

## **Results for the Nine months ended 31 December 2011**

This commentary relates to the interim non-audited financial statements for the nine months ended 31 December 2011.

### **GROUP PERFORMANCE**

The DFCC Group recorded a consolidated profit after tax of Rs 2,204 m for the nine months ended 31 December 2011 (current period) compared with Rs 4,543 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). After adjusting for this one off gain, the consolidated profit after tax recorded an increase of 43% from Rs 1,541m to Rs 2,204 m. For the quarter ended 31 December 2011, consolidated profit after tax was Rs 955 m an increase of 47% over the comparable period.

Apart from the Banking Business which is analysed below, the investment banking joint venture, Acuity Partners (Pvt) Ltd, made a contribution of Rs 117 m to consolidated profit compared with Rs 94 m in the comparable period. The stock broking business recorded growth and Acuity also managed several successful IPOs and corporate finance mandates. Net contribution from other Group companies was Rs 1.5 m (Rs 18.7 m in the previous period). The IT subsidiary Synapsys, which provides IT services to DFCC and DVB, recorded a small loss due to expenditure charged to the income statement relating to product development and overseas marketing relating to non- DFCC and DVB business.

### **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 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 adjustments made 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 core business of DBB depicted strong growth with both DFCC and DVB recording strong credit growth. Total loans and advances increased 47% year on year from Rs 57.4 billion on 31 December 2010 to Rs 84.5 billion on 31 December 2011. The larger share of growth was in the current period of 9 months with an increase of Rs 22 billion out of 27 billion contributed equally by both DFCC and DVB. However, the high level of liquidity in the banking system that prevailed during much of the current period resulted in intense competition and interest spread came under pressure. This caused net interest income of DBB to record a 7.5% decline from the comparable period to Rs 3,515 m in the current period and interest margin (net interest as a percentage of average total assets) of DBB reduced from 5.8% in the previous financial year ended 31 March 2011 to 4.9% in the current period.

DFCC's credit growth in the current period was partly financed by liquidating surplus government securities held at the beginning of the current period. DVB whose lending mainly comprise of short term and revolving exposures mainly relied on customer deposits to finance its credit growth. Customer deposits of DVB increased by 30% to Rs 28,703 m during the 12 months ended 31 December 2011.

Non-interest income of Rs 1,213 m recorded by DBB in the current period was 3% higher than the comparable period. The aberration that arose from the final dividends paid by CBC for both 2009 and 2010 being recorded in the same financial year ended March 2011 was effectively countered by increases in the other constituent items contributing to non-interest income including income derived from higher volumes of foreign exchange and trade finance transactions.

Credit quality continued to improve and significant recoveries led to the release of previous impairment provisions. Recoveries exceeded the charge in the quarter as well as in the current period. Gross Non Performing Loans recorded a slight reduction and the gross Non Performing Loan ratio which reduced from 12% in June 2010 to 6.6% in March 2011 reduced further to 4.4% in December 2011.

Operating expenses of the DBB increased by 14% in the current period to Rs 1,916 m mainly due to expenses relating to expanding the distribution network and related head count increase. The more recently opened branches are yet to break even and this contributed to the ratio of operating expenses to operating income to increase to 41% in the current period compared to 34% in the comparable period. DBB now operates from 146 locations including 19 branches where both DFCC and DVB operates.

The profit before income tax of DBB of Rs 2,551 m in the current period was 11% higher compared to Rs 2,294 m in the comparable period mainly due to the reduction of financial services VAT from 20% in the comparable period to 10.7% effective rate in the current period. Profit after tax of DBB for the current period was Rs 2,032 m, 43% higher than the previous comparable period of Rs 1,418m. DVB benefited from the lower income tax rate in the current period.

Positive developments in the Sri Lankan economic environment contributed to increased investment in capital goods, higher requirements for trade/working capital finance and greater demand for consumer credit which in turn resulted in significant credit growth in the banking sector as a whole across all customer and many industry segments. In order to sustain this momentum, banks may have to seek overseas funding to supplement the limited domestic resources available for long term lending and the capital (Tier 2) required to support balance sheet growth. DBB will explore opportunities in this regard with appropriate measures being taken to manage the foreign exchange risk.

#### **PRUDENTIAL INDICATORS**

The capital adequacy and liquidity ratios continued to be well above the minimum stipulated by CBSL. Specific provision cover for the DBB increased to 82% compared with 76 % in 31 March 2011 without taking into account the value of collateral held and unprovided NPLs as a proportion of equity was under 4% compared with 6% on 31 March 2011.

#### **OTHER DEVELOPMENTS**

DVB issued unsecured subordinated debentures for Rs 1 billion which were listed on the Colombo Stock Exchange in November 2011, thereby meeting a regulatory requirement for banks to be listed. Consequent to the listing, the name was changed to DFCC Vardhana Bank PLC. The subordinated debentures qualify as Tier 2 capital. The current credit ratings assigned by Fitch are, AA (lka) for DFCC and AA- (lka) for DVB with outlook stable for both banks.

Nihal Fonseka  
Chief Executive Officer

8 February 2011

DFCC Bank

Income Statement

For the period ended	Notes	Bank				Group			
		For the 9 months ended		For the quarter ended		For the 9 months ended		For the quarter ended	
		31.12.11 Rs 000	31.12.10 Rs 000	31.12.11 Rs 000	31.12.10 Rs 000	31.12.11 Rs 000	31.12.10 Rs 000	31.12.11 Rs 000	31.12.10 Rs 000
<b>Income</b>		<b>5,090,705</b>	<b>12,310,714</b>	<b>1,948,716</b>	<b>1,834,505</b>	<b>8,393,065</b>	<b>12,975,033</b>	<b>3,188,349</b>	<b>3,006,917</b>
<b>Interest income</b>		<b>4,256,035</b>	<b>4,760,529</b>	<b>1,513,999</b>	<b>1,585,566</b>	<b>6,846,820</b>	<b>7,363,256</b>	<b>2,491,689</b>	<b>2,447,648</b>
Interest income on loans & advances		3,951,338	3,597,989	1,472,067	1,263,596	6,169,647	5,301,292	2,340,958	1,937,146
Interest income on other interest earning assets		304,697	1,162,540	41,932	321,970	677,173	2,061,964	150,731	510,502
<b>Less : Interest expenses</b>		<b>1,969,964</b>	<b>2,184,390</b>	<b>717,755</b>	<b>667,155</b>	<b>3,205,277</b>	<b>3,401,822</b>	<b>1,175,094</b>	<b>1,075,408</b>
Interest expense on deposits		375,998	404,455	153,569	108,604	1,473,297	1,543,310	566,620	480,962
Interest expense on other interest bearing liabilities		1,593,966	1,779,935	564,186	558,551	1,731,980	1,858,512	608,474	594,446
<b>Net interest income</b>		<b>2,286,071</b>	<b>2,576,139</b>	<b>796,244</b>	<b>918,411</b>	<b>3,641,543</b>	<b>3,961,434</b>	<b>1,316,595</b>	<b>1,372,240</b>
<b>Non interest income</b>		<b>834,670</b>	<b>7,550,185</b>	<b>434,717</b>	<b>248,939</b>	<b>1,546,245</b>	<b>5,611,777</b>	<b>696,660</b>	<b>559,269</b>
Foreign exchange income	6	(4,948)	(66,881)	3,970	(18,155)	58,292	(50,203)	26,779	(4,903)
Other income	5	839,618	7,617,066	430,747	267,094	1,487,953	5,661,980	669,881	564,172
<b>Less : Non interest expenses</b>		<b>901,640</b>	<b>884,956</b>	<b>304,902</b>	<b>335,947</b>	<b>2,172,643</b>	<b>1,947,930</b>	<b>737,086</b>	<b>731,667</b>
Personnel costs		397,591	430,030	144,906	181,484	968,282	853,110	350,457	336,420
Provision for staff retirement benefits		51,293	54,362	17,098	18,120	51,293	58,862	17,098	22,620
Premises, equipment & establishment expenses		197,911	179,203	66,194	61,218	503,194	429,071	169,422	147,691
Other operating expenses		240,729	208,902	72,271	70,972	601,299	560,806	182,599	213,106
Amortization of intangible assets		-	-	-	-	-	(7,140)	-	(7,140)
Negative goodwill		-	-	-	-	-	-	-	-
Software		14,116	12,459	4,433	4,153	48,575	53,221	17,510	18,970
<b>Less : Provision for bad &amp; doubtful debts and loans written off</b>		<b>(199,471)</b>	<b>162,979</b>	<b>(73,930)</b>	<b>(113,292)</b>	<b>(76,686)</b>	<b>370,343</b>	<b>(34,282)</b>	<b>(44,631)</b>
Provisions - general		(108,008)	(4,722)	(34,140)	(915)	(95,922)	21,475	(28,345)	11,742
Provisions - specific		281,114	693,777	117,431	123,596	471,103	994,585	185,255	215,376
Recoveries		(375,199)	(533,278)	(158,943)	(241,452)	(457,828)	(654,062)	(193,813)	(277,341)
Loans written off		2,622	7,202	1,722	5,479	5,961	8,345	2,621	5,592
<b>Less : Provision for fall in value of Investments</b>		<b>18,048</b>	<b>0</b>	<b>18,048</b>	<b>0</b>	<b>681</b>	<b>0</b>	<b>681</b>	<b>0</b>
<b>Operating profit on ordinary activities before taxes</b>		<b>2,400,524</b>	<b>9,078,389</b>	<b>981,941</b>	<b>944,695</b>	<b>3,091,150</b>	<b>7,254,938</b>	<b>1,309,770</b>	<b>1,244,473</b>
Less : Value added tax on financial services	7	247,123	1,816,011	99,082	189,933	319,287	1,972,554	134,086	243,056
<b>Operating profit on ordinary activities before corporate tax</b>		<b>2,153,401</b>	<b>7,262,378</b>	<b>882,859</b>	<b>754,762</b>	<b>2,771,863</b>	<b>5,282,384</b>	<b>1,175,684</b>	<b>1,001,417</b>
Share of profits of associates after tax		-	-	-	-	3,129	210,940	5,993	9,778
<b>Operating profit before corporate tax</b>		<b>2,153,401</b>	<b>7,262,378</b>	<b>882,859</b>	<b>754,762</b>	<b>2,774,992</b>	<b>5,493,324</b>	<b>1,181,677</b>	<b>1,011,195</b>
Less : Income tax on profit on ordinary activities	8	379,065	646,089	142,825	248,074	571,415	950,427	227,161	360,160
<b>Profit for the period</b>	9	<b>1,774,336</b>	<b>6,616,289</b>	<b>740,034</b>	<b>506,688</b>	<b>2,203,577</b>	<b>4,542,897</b>	<b>954,516</b>	<b>651,035</b>
Attributable to									
Equity holders of the Bank						2,149,447	4,479,198	936,827	630,361
Minority interest						54,130	63,699	17,689	20,674
		<b>1,774,336</b>	<b>6,616,289</b>	<b>740,034</b>	<b>506,688</b>	<b>2,203,577</b>	<b>4,542,897</b>	<b>954,516</b>	<b>651,035</b>
Basic earnings per share - Rs		<b>6.69</b>	<b>24.98</b>	<b>2.79</b>	<b>1.91</b>	<b>8.11</b>	<b>16.91</b>	<b>3.53</b>	<b>2.38</b>
Diluted earnings per share - Rs		<b>Nil</b>	<b>24.97</b>	<b>Nil</b>	<b>1.91</b>	<b>Nil</b>	<b>16.90</b>	<b>Nil</b>	<b>2.38</b>

## Balance Sheet

As at	Notes	Bank		Group	
		31.12.11 Rs 000	31.03.11 Rs 000 (Audited)	31.12.11 Rs 000	31.03.11 Rs 000 (Audited)
<b>On-Balance Sheet Assets</b>					
Cash in hand		505	409	1,175,179	943,289
Balances with Central Bank of Sri Lanka		0	0	1,333,285	894,235
Due from Banks and other financial institutions		2,450,052	1,656,220	4,264,463	2,601,072
<b>Investments - trading account</b>		<b>215,480</b>	<b>477,689</b>	<b>1,514,716</b>	<b>1,350,334</b>
Government securities		146,609	392,447	1,445,845	1,265,092
Other securities		68,871	85,242	68,871	85,242
<b>Investments - held to maturity ( net of provisions )</b>		<b>7,231,824</b>	<b>14,139,655</b>	<b>18,547,188</b>	<b>23,849,571</b>
Government securities		645,998	10,108,128	9,317,342	17,164,024
Investments in ordinary shares		4,942,690	2,835,036	7,464,470	5,356,815
Investments in preference shares		1,228,000	777,167	1,256,990	816,157
Investments in debentures		0	0	80,750	80,750
Investments in unit trusts		415,136	419,324	440,136	444,324
Less : Provision for decline in value of Investments		0	0	12,500	12,500
Investment in associate companies		35,270	35,270	278,041	177,291
Investment in subsidiary companies	11	3,760,540	2,441,320	-	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>50,183,850</b>	<b>38,727,397</b>	<b>78,442,900</b>	<b>56,333,286</b>
Bills of exchange discounted		0	0	391,621	282,761
Overdrafts		0	0	10,604,456	6,958,535
Finance leases		8,308,039	6,053,014	8,377,171	6,053,014
Other loans		41,875,811	32,674,383	59,069,652	43,038,976
<b>Total non performing loans and advances</b>		<b>3,456,402</b>	<b>3,836,120</b>	<b>6,106,420</b>	<b>6,179,232</b>
Bills of exchange discounted		0	0	31,629	35,102
Overdrafts		0	0	1,179,603	969,895
Finance leases		145,312	307,458	145,312	307,458
Other loans		2,043,722	2,311,673	2,917,862	3,162,130
Loan interest receivable		1,267,368	1,216,989	1,832,014	1,704,647
<b>Total gross loans and advances</b>		<b>53,640,252</b>	<b>42,563,517</b>	<b>84,549,320</b>	<b>62,512,518</b>
<b>Less :</b>					
Interest in suspense		1,267,368	1,216,989	2,457,250	2,185,679
Provision for credit losses - specific		1,650,560	1,707,828	2,570,606	2,528,249
Provision for credit losses - general		351,732	459,740	492,573	588,608
<b>Net loans and advances</b>		<b>50,370,592</b>	<b>39,178,960</b>	<b>79,028,891</b>	<b>57,209,982</b>
Group balances receivable		0	15,950	0	0
Prepayments		45,759	17,331	47,288	17,331
Other receivables		636,752	769,359	1,688,262	1,759,477
Deferred tax asset		0	0	1,574	1,781
Assets held for sale		0	0	2,875	2,875
Intangible assets		33,131	45,491	228,126	173,042
Investment property		0	0	173,175	233,579
Goodwill on consolidation		-	-	359,317	226,411
Property and equipment (Net of accumulated depreciation)		432,894	493,465	907,789	939,415
<b>Total On Balance Sheet Assets</b>		<b>65,867,799</b>	<b>59,926,119</b>	<b>109,550,169</b>	<b>90,395,685</b>

## Balance Sheet

As at	Notes	Bank		Group	
		31.12.11 Rs 000	31.03.11 Rs 000 (Audited)	31.12.11 Rs 000	31.03.11 Rs 000 (Audited)
<b>On Balance Sheet Liabilities</b>					
<b>Total deposits</b>		<b>6,370,893</b>	<b>3,688,183</b>	<b>35,074,197</b>	<b>25,416,397</b>
Demand deposits		0	0	1,372,400	1,428,724
Savings deposits		0	0	6,998,733	5,384,399
Time deposits		6,370,893	3,688,183	26,316,404	18,272,328
Margin deposits		0	0	192,986	230,357
Other deposits		0	0	193,674	100,589
<b>Total borrowings</b>		<b>36,614,295</b>	<b>32,260,523</b>	<b>45,667,294</b>	<b>35,376,893</b>
Borrowings from CBSL		537,675	739,704	537,675	739,704
Borrowings from Banks and financial institutions in Sri Lanka		10,242,770	3,419,819	12,369,202	3,451,939
Borrowings from Banks and financial institutions abroad		1,647,564	1,982,521	1,673,850	2,018,100
Borrowings under repurchase agreements		425,000	1,512,000	6,325,281	4,560,671
Debentures - Subordinated		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		22,471,286	21,406,479	22,471,286	21,406,479
Group balances payable		0	-	-	0
Interest accrued		945,199	842,137	1,400,177	1,224,362
Current taxation		76,692	230,858	182,300	401,254
Deferred taxation		245,785	275,121	290,710	315,313
Other liabilities		404,516	555,754	1,489,731	1,637,430
Proposed Dividends		-	1,854,682	-	1,854,682
<b>Total On Balance Sheet Liabilities</b>		<b>44,657,380</b>	<b>39,707,258</b>	<b>84,104,409</b>	<b>66,226,331</b>
<b>Equity</b>					
Share capital	15.2	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
<b>Stated Capital</b>		<b>4,715,814</b>	<b>4,703,384</b>	<b>4,715,814</b>	<b>4,703,384</b>
Reserve fund		1,015,000	1,015,000	1,015,000	1,015,000
Other reserves	13	11,677,127	11,433,439	11,677,127	11,433,439
Retained profit		3,802,478	3,067,038	7,641,416	6,530,865
<b>Shareholders' equity</b>		<b>21,210,419</b>	<b>20,218,861</b>	<b>25,049,357</b>	<b>23,682,688</b>
<b>Minority interest</b>		<b>-</b>	<b>-</b>	<b>396,403</b>	<b>486,666</b>
<b>Total equity</b>		<b>21,210,419</b>	<b>20,218,861</b>	<b>25,445,760</b>	<b>24,169,354</b>
<b>Total equity and liabilities</b>		<b>65,867,799</b>	<b>59,926,119</b>	<b>109,550,169</b>	<b>90,395,685</b>
<b>Off-Balance Sheet Items and Contra Accounts</b>					
Contingencies		2,139,707	2,028,434	16,352,462	10,641,416
Commitments		13,694,219	13,951,295	16,019,264	15,871,369
Net assets value per share, Rs		80.01	76.33	94.49	89.41
<b>Memorandum Information</b>					
Number of employees		458	451	1,385	1,278
Number of branches and extension offices		19	19	146	143
The highest, the lowest and the last traded market price recorded during the period ended		30.12.2011	30.12.2010		
- Highest price Rs.		130.00	230.00		
- Lowest price Rs.		106.00	188.00		
- Last traded price Rs.		112.90	200.20		

## 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>	<b>1,323,753</b>	<b>3,371,911</b>	<b>655,000</b>	<b>9,379,839</b>	<b>992,321</b>	<b>15,722,824</b>
Issue of shares under employee share option plan	623	6,365				6,988
Profit for the period					6,616,289	6,616,289
Final dividends approved on 30.06.2010					(794,452)	(794,452)
Share issue expenses		(86)				(86)
Bonus issue of Shares	1,324,320	(1,324,320)				-
<b>Balance as at 31.12.2010</b>	<b>2,648,696</b>	<b>2,053,870</b>	<b>655,000</b>	<b>9,379,839</b>	<b>6,814,158</b>	<b>21,551,563</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	2,139	10,424				12,563
Profit for the period					1,774,336	1,774,336
Final dividends approved on 30.06.2011					(795,208)	(795,208)
Share issue expenses		(133)				(133)
Transfers				243,688	(243,688)	-
<b>Balance as at 31.12.2011</b>	<b>2,650,977</b>	<b>2,064,837</b>	<b>1,015,000</b>	<b>11,677,127</b>	<b>3,802,478</b>	<b>21,210,419</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>	<b>1,323,753</b>	<b>3,371,911</b>	<b>655,000</b>	<b>9,379,839</b>	<b>6,215,856</b>	<b>427,427</b>	<b>21,373,786</b>
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	623	6,365					6,988
Bonus issue of Shares	1,324,320	(1,324,320)					
Profit for the year					4,479,198	63,699	4,542,897
First & Final dividends approved on 30.06.2010					(794,452)		(794,452)
Dividend Distributed to Minority interest by subsidiaries						(45,873)	(45,873)
Share issue expenses		(86)					(86)
Unrealized losses from translation of Bangladesh operation - associate company					(9,286)		(9,286)
Transfers							-
Acquisition of Subsidiary by joint venture company						1,378	1,378
<b>Balance as at 31.12.2010</b>	<b>2,648,696</b>	<b>2,053,870</b>	<b>655,000</b>	<b>9,379,839</b>	<b>10,188,032</b>	<b>446,631</b>	<b>25,372,068</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	2,139	10,424					12,563
Right issue of shares						11,682	11,682
Adjustments due to changes in holdings						(110,228)	(110,228)
Profit for the year					2,149,447	54,130	2,203,577
Final dividends approved on 30.06.2011					(795,208)	-	(795,208)
Dividends distributed to minority interest by subsidiaries						(45,847)	(45,847)
Share issue expenses		(133)					(133)
Transfers				243,688	(243,688)		-
<b>Balance as at 31.12.2011</b>	<b>2,650,977</b>	<b>2,064,837</b>	<b>1,015,000</b>	<b>11,677,127</b>	<b>7,641,416</b>	<b>396,403</b>	<b>25,445,760</b>

## Selected Performance Indicators

	Bank		Group	
	31.12.11	31.03.11	31.12.11	31.03.11
<b>Regulatory Capital Adequacy</b>				
Core capital (Tier - 1 Capital) Rs. Mn	15,514	17,965	19,320	21,445
Total capital base Rs. Mn	12,567	17,087	18,070	20,582
Core capital ratio (Minimum requirement 5%)	23.0	31.5	19.9	28.0
Total capital ratio (Minimum requirement 10%)	18.6	30.0	18.6	26.9
<b>Asset Quality</b>				
Non-performing loans and advances - Gross exposure % (Net of interest in suspense)	4.2	6.3	4.4	6.6
- Net exposure % (Net of interest in suspense and provisions)	0.4	1.1	0.7	1.5
<b>Profitability (Annualized)</b>				
Interest margin %	5.0	5.7	4.9	5.8
Return on assets %	4.6	13.5	3.7	6.9
Return on equity %	11.4	39.7	11.8	22.8
Statutory liquid assets Rs. Mn	1,432	11,450		
Statutory liquid assets ratio % (Minimum requirement 20%)	24	295		

## Cash Flow Statement

For the period ended	Bank		Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
	Rs.000	Rs.000	Rs.000	Rs.000
<b>Cash flow from operating activities</b>				
Interest Receipts	3,908,204	3,696,275	6,127,576	5,436,859
Interest payments	(1,934,185)	(2,533,194)	(4,080,510)	(3,959,584)
Recoveries on loans previously written off	95,845	74,387	95,845	74,387
Receipts from other operating activities	340,623	128,486	999,389	832,591
Cash payments to employees & suppliers	(1,054,887)	(890,630)	(2,255,639)	(1,858,733)
Value added tax	(272,045)	(1,859,528)	(335,066)	(2,002,817)
Operating profit before changes in operating assets and liabilities	1,083,555	(1,384,204)	551,595	(1,477,297)
(Increase )/decrease in operating assets:				
Borrowings under repurchase agreements				
Deposits held for regulatory or monetary control purposes	0	0	(438,617)	(200,014)
Funds advanced to customers	(10,822,507)	610,878	(21,583,901)	(11,250)
Others	27,684	335,191	(12,932)	87,867
Increase /(decrease ) in operating liabilities:				
Security deposits from customers	(950)	(1,980)	(834)	(12,698)
Deposits from customers	2,682,710	(1,218,165)	9,563,278	502,823
Negotiable certificates of deposit	0	(1,537)	94,521	25,425
Others	(19,916)	0	913,654	145,622
Net cash flow from operating activities before income tax	(7,049,424)	(1,659,817)	(10,913,236)	(939,522)
Income tax paid	(538,339)	(427,990)	(739,433)	(604,695)
Net cash used in operating activities	(7,587,763)	(2,087,807)	(11,652,669)	(1,544,217)
<b>Cash flow from investing activities</b>				
Dividends received	613,190	629,661	561,090	552,849
Interest received	279,211	1,081,345	682,610	2,014,802
Treasury bills eligible for rediscounting with Central Bank	9,749,169	(4,778,728)	8,693,132	(2,186,349)
Proceeds from sale and redemption of securities	606,274	428,261	660,782	438,261
Purchase of securities	(2,905,653)	(809,129)	(2,905,653)	(1,043,668)
Investment in joint venture - Acuity Partners (Pvt) Ltd.	0	(405,000)	0	0
Disposal of associate shares -Commercial Bank of Ceylon PLC	0	8,193,438	0	8,193,438
Acquisition of Lanka Ventures PLC by Joint venture Company	0	0	0	(80,973)
Investment in additional shares of subsidiary by Joint Venture	0	0	0	(88,348)
Investment in additional shares of subsidiaries-DFCC Vardhana Bank PLC	(1,336,587)	0	(243,136)	0
Investment in associate by Joint venture Company	0	0	(101,760)	0
Investment in additional shares of subsidiaries - Synapsys Ltd	0	(17,000)	0	0
Purchase of property , equipment ,intangibles and investment property	(24,264)	(177,149)	(243,176)	(448,105)
Proceeds from sale of equipment and investment property	4,840	45,945	67,566	49,865
Net cash from investing activities	6,986,180	4,191,644	7,171,455	7,401,772
<b>Cash flow from financing activities</b>				
Redemption of debentures	(1,910,000)	(1,000,000)	(910,000)	(1,000,000)
Issue of new shares under option	12,563	6,902	12,563	6,902
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	9,286,973	1,294,931	11,337,401	137,859
Other borrowings	(229,000)	1,360,000	2,215,690	1,604,446
Repayment of borrowing ,medium and long - term	(2,840,782)	(4,140,794)	(2,627,567)	(4,140,794)
Dividends paid	(2,638,291)	(791,232)	(2,671,928)	(824,873)
Net Cash flow from/(used in) financing activities	1,681,330	(3,270,193)	7,367,707	(4,216,460)
Net increase/(decrease) in cash & cash equivalents	1,079,747	(1,166,356)	2,886,493	1,641,095
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 Joint venture	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	2,450,557	1,655,677	7,680,469	8,412,723
<b>Reconciliation of cash &amp; cash equivalents</b>				
Cash & short - term funds	2,450,557	1,655,677	4,071,992	4,069,007
Placements with & loans to banks & financial institutions	0	0	0	164,593
Treasury bills & other securities eligible for rediscounting with Central Bank	0	0	3,204,306	4,284,020
Securities purchased under resale agreements	0	0	452,607	0
Borrowing short term - Bank overdrafts	0	0	(48,436)	(104,897)
	2,450,557	1,655,677	7,680,469	8,412,723

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.

	31.12.2011	31.03.2011
	Pc	Pc
Mandatory provision by Central Bank Loans and Leases*	0.5	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 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 PLC, 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 31.12.2011 include profits of these companies for the period 01.01.2011 to 30.09.2011.

### 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	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
	Rs. 000	Rs. 000	Rs. 000	Rs. 000
SWAP Cost	(4,674)	(43,629)	(32,867)	(78,556)
Marked to market Gain on forward contracts	41,712	-	49,892	(15,002)
Other Gain/(Loss)	(41,986)	(23,252)	41,267	43,355
	<u>(4,948)</u>	<u>(66,881)</u>	<u>58,292</u>	<u>(50,203)</u>

**Note 6. Non-Interest Income**

	Bank		Group	
	31.12.2011 Rs. 000	31.12.2010 Rs. 000	31.12.2011 Rs. 000	31.12.2010 Rs. 000
Dividend income	459,640	607,213	403,401	285,389
Gain on disposal of shares of CBC*	0	6,701,346	0	4,341,206
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	254,383	52,482	264,026	74,478
Marked to market (loss)/ gain on other dealing securities	(15,834)	38,711	(15,834)	38,711
Other income	136,481	150,433	894,652	871,993
Non-interest income	834,670	7,550,185	1,546,245	5,611,777

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

**Note 7. VAT on Financial Services**

	Bank		Group	
	31.12.2011 Rs. 000	31.12.2010 Rs. 000	31.12.2011 Rs. 000	31.12.2010 Rs. 000
Relating to divestment of shares in CBC	0	1,340,269	0	1,340,269
Others	247,123	475,742	319,287	632,285
	247,123	1,816,011	319,287	1,972,554

**Note 8. Taxation**

	Bank		Group	
	31.12.2011 Rs. 000	31.12.2010 Rs. 000	31.12.2011 Rs. 000	31.12.2010 Rs. 000
Current Income Tax	442,060	659,807	629,676	964,163
Over Provision of Income Tax	(33,658)	-	(33,658)	-
Deferred tax	(29,337)	(13,718)	(24,603)	(13,736)
	379,065	646,089	571,415	950,427

**Note 9. Profit for the Period**

	Bank		Group	
	31.12.2011 Rs. 000	31.12.2010 Rs. 000	31.12.2011 Rs. 000	31.12.2010 Rs. 000
Profit after tax excluding gain on disposal of shares of CBC	1,774,336	1,255,212	2,203,577	1,541,960
Profit on Sale of Shares & Marked to Market Gain on CBC	-	5,361,077	-	3,000,937
	<u>1,774,336</u>	<u>6,616,289</u>	<u>2,203,577</u>	<u>4,542,897</u>

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

	Bank	
	31.12.2011 Rs. 000	31.03.2011 Rs. 000
Cost	4,807,264	2,762,035
Unrecognized gain	9,475,202	13,585,512
Gain on CBC shares	8,957,614	12,388,890
Others	517,588	1,196,622
Market Value	<u>14,282,466</u>	<u>16,347,547</u>

Market value on 24/01/2012 was reduced to Rs 13.9 million.

**Note 11. Investment in Subsidiaries**

	Bank	
	31.12.2011 Rs. 000	31.03.2011 Rs. 000
Cost	3,777,907	2,441,320
Less : Provision for decline in value of Investments	(17,367)	-
	<u>3,760,540</u>	<u>2,441,320</u>

DFCC Vardhana Bank Ltd has changed its name to DFCC Vardhana Bank PLC with effect from 12.01.2012 consequent to the Listing of its debentures in Colombo Stock Exchange.

During the nine months ended 31 Dec 2011, Bank has invested Rs 1,336,587,481 in DFCC Vardhana Bank PLC and thereby increased its holding from 95.58% to 99.07%.

**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 31.03.2012, are;

Entity	Transaction	Rs.'000
DFCC Vardhana Bank PLC	Loan – short term	61,000
	Deposit – short term	1,158,881

**Note 13. Other Reserves**

	<b>Bank</b>		<b>Group</b>	
	<b>31.12.2011</b>	<b>31.03.2011</b>	<b>31.12.2011</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	297,288	53,600	297,288	53,600
	<u>11,677,127</u>	<u>11,433,439</u>	<u>11,677,127</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**

No 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*	213,920
Shares as at 31 December 2011	<u>265,097,688</u>

\* Share option scheme closed on 02 July 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.

### 15.3 Twenty Major Shareholders as at 31.12.2011

	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	23,805,300	8.98
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	2.55
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	0.68
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

### 15.4 Public holding as at 31.12.2011 is 63.39%

### 15.5 Directors' Interests in Shares

	No of Shares As at 31.12.2011
Brito, J M S - Chairman	28,760
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
Chandradasa, L P	500
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

24/01/2012

**Business Segment Information**

For the nine months ended 31 December	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
<b>Revenue</b>																
Interest income	3,427,537	4,208,836	828,498	551,693	-	-	2,570,254	2,569,221	96,742	109,952	-	-	(76,211)	(76,446)	6,846,820	7,363,256
Other income	58,484	128,048	-	-	713,341	5,672,289	414,498	315,539	495,774	486,013	62,164	1,749,848	(198,698)	(2,739,960)	1,545,563	5,611,777
Income from external customers	3,486,021	4,336,884	828,498	551,693	713,341	5,672,289	2,984,752	2,884,760	592,517	595,965	62,164	1,749,848	(274,909)	(2,816,406)	8,392,384	12,975,033
Inter segment income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total income</b>	<b>3,486,021</b>	<b>4,336,884</b>	<b>828,498</b>	<b>551,693</b>	<b>713,341</b>	<b>5,672,289</b>	<b>2,984,752</b>	<b>2,884,760</b>	<b>592,517</b>	<b>595,965</b>	<b>62,164</b>	<b>1,749,848</b>	<b>(274,909)</b>	<b>(2,816,406)</b>	<b>8,392,384</b>	<b>12,975,033</b>
<b>Percentage *</b>	<b>42</b>	<b>33</b>	<b>10</b>	<b>4</b>	<b>8</b>	<b>44</b>	<b>36</b>	<b>22</b>	<b>7</b>	<b>5</b>	<b>3</b>	<b>35</b>	<b>-</b>	<b>-</b>	<b>100</b>	<b>100</b>
<b>Expense</b>																
Segment losses	(85,216)	45,411	(114,255)	117,568	-	-	122,785	207,364	-	-	-	-	-	-	(76,686)	370,343
Depreciation	-	-	-	-	-	-	105,387	102,891	24,708	19,850	-	-	-	-	130,095	122,741
Other operating & interest expenses	2,310,660	1,960,172	425,467	319,970	-	-	2,235,147	1,974,039	317,609	316,511	-	-	(176,535)	(125,745)	5,112,348	4,444,947
Inter segment expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>2,225,444</b>	<b>2,005,583</b>	<b>311,212</b>	<b>437,538</b>	<b>-</b>	<b>-</b>	<b>2,463,319</b>	<b>2,284,294</b>	<b>342,317</b>	<b>336,361</b>	<b>-</b>	<b>-</b>	<b>(176,535)</b>	<b>(125,745)</b>	<b>5,165,757</b>	<b>4,938,031</b>
<b>Result</b>	<b>1,260,577</b>	<b>2,331,301</b>	<b>517,286</b>	<b>114,155</b>	<b>713,341</b>	<b>5,672,289</b>	<b>521,433</b>	<b>600,466</b>	<b>250,200</b>	<b>259,604</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,226,627</b>	<b>8,037,002</b>
Unallocated expenses															135,477	782,064
Value Added Tax on financial services															319,287	1,972,554
Share of profits/(Loss) of associates															2,771,863	5,282,384
<b>Profit on ordinary activities before tax</b>															3,129	210,940
Income tax on profit on ordinary activities															2,774,992	5,493,324
<b>Profit on ordinary activities after tax</b>															571,415	950,427
Minority interest															2,203,577	4,542,897
<b>Profit for the period</b>															54,130	63,699
															<b>2,149,447</b>	<b>4,479,198</b>
<b>Assets</b>	<b>44,673,473</b>	<b>32,153,983</b>	<b>8,357,143</b>	<b>5,457,280</b>	<b>6,585,826</b>	<b>4,746,745</b>	<b>42,745,034</b>	<b>29,525,556</b>	<b>3,835,298</b>	<b>3,948,613</b>	<b>4,071,043</b>	<b>18,604,355</b>	<b>(995,689)</b>	<b>(2,469,919)</b>	<b>109,272,128</b>	<b>91,966,612</b>
<b>Percentage</b>	<b>41</b>	<b>35</b>	<b>8</b>	<b>6</b>	<b>6</b>	<b>5</b>	<b>39</b>	<b>32</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>20</b>	<b>-</b>	<b>-</b>	<b>100</b>	<b>100</b>
Investment in associate company															278,041	121,957
															<b>109,550,169</b>	<b>92,088,569</b>
<b>Liabilities</b>	<b>35,635,936</b>	<b>24,866,333</b>	<b>7,521,429</b>	<b>4,911,552</b>	<b>-</b>	<b>-</b>	<b>38,282,384</b>	<b>29,696,519</b>	<b>2,250,332</b>	<b>2,564,445</b>	<b>1,410,017</b>	<b>7,147,572</b>	<b>(995,689)</b>	<b>(2,469,919)</b>	<b>84,104,409</b>	<b>66,716,501</b>

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

<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 31st December 2011 Rs'. 000</b>
<b>Fixed Rate</b>				
2006/2016 - 14.00% p.a.	Annually	14.00%	10.78%	590,000
				<u>590,000</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.

<b>Other Ratios</b>	<b>31.12.2011</b>	<b>31.03.2011</b>
Debt Equity Ratio	1.51	1.35
Interest Cover (Times)	1.74	3.54
Quick Asset Ratio (%)	24	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 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 period ended 30 September is consolidated with Income statements of DFCC for the period ended 31 December.

### Consolidated Income Statement of DFCC & DVB

For the nine months ended 31 December	Adjustment					
	2011 Rs 000	2010 Rs 000	2011 Rs 000	2010 Rs 000	2011 Rs 000	2010 Rs 000
Interest income	6,769,358	7,270,049	(32,867) <sup>1</sup>	(78,556) <sup>1</sup>	6,736,491	7,191,493
Interest expense	(3,221,809)	(3,394,708)			(3,221,809)	(3,394,708)
Net interest income	3,547,549	3,875,341	(32,867)	(78,556)	3,514,682	3,796,785
Non Interest Income:						
Dividends from CBC (as investment security)	0	0		246,349 <sup>2</sup>	0	246,349
Dividends received from unconsolidated - Subsidiaries - Joint Venture	26,169	35,776			26,169	35,776
	16,375	0			16,375	0
Dividends from non-affiliated entities	382,019	274,226			382,019	274,226
Gains from CBC Shares	0	4,341,206		(4,341,206) <sup>3</sup>	0	0
Gains from sale of non-affiliated quoted shares	254,383	52,482			254,383	52,482
Foreign exchange income	58,289	(50,203)	32,867 <sup>1</sup>	78,556 <sup>1</sup>	91,156	28,353
Fees and Commission income	406,358	283,763			406,358	283,763
Others	36,154	261,118		(6,119)	36,154	254,999
<b>Operating income</b>	<b>4,727,296</b>	<b>9,073,709</b>	<b>0</b>	<b>(4,100,976)</b>	<b>4,727,296</b>	<b>4,972,733</b>
Personnel costs	774,133	703,510			774,133	703,510
Provision for staff retirement benefits	51,293	54,362			51,293	54,362
Premises, equipment & establishment expenses	446,865	384,237			446,865	384,237
Other overhead expenses	643,376	533,796			643,376	533,796
<b>Operating expenses</b>	<b>1,915,667</b>	<b>1,675,905</b>	<b>0</b>	<b>0</b>	<b>1,915,667</b>	<b>1,675,905</b>
<b>Operating profit before provisions</b>	<b>2,811,629</b>	<b>7,397,804</b>	<b>0</b>	<b>(4,100,976)</b>	<b>2,811,629</b>	<b>3,296,828</b>
Allowances for credit losses						
- Specific Provision	471,103	994,585			471,103	994,585
- General Provision	(95,922)	21,475			(95,922)	21,475
- Recoveries	(457,828)	(654,062)			(457,828)	(654,062)
- Loans Written off	5,961	8345			5,961	8,345
Less: Provision for fall in value of investments & investment securit	18,048				18,048	
<b>Operating profit before value added tax</b>	<b>2,870,267</b>	<b>7,027,461</b>	<b>0</b>	<b>(4,100,976)</b>	<b>2,870,267</b>	<b>2,926,485</b>
Value added tax on financial services	(319,287)	(1,972,554)		1,340,269 <sup>3</sup>	(319,287)	(632,285)
<b>Operating profit before income tax</b>	<b>2,550,980</b>	<b>5,054,907</b>	<b>0</b>	<b>(2,760,707)</b>	<b>2,550,980</b>	<b>2,294,200</b>
Income tax expense	(519,414)	(876,128)			(519,414)	(876,128)
<b>Profit after tax</b>	<b>2,031,566</b>	<b>4,178,779</b>	<b>0</b>	<b>(2,760,707)</b>	<b>2,031,566</b>	<b>1,418,072</b>
Minority Interest DVB	(5,485)	(9,686)			(5,485)	(9,686)
<b>Profit after tax attributable to shareholders of DFCC</b>	<b>2,026,081</b>	<b>4,169,093</b>	<b>0</b>	<b>(2,760,707)</b>	<b>2,026,081</b>	<b>1,408,386</b>
Share of profits of National Asset Management Limited and CBC Associate (CBC ceased to be an associate on 2 June 2010)	4,317	197,875		(193,354) <sup>2</sup>	4,317	4,521
	<b>2,030,398</b>	<b>4,366,968</b>	<b>-</b>	<b>(2,954,061)</b>		
Segregated exceptional profit on sale of CBC post tax reduced by minority interest					0	3,000,937
<b>Adjusted Profit after tax attributable to shareholders of parent company- DFCC Bank</b>					<b>2,030,398</b>	<b>4,413,844</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.