

Results for the First Quarter Ended 30 June 2012

This commentary relates to the interim non-audited financial statements for 3 months ended 30 June 2012.

GROUP PERFORMANCE

The DFCC Group recorded a consolidated profit after tax of LKR 713 m for the 1st quarter ended 30 June 2012 compared with LKR 702 m in the corresponding period of the previous year (comparable period).

Apart from the Banking Business which contributed LKR 617m to profit after tax and is analysed below, the investment banking joint venture, Acuity Partners (Pvt) Ltd (APL) contributed LKR 49.5 m in the current period marginally lower than LKR 52 m in the comparable period. The environment was not conducive for investment banking business and the contribution from APL's core activities was significantly lower than in the previous period. However, APL benefitted from an issue of new shares to minority shareholders by a subsidiary at a premium to net asset value which gave rise to deemed disposal profit of LKR 142 m attributable to APL and recognized in APL's consolidated income statement. The contribution from all other subsidiaries and associate company collectively was LKR 15.6 m in the current period (LKR 30.5 m in the comparable period).

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. Both banks function as one economic entity and as such it is appropriate 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. Since the financial year of DVB ends in December, the accounts of DVB are consolidated with a 3 month lag.

The interest income of DBB in the current period was LKR 3,242 m, an increase of 54% over LKR 2,099m in the previous comparable period. The higher interest income was the result of portfolio growth with total loans and advances (excluding interest receivable) increasing 45% from LKR 65,527 m on 30 June 2011 to LKR 94,808 m on 30 June 2012, as well as due to the increase in market interest rates by several percentage points during that time. However, the rising trend in interest rates also had an adverse impact on funding cost. The environment was not conducive to raising medium and long term funds from the domestic market as investor appetite for such investments was very low. Mobilization of demand and lower cost savings deposits also became difficult with

investor preference shifting to short tenor time deposits. Thus, although DBB increased its customer deposit base by 98% from LKR 26,613 m on 30 June 2011 to LKR 52,634 m on 30 June 2012 there was a shift to higher cost term deposits and this change in the funding mix resulted in interest expense of DBB increasing from LKR980 m in the comparable period to LKR 1,914 m in the current period, an increase of 95%. The interest margin of DBB thus reduced, as was the case for the overall banking sector, and the net interest income of DBB was LKR 1,328 m in the current period recording a modest increase of 19% over LKR 1,119 m in the comparable period.

In early 2012 the Central Bank imposed a credit growth ceiling on banks being one of the policy measures taken to address certain macroeconomic concerns. This restriction and the relatively high interest rate environment resulted in the quarter ended 30 June 2012 recording only a 6.5% growth in credit extended by DBB. There are signs that credit demand is weakening which should lead to higher liquidity in the banking system and less pressure on interest rates as the year progresses.

Other income of DBB was LKR 295 m in the current period, 15% lower when compared to the comparable period. This was mainly due to lower capital gains from disposal of equity investment in an environment where the prices of shares listed on the Colombo Stock Exchange declined on very low turnovers. The gains from the sale of non-affiliated shares reduced from LKR 166 m in the comparable period to LKR 58 m in the current period but were offset in part by higher dividend income and higher fees and commission income recorded by DVB.

Foreign exchange income of the DBB is primarily derived from DVB, the commercial banking arm. Due to its relatively small size DVB did not benefit from translation gains arising from the depreciation of the LKR as much as some of the larger commercial banks which have built up substantial retained profits in their Foreign Currency Banking Units (FCBUs) over an extended period.

Asset quality was maintained with the gross non-performing loan ratio of DBB being maintained at 4.3%, the same as on 31 March 2012 which was a significant improvement to 6.3% one year ago. While managing portfolio quality, DBB continues to recover delinquent loans as evident from LKR 179 m recoveries in the current period a 25% increase over the previous comparable period. These recoveries were largely in DFCC.

DBB was successful in containing operating expenses to a modest 4% increase to LKR 653 m in the current period partly due to the fact that after 2 years of significant investment, expansion of the distribution net work and related increase in head count is not required to be undertaken at the same pace. DBB intends to open 5 new branches in various parts of the island during 2012 of which one branch in Kilinochchi in the Northern Province was opened after 30 June 2012. The ratio of operating expenses to operating income was 40% in the current period compared with 43% in the comparable period. However, the full benefit of the expanded distribution network will only accrue at a later time since DVB's initiative to expand its personal finance services had to be slowed down due to the prevailing credit ceiling.

The DBB recorded LKR 979 m as operating profit before taxes which was an increase of 11% over the comparable period. Profit after tax (both VAT on financial services and income tax) was LKR 619 m, an increase of 3% over the comparable period. Going forward, the credit ceiling will have an adverse impact on the growth of DVB during the remainder of the year since it had a smaller credit portfolio than DFCC at the end of December 2011. DFCC has room and can expect to grow as previously approved project loans are progressively disbursed.

INVESTMENTS

The quoted equity investment securities of DFCC are carried at a cost of LKR 4,971m as at 30 June 2012. The aggregate market value of the investments on 30 June 2012 amounted to LKR 13,733 m with an unrealized gain of LKR 8,762 m. The interim non-audited financial statements are not based on the new accounting standards and therefore this unrealized gain is currently not recognized in the financial statements. However, under the new accounting standards all listed shares currently classified as investment securities would be reclassified as available for sale and marked to market and the unrealized gains recognized in the equity of DBB.

PRUDENTIAL INDICATORS

The capital adequacy and liquidity ratios continued to be well above the stipulated regulatory minimum. Specific provision cover for the DBB was 78% and unprovided NPL s as a proportion of equity was under 6%. The latest rating review by Fitch Ratings Lanka Limited announced on 2 August 2012 has reaffirmed AA (Ika) for DFCC and AA⁻ (Ika) for DVB with outlook stable for both banks.

Nihal Fonseka
Chief Executive Officer

9 August 2012

DFCC Bank

Income Statement

For the period ended	Notes	Bank		Group	
		For the 3 months ended		For the 3 months ended	
		30.06.12 LKR 000	30.06.11 LKR 000	30.06.12 LKR 000	30.06.11 LKR 000
Income		2,142,356	1,653,938	3,726,183	2,641,807
Interest income		1,936,099	1,377,159	3,259,860	2,122,431
Interest income on loans & advances		1,807,287	1,205,505	2,952,929	1,819,673
Interest income on other interest earning assets		128,812	171,654	306,931	302,758
Less : Interest expenses		1,120,937	616,621	1,910,551	974,822
Interest expense on deposits		407,564	98,194	1,111,054	429,553
Interest expense on other interest bearing liabilities		713,373	518,427	799,497	545,269
Net interest income		815,161	760,538	1,349,309	1,147,609
Non interest income	6	206,257	276,779	466,323	519,376
Foreign exchange income	5	(27,041)	1,948	16,191	22,162
Other income		233,298	274,831	450,132	497,214
Less : Non interest expenses		299,936	296,679	743,991	710,106
Personnel costs		146,159	128,171	344,883	312,826
Provision for staff retirement benefits		22,739	17,098	22,739	17,098
Premises, equipment & establishment expenses		63,160	67,306	172,075	167,888
Loss on trading / investment securities		0	0	0	0
Other operating expenses		63,407	79,299	185,119	197,084
Amortization of intangible assets					
Negative goodwill		0	0	0	0
Software		4,471	4,805	19,175	15,210
Less : Provision for bad & doubtful debts and loans written off		(85,579)	(86,842)	(8,595)	(48,545)
Provisions - general		(1,867)	(49,042)	11,016	(38,000)
Provisions - specific		63,681	73,685	137,000	129,974
Recoveries		(167,169)	(111,574)	(178,705)	(142,439)
Loans written off		19,777	89	22,095	1,920
Less : Provision for fall in value of dealing & investment securities losses		0	0	0	0
Operating profit on ordinary activities before taxes		807,062	827,480	1,080,236	1,005,424
Less : Value added tax on financial services		85,683	86,554	124,336	101,273
Operating profit on ordinary activities before corporate tax		721,379	740,926	955,900	904,151
Share of loss of associates after tax				(1,437)	(4,080)
Operating profit before corporate tax		721,379	740,926	954,463	900,071
Less : Income tax on profit on ordinary activities	7	169,252	148,358	241,885	197,630
Profit for the period		552,127	592,568	712,578	702,441
Attributable to					
Equity holders of the Bank				682,382	683,038
Minority interest				30,196	19,403
		552,127	592,568	712,578	702,441
Basic earnings per share - LKR		2.08	2.24	2.57	2.58
Diluted earnings per share* - LKR		Nil	2.24	Nil	2.58

* As at 30 June 2012 there were no unexercised options

Balance Sheet

As at	Notes	Bank		Group	
		30.06.12 LKR 000	31.03.12 LKR 000 Audited	30.06.12 LKR 000	31.03.12 LKR 000 Audited
On-Balance Sheet Assets					
Cash in hand		304	280	1,405,366	1,430,388
Balances with Central Bank of Sri Lanka		0	0	2,130,818	1,596,066
Due from Banks and other financial institutions		4,811,457	3,534,482	6,827,071	5,399,603
Investments - trading account		804,678	189,113	1,107,679	719,023
Government securities		742,568	123,806	1,045,569	653,716
Other securities		62,110	65,307	62,110	65,307
Investments - held to maturity (net of provisions)		9,518,772	8,320,830	22,473,840	19,474,088
Government securities		2,612,506	1,413,713	12,896,738	9,914,652
Investments in ordinary shares		5,092,398	4,922,464	7,628,495	7,452,543
Investments in preference shares		1,395,500	1,568,000	1,424,490	1,596,990
Investments in debentures		0	0	80,750	80,750
Investments in unit trusts		418,368	416,653	455,868	441,653
Less : Provision for decline in value of Investments		0	0	12,500	12,500
Investment in associate companies		35,270	35,270	369,363	370,799
Investment in subsidiary companies		3,782,453	3,777,907	4,546	0
Investment in joint venture company		655,000	655,000	-	-
Less : Provision for decline in value of Investments in Subsidiaries		(17,367)	(17,367)	-	-
Total loans and advances					
Total performing loans and advances		54,761,832	52,941,881	90,002,091	84,557,382
Bills of exchange discounted		0	0	614,013	527,476
Overdrafts		0	0	13,537,611	11,939,734
Finance leases		9,487,612	8,985,856	10,479,802	9,481,351
Other loans		45,274,220	43,956,025	65,370,665	62,608,822
Total non performing loans and advances		3,679,219	3,721,145	6,737,093	6,407,272
Bills of exchange discounted		0	0	34,667	32,661
Overdrafts		0	0	1,418,952	1,261,820
Finance leases		236,891	171,340	236,891	171,780
Other loans		2,142,460	2,218,735	3,114,955	3,029,448
Loan interest receivable		1,299,868	1,331,070	1,931,628	1,911,563
Total gross loans and advances		58,441,051	56,663,026	96,739,184	90,964,654
Less :					
Interest in suspense		1,299,868	1,331,070	2,661,859	2,564,083
Provision for credit losses - specific		1,666,628	1,747,151	2,579,954	2,588,509
Provision for credit losses - general		353,056	354,923	498,405	485,825
Net loans and advances		55,121,499	53,229,882	90,998,966	85,326,237
Group balances receivable		60,604	41,597	0	0
Prepayments		41,861	43,810	41,857	43,810
Other receivables		921,410	1,294,674	2,641,561	2,457,187
Deferred tax asset		0	0	5,590	5,583
Assets held for sale		0	0	2,875	2,875
Intangible assets		49,676	29,978	223,969	203,861
Investment property		0	0	127,144	147,981
Goodwill on consolidation		-	-	226,411	226,411
Property and equipment (Net of accumulated depreciation)		426,364	431,606	923,655	936,250
Income tax refund due		139,574	139,574	162,020	161,020
Total On Balance Sheet Assets		76,351,555	71,706,635	129,672,732	118,501,178

Balance Sheet

As at	Notes	Bank		Group	
		30.06.12 LKR 000	31.03.12 LKR 000 Audited	30.06.12 LKR 000	31.03.12 LKR 000 Audited
On Balance Sheet Liabilities					
Total deposits		12,127,425	11,710,526	52,633,842	44,420,013
Demand deposits		0	0	1,591,590	1,256,908
Savings deposits		0	0	7,039,277	7,172,688
Time deposits		12,127,425	11,710,526	43,578,523	35,521,883
Margin deposits		0	0	206,638	274,006
Other deposits		0	0	217,814	194,528
Total borrowings		39,597,234	36,106,592	45,528,181	43,991,926
Borrowings from CBSL		435,162	564,675	435,162	564,675
Borrowings from Banks and financial institutions in Sri Lanka		9,499,770	7,271,270	10,360,467	8,588,671
Borrowings from Banks and financial institutions abroad		1,709,314	1,855,514	1,791,718	1,943,369
Borrowings under repurchase agreements		1,092,000	-	5,079,847	5,480,078
Debentures - Subordinated		590,000	590,000	1,590,000	1,590,000
Debentures - Others		700,000	700,000	700,000	700,000
Other Borrowings		25,570,988	25,125,133	25,570,988	25,125,134
Group balances payable		0	222	0	0
Interest accrued		1,396,783	1,144,954	2,145,054	1,731,630
Current taxation		127,888	-	228,701	56,665
Deferred taxation		325,343	328,039	372,478	376,284
Other liabilities		471,203	662,750	1,937,263	1,842,545
Proposed Dividends		1,060,391	-	1,060,391	-
Total On Balance Sheet Liabilities		55,106,267	49,953,083	103,905,911	92,419,064
Equity					
Share capital	11.2	2,650,977	2,650,977	2,650,977	2,650,977
Share premium		2,064,837	2,064,837	2,064,837	2,064,837
Stated Capital		4,715,814	4,715,814	4,715,814	4,715,814
Statutory reserves		1,573,042	1,485,215	1,573,042	1,485,215
General reserve		13,779,839	13,779,839	13,779,839	13,779,839
Retained profit		1,176,593	1,772,683	5,220,506	5,686,342
Shareholders' equity		21,245,288	21,753,552	25,289,201	25,667,210
Minority interest		-	-	477,620	414,904
Total equity		21,245,288	21,753,552	25,766,821	26,082,114
Total equity and liabilities		76,351,555	71,706,635	129,672,732	118,501,178
Off-Balance Sheet Items and Contra Accounts					
Contingencies		2,607,545	3,778,802	17,808,158	18,379,290
Commitments		11,601,568	14,916,351	19,850,327	22,543,390
Net assets value per share, LKR		80.14	82.06	95.40	96.82
Memorandum Information					
Number of employees		472	466	1,440	1,396
Number of branches and extension offices		19	19	145	145
The highest, the lowest and the last traded market price recorded during the period ended					
		30.06.2012	30.06.2011		
- Highest price LKR		123.00	188.00		
- Lowest price LKR		103.00	145.10		
- Last traded price LKR		110.40	146.40		

Statement of Changes in Equity - Bank

	Ordinary Shares LKR 000	Share Premium LKR 000	Statutory Reserves LKR 000	General Reserve LKR 000	Retained Earnings LKR 000	Total LKR 000
Balance as at 01.04.2011	2,648,838	2,054,546	1,068,600	11,379,839	3,067,038	20,218,861
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)	-
Balance as at 30.06.2011	2,650,694	2,063,500	1,158,275	11,379,839	2,774,723	20,027,031
Balance as at 01.04.2012	2,650,977	2,064,837	1,485,215	13,779,839	1,772,684	21,753,552
Profit for the period					552,127	552,127
Final dividends approved on 29.06.2012					(1,060,391)	(1,060,391)
Transfers			87,827		(87,827)	-
Balance as at 30.06.2012	2,650,977	2,064,837	1,573,042	13,779,839	1,176,593	21,245,288

Statement of Changes in Equity - Group

	Attributable to equity holders of the bank					Minority Interest LKR 000	Total LKR 000
	Ordinary Shares LKR 000	Share Premium LKR 000	Statutory Reserves LKR 000	General Reserve LKR 000	Retained Earnings LKR 000		
Balance as at 01 04 2011	2,648,838	2,054,546	1,068,600	11,379,839	6,530,865	486,666	24,169,354
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)		-
Balance as at 30.06.2011	2,650,694	2,063,500	1,158,275	11,379,839	6,329,020	501,521	24,082,849
Balance as at 01.04.2012	2,650,977	2,064,837	1,485,215	13,779,839	5,686,342	414,904	26,082,114
Profit for the year					682,382	30,196	712,578
Final dividends approved on 29.06.2012					(1,060,391)		(1,060,391)
Transfers			87,827		(87,827)		-
Deemed disposal of holding in a subsidiary of joint venture						32,520	32,520
Balance as at 30.06.2012	2,650,977	2,064,837	1,573,042	13,779,839	5,220,506	477,620	25,766,821

Selected Performance Indicators

	Bank		Group	
	30.06.12	31.03.12	30.06.12	31.03.12
Regulatory Capital Adequacy				
Core capital (Tier - 1 Capital) LKR Mn	16,802	17,851	21,311	22,328
Total capital base LKR Mn	13,905	14,923	20,112	21,085
Core capital ratio (Minimum requirement 5%)	23.22	24.37	19.49	21.0
Total capital ratio (Minimum requirement 10%)	19.22	20.37	18.39	19.9
Asset Quality				
Non-performing loans and advances - Gross exposure % (Net of interest in suspense)	4.2	4.3	4.3	4.3
- Net exposure % (Net of interest in suspense and provisions)	0.6	0.5	1.1	0.9
Profitability (Annualized)				
Interest margin %	4.3	4.8	4.3	4.9
Return on assets %	3.9	4.2	3.1	3.5
Return on equity %	10.3	11.0	10.7	11.8
Statutory liquid assets LKR Mn	4,893	3,859		
Statutory liquid assets ratio % (Minimum requirement 20%)	38	52		

<i>For the period ended</i>	Bank		Group	
	30.06.2012	30.06.2011	30.06.2012	30.06.2011
	LKR 000	LKR 000	LKR 000	LKR 000
Cash flow from operating activities				
Interest Receipts	1,795,588	1,266,913	2,933,995	1,893,353
Interest payments	(871,485)	(711,844)	(1,545,339)	(1,069,059)
Recoveries on loans previously written off	20,575	26,066	20,575	26,066
Receipts from other operating activities	395,808	37,691	602,235	258,342
Cash payments to employees & suppliers	(511,485)	(407,760)	(948,885)	(831,714)
Value added tax	(85,683)	(109,670)	(131,248)	(119,823)
Operating Cash flow before changes in operating assets and liabilities	743,317	101,396	931,333	157,165
<i>(Increase)/decrease in operating assets:</i>				
Deposits held for regulatory or monetary control purposes	0	0	(535,003)	(2,755)
Funds advanced to customers	(1,763,373)	(1,310,310)	(5,527,422)	(4,490,119)
Others	233,498	(60,490)	(260,033)	43,827
<i>Increase /(decrease) in operating liabilities:</i>				
Security deposits from customers	0	(950)	95	(856)
Deposits from customers	416,899	578,570	8,269,778	1,177,210
Negotiable certificates of deposit	0	0	23,286	(639)
Others	(265,108)	73,923	16,394	43,767
Net cash flow from operating activities before income tax	(634,766)	(617,861)	2,918,429	(3,072,400)
Income tax paid	(37,198)	(163,223)	(51,144)	(205,427)
Net cash flow from/(used in) operating activities	(671,965)	(781,084)	2,867,285	(3,277,827)
Cash flow from investing activities				
Dividends received	554,095	277,971	479,354	260,563
Interest received	96,475	159,839	299,998	378,353
Treasury bills eligible for rediscounting with Central Bank	(385,780)	7,027,138	(359,920)	6,779,935
Proceeds from sale and redemption of securities	266,414	406,329	266,414	406,329
Purchase of securities	(207,492)	(155,206)	(250,455)	(164,496)
Investment in additional shares of subsidiaries-DFCC Vardhana Bank PLC	(4,546)	(1,332,658)	(4,546)	(1,332,658)
Purchase of property , equipment ,intangibles and investment property	(43,376)	(3,117)	(85,911)	(56,378)
Proceeds from sale of equipment and investment property	586	1,875	25,354	34,540
Net cash from investing activities	276,376	6,382,170	370,289	6,306,188
Cash flow from financing activities				
Issue of new shares under option	0	10,900	0	10,900
Share issue expenses	0	(90)	0	(90)
Borrowing , medium and long - term	7,284,542	285,749	7,184,541	3,292,371
Other borrowings	(794,500)	1,548,004	(2,370,102)	2,014,576
Repayment of borrowing ,medium and long - term	(3,389,168)	(1,111,151)	(3,389,168)	(897,936)
Dividends paid	(445)	(1,842,825)	(445)	(1,847,373)
Net Cash flow from/(used in) financing activities	3,100,429	(1,109,413)	1,424,827	2,572,448
Net increase in cash & cash equivalents	2,704,840	4,491,673	4,662,401	5,600,809
Cash & cash equivalents/(overdraft-net) at the beginning of period as previously stated	4,163,425	1,370,810	12,441,560	4,777,976
Consolidated adjustment -Synapsys Limited	0	0	0	16,000
Cash & cash equivalents /(overdraft-net)at the beginning of the period restated	4,163,425	1,370,810	12,441,560	4,793,976
Cash & cash equivalents at the end of period	6,868,265	5,862,483	17,103,961	10,394,785
Reconciliation of cash & cash equivalents				
Cash & short - term funds	4,806,762	1,403,150	6,622,205	1,501,484
Treasury bills & other securities eligible for rediscounting with Central Bank	2,061,503	4,459,333	10,454,877	8,856,480
Securities purchased under resale agreements	0	0	62,575	91,408
Borrowing short term - Bank overdrafts	0	0	(35,697)	(54,587)
	6,868,265	5,862,483	17,103,961	10,394,785

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.

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 PLC, Synapsys Ltd (subsidiaries), Acuity Partners (Pvt) Limited (joint venture) and Namal Asset Management Limited (associate).

Results of these companies are consolidated with DFCC Bank with a three months gap. Thus the consolidated results for the period ended 30.06.2012 include profits of these companies for the period 01.01.2012 to 31.03.2012.

Note 5. Foreign Exchange Income

Foreign exchange income includes cost of forward exchange premium on funding swaps (swap of foreign currency for LKR). 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.

Note 6. Non-Interest Income

	Bank		Group	
	30.06.2012 LKR 000	30.06.2011 LKR 000	30.06.2012 LKR 000	30.06.2011 LKR 000
Dividend income	138,450	75,312	60,155	55,148
Net gain on sale of other investment securities	58,072	167,492	58,072	169,736
Marked to market loss on other dealing securities	(4,260)	(10,152)	(4,354)	(10,152)
Other income	13,995	44,127	352,450	304,644
Non-interest income	206,257	276,779	466,323	519,376

Note 7. Taxation

	Bank		Group	
	30.06.2012	30.06.2011	30.06.2012	30.06.2011
	LKR 000	LKR 000	LKR 000	LKR 000
Current Income Tax	171,949	179,044	245,691	228,514
Deferred tax	(2,697)	(30,686)	(3,806)	(30,884)
	<u>169,252</u>	<u>148,358</u>	<u>241,885</u>	<u>197,630</u>

Note 8. Investment in Quoted Ordinary Shares

	Bank	
	30.06.2012	31.03.2012
	LKR 000	LKR 000
Cost	4,970,674	4,786,760
Unrecognized gain	8,762,769	9,304,328
Market Value	<u>13,733,443</u>	<u>14,091,088</u>

Market value on 25/07/2012 was LKR 13,575 million.

Note 9. Post balance sheet events

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

Note 10.

Interim financial statements have been prepared in accordance with Sri Lanka Accounting Standards that existed immediately prior to 1 January 2012. This is one of the options permitted by the Institute of Chartered Accountants of Sri Lanka (ICASL) and is applicable only to interim financial statements for the financial year ending on 31 March 2013. The financial statements for the financial year ending on 31 March 2013 will however be prepared in accordance with the new Accounting Standards applicable for accounting periods commencing on or after 1 January 2012.

The Bank has obtained external expert advice on adoption of new Financial Instruments Standards which constitute the most significant change in the transition to the new Accounting Standards. The Bank has made considerable progress in the preparatory work towards transition to the new Accounting Standards. An area that is still being addressed is the computation of Deferred Tax expense that could arise due to variations between accounting treatment of income and expense under the new accounting regime and corresponding income tax treatment. However, the estimated impact (which according to internal estimates is not unfavourable) of financial instruments recognition and impairment measurement that have to be recognised in the Statement of Comprehensive Income and Net Assets have not been independently audited and as such the Bank considers it prudent to defer the disclosure of the impact until an audit has been done.

Note 11. Disclosures under Appendix 7B of the Listing Rules

11.1 Bank has not incurred management fees or any other similar expenditure

11.2 Share Capital

Number of Shares of the Bank on 30 June 2012	<u>265,097,688</u>
(No increase from 31 March 2012)	

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.

11.3 Twenty Major Shareholders as at 30.06.2012

	Name of Shareholder/Company	Shareholding	%
1	Bank of Ceylon No.2 A/c.	38,039,994	14.35
2	Hatton National Bank PLC A/c No.1	32,109,140	12.11
3	Sri Lanka Insurance Corporation Ltd-Life Fund	26,509,832	10.00
4	Employees Provident Fund	24,368,995	9.19
5	Mr M A Yaseen	22,886,700	8.63
6	Distilleries Company of Sri Lanka PLC	17,042,856	6.43
7	Seafeld International Limited	15,286,794	5.77
8	HSBC Intl Nom. Ltd-BPSS Lux-Aberdeen Global Asia Pacific Equity Fund	12,216,146	4.61
9	Renuka City Hotels PLC	6,926,870	2.61
10	HSBC Intl Nom Ltd-BPSS LDN-Aberdeen Asia Pacific Fund	6,750,000	2.55
11	HSBC Intl Nominees Ltd-BP2S London-Edinburg Dragon Trust PLC	5,620,164	2.12
12	Renuka Hotels Limited	4,073,360	1.54
13	HSBC Intl Nominees Ltd-SSBT- Aberdeen Institutional Commingled Funds, LLC	2,614,692	0.99
14	HSBC Intl Nominees Ltd-BP2S London-Aberdeen Asia Smaller Companies Investment Trust	2,389,870	0.90
15	Cargo Boat Development Company PLC	2,098,200	0.79
16	Employee Trust Fund Board	2,020,161	0.76
17	HSBC Intl Nominees Ltd-BP2S-London - Aberdeen New Dawn Investment Trust XCC6	1,800,000	0.68
18	Mellon Bank N.A. - Florida Retirement System	1,500,000	0.57
19	National Savings Bank	1,342,024	0.51
20	Renuka Consultants & Services Limited	1,097,992	0.41

11.4 Public holding as at 30.06.2012 is 63.38%

11.5 Directors' Interests in Shares

	No of Shares As at 30.06.2012
Brito, J M S - Chairman	38,760
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
Thambiyah, R B	211,200
Thambiyah, S.R – Alternative Director	Nil
L.P. Chandrasasa	500
J.E.A. Perumal	5,000

*Directors' shareholding includes shares held by the spouse.

Certification

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

25/07/2012

Business Segment Information

For the three months ended 30 June	Lending		Financial Leasing		Investing in Equity		Commercial Banking		Other		Unallocated		Eliminations		Total	
	2012 LKR 000	2011 LKR 000	2012 LKR 000	2011 LKR 000	2012 LKR 000	2011 LKR 000	2012 LKR 000	2011 LKR 000	2012 LKR 000	2011 LKR 000	2012 LKR 000	2011 LKR 000	2012 LKR 000	2011 LKR 000	2012 LKR 000	2011 LKR 000
Revenue																
Interest income	1,603,319	1,122,309	332,780	254,850	-	-	1,321,770	744,839	25,379	29,459	-	-	(23,388)	(29,026)	3,259,860	2,122,431
Other income	34,045	40,149	-	-	196,660	242,302	202,971	115,753	176,849	213,410	(24,448)	(5,672)	(119,754)	(86,566)	466,323	519,376
Income from external customers	1,637,364	1,162,458	332,780	254,850	196,660	242,302	1,524,741	860,592	202,229	242,869	(24,448)	(5,672)	(143,142)	(115,592)	3,726,183	2,641,807
Inter segment income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total income	1,637,364	1,162,458	332,780	254,850	196,660	242,302	1,524,741	860,592	202,229	242,869	(24,448)	(5,672)	(143,142)	(115,592)	3,726,183	2,641,807
Percentage *	44	44	9	10	5	9	41	33	5	9	3	3	-	-	100	100
Expense																
Segment losses	(127,355)	(37,954)	41,776	(48,888)	-	-	76,984	38,297	-	-	-	-	-	-	(8,595)	(48,545)
Depreciation	-	-	-	-	-	-	25,686	33,281	8,971	7,826	-	-	-	-	34,657	41,107
Other operating & interest expenses	1,098,927	639,928	223,518	123,368	-	-	1,165,344	690,154	92,497	108,404	-	-	(58,827)	(68,038)	2,521,459	1,493,816
Inter segment expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	971,572	601,974	265,294	74,480	-	-	1,268,014	761,732	101,467	116,229	-	-	(58,827)	(68,039)	2,547,520	1,486,378
Result	665,792	560,484	67,486	180,370	196,660	242,302	256,727	98,860	100,762	126,640	-	-	-	-	1,178,664	1,155,429
Unallocated expenses															98,429	150,004
Value Added Tax on financial services															124,336	101,273
Share of profits/(Loss) of associates															955,900	904,151
Profit on ordinary activities before tax															(1,437)	(4,080)
Income tax on profit on ordinary activities															954,463	900,071
Profit on ordinary activities after tax															241,885	197,630
Minority interest															712,578	702,441
Profit for the period															30,196	19,403
															682,382	683,038
Assets	50,285,770	34,935,121	9,633,719	7,100,523	6,906,265	3,947,394	52,943,953	33,811,223	3,612,837	4,104,242	7,140,612	13,029,645	(1,219,786)	(2,246,407)	129,303,369	94,681,741
Percentage	39	37	7	7	5	4	41	36	3	4	6	14	-	-	100	100
Investment in associate company															369,363	173,212
															129,672,732	94,854,953
Liabilities	38,880,799	27,806,496	8,670,347	6,390,471	-	-	48,113,233	30,654,951	1,910,766	2,548,914	7,550,552	5,617,680	(1,219,786)	(2,246,407)	103,905,911	70,772,104

Revenue and expenses attributable to the incorporated business segments of industrial estate management, stock brokering 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

Debenture Categories	Interest Payable Frequency	Applicable Interest Rate	Comparative Govt. Sec. Interest Rate (Gross)	Value as at 30 June 2012 LKR 000
Fixed Rate				
2006/2016 - 14.00% p.a.	Annually	14.00%	15.67%	590,000
				<u>590,000</u>
Other Ratios	30.06.2012	31.03.2012		
Debt Equity Ratio	1.75	1.56		
Interest Cover (Times)	1.32	1.72		
Quick Asset Ratio (%)	38	52		

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

This information relates to the consolidation of DFCC Bank (DFCC) and DFCC Vardhana Bank PLC (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 3 months ended 31 March is consolidated with Income statements of DFCC for the 3 months ended 30 June

For the three months ended 30 June

	2012 LKR 000	2011 LKR 000
Interest income	3,242,320	2,098,909
Interest expense	(1,914,414)	(980,189)
Net interest income	1,327,906	1,118,720
Other Income		
Dividends from non-affiliated entities	54,136	27,762
Gains from sale of non-affiliated shares	58,072	165,547
Foreign exchange income	16,186	18,778
Marked to market loss on other dealing securities	(4,354)	(10,152)
Fees and Commission income	171,276	114,002
Others	193	23,368
Operating income	1,623,415	1,458,025
Personnel costs	290,827	248,677
Provision for staff retirement benefits	22,739	17,098
Premises, equipment & establishment expenses	171,600	160,984
Other overhead expenses	167,369	201,021
Operating expenses	652,535	627,780
Operating profit before provisions	970,880	830,245
Allowances for credit losses		
- Specific Provision	137,000	129,974
- General Provision	11,016	(38,000)
- Recoveries	(178,705)	(142,439)
- Loans Written off	22,095	1,920
Operating profit before value added tax	979,474	878,790
Value added tax on financial services	(124,336)	(101,273)
Operating profit before income tax	855,138	777,517
Income tax expense	(236,538)	(174,813)
Profit after tax	618,600	602,704
Minority Interest DVB	(1,401)	(2,550)
Profit after tax attributable to shareholders of DFCC	617,199	600,154
Share of profits of National Asset Management Limited	1,697	1,536
Adjusted Profit after tax attributable to shareholders of parent company- DFCC Bank	618,896	601,690

Note 01 Reconciliation with Group profit

For the three months ended 30 June

	2012 LKR 000	2011 LKR 000
Consolidated profit of DBB attributable to equity holders of DFCC Bank	618,896	601,690
Add: Profit from other subsidiaries and Joint venture attributable to equity holders of DFCC Bank		
Subsidiaries	13,981	28,969
Joint venture	49,505	52,379
Profit attributable to equity holders of the Bank	682,382	683,038
Composition of the Joint venture results		
Joint venture and its subsidiaries	52,639	57,995
Associates of joint venture and its subsidiaries	(3,134)	(5,616)
	49,505	52,379