</b>	<b>2,863,943</b>	<b>13,029,645</b>	<b>16,374,669</b>	<b>(2,246,407)</b>	<b>(34,459)</b>	<b>94,681,741</b>	<b>91,696,343</b>
<b>Percentage*</b>	<b>37</b>	<b>40</b>	<b>7</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>36</b>	<b>33</b>	<b>4</b>	<b>3</b>	<b>14</b>	<b>16</b>	<b>-</b>	<b>-</b>	<b>100</b>	<b>100</b>
Investment in associate company															173,212	81,337
															<b>94,854,953</b>	<b>91,777,680</b>
<b>Liabilities</b>	<b>27,806,496</b>	<b>25,000,980</b>	<b>6,390,471</b>	<b>3,237,362</b>	<b>-</b>	<b>-</b>	<b>30,654,951</b>	<b>26,088,209</b>	<b>2,548,914</b>	<b>2,445,805</b>	<b>5,617,681</b>	<b>10,740,872</b>	<b>(2,246,407)</b>	<b>(34,459)</b>	<b>70,772,104</b>	<b>67,478,769</b>

Revenue and expenses attributable to the incorporated business segments of industrial estate management, stock broking and consultancy services are included in the column for other.

Revenue and expenses attributable to the business segment of DFCC Vardhana Bank Limited is included in the column for Commercial Banking.

Property & equipment and depreciation attributable to an incorporated business segment is included in the relevant segment and the balance is unallocated.

Assets held for sale is included in the segment, other.

Eliminations are the consolidation adjustments for inter company transactions, dividend and dividend payable attributable to minority shareholders.

\* Net of eliminations

**Debenture Information**

## DFCC Listed Subordinated Debentures

<b>Debenture Categories</b>	<b>Interest Payable Frequency</b>	<b>Applicable Interest Rate</b>	<b>Comparative Govt. Sec. Interest Rate (Gross)</b>	<b>Value as at 30th June 2011 Rs'. 000</b>
<b>Fixed Rate</b>				
2006/2016 - 14.00% p.a.	Annually	14.00%	9.41%	590,000
2006/2011 - 13.75% p.a.	Annually	13.75%	7.90%	200,000
<b>Floating Rate</b>				
2006/2011 - 6 months TB rate (Net) + 1.00% p.a.	Semi-Annually	9.35%	7.90%	40,000
2006/2011 - 6 months TB rate (Gross) + 1.00% p.a.	Semi-Annually	9.17%	7.90%	170,000
				<b>1,000,000</b>

**6 months TB rate (Net)** - Six months weighted average Treasury Bill rate after 10% withholding (net rate) as published by the Central Bank of Sri Lanka.

**6 months TB rate (Gross)** - Six months weighted average Treasury Bill rate before 10% withholding (gross rate) as published by the Central Bank of Sri Lanka.

<b>Other Ratios</b>	<b>30.06.2011</b>	<b>31.03.2011</b>
Debt Equity Ratio	1.32	1.35
Interest Cover (Times)	1.78	3.54
Quick Asset Ratio (%)	224	295

## Supplementary Financial Information (Consolidated Income Statement of DFCC & DVB (DBB))

This information relates to the consolidation of DFCC Bank (DFCC) and DFCC Vardhana Bank Limited (DVB) for purpose of internal review and analysis of the banking business and is derived from total Group financial statements.

Income statement of DVB for the period ended 31 March is consolidated with Income statements of DFCC for the period ended 30 June.

For the three months ended 30 June	Adjustments					
	2011 Rs 000	2010 Rs 000	2011 Rs 000	2010 Rs 000	2011 Rs 000	2010 Rs 000
Interest income	2,098,909	2,461,096	(8,680) <sup>1</sup>	(43,245) <sup>1</sup>	2,090,229	2,417,851
Interest expense	(980,189)	(1,197,030)			(980,189)	(1,197,030)
Net interest income	1,118,720	1,264,066	(8,680)	(43,245)	1,110,040	1,220,821
Other income:						
Dividends from CBC (as investment security)	-	-		246,349 <sup>2</sup>	0	246,349
Dividends received from consolidated - Subsidiaries - Joint Venture	-	-			0	-
Dividends from non-affiliated entities	68,262	82,566			68,262	82,566
Gains from CBC Shares	-	4,241,606		(4,241,606) <sup>3</sup>	0	-
Gains from sale of non-affiliated quoted shares	165,547	16,066			165,547	16,066
Foreign exchange income	18,778	(29,610)	8,680 <sup>1</sup>	43,245 <sup>1</sup>	27,458	13,635
Fees and commission income					0 <sup>2</sup>	-
Others	86,718	90,316		(6,119) <sup>2</sup>	86,718	84,197
<b>Operating income</b>	<b>1,458,025</b>	<b>5,665,010</b>	<b>0</b>	<b>(4,001,376)</b>	<b>1,458,025</b>	<b>1,663,634</b>
Personnel costs	248,677	207,895			248,677	207,895
Provision for staff retirement benefits	17,098	18,121			17,098	18,121
Premises, equipment & establishment expenses	160,984	141,158			160,984	141,158
Other overhead expenses	201,021	157,235			201,021	157,235
<b>Operating expenses</b>	<b>627,780</b>	<b>524,409</b>	<b>0</b>	<b>0</b>	<b>627,780</b>	<b>524,409</b>
<b>Operating profit before provisions</b>	<b>830,245</b>	<b>5,140,601</b>	<b>0</b>	<b>(4,001,376)</b>	<b>830,245</b>	<b>1,139,225</b>
Allowances for credit losses						
- Specific Provision	129,974	548,150			129,974	548,150
- General Provision	(38,000)	(19,726)			(38,000)	(19,726)
- Recoveries	(142,439)	(179,843)			(142,439)	(179,843)
- Loans Written off	1,920	741			1,920	741
<b>Operating profit before value added tax</b>	<b>878,790</b>	<b>4,791,279</b>	<b>0</b>	<b>(4,001,376)</b>	<b>878,790</b>	<b>789,903</b>
Value added tax on financial services	(101,273)	(1,493,511)		1,320,346 <sup>3</sup>	(101,273)	(173,165)
<b>Operating profit before income tax</b>	<b>777,517</b>	<b>3,297,768</b>	<b>0</b>	<b>(2,681,030)</b>	<b>777,517</b>	<b>616,738</b>
Income tax expense	(174,813)	(199,202)			(174,813)	(199,202)
<b>Profit after tax</b>	<b>602,704</b>	<b>3,098,566</b>	<b>0</b>	<b>(2,681,030)</b>	<b>602,704</b>	<b>417,536</b>
Minority Interest DVB	(2,550)	(4,719)			(2,550)	(4,719)
<b>Profit after tax attributable to shareholders of DFCC</b>	<b>600,154</b>	<b>3,093,847</b>	<b>0</b>	<b>(2,681,030)</b>	<b>600,154</b>	<b>412,817</b>
Share of profits of National Asset Management Limited and CBC Associate (CBC ceased to be an associate on 2 June 2010)	1,536	195,254		(193,354) <sup>2</sup>	1,536	1,900
	<b>601,690</b>	<b>3,289,101</b>	<b>-</b>	<b>(2,874,384)</b>		
Segregated exceptional profit on sale of CBC post tax reduced by minority interest					0	2,921,260
<b>Adjusted Profit after tax attributable to shareholders of parent company- DFCC Bank</b>					<b>601,690</b>	<b>3,335,977</b>

### Adjustments explained by footnotes

- The forward exchange premium on US Dollar/LKR swap is accounted as part of foreign exchange income while interest earned on LKR from the swap is included in net interest income (NII) in the financial statements issued for external use. Thus the swap cost is netted against the NII to reflect the commercial reality of the transaction.
- Investment in Commercial Bank of Ceylon PLC (CBC) is treated as if it was an investment in a non-affiliated entity in previous financial year. Thus income from this investment is accounted as dividend income instead of equity accounted profit with consequential change to the respective balance sheets.
- Exceptional profit after taxes arising from sale of subsidiaries are segregated from the profit after tax of the banking business.