

Results for the Half Year Ended 30 September 2011

This commentary relates to the interim non-audited financial statements for the half year ended 30 September 2011.

GROUP PERFORMANCE

The DFCC Group recorded a consolidated profit after tax of Rs 1,249 m for the half year ended 30 September 2011 (current period) compared with Rs 3,892 m in the corresponding period of the previous year (comparable period). This profit for the comparable period included a one off gain of Rs 3,001 m from the disposal of part of the equity stake in Commercial Bank of Ceylon PLC (CBC). Rs2,921 m of this gain was in the first quarter and Rs 80 m was recorded in the second quarter of the comparable period. After adjusting for this one off gain, the consolidated profit after tax recorded an increase of 40% from Rs 891 m to Rs 1,249 m.

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 84 m to consolidated profit compared with Rs 42 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. As stated in the commentary on the first quarter results, both DFCC and DVB are functionally managed as one banking business with coordinated financial and operational strategies. Thus this commentary analyses 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.

Total loans and advances increased from Rs 54 billion on 30 September 2010 to Rs 74 billion on 30 September 2011 an increase of 37% year on year with much of the increase being recorded during the current period. However, the high level of liquidity in the banking system that prevailed for most of the current period resulted in intense competition and interest spread was under pressure. This caused net interest income of DBB to record a 9% decline from the comparable period to Rs 2,244 m in the current period. DVB's initiatives to diversify its product range and market segments were successful with strong growth in pawning complementing the growth in corporate credit. In the case of DFCC the undisbursed approvals on 30 September 2011 were Rs 16 billion, compared to Rs 14 billion, on 31 March 2011.

Non-interest income of DBB was Rs 605 m in the current period, 33% lower than the comparable period. However, most of the constituent items of income comprising non-interest income increased in the current period. The final dividend for 2009 was approved by CBC shareholders in April 2010 whereas the final dividend for 2010 was approved in March 2011. i.e. comparable period included the final dividend of 2009 amounting to Rs 246 m while the current period did not. Furthermore the market conditions in the current period resulted in a significant reduction in marked to market gains in debt and equity instruments in the trading portfolio. The adverse impact of these factors was partly offset by capital gains realized on sale of mature equity investments and significant increase in the fee and commission income of the commercial banking business of DVB to Rs 240 m an increase of 51% over Rs 159 m in the comparable period.

The DBB continued to improve the quality of the credit portfolio and collect overdue amounts from delinquent accounts. As a result, the cumulative recoveries in the current period were Rs 264 m with a significant reduction in the specific provisions made in the current period. The specific provision in the current period was Rs. 286 m compared to Rs 779 m in the comparable period. The gross Non Performing Loan ratio which reduced from 12% in June 2010 to 6.6% in March 2011 reduced further to 5.8% in September 2011.

Operating expenses of the DBB increased by 18% in the current period to Rs 1,267 m mainly due to expenses relating to expanding the distribution network and related head count increase. The recently opened branches are yet to break even and this contributed to the ratio of operating expenses to operating income to increase to 44% in the current period compared to 32% in the comparable period. DBB now has a distribution network of 144 branches and extension offices.

Due to the aforesaid factors the profit before income tax of DBB of Rs 1,439 m in the current period was marginally lower by 3.3% compared to Rs 1,488 m in the comparable period. However DBB benefitted from the lower taxes that came into effect in the current financial year and consequently recorded Rs 1,132 m as profit after tax in the current period which was an increase of 20% over the comparable period.

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 76% without taking into account the value of collateral held and unprovided NPLs as a proportion of equity was under 7%. The current credit ratings assigned by Fitch are AA (Ika) for DFCC and AA⁻ (Ika) for DVB with outlook stable for both banks.

Nihal Fonseka
Chief Executive Officer

9 November 2011

DFCC Bank

Income Statement

	Notes	Bank				Group			
		For the 6 months ended		For the quarter ended		For the 6 months ended		For the quarter ended	
		30.09.11 Rs 000	30.09.10 Rs 000	30.09.11 Rs 000	30.09.10 Rs 000	30.09.11 Rs 000	30.09.10 Rs 000	30.09.11 Rs 000	30.09.10 Rs 000
For the period ended									
Income		3,141,989	10,476,209	1,488,051	1,958,648	5,204,714	9,968,116	2,562,907	2,962,432
Interest income		2,742,036	3,174,963	1,364,877	1,613,578	4,355,130	4,915,608	2,232,698	2,412,851
Interest income on loans & advances		2,479,271	2,334,393	1,273,766	1,175,213	3,828,689	3,364,146	2,009,015	1,661,851
Interest income on other interest earning assets		262,765	840,570	91,111	438,365	526,441	1,551,462	223,683	751,000
Less : Interest expenses		1,252,209	1,517,235	635,588	730,146	2,030,183	2,326,414	1,055,361	1,108,789
Interest expense on deposits		222,429	295,851	124,235	138,188	906,677	1,062,348	477,124	515,044
Interest expense on other interest bearing liabilities		1,029,780	1,221,384	511,353	591,958	1,123,506	1,264,066	578,237	593,745
Net interest income		1,489,827	1,657,728	729,289	883,432	2,324,947	2,589,194	1,177,337	1,304,062
Non interest income		399,953	7,301,246	123,174	345,070	849,584	5,052,508	330,209	549,581
Foreign exchange income	6	(8,918)	(48,726)	(10,866)	(22,857)	31,513	(45,300)	9,352	(15,690)
Other income	5	408,871	7,349,972	134,040	367,927	818,071	5,097,808	320,857	565,271
Less : Non interest expenses		596,738	549,009	300,059	276,734	1,435,556	1,216,263	725,452	635,738
Personnel costs		252,685	248,546	124,514	126,906	617,825	516,690	304,999	267,269
Provision for staff retirement benefits		34,195	36,242	17,097	18,121	34,195	36,242	17,097	18,121
Premises, equipment & establishment expenses		131,717	117,985	64,411	60,730	333,772	281,380	165,884	143,869
Loss on trading / investment securities		0	0	0	0	0	0	0	0
Other operating expenses		168,458	137,930	89,159	66,824	418,700	347,700	221,617	189,021
Amortization of intangible assets									
Software		9,683	8,306	4,878	4,153	31,064	34,251	15,855	17,458
Less : Provision for bad & doubtful debts and loans written off		(125,541)	276,271	(38,699)	(1,360)	(42,404)	414,974	6,141	65,652
Provisions - general		(73,868)	(3,807)	(24,826)	15,667	(67,577)	9,733	(29,577)	29,459
Provisions - specific		163,683	570,181	89,998	150,369	285,848	779,209	155,874	231,059
Recoveries		(216,256)	(291,826)	(104,682)	(169,024)	(264,015)	(376,721)	(121,576)	(196,878)
Loans written off		900	1,723	811	1,628	3,340	2,753	1,420	2,012
Less : Provision for fall in value of dealing & investment securities losses		0	0	0	0	0	0	0	0
Operating profit on ordinary activities before taxes		1,418,583	8,133,694	591,103	953,128	1,781,379	6,010,465	775,953	1,152,253
Less : Value added tax on financial services	7	148,041	1,626,078	61,487	193,206	185,201	1,729,498	83,928	235,987
Operating profit on ordinary activities before corporate tax		1,270,542	6,507,616	529,616	759,922	1,596,178	4,280,967	692,025	916,266
Share of profits/(Loss) of associates after tax		-	-	-	-	(2,864)	201,162	1,216	1,111
Operating profit before corporate tax		1,270,542	6,507,616	529,616	759,922	1,593,314	4,482,128	693,241	917,376
Less : Income tax on profit on ordinary activities	8	236,240	398,015	87,882	295,288	344,254	590,266	146,625	371,650
Profit for the period	9	1,034,302	6,109,601	441,734	464,634	1,249,060	3,891,862	546,616	545,726
Attributable to									
Equity holders of the Bank						1,212,619	3,848,837	529,578	524,931
Minority interest						36,441	43,025	17,038	20,795
		1,034,302	6,109,601	441,734	464,634	1,249,060	3,891,862	546,616	545,726
Basic earnings per share - Rs		3.90	23.07	1.67	1.75	4.57	14.53	2.00	1.98
Diluted earnings per share - Rs		Nil	23.06	Nil	1.75	Nil	14.53	Nil	1.98

Balance Sheet

As at	Notes	Bank		Group	
		30.09.11 Rs 000	31.03.11 Rs 000 (Audited)	30.09.11 Rs 000	31.03.11 Rs 000 (Audited)
On-Balance Sheet Assets					
Cash in hand		352	409	1,100,815	943,289
Balances with Central Bank of Sri Lanka		0	0	1,144,334	894,235
Due from Banks and other financial institutions		1,866,273	1,656,220	2,715,533	2,601,072
Investments - trading account		491,832	477,689	1,692,072	1,350,334
Government securities		408,941	392,447	1,609,181	1,265,092
Other securities		82,891	85,242	82,891	85,242
Investments - held to maturity (net of provisions)		5,128,086	14,139,655	14,654,258	23,849,571
Government securities		520,829	10,108,128	7,402,982	17,164,024
Investments in ordinary shares		3,657,340	2,835,036	6,179,119	5,356,815
Investments in preference shares		528,000	777,167	556,990	816,157
Investments in debentures		0	0	80,750	80,750
Investments in unit trusts		421,917	419,324	446,917	444,324
Less : Provision for decline in value of Investments		0	0	12,500	12,500
Investment in associate companies		35,270	35,270	266,287	177,291
Investment in subsidiary companies		3,777,907	2,441,320	3,929	16,000
Investment in joint venture company		655,000	655,000	-	-
Total loans and advances					
Total performing loans and advances		44,322,759	38,727,397	67,641,005	56,333,286
Bills of exchange discounted		0	0	337,218	282,761
Overdrafts		0	0	9,280,621	6,958,535
Finance leases		7,599,226	6,053,014	7,599,226	6,053,014
Other loans		36,723,533	32,674,383	50,423,940	43,038,976
Total non performing loans and advances		4,107,763	3,836,120	6,626,676	6,179,232
Bills of exchange discounted		0	0	31,894	35,102
Overdrafts		0	0	1,023,004	969,895
Finance leases		306,077	307,458	306,077	307,458
Other loans		2,510,000	2,311,673	3,423,649	3,162,130
Loan interest receivable		1,291,686	1,216,989	1,842,052	1,704,647
Total gross loans and advances		48,430,522	42,563,517	74,267,681	62,512,518
Less :					
Interest in suspense		1,291,686	1,216,989	2,424,558	2,185,679
Provision for credit losses - specific		1,715,580	1,707,828	2,605,410	2,528,249
Provision for credit losses - general		385,871	459,740	520,829	588,608
Net loans and advances		45,037,385	39,178,960	68,716,884	57,209,982
Group balances receivable		0	15,950	0	0
Prepayments		16,902	17,331	18,653	17,331
Other receivables		636,606	769,359	2,038,720	1,759,477
Deferred tax asset		0	0	1,574	1,781
Assets held for sale		0	0	2,875	2,875
Intangible assets		36,398	45,491	159,371	173,042
Investment property		0	0	217,324	233,579
Goodwill on consolidation		-	-	358,020	226,411
Property and equipment (Net of accumulated depreciation)		447,877	493,465	897,769	939,415
Total On Balance Sheet Assets		58,129,888	59,926,119	93,988,418	90,395,685

Balance Sheet

As at	Notes	Bank		Group	
		30.09.11 Rs 000	31.03.11 Rs 000 (Audited)	30.09.11 Rs 000	31.03.11 Rs 000 (Audited)
On Balance Sheet Liabilities					
Total deposits		5,786,751	3,688,183	29,827,468	25,416,397
Demand deposits		0	0	1,604,565	1,428,724
Savings deposits		0	0	5,721,496	5,384,399
Time deposits		5,786,751	3,688,183	22,174,813	18,272,328
Margin deposits		0	0	161,198	230,357
Other deposits		0	0	165,396	100,589
Total borrowings		30,219,486	32,260,523	36,060,718	35,376,893
Borrowings from CBSL		625,373	739,704	625,373	739,704
Borrowings from Banks and financial institutions in Sri Lanka		4,355,000	3,419,819	6,220,572	3,451,939
Borrowings from Banks and financial institutions abroad		1,867,936	1,982,521	1,970,842	2,018,100
Borrowings under repurchase agreements		0	1,512,000	3,872,754	4,560,671
Debentures - Subordinated		1,590,000	2,000,000	1,590,000	2,000,000
Debentures - Others		700,000	1,200,000	700,000	1,200,000
Other Borrowings		21,081,177	21,406,479	21,081,177	21,406,479
Group balances payable		0	0	0	0
Interest accrued		837,101	842,137	1,224,743	1,224,362
Current taxation		127,134	230,858	294,091	401,254
Deferred taxation		238,404	275,121	278,560	315,313
Other liabilities		450,627	555,754	1,801,308	1,637,430
Proposed Dividends		-	1,854,682	-	1,854,682
Total On Balance Sheet Liabilities		37,659,503	39,707,258	69,486,888	66,226,331
Equity					
Share capital	14.2	2,650,977	2,648,838	2,650,977	2,648,838
Share premium		2,064,837	2,054,546	2,064,837	2,054,546
Stated Capital		4,715,814	4,703,384	4,715,814	4,703,384
Reserve fund		1,015,000	1,015,000	1,015,000	1,015,000
Other reserves	12	11,587,765	11,433,439	11,587,765	11,433,439
Retained profit		3,151,806	3,067,038	6,793,950	6,530,865
Shareholders' equity		20,470,385	20,218,861	24,112,529	23,682,688
Minority interest		-	-	389,001	486,666
Total equity		20,470,385	20,218,861	24,501,530	24,169,354
Total equity and liabilities		58,129,888	59,926,119	93,988,418	90,395,685
Off-Balance Sheet Items and Contra Accounts					
Contingencies		1,097,504	2,028,434	12,720,589	10,641,416
Commitments		15,939,320	13,951,295	18,694,965	15,871,369
Net assets value per share, Rs		77.22	76.33	90.96	89.41
Memorandum Information					
Number of employees		447	451	1,316	1,278
Number of branches and extension offices		19	19	144	143
The highest, the lowest and the last traded market price recorded during the period ended					
		30.09.2011	30.09.2010 (Pre Bonus)*		
- Highest price Rs.		150.00	550.00		
- Lowest price Rs.		125.50	245.00		
- Last traded price Rs.		129.00	494.10		

* 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
Balance as at 01.04.2010	1,323,753	3,371,911	655,000	9,379,839	992,321	15,722,824
Issue of shares under employee share option plan	524	5,632				6,156
Profit for the period					6,109,601	6,109,601
Final dividends approved on 30.06.2010					(794,452)	(794,452)
Share issue expenses		(42)				(42)
Balance as at 30.09.2010	1,324,277	3,377,501	655,000	9,379,839	6,307,470	21,044,087
Balance as at 01.04.2011	2,648,838	2,054,546	1,015,000	11,433,439	3,067,038	20,218,861
Issue of shares under employee share option plan	2,139	10,424				12,563
Profit for the period					1,034,302	1,034,302
Final dividends approved on 30.06.2011					(795,208)	(795,208)
Share issue expenses		(133)				(133)
Transfers				154,326	(154,326)	-
Balance as at 30.09.2011	2,650,977	2,064,837	1,015,000	11,587,765	3,151,806	20,470,385

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		
Balance as at 01.04.2010	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	524	5,632					6,156
Profit for the year					3,848,837	43,025	3,891,862
First & Final dividends approved on 30.06.2010					(794,452)		(794,452)
Dividend Distributed to Minority interest by subsidiaries						(38,217)	(38,217)
Share issue expenses		(42)					(42)
Unrealized losses from translation of Bangladesh operation - associate company					(9,286)		(9,286)
Acquisition of Subsidiary by joint venture company						97,026	97,026
Balance as at 30.09.2010	1,324,277	3,377,501	655,000	9,379,839	9,557,671	529,261	24,823,550
Balance as at 01.04.2011	2,648,838	2,054,546	1,015,000	11,433,439	6,530,865	486,666	24,169,354
Issue of shares under employee share option plan	2,139	10,424					12,563
Right issue of shares						11,682	11,682
Adjustments due to changes in holdings						(107,598)	(107,598)
Profit for the year					1,212,619	36,441	1,249,060
Final dividends approved on 30.06.2011					(795,208)		(795,208)
Dividends distributed to minority interest by subsidiaries						(38,190)	(38,190)
Share issue expenses		(133)					(133)
Transfers				154,326	(154,326)		-
Balance as at 30.09.2011	2,650,977	2,064,837	1,015,000	11,587,765	6,793,950	389,001	24,501,530

Selected Performance Indicators

	Bank		Group	
	30.09.11	31.03.11	30.09.11	31.03.11
Regulatory Capital Adequacy				
Core capital (Tier - 1 Capital) Rs. Mn	16,157	17,965	20,043	21,445
Total capital base Rs. Mn	13,890	17,087	18,463	20,582
Core capital ratio (Minimum requirement 5%)	25.7	30.3	22.8	27.2
Total capital ratio (Minimum requirement 10%)	22.1	28.8	21.0	26.1
Asset Quality				
Non-performing loans and advances - Gross exposure % (Net of interest in suspense)	6.0	6.3	5.8	6.6
- Net exposure % (Net of interest in suspense and provisions)	1.5	1.1	1.5	1.5
Profitability (Annualized)				
Interest margin %	5.0	5.7	4.9	5.8
Return on assets % (Based on PBT instead of PAT as per CBSL direction)	4.3	13.5	3.5	6.9
Return on equity %	10.2	39.7	10.1	22.8
Statutory liquid assets Rs. Mn	3,444	11,450		
Statutory liquid assets ratio % (Minimum requirement 20%)	71	295		

Cash Flow Statement

<i>For the period ended</i>	Bank		Group	
	30.09.2011	30.09.2010	30.09.2011	30.09.2010
	Rs.000	Rs.000	Rs.000	Rs.000
Cash flow from operating activities				
Interest Receipts	2,459,577	2,396,983	3,812,957	3,506,203
Interest payments	(1,320,914)	(1,669,025)	(2,142,751)	(2,630,842)
Recoveries on loans previously written off	57,866	60,501	57,866	60,501
Receipts from other operating activities	131,263	(17,485)	581,719	357,972
Cash payments to employees & suppliers	(717,009)	(630,986)	(1,559,800)	(1,362,529)
Value added tax	(171,157)	(1,610,326)	(200,284)	(1,704,035)
Operating profit before changes in operating assets and liabilities	439,626	(1,470,338)	549,707	(1,772,730)
(Increase)/decrease in operating assets:				
Deposits held for regulatory or monetary control purposes	0	0	(249,745)	(34,022)
Funds advanced to customers	(5,659,690)	1,595,344	(11,325,389)	1,524,258
Others	(10,231)	5,716	(418,064)	(245,594)
Increase /(decrease) in operating liabilities:				
Security deposits from customers	(950)	(50)	(856)	(10,786)
Deposits from customers	2,098,568	(1,009,993)	4,283,827	(175,516)
Negotiable certificates of deposit	0	(1,537)	66,243	(6,011)
Others	66,783	0	252,737	0
Net cash flow from operating activities before income tax	(3,065,894)	(880,858)	(6,841,540)	(720,401)
Income tax paid	(353,696)	(291,445)	(439,175)	(373,601)
Net cash from/(used in) operating activities	(3,419,590)	(1,172,303)	(7,280,715)	(1,094,002)
Cash flow from investing activities				
Dividends received	320,037	431,893	274,774	431,893
Interest received	247,200	766,428	582,846	1,289,300
Treasury bills eligible for rediscounting with Central Bank	9,571,222	(11,019,883)	12,882,174	(7,321,339)
Proceeds from sale and redemption of securities	466,864	2,731,246	587,208	2,989,814
Purchase of securities	(874,613)	(305,736)	(874,613)	(479,101)
Investment in joint venture - Acuity Partners (Pvt) Ltd.	0	(405,000)	0	(405,000)
Disposal of associate shares -Commercial Bank of Ceylon PLC	0	5,833,708	0	5,833,708
Acquisition of Lanka Ventures PLC by Joint venture Company	0	0	0	(80,973)
Investment in additional shares of subsidiaries-DFCC Vardhana Bank	(1,336,587)	0	(243,136)	0
Investment in associate by joint venture	0	0	(96,000)	0
Investment in additional shares of subsidiaries - Synapsys Ltd	0	(17,000)	0	0
Purchase of property , equipment ,intangibles and investment property	(10,888)	(36,684)	(108,206)	(211,859)
Proceeds from sale of equipment and investment property	2,133	10,957	36,475	15,004
Net cash from/(used in) investing activities	8,385,368	(2,010,071)	13,041,522	2,061,447
Cash flow from financing activities				
Issue of debentures	(910,000)	(1,000,000)	(910,000)	(1,000,000)
Issue of new shares under option	12,563	6,114	12,563	6,114
Issue of new shares by subsidiary-Rights issue	0	0	11,681	0
Share issue expenses	(133)	0	(133)	0
Borrowing , medium and long - term	2,412,243	921,464	4,256,597	(750,908)
Other borrowings	(1,956,996)	6,780,594	(1,316,801)	4,768,419
Repayment of borrowing ,medium and long - term	(1,451,925)	(3,025,503)	(1,238,710)	(3,025,503)
Dividends paid	(2,636,715)	(789,821)	(2,670,352)	(908,955)
Net Cash flow from/(used in) financing activities	(4,530,963)	2,892,848	(1,855,155)	(910,833)
Net increase/(decrease) in cash & cash equivalents	434,815	(289,526)	3,905,652	56,612
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 -Synapsys/Acquisition of LVL by JV	0	0	16,000	(228,107)
Cash & cash equivalents at the beginning of the period restated	1,370,810	2,822,033	4,793,976	6,771,628
Cash & cash equivalents at the end of period	1,805,625	2,532,507	8,699,628	6,828,240
Reconciliation of cash & cash equivalents				
Cash & short - term funds	1,805,625	2,532,507	2,552,580	3,667,236
Treasury bills & other securities eligible for rediscounting with Central Bank	0	0	5,767,288	3,241,911
Securities purchased under resale agreements	0	0	450,001	0
Borrowing short term - Bank overdrafts	0	0	(70,241)	(80,907)
	1,805,625	2,532,507	8,699,628	6,828,240

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.

	30.09.2011	31.03.2011
	Pc	Pc
Mandatory provision by Central Bank Loans and Leases*	0.6	0.8
Bank's own general provision for Leases		
Leases granted prior to 30 June 10	3	3
Leases granted after 1 July 10	2	2

No General provision for leases granted 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 30.09.2011 include profits of these companies for the period 01.01.2011 to 30.06.2011.

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	
	30.09.2011	30.09.2010	30.09.2011	30.09.2010
	Rs. 000	Rs. 000	Rs. 000	Rs. 000
SWAP Cost	(4,674)	(37,775)	(18,710)	(70,713)
Marked to market Gain on forward contracts	2,025	-	32,860	2,415
Other Gain/(Loss)	(6,269)	(10,951)	17,363	22,998
	<u>(8,918)</u>	<u>(48,726)</u>	<u>31,513</u>	<u>(45,300)</u>

Note 6. Non-Interest Income

	Bank		Group	
	30.09.2011 Rs. 000	30.09.2010 Rs. 000	30.09.2011 Rs. 000	30.09.2010 Rs. 000
Dividend income	149,431	409,445	100,069	99,038
Gain on disposal of shares of CBC*	0	6,701,346	0	4,341,239
As an associate	0	4,732,973	0	2,997,602
As investment securities	0	303,226	0	203,654
As dealing securities	0	1,665,147	0	1,139,950
Net gain on sale of other investment securities	167,444	22,549	174,121	30,890
Marked to market (loss)/ gain on other dealing securities	(1,398)	50,489	(1,404)	50,489
Other income	84,476	117,417	576,798	530,852
Non-interest income	399,953	7,301,246	849,584	5,052,508

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

Note 7. VAT on Financial Services

	Bank		Group	
	30.09.2011 Rs. 000	30.09.2010 Rs. 000	30.09.2011 Rs. 000	30.09.2010 Rs. 000
Relating to divestment of shares in CBC	0	1,340,269	0	1,340,269
Others	148,041	285,809	185,201	389,229
	148,041	1,626,078	185,201	1,729,498

Note 8. Taxation

	Bank		Group	
	30.09.2011 Rs. 000	30.09.2010 Rs. 000	30.09.2011 Rs. 000	30.09.2010 Rs. 000
Current Income Tax	311,538	425,519	419,588	614,278
Over Provision of Income Tax	(38,580)	-	(38,580)	-
Deferred tax	(36,718)	(27,504)	(36,754)	(24,012)
	236,240	398,015	344,254	590,266

Note 9. Profit for the Period

	Bank		Group	
	30.09.2011 Rs. 000	30.09.2010 Rs. 000	30.09.2011 Rs. 000	30.09.2010 Rs. 000
Profit after tax excluding gain on disposal of shares of CBC	1,034,302	748,524	1,249,060	890,892
Profit on Sale of Shares & Marked to Market Gain on CBC	-	5,361,077	-	3,000,970
	<u>1,034,302</u>	<u>6,109,601</u>	<u>1,249,060</u>	<u>3,891,862</u>

Note 10. Investment in Quoted Ordinary Shares

	Bank	
	30.09.2011 Rs. 000	31.03.2011 Rs. 000
Cost	3,521,914	2,762,035
Unrecognized gain	11,240,859	13,585,512
Gain on CBC shares	10,520,171	12,388,890
Others	720,688	1,196,622
Market Value	<u>14,762,773</u>	<u>16,347,547</u>

Market value on 02 November 2011 was Rs 14,273 million

During the quarter ended 30 September 2011 the Bank subscribed to allocation of rights in CBC by investing Rs.691 million.

Note 11. 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 31.12.2011, are:

Entity	Transaction	Rs.'000
DFCC Vardhana Bank Limited	Loan – short term	33,000
	Deposit – short term	134,783
	Equity investment by DFCC Bank	3,928

Note 12. Other Reserves

	Bank		Group	
	30.09.2011	31.03.2011	30.09.2011	31.03.2011
	Rs.000	Rs.000	Rs.000	Rs.000
General Reserve	11,379,839	11,379,839	11,379,839	11,379,839
Statutory Investment Fund Reserve	207,926	53,600	207,926	53,600
	<u>11,587,765</u>	<u>11,433,439</u>	<u>11,587,765</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 13. Post balance sheet events

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

Note 14. Disclosures under Appendix 7B of the Listing Rules**14.1 Bank has not incurred management fees or any other similar expenditure****14.2 Share Capital**

	Number of shares
Shares as at 31 March 2011	264,883,768
Issue under share option scheme	213,920
Shares as at 30 September 2011	<u>265,097,688</u>

There were no unexercised options as at 30 September 2011 and therefore no dilution on earnings per share as at 30 September 2011.

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.

14.3 Twenty Major Shareholders as at 30.09.2011

	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	23,022,400	8.68
5	Mr M A Yaseen	22,886,700	8.63
6	Distilleries Company of Sri Lanka Limited	17,042,856	6.42
7	Seafeld International Limited	15,286,794	5.76
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	Bank of Ceylon No.1 A/c.	1,055,000	0.40

14.4 Public holding as at 30.09.2011 is 63.39%

14.5 Directors' Interests in Shares

	No of Shares As at 30.09.2011
Brito, J M S - Chairman	23,760
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.

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

2/11/2011

Business Segment Information

For the six months ended 30 September	Lending		Financial Leasing		Investing in Equity		Commercial Banking		Other		Unallocated		Eliminations		Total	
	2011 Rs 000	2010 Rs 000	2011 Rs 000	2010 Rs 000	2011 Rs 000	2010 Rs 000	2011 Rs 000	2010 Rs 000	2011 Rs 000	2010 Rs 000	2011 Rs 000	2010 Rs 000	2011 Rs 000	2010 Rs 000	2011 Rs 000	2010 Rs 000
Revenue																
Interest income	2,210,995	2,796,343	531,041	378,620	-	-	1,595,894	1,723,098	63,903	75,721	-	-	(46,703)	(58,174)	4,355,130	4,915,608
Other income	72,316	248,286	-	-	313,625	5,420,984	245,781	185,205	353,152	283,386	14,012	1,631,976	(149,425)	(2,717,329)	849,461	5,052,508
Income from external customers	2,283,311	3,044,629	531,041	378,620	313,625	5,420,984	1,841,675	1,908,303	417,056	359,107	14,012	1,631,976	(196,128)	(2,775,503)	5,204,592	9,968,116
Inter segment income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total income	2,283,311	3,044,629	531,041	378,620	313,625	5,420,984	1,841,675	1,908,303	417,056	359,107	14,012	1,631,976	(196,128)	(2,775,503)	5,204,592	9,968,116
Percentage *	44	30	10	4	6	54	35	15	8	4	3	44	-	-	100	100
Expense																
Segment losses	(51,089)	247,388	(74,452)	28,883	-	-	83,137	138,703	-	-	-	-	-	-	(42,404)	414,974
Depreciation	-	-	-	-	-	-	68,336	66,780	15,735	13,645	-	-	-	-	84,071	80,425
Other operating & interest expenses	1,472,611	1,231,165	279,126	167,047	-	-	1,436,879	1,310,334	209,997	183,800	-	-	(114,277)	(98,126)	3,284,336	2,794,220
Inter segment expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	1,421,522	1,478,553	204,674	195,930	-	-	1,588,352	1,515,817	225,732	197,445	-	-	(114,277)	(98,126)	3,326,003	3,289,619
Result	861,789	1,566,076	326,367	182,690	313,625	5,420,984	253,323	392,486	191,325	161,662	-	-	-	-	1,878,589	6,678,497
Unallocated expenses															97,210	668,033
Value Added Tax on financial services															185,201	1,729,498
Share of profits/(Loss) of associates															1,596,178	4,280,966
Profit on ordinary activities before tax															1,593,314	4,482,128
Income tax on profit on ordinary activities															344,254	590,266
Profit on ordinary activities after tax															1,249,060	3,891,862
Minority interest															36,441	43,025
Profit for the period															1,212,619	3,848,837
Assets	38,684,618	32,937,564	7,729,515	4,440,857	4,607,257	4,265,267	35,432,046	28,148,699	3,788,915	4,287,874	4,024,045	22,154,484	(544,265)	(1,806,660)	93,722,131	94,428,085
Percentage	41	40	8	4	5	4	38	33	4	3	4	16	-	-	100	100
Investment in associate company															266,287	115,656
															93,988,418	94,543,741
Liabilities	31,349,507	24,495,531	6,956,563	3,996,771	-	-	31,134,533	25,176,517	2,245,400	3,209,268	(1,654,850)	14,648,761	(544,265)	(1,806,660)	69,486,888	69,720,188

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 30th September 2011 Rs'. 000
Fixed Rate				
2006/2016 - 14.00% p.a.	Annually	14.00%	9.41%	590,000
				<u><u>590,000</u></u>

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.

Other Ratios	30.09.2011	31.03.2011
Debt Equity Ratio	1.34	1.35
Interest Cover (Times)	1.66	3.54
Quick Asset Ratio (%)	71	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 30 June is consolidated with Income statements of DFCC for the period ended 30 September.

Consolidated Income Statement of DFCC & DVB

For the six months ended 30 September	2011		2010		Adjustment	
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Interest income	4,303,414	4,861,190	(18,710) ¹	(70,713) ¹	4,284,704	4,790,477
Interest expense	(2,040,933)	(2,324,275)			(2,040,933)	(2,324,275)
Net interest income	2,262,481	2,536,915	(18,710)	(70,713)	2,243,771	2,466,202
Non Interest Income:						
Dividends from CBC (as investment security)	0	0		246,349 ²	0	246,349
Dividends received from unconsolidated - Subsidiaries	30,309	29,410			30,309	29,410
- Joint Venture	0	0			0	0
Dividends from non-affiliated entities	71,610	86,283			71,610	86,283
Gains from CBC Shares	0	4,341,206		(4,241,206) ³	0	100,000
Gains from sale of non-affiliated quoted shares	167,444	22,549			167,444	22,549
Foreign exchange income	31,514	(45,300)	18,710 ¹	70,713 ¹	50,224	25,413
Fees and Commission income	240,430	159,452			240,430	159,452
Others	45,186	234,168		(6,119)	45,186	228,049
Operating income	2,848,974	7,364,683	0	(4,000,976)	2,848,974	3,363,707
Personnel costs	498,003	428,601			498,003	428,601
Provision for staff retirement benefits	34,195	36,242			34,195	36,242
Premises, equipment & establishment expenses	326,545	285,862			326,545	285,862
Other overhead expenses	408,279	320,759			408,279	320,759
Operating expenses	1,267,022	1,071,464	0	0	1,267,022	1,071,464
Operating profit before provisions	1,581,952	6,293,219	0	(4,000,976)	1,581,952	2,292,243
Allowances for credit losses						
- Specific Provision	285,848	779,209			285,848	779,209
- General Provision	(67,577)	9,733			(67,577)	9,733
- Recoveries	(264,015)	(376,721)			(264,015)	(376,721)
- Loans Written off	3,340	2753			3,340	2,753
Operating profit before value added tax	1,624,356	5,878,245	0	(4,000,976)	1,624,356	1,877,269
Value added tax on financial services	(185,201)	(1,729,498)		1,340,269 ³	(185,201)	(389,229)
Operating profit before income tax	1,439,155	4,148,747	0	(2,660,707)	1,439,155	1,488,040
Income tax expense	(306,591)	(542,744)			(306,591)	(542,744)
Profit after tax	1,132,564	3,606,003	0	(2,660,707)	1,132,564	945,296
Minority Interest DVB	(3,874)	(6,612)			(3,874)	(6,612)
Profit after tax attributable to shareholders of DFCC	1,128,690	3,599,391	0	(2,660,707)	1,128,690	938,684
Share of profits of National Asset Management Limited and CBC Associate (CBC ceased to be an associate on 2 June 2010)	3,045	196,721		(193,354) ²	3,045	3,367
	1,131,735	3,796,112	-	(2,854,061)		
Segregated exceptional profit on sale of CBC post tax reduced by minority interest					0	2,900,937
Adjusted Profit after tax attributable to shareholders of parent company- DFCC Bank					1,131,735	3,842,988

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 associates are segregated from the profit after tax of the banking business.