



Results for the Nine months Ended 31 December 2014

This commentary relates to the interim non-audited financial statements for 9 months ended 31 December 2014. These Financial Statements are presented in accordance with Sri Lanka Financial Reporting Standards (SLFRS) aligned with International Financial Reporting Standards (IFRS).

GROUP PERFORMANCE

The DFCC Group recorded a consolidated profit after tax of LKR 3,594m for the nine months ended 31 December 2014 compared with LKR 2,028m in the corresponding period of the previous year (comparable period).

The contribution from Banking Business (DBB) comprising the DFCC Bank (DFCC), a licensed specialized bank and its 99% owned subsidiary DFCC Vardhana Bank PLC (DVB), a licensed commercial bank is analysed below. Apart from DBB which contributed LKR 3,390m to profit after tax, the investment banking joint venture, Acuity Partners (Pvt) Limited (APL) contributed LKR141m (LKR 82m in the comparable period) while the subsidiary Lanka Industrial Estates Ltd, contributed Rs 102m (LKR 92m in the comparable period). The contribution from the other subsidiaries and associate company collectively was LKR 18m in the current period (loss of LKR 12m in the comparable period).

BANKING BUSINESS

The Banking Business of the DFCC Group is undertaken by DFCC and DVB. 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. Since the financial year of DVB ends in December, the accounts of DVB are consolidated with a 3 month lag.

The DBB recorded LKR 4,926m as operating profit before taxes, an increase of 56% over the comparable period. Profit after tax (both VAT on financial services and income tax) was LKR 3,390m, an increase of 74% over LKR 1,949m in the comparable period.

DBB recorded a credit growth of 14% during the period. The Net Interest Income (NII) of DBB for the period however decreased by 16% from LKR 5,970m to LKR 4,989m. Unlike in commercial banks our funding is mainly through long term borrowing sources. As such the reduction in NII was mainly due to the drop in lending interest rates which were warranted by market conditions and the time lag in re pricing of the long term borrowings.

Net fee and commission income of DBB in the current period increased by 25% to LKR 743m compared to LKR 596m in the previous comparable period. Fee income is generated largely by DVB the commercial banking subsidiary from trade finance and commercial banking services. Fee income also included consultancy fees earned from overseas assignments undertaken during the period.

Capitalizing on the upward momentum in the stock market, on 31 October 2014 the Bank divested the entire holding of 9.92% ordinary voting shares of Nations Trust Bank PLC and realized a capital gain of Rs 829 m. The Bank was able to divest some of the other mature equity holdings as well and generate a further capital gain of LKR 306 m during the period.

The forward exchange contracts are accounted as a derivative and its fair value changes are reported as net gain / (loss) from financial instruments at fair value through profit or loss in the income statement.

The revised impairment assessment methodology implemented during the first quarter has been consistently applied during the period ended 31 December 2014. The cumulative allowance for impairment for loans and advances was maintained at a healthy level of 63% as a percentage of impaired loans and advances of DBB on 31 December 2014.

Due to stringent cost management DBB was able to contain the overall operating cost increases to 11.6% over that of the comparable period while absorbing a 3.9% cost increase in the current period expenses due to a charge for Nation Building Tax which was introduced with effect from 1 January 2014. In common with banking industry, the personnel cost is a significant proportion of the operating expenses. The personnel cost of DBB increased by 6% in the current period to LKR1,252m from LKR 1,178m in the comparable period. Salary and benefits in DBB were revised in October 2014 following a survey to bring these in line with market. DBB added four more branches during the period.

INVESTMENTS

Listed shares are classified as available for sale and carried at fair value. Fair value changes that represent unrealized gains/loss are recognized in other comprehensive income. During the period ended 31 December 2014, due to market appreciation of available for sale securities there was a fair value gain of LKR 6,204 m. In the comparable period the fair value gain was LKR 1287 m.

EQUITY CAPITAL

Under SLFRS, the total income for the period comprises the income reported in the income statement and other comprehensive income. The equity capital is significantly augmented due to the gain as a result of the recognition of shares listed in the Colombo Stock Exchange and owned by the bank at fair value.

PRUDENTIAL INDICATORS

The capital adequacy and liquidity ratios continued to be well above the stipulated regulatory minimum. The regulatory capital computation excludes fair value changes on financial assets classified as available for sale.

PROPOSED AMALGAMATION WITH NATIONAL DEVELOPMENT BANK PLC

A considerable amount of preparatory work relating to the proposed amalgamation has been undertaken during the period under review. The Bank will await further information on this matter from the regulators before deciding on the next steps.

EVENTS OCCURRING AFTER 31 DECEMBER 2014

In terms of the DFCC Bank (Repeal and Consequential Provisions) Act No 39 of 2014 the DFCC Bank was incorporated under the Companies Act as a public company listed in the Colombo Stock Exchange with the name "DFCC Bank PLC" (Company Registration No: PQ 233) with effect from 6 January 2015 and will continue to carry on its business as a licensed specialized bank without any interruption.

Arjun Fernando
Chief Executive Officer

11 February 2015

DFCC Bank
Income Statement

For the period ended	Bank				Group			
	For the 9 months ended		For the quarter ended		For the 9 months ended		For the quarter ended	
	31.12.14	31.12.13	31.12.14	31.12.13	31.12.14	31.12.13 Restated	31.12.14	31.12.13 Restated
Notes	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000
Interest income	6,084,221	7,298,272	1,954,001	2,343,318	12,294,749	13,939,611	3,867,761	4,534,410
Interest expense	3,499,215	3,688,807	1,188,967	1,233,605	7,276,849	7,928,797	2,235,664	2,646,116
Net interest income	2,585,006	3,609,465	765,034	1,109,713	5,017,900	6,010,814	1,632,097	1,888,294
Fees and commission Income	123,122	89,087	41,517	32,944	815,446	618,416	304,335	227,885
Less- Fees and commission expenses	-	-	-	-	14,417	5,377	5,346	1,929
Net fees and commission income	123,122	89,087	41,517	32,944	801,029	613,039	298,989	225,956
Net gain/(loss) from trading	144,431	1,145	(73,907)	117	467,097	111,119	133,655	27,963
Net gain/(loss) from financial instruments at fair value through profit or loss	6 549,329	40,105	860,134	(19,427)	329,215	19,726	732,503	40,913
Net gain from financial investments	7 1,592,427	495,175	1,052,414	225,037	1,575,597	400,412	1,121,402	250,271
Other operating income/(loss)- (net)	8 (615,496)	(419,458)	(858,472)	(3,095)	(214,348)	(317,756)	(654,244)	(7,897)
Total operating income	4,378,819	3,815,519	1,786,720	1,345,289	7,976,490	6,837,354	3,264,403	2,425,500
Impairment for Loans and other losses								
- Individual impairment	301,435	126,228	167,130	120,935	858,293	538,166	347,172	288,513
- Collective impairment	(841,582)	186,419	(58,127)	(76,923)	(902,616)	407,982	(123,129)	15,170
- Others	11,337	122	4,356	-	11,337	31,389	4,356	17,079
Investment - impairment losses	11,000	-	-	-	-	-	-	-
Net operating Income	4,896,629	3,502,750	1,673,361	1,301,277	8,009,476	5,859,817	3,036,004	2,104,738
Operational expenses								
Personnel expenses	541,433	558,773	198,828	192,833	1,396,468	1,298,202	487,807	442,794
Depreciation and amortisation	104,599	101,493	35,023	34,675	280,096	255,289	94,392	87,863
Other expenses	489,062	396,188	201,110	125,010	1,336,067	1,141,226	497,272	378,713
Operating profit before value added tax (VAT)	3,761,535	2,446,296	1,238,400	948,759	4,996,845	3,165,100	1,956,533	1,195,368
Value added tax (VAT) on financial services	405,758	269,864	139,832	97,348	586,427	394,277	230,501	134,568
Operating profit after value added tax	3,355,777	2,176,432	1,098,568	851,411	4,410,418	2,770,823	1,726,031	1,060,800
Share of profits of Associate and Joint Venture	-	-	-	-	149,272	84,672	110,682	35,870
Profit before tax	3,355,777	2,176,432	1,098,568	851,411	4,559,690	2,855,495	1,836,711	1,096,670
Income tax expense	567,194	536,359	108,422	175,963	965,861	827,264	314,048	289,976
Profit for the period	2,788,583	1,640,073	990,146	675,448	3,593,829	2,028,231	1,522,664	806,694
Profit attributable to								
Equity holders of the Bank	2,788,583	1,640,073	990,146	675,448	3,537,716	1,979,346	1,502,693	791,451
Non-controlling interests	-	-	-	-	56,113	48,885	19,972	15,243
Profit for the period	2,788,583	1,640,073	990,146	675,448	3,593,829	2,028,231	1,522,664	806,694
Basic earnings per ordinary share - LKR	10.52	6.19	3.74	2.55	13.34	7.47	5.67	2.99

DFCC Bank
Statement of Comprehensive Income

	Bank				Group			
	For the 9 months ended		For the quarter ended		For the 9 months ended		For the quarter ended	
For the period ended	31.12.14	31.12.13	31.12.14	31.12.13	31.12.14	31.12.13 Restated	31.12.14	31.12.13 Restated
	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000
Profit for the period	2,788,583	1,640,073	990,146	675,448	3,593,829	2,028,231	1,522,664	806,694
Other comprehensive income, net of tax								
Gains and losses on re-measuring available-for-sale financial assets								
Net change in fair value of available-for-sale financial assets	6,167,338	1,227,433	1,212,573	608,959	6,203,594	1,286,685	1,271,941	650,759
Net amount transferred to income statement on disposal of available-for-sale financial assets	(404,565)	(83,110)	(157,241)	(13,175)	(404,565)	(83,110)	(157,241)	(13,175)
Share of profits of associates & Joint venture	-	-	-	-	4,205	1,710	9,409	(1,377)
Tax expense relating to components of other comprehensive income	-	-	-	-	-	-	-	-
Other comprehensive income for the period, net of taxes	5,762,773	1,144,323	1,055,332	595,784	5,803,234	1,205,285	1,124,109	636,207
Total comprehensive income for the period	8,551,356	2,784,396	2,045,478	1,271,232	9,397,063	3,233,516	2,646,773	1,442,901
Total comprehensive income attributable to:								
Equity holders of the Bank	8,551,356	2,784,396	2,045,478	1,271,232	9,340,650	3,184,299	2,626,310	1,427,479
Non-controlling interests	-	-	-	-	56,413	49,217	20,463	15,422
Total comprehensive income for the period	8,551,356	2,784,396	2,045,478	1,271,232	9,397,063	3,233,516	2,646,773	1,442,901

Statement of Financial Position

As at	Notes	Bank		Group	
		31-12-2014 LKR 000	31-03-2014 LKR 000 (Audited)	31-12-2014 LKR 000	31-03-2014 LKR 000 Restated
Assets					
Cash and cash equivalents		921	545,388	2,944,564	2,933,361
Balances with Central Bank		-	-	2,943,437	2,870,492
Placements with banks		417,216	2,681,779	1,625,340	3,138,180
Derivative assets held for risk management		11,630	1,630	245,557	183,892
Other financial assets held- for- trading		446,703	1,017,980	2,422,415	1,971,915
Loans to and receivables from banks		476,556	1,233,616	3,509,001	5,547,821
Loans to and receivables from other customers	9	73,219,631	61,341,469	129,471,543	112,167,194
Financial Investments - available-for-sale		27,375,846	25,073,487	47,071,752	39,901,586
Financial Investments - held-to-maturity		1,731,676	535,958	9,955,393	1,073,703
Investment in subsidiary companies		5,957,564	5,968,564	-	-
Investments in Associate and Joint Venture		690,270	690,270	1,379,211	1,213,763
Due from subsidiaries		53,609	43,028	-	-
Investment properties		-	-	197,777	183,281
Property, plant and equipment		374,936	453,015	1,006,397	1,089,188
Intangible assets		51,895	60,378	230,284	237,434
Goodwill on consolidation		-	-	156,226	156,226
Deferred tax asset		-	-	2,217	2,285
Govt Grant Receivable	11.1	393,375	276,878	393,375	276,878
Income tax refund due		-	-	-	1,546
Prepayments		59,218	35,833	59,218	35,833
Other receivables		467,394	982,009	1,490,747	2,010,716
Total assets		111,728,440	100,941,282	205,104,454	174,995,294
Liabilities					
Due to banks		2,864,430	5,153,754	14,058,286	6,673,576
Derivative liabilities held for risk management		862	55,609	367,116	227,994
Due to other customers	10	19,511,589	16,630,363	82,968,647	80,917,356
Other borrowing		23,661,900	25,434,079	35,048,900	27,782,493
Debt securities issued		18,972,441	14,009,017	18,972,441	14,009,017
Current tax liability		204,120	157,615	377,740	242,848
Deferred tax liability		443,802	433,069	594,649	553,222
Govt Grant-Deferred Income	11.2	322,125	295,628	322,125	295,628
Other liabilities		570,862	752,698	2,338,667	2,228,988
Subordinated term debt		672,913	609,373	1,700,748	1,609,674
		67,225,044	63,531,205	156,749,319	134,540,796
Equity					
Share capital	14.2	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		1,380,000	2,381,648	1,380,000	2,381,648
Retained earnings		6,421,795	4,089,601	12,262,209	9,163,494
Other reserves		31,985,787	26,223,014	29,662,748	23,859,814
Total equity attributable to equity holders of the Bank		44,503,396	37,410,077	48,020,771	40,120,770
Non-Controlling interest		-	-	334,364	333,728
Total equity		44,503,396	37,410,077	48,355,135	40,454,498
Total equity and Liabilities		111,728,440	100,941,282	205,104,454	174,995,294
Contingent Liabilities & commitments		42,485,703	30,234,047	75,040,177	57,788,965
Net Asset value per share,LKR		167.88	141.12	181.14	151.34

The highest, the lowest and the last traded market price recorded during the period ended

	31.12.2014	31.12.2013
- Highest price Rs.	239.00	129.90
- Lowest price Rs.	196.00	115.00
- Last traded price Rs.	219.00	129.00

Statement of Changes in Equity
For the period ended 31.12.2014
Bank

	Share Capital	Share Premium	Statutory Reserves		Other Reserves		Retained earnings	Total
			Reserve fund	Investment Fund Account	Fair value reserve	General reserve		
	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000
Balance as at 01 April 2013	2,650,977	2,064,837	1,285,000	721,025	11,167,285	13,779,839	3,114,908	34,783,871
Total comprehensive income for the period								
Profit for the period							1,640,073	1,640,073
Other comprehensive income (net of tax)					1,144,323			1,144,323
Total comprehensive income for the period	-	-	-	-	1,144,323	-	1,640,073	2,784,396
Transfers				175,412			(175,412)	-
Transactions with equity holders, recognised directly in equity								
Dividends to equity holders							(1,325,488)	(1,325,488)
Total transactions with equity holders	-	-	-	-	-	-	(1,325,488)	(1,325,488)
Balance as at 31 December 2013	2,650,977	2,064,837	1,285,000	896,437	12,311,608	13,779,839	3,254,081	36,242,779
Balance as at 01 April 2014	2,650,977	2,064,837	1,380,000	1,001,648	12,443,175	13,779,839	4,089,601	37,410,077
Total comprehensive income for the period								
Profit for the period							2,788,583	2,788,583
Other comprehensive income (net of tax)					5,762,773		-	5,762,773
Total comprehensive income for the period	-	-	-	-	5,762,773	-	2,788,583	8,551,356
Transfers				(1,001,648)			1,001,648	-
Transactions with equity holders, recognised directly in equity								
Dividends to equity holders							(1,458,037)	(1,458,037)
Total transactions with equity holders	-	-	-	-	-	-	(1,458,037)	(1,458,037)
Balance as at 31 December 2014	2,650,977	2,064,837	1,380,000	-	18,205,948	13,779,839	6,421,795	44,503,396

Statement of Changes in Equity
For the period ended 31.12.2014
Group

	Attributable to the equity holders of the Bank							Non Controlling interests	Total	
	Share Capital	Share Premium	Statutory Reserves		Other Reserves		Retained earnings			Total
			Reserve fund	Investment Fund Account	Fair value reserve	General reserve				
LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	
Balance as at 01 April 2013 as previously stated	2,650,977	2,064,837	1,285,000	721,025	8,718,485	13,779,839	7,594,136	36,814,299	512,349	37,326,648
Effect on changing accounting for investment in Joint venture									(202,794)	(202,794)
Balance as at 01 April 2013 as restated	2,650,977	2,064,837	1,285,000	721,025	8,718,485	13,779,839	7,594,136	36,814,299	309,555	37,123,854
Total comprehensive income for the period										
Profit for the period							1,979,346	1,979,346	48,885	2,028,231
Other comprehensive income (net of tax)					1,204,953		-	1,204,953	332	1,205,285
Total comprehensive income for the period	-	-	-	-	1,204,953	-	1,979,346	3,184,299	49,217	3,233,516
Transfers				269,241			(269,241)	-		-
Transactions with equity holders, recognised directly in equity										
Consolidation adjustments through joint venture							4,207	4,207	-	4,207
Share Deemed disposal gain Joint venture							29,716	29,716	-	29,716
Dividends to equity holders							(1,325,488)	(1,325,488)	(55,567)	(1,381,055)
Total transactions with equity holders	-	-	-	-	-	-	(1,291,565)	(1,291,565)	(55,567)	(1,347,132)
Balance as at 31 December 2013	2,650,977	2,064,837	1,285,000	990,266	9,923,438	13,779,839	8,012,676	38,707,033	303,205	39,010,238
Balance as at 01 April 2014	2,650,977	2,064,837	1,380,000	1,001,648	10,079,975	13,779,839	9,163,494	40,120,770	333,728	40,454,498
Total comprehensive income for the period										
Profit for the period							3,537,716	3,537,716	56,113	3,593,829
Other comprehensive income (net of tax)					5,802,934		-	5,802,934	300	5,803,234
Total comprehensive income for the period	-	-	-	-	5,802,934	-	3,537,716	9,340,650	56,413	9,397,063
Transfers				(1,001,648)			1,001,648	-		-
Transactions with equity holders, recognised directly in equity										
Share issue by subsidiary of Joint venture							159	159	-	159
other equity adjustment through Joint venture							(3,241)	(3,241)	-	(3,241)
Share Deemed disposal gain Joint venture							20,470	20,470	-	20,470
Dividends to equity holders							(1,458,037)	(1,458,037)	(55,777)	(1,513,814)
Total transactions with equity holders				(1,001,648)			(439,001)	(1,440,649)	(55,777)	(1,496,425)
Balance as at 31 December 2014	2,650,977	2,064,837	1,380,000	-	15,882,909	13,779,839	12,262,209	48,020,771	334,364	48,355,135

Cash Flow Statement

For the 9 months ended	Bank		Group	
	31.12.2014 LKR 000	31.12.2013 LKR 000	31.12.2014 LKR 000	31.12.2013 LKR 000 restated
Cash flow from operating activities				
Interest Receipts	5,673,768	6,097,633	11,075,510	11,791,299
Interest payments	(3,645,639)	(4,047,179)	(7,450,097)	(8,060,263)
Recoveries on loans previously written off	34,725	72,508	38,198	73,291
Receipts from other operating activities	(248,965)	(155,270)	1,048,470	454,656
Cash payments to employees & suppliers	(1,108,509)	(1,196,008)	(2,670,469)	(2,786,554)
Value added tax	(449,646)	(269,864)	(572,903)	(407,739)
Other taxes and levies	(104,039)	-	(131,130)	-
Operating Cash flow before changes in operating assets and liabilities	151,695	501,820	1,337,578	1,064,690
(Increase)/decrease in operating assets:				
Deposits held for regulatory or monetary control purposes	-	-	(72,944)	471,006
Funds advanced to customers	(10,679,979)	993,108	(17,266,077)	(8,885,622)
Others	(138,857)	(54,429)	210,351	(198,657)
Increase /(decrease) in operating liabilities:				
Security deposits from customers	-	-	(3,766)	(5,857)
Deposits from customers	2,712,823	(3,766,443)	1,968,013	3,422,422
Negotiable certificates of deposit	-	-	(31,167)	121,548
Others	143,377	(69,704)	364,024	134,462
Net cash flow from operating activities before income tax	(7,810,940)	(2,395,648)	(13,493,986)	(3,876,008)
Income tax paid	(531,423)	(292,908)	(701,420)	(416,827)
Net cash flow from/(used in)operating activities	(8,342,363)	(2,688,556)	(14,195,405)	(4,292,835)
Cash flow from investing activities				
Dividends received	965,477	1,032,684	782,937	882,820
Interest received	546,656	758,427	1,016,895	829,463
Government Securities	2,673,957	(6,198,137)	(5,361,977)	(9,929,793)
Proceeds from sale and redemption of securities	3,113,109	593,347	3,113,109	593,347
Purchase of securities	(1,530,115)	(677,093)	(8,317,820)	(677,093)
Investment in additional shares of subsidiaries- DFCC Vardhana Bank Plc	-	(2,195,611)	-	(2,195,611)
Investment in additional shares of subsidiaries- Synapsys Ltd	-	(17,000)	-	(17,000)
Purchase of property , equipment ,intangibles and investment property	(18,112)	(83,792)	(204,716)	(283,351)
Proceeds from sale of equipment and investment property	862	19,986	862	31,621
Net cash from/(used in) investing activities	5,751,835	(6,767,189)	(8,970,710)	(10,765,597)
Cash flow from financing activities				
Issue of new shares bt Subsidiary of joint venture	-	-	-	-
Issue of debentures	5,000,000	-	5,000,000	-
Borrowing , medium and long - term	1,734,379	13,426,168	1,727,809	13,426,169
Other borrowings(Net)	(2,457,000)	4,138,350	15,822,799	10,416,164
Repayment of borrowing ,medium and long - term	(3,229,138)	(9,004,747)	(3,229,138)	(9,586,571)
Dividends paid	(1,450,654)	(1,318,292)	(1,506,432)	(1,373,859)
Net Cash flow from/(used in) financing activities	(402,413)	7,241,479	17,815,039	12,881,903
Net increase/(decrease) in cash & cash equivalents	(2,992,941)	(2,214,266)	(5,351,077)	(2,176,529)
Cash & cash equivalents/(overdraft-net) at the beginning of period	3,242,119	7,558,956	9,953,112	11,926,022
Cash & cash equivalents at the end of period	249,178	5,344,690	4,602,035	9,749,493
Reconciliation of cash & cash equivalents with items reported in the statement of financial position				
Cash and cash equivalents	921	152,578	2,889,298	2,766,380
Bank overdraft	(168,959)	-	(168,959)	-
Placements with banks	417,216	5,036,799	1,878,807	6,735,086
Government Securities-less than 3 months	-	155,313	2,889	248,026
	249,178	5,344,690	4,602,035	9,749,492

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. Statement of Compliance

The consolidated financial statements of the Bank (Group) and the separate financial statements of the Bank (Bank) have been prepared in accordance with relevant Sri Lanka Financial Reporting Standards (SLFRS) adopted by The Institute of Chartered Accountants of Sri Lanka (ICASL) and comply with the requirements of Banking Act No. 30 of 1988 and amendments thereto.

Note 2 Accounting policies and accounting estimates

The accounting policies, estimates and methods of computation are consistent with those policies and methods followed during the previous financial year other than as described below:

2.1 Change in accounting policy

The Group adopted Sri Lanka Accounting Standard (SLFRS 11) "Joint Arrangements" with effect from 1 April 2014 as part of its mandatory application and changed the basis of accounting for its interest in the joint venture, Acuity Partners (Pvt) Ltd.

As a result of the change, the Group now accounts for the investment in Acuity Partners (Pvt) Ltd using the equity method in accordance with LKAS 28 "Investment in Associates and Joint Ventures". Previously the Group accounted for its investment in the said entity using the proportionate consolidation method.

The change in accounting policy has been applied retrospectively as per Sri Lanka Accounting Standard (LKAS 8) Accounting Policies, changes in Accounting Estimates and Errors". This change in accounting policy had no impact on equity attributable to equity holders of the Bank as at 31 March 2014.

2.2 Change in accounting estimate

During the quarter ended 30 June 2014, the Bank re-examined the impairment assessment process in the light of experience gained over the past 2 years in particular. The change in accounting estimate has been applied prospectively as per Sri Lanka Accounting Standard (LKAS 8) Accounting Policies, changes in Accounting Estimates and Errors".

Note 3. 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 4. Accounting for investment in Joint Venture Company

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

Note 5. 31 December financial year companies

These are DFCC Vardhana Bank PLC, Synapsys Ltd (subsidiaries) and Acuity Partners (Pvt) Limited (joint venture) and National Asset Management Limited (associate).

Note 6 Net gain/(loss) from financial instruments at fair value through profit or loss

For the period ended 31 December

Forward exchange fair value changes

Gain/(loss) on CBSL Swap

Total

	Bank		Group	
	2014	2013	2014	2013
	LKR 000	LKR 000	LKR 000	LKR 000
Forward exchange fair value changes	64,746	40,105	(155,368)	19,726
Gain/(loss) on CBSL Swap	484,583	-	484,583	-
Total	549,329	40,105	329,215	19,726

Note 7. Net Gain/(Loss) from Financial Investments

For the period ended 31 December

Gain on sale of securities

Dividend income

Net gain from repurchase transactions

	Bank		Group	
	2014	2013	2014	2013
	LKR 000	LKR 000	LKR 000	LKR 000
Gain on sale of securities	1,135,053	87,373	1,135,053	87,373
Dividend income	434,416	396,059	246,461	219,499
Net gain from repurchase transactions	22,958	11,743	194,083	93,540
Total	1,592,427	495,175	1,575,597	400,412

Note 8. Other Operating (Loss)/Income-net

For the period ended 31 December

Foreign exchange gain/(loss)

Amortisation of deferred income on Govt Grant- CBSL Swap

Others

	Bank		Group	
	2014	2013	2014	2013
	LKR 000	LKR 000	LKR 000	LKR 000
Foreign exchange gain/(loss)	(328,547)	(563,791)	(56,196)	(590,850)
Amortisation of deferred income on Govt Grant- CBSL Swap	(394,583)	-	(394,583)	-
Others	107,634	144,333	236,431	273,094
Total	(615,496)	(419,458)	(214,348)	(317,756)

Foreign exchange gain/(loss) does not include the offsetting effect of exchange rate movements on forward exchange contracts used as hedging instruments to mitigate market risk of open positions arising from US dollar/LKR funding swaps. This effect is included under 'Net gain/ (loss) from financial instruments at fair value through profit or loss' in the income statement.

Note 9. Loans and Receivables to Other Customers

	Bank		Group	
	31-12-2014	31-03-2014	31-12-2014	31-03-2014
As at	LKR 000	LKR 000	LKR 000	LKR 000
Gross loans and receivables (Note 9.1)	75,941,415	64,733,749	135,280,319	119,058,962
Less: Individual impairment (Note 9.2.1)	(1,705,820)	(1,486,838)	(3,748,932)	(3,794,550)
Collective impairment (Note 9.2.2)	(1,015,964)	(1,905,442)	(2,059,844)	(3,097,218)
Net loans and receivables	73,219,631	61,341,469	129,471,543	112,167,194

Note 9.1 Loans and Receivables to Other Customers - By product

	Bank		Group	
	31-12-2014	31-03-2014	31-12-2014	31-03-2014
As at	LKR 000	LKR 000	LKR 000	LKR 000
By product-Domestic Currency				
Overdrafts	-	-	18,747,048	19,230,658
Trade finance	-	-	7,947,985	8,258,437
Lease rentals receivable	7,959,759	8,109,397	9,968,874	9,611,637
Credit cards	-	-	155,122	114,956
Pawning	-	-	2,013,448	3,426,803
Staff loans	575,061	533,093	971,963	871,123
Term loans	58,201,136	47,269,519	78,147,821	61,932,880
Commercial papers and asset back notes	2,486,798	2,321,850	2,486,798	2,321,850
Debenture loans	577,389	886,132	577,389	886,132
Preference shares unquoted	1,190,000	1,500,401	1,190,000	1,500,401
Securities purchased under resale agreements	-	-	739,535	825,880
	70,990,143	60,620,392	122,945,983	108,980,757
By product-Foreign Currency				
Overdrafts	-	-	287,717	275,450
Trade finance	-	-	6,236,866	4,840,862
Term loans	4,951,272	4,113,357	5,809,753	4,961,893
	4,951,272	4,113,357	12,334,336	10,078,205
Gross Loans and Receivables	75,941,415	64,733,749	135,280,319	119,058,962

Note 9.2 Movement in Individual and Collective Impairment during the period for Loans and Receivable to Other Customers

	Bank		Group	
	31-12-2014	31-03-2014	31-12-2014	31-03-2014
As at	LKR 000	LKR 000	LKR 000	LKR 000
9.2.1 Individual Impairment				
Opening balance	1,486,838	1,477,986	3,794,550	3,229,925
Charge to income statement	301,435	11,308	858,293	569,034
Effect of foreign currency movements	-	-	369	5,563
Effect of discounting	-	(2,456)	-	(2,456)
Write-off during the year	(82,453)	-	(904,280)	(7,516)
Closing balance	1,705,820	1,486,838	3,748,932	3,794,550
9.2.2 Collective Impairment				
Opening balance	1,905,442	1,868,892	3,097,218	2,767,131
Charge to income statement	(841,582)	281,123	(902,616)	621,595
Effect of foreign currency movements	-	-	(1,078)	718
Transfers to dues on terminated leases	(16,651)	(15,460)	(16,651)	(15,460)
Write-off during the year	(31,245)	(229,113)	(117,029)	(276,766)
Closing balance	1,015,964	1,905,442	2,059,844	3,097,218
Total Individual and Collective impairment	2,721,784	3,392,280	5,808,776	6,891,768

Note 10. Due to Other Customers - By product

As at	Bank		Group	
	31-12-2014 LKR 000	31-03-2014 LKR 000	31-12-2014 LKR 000	31-03-2014 LKR 000
By product-Domestic Currency				
Demand deposits (current accounts)	-	-	2,986,604	1,810,331
Savings deposits	-	-	12,626,760	12,167,462
Fixed deposits	19,511,589	16,616,195	58,034,805	57,260,770
Margin deposits	-	-	297,098	648,251
Certificate of deposits	-	-	558,424	586,707
	19,511,589	16,616,195	74,503,692	72,473,521
By product- Foreign Currency				
Demand deposits (current accounts)	-	-	148,845	98,900
Savings deposits	-	-	981,802	814,203
Fixed deposits	-	14,168	7,310,022	7,529,571
Margin deposits	-	-	24,287	1,161
	-	14,168	8,464,955	8,443,835
Total	19,511,589	16,630,363	82,968,647	80,917,356

Note 11. Government Grant

DFCC Bank in October 2013 raised USD 100 million by Issue of Notes abroad repayable in October 2018. The proceeds of this note issue are to be deployed predominantly in LKR denominated monetary assets. In order to hedge the resulting net open foreign currency liability position, DFCC Bank has entered in to a annually renewable currency SWAP arrangement with Central Bank of Sri Lanka (CBSL) for 75% of the US Dollar (USD) denominated liability. Accordingly this contract was renewed in November 2014.

	Bank		Group	
	31-12-2014 LKR 000	31-03-2014 LKR 000	31-12-2014 LKR 000	31-03-2014 LKR 000
11.1 Government Grant- Receivable				
Fair value on the Beginning of the period/contract date	276,878	754,958	276,878	754,958
Change in fair value on the renewal of contract	(368,086)	-	(368,086)	-
Change in fair value during the period	484,583	(478,080)	484,583	(478,080)
Fair value at the end of period	393,375	276,878	393,375	276,878
11.2 Government Grant - Deferred Income				
Fair value on the Beginning of the period/contract date	295,628	754,958	295,628	754,958
Change in fair value on the renewal of contract	(368,086)	-	(368,086)	-
Change in fair value during the period	484,583	(478,080)	484,583	(478,080)
Foreign exchange (loss)/gain on revaluation	(90,000)	18,750	(90,000)	18,750
Amortisation of deferred income on Govt Grant- CBSL Swap	394,583	(459,330)	394,583	(459,330)
Fair value at the end of period	322,125	295,628	322,125	295,628

Note 12. Proposed consolidation of Banking Business

In pursuance to the policies announced by Government to encourage consolidation of certain banking business DFCC Bank and National Development Bank PLC have taken the initiative to explore the possibilities of amalgamating. Both banks have entered into a Memorandum of Understanding to work towards the proposed amalgamation.

Note 13. Events Occurring after the reporting period

In terms of the DFCC Bank (Repeal and Consequential Provisions) Act No 39 of 2014 the DFCC Bank was incorporated under the Companies Act as a public company listed in the Colombo Stock Exchange with the name "DFCC Bank PLC" (Company Registration No: PQ 233) with effect from 6 January 2015 and will continue to carry on its business as a licensed specialized bank without any interruption.

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

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
Number of shares of the Bank on 31 December 2014 (No increase from 31 March 2014)	<u>265,097,688</u>

The Financial Statements of the Bank as at 31 December 2014 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 31.12.2014

	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	32,396,140	12.22
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	19,246,700	7.26
6	Melstacorp Limited	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-BP2S London-Aberdeen Asia Smaller Companies Investment Trust	3,889,870	1.47
14	Mrs. L.E.M. Yaseen	3,530,200	1.33
15	HSBC Intl Nominees Ltd-BP2S Luxembourg-Aberdeen Global Frontier Markets Equity Fund	3,287,584	1.24
16	Employees Trust Fund Board	2,408,991	0.91
17	Cargo Boat Development Company PLC	2,098,200	0.79
18	HSBC Intl Nominees Ltd-BP2S-London - Aberdeen New Dawn Investment Trust XCC6 Dawn Investment Trust XCC6	1,800,000	0.68
19	Mellon Bank N.A. - Florida Retirement System	1,500,000	0.57
20	Renuka Consultants & Services Limited	1,097,992	0.41

14.4 Public holding % and number of public share holders as at 31.12.2014 is 63.31% and 8,503 respectively.

14.5 Directors' Interests in Shares

	No of Shares As at 31.12.2014
Jansz, C R	1,000
Fernando, A R –CEO	4,470
Dayasri, G K	1,036
Gunawardana, H M N S	Nil
Thambiyah, R B	211,200
Thambiyah, S.R – Alternative Director	Nil
Chandradasa L P	500
Perumal, J E A	42,475
Fernando P M B	1,000
Dharmarajah T	500

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 .

C R Jansz
Chairman

A R Fernando
Director & Chief Executive Officer

A Withana
Chief Financial Officer

27.01.2015

DFCC Listed Debenture

	Interest Payable Frequency	Applicable Interest Rate p.a.	Interest rate of Comparative Government Securites (Gross) p.a.	Balance as at 31-12-2014 LKR 000
Debenture Category				
Fixed Rate				
2006/2016	Annually	14.00%	7.00%	672,913
20014/2017	Annually	8.50%	7.03%	3,947,773
20014/2017	Semi annually	8.50%	7.03%	901,838
20014/2017	Quarterly	8.50%	7.03%	301,697

Other Ratios	31.12.2014	31.03.2014
Debt to equity Ratio	0.98	1.07
Interest cover	1.40	1.34
Liquid Asset Ratio (%)	46.81	77.5

Business Segment Information
For the period ended 31 December 2014

	Lending		Financial Leasing		Investing in Equity		Commercial Banking		Other		Unallocated		Eliminations		Total	
	2014 LKR 000	2013 LKR 000	2014 LKR 000	2013 LKR 000	2014 LKR 000	2013 LKR 000	2014 LKR 000	2013 LKR 000	2014 LKR 000	2013 LKR 000	2014 LKR 000	2013 LKR 000	2014 LKR 000	2013 LKR 000	2014 LKR 000	2013 LKR 000
Revenue																
Interest income	5,191,930	6,260,151	1,085,120	1,038,121	-	-	6,016,319	6,651,196	28,874	40,973	-	-	(27,494)	(50,830)	12,294,749	13,939,611
Net fees and commission income	123,122	89,087					620,044	507,352	185,207	137,144			(127,344)	(120,544)	801,029	613,039
Net gain/(loss) from trading							322,666	109,974			144,431	1,145			467,097	111,119
Net gain/(loss) from financial instruments designated at fair value through PL							(220,114)	(20,379)			549,329	40,105			329,215	19,726
Net gain/(loss) from financial investments					1,569,469	495,175	171,392	81,797			22,958		(188,222)	(176,560)	1,575,597	400,412
Other income	(15,332)	45,620	-	-	-	(11,743)	258,830	(22,682)	164,727	146,157	(600,164)	(453,335)	(22,409)	(21,773)	(214,348)	(317,756)
Income from external customers	5,299,720	6,394,859	1,085,120	1,038,121	1,569,469	483,432	7,169,137	7,307,258	378,808	324,274	116,554	(412,085)	(365,469)	(369,707)	15,253,339	14,766,151
Total income	5,299,720	6,394,859	1,085,120	1,038,121	1,569,469	483,432	7,169,137	7,307,258	378,808	324,274	116,554	(412,085)	(365,469)	(369,707)	15,253,339	14,766,151
Percentage *	35	43	7	7	10	3	48	49	2	2	1	(3)			103	100
Expense																
Segment losses	(523,631)	256,118	5,821	42,848	-	13,803	495,824	664,768	-	-			(11,000)		(32,986)	977,537
Depreciation	-	-	-	-	-	-	152,455	133,756	23,042	20,040					175,497	153,796
Other operating & interest expens	3,056,827	2,937,130	344,799	445,874	-	-	5,422,758	5,705,142	234,162	212,463			(177,247)	(193,147)	8,881,299	9,107,462
	2,533,196	3,193,248	350,620	488,722	-	13,803	6,071,037	6,503,666	257,204	232,503	-	-	(188,247)	(193,147)	9,023,810	10,238,795
Result	2,766,524	3,201,611	734,500	549,399	1,569,469	469,629	1,098,100	803,592	121,604	91,771	116,554	(412,085)	(176,560)	(176,560)	6,229,529	4,527,356
Unallocated expenses																1,232,684
Value Added Tax																586,427
Share of profits of associates																149,272
Profit before tax																4,559,690
Income tax on profit on ordinary activities																965,861
Profit after tax																3,593,829
Non controlling interests																56,113
Profit for the Equity Holders of the Bank																3,537,716
Profits for the year																3,593,829
Other Comprehensive Income net of tax					5,762,773	1,043,143	36,257	17,452	4,204	144,690						5,803,234
Total Comprehensive Income																9,397,063
Total Comprehensive Income - Non controlling interests																56,413
Profit for the Equity Holders of the Bank																9,340,650
Assets	71,102,238	53,955,225	9,973,095	8,343,313	29,039,816	24,018,912	96,534,552	73,056,783	894,630	716,556	3,201,393	11,967,931	(7,020,481)	(4,280,871)	203,725,243	167,777,849
Percentage*	35	32	5	5	14	14	47	44	-	-	2	7	(3)	(3)	100	100
Investment in associate & Joint venture company																1,379,211
																205,104,454
Liabilities	58,216,330	44,137,633	7,163,783	7,508,982	-	-	89,989,974	67,570,383	303,726	158,622	1,810,481	11,139,333	(734,975)	(524,917)	156,749,319	129,990,036

* Net of eliminations

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

Revenues and expenses attributable to the business segment of DFCC Vardhana PLC 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

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

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 9 months ended 30 September is consolidated with Income statements of DFCC for the 9 months ended 31 December

For the nine months ended 31 December

	2014	2013
	LKR 000	LKR 000
Income	15,094,435	14,678,272
Interest income	12,281,778	13,929,739
Interest expenses	7,292,752	7,959,896
Net Interest Income	4,989,026	5,969,843
Fee and commission income	757,583	601,816
Less: Fee and commission expenses	14,417	5,377
Net Fee and Commission Income	743,166	596,439
Net gain/(loss) from trading	467,097	111,119
Net gain/(loss) from financial instruments at fair value through profit or loss	329,215	19,726
Net gain from financial investments	1,636,978	478,362
Other operating income (net)	(378,215)	(462,489)
Total Operating Income	7,787,267	6,713,000
Charge of Impairment for loans and other losses		
Individual Impairment	858,293	538,166
Collective Impairment	(902,616)	407,982
Others	22,337	31,389
Net Operating Income	7,809,253	5,735,463
Less: Operating Expenses		
Personnel expenses	1,251,583	1,178,394
Depreciation and Amortisation	257,054	235,249
Other operating expenses	1,374,993	1,170,542
Operating Profit Before Value Added Tax	4,925,623	3,151,278
Value added tax (VAT) on financial services	586,427	394,277
Profit Before Tax	4,339,196	2,757,001
Tax expenses	949,116	807,987
Profit for the Period	3,390,080	1,949,014

Note 01 Reconciliation with Group profit

For the nine months ended 31 December

	2014	2013
	LKR 000	LKR 000
Profit for the period - DBB	3,390,080	1,949,014
Consolidation adjustments		
Dividend from subsidiaries accounted in DBB	(61,381)	(77,951)
WHT on dividend received	(6,218)	(5,718)
Reversal of provision for fall in value of investments in subsidiary	11,000	-
	3,333,481	1,865,345
Add: Profit from other subsidiaries and Joint venture attributable to equity holders of DFCC Bank		
Subsidiaries	111,076	78,213
Share of profits of Joint venture	140,824	82,397
Share of profits of associate	8,448	2,276
Profit for the Period	3,593,829	2,028,231