

Results for the Half year ended 30 September 2012

This commentary relates to the interim non-audited financial statements for half year ended 30 September 2012.

GROUP PERFORMANCE

The DFCC Group recorded a consolidated profit after tax of LKR 1558m for the half year ended 30 September 2012 compared with LKR 1249m in the corresponding period of the previous year (comparable period).

Apart from the Banking Business which contributed LKR 1442m to profit after tax (based on partial consolidation in the supplementary income statement of DBB) and is analyzed below, the investment banking joint venture, Acuity Partners (Pvt) Ltd (APL) contributed LKR 87m in the current period marginally lower than LKR 90m in the comparable period. The current period however includes a deemed disposal gain of LKR 83m (50% of the total recorded by APL) arising from a transaction by its subsidiary Lanka Ventures PLC accounted in the income statement as per the previous Sri Lanka Accounting Standards. However, at the end of the current financial year consequent to representation of financial statements under the new accounting standards this amount of deemed disposal gain would be accounted as other comprehensive income in the equity and not in the income statement as currently presented. The environment was not conducive for investment banking business and the contribution from APL's core activities was significantly lower than in the previous period. The contribution from all other subsidiaries and associate company collectively was LKR 78m in the current period (LKR 65m in the comparable period).

BANKING BUSINESS

The Banking Business of the DFCC Group is undertaken by DFCC Bank (DFCC), a licensed specialized bank and 99 % owned subsidiary DFCC Vardhana Bank (DVB), a licensed commercial bank. Both banks function as one economic entity and as such it is appropriate to analyse the consolidated performance of the two banks as DFCC Banking Business (DBB). A consolidated Income statement for DBB has been released to the Colombo Stock Exchange as supplementary financial information. This statement was derived from the interim financial statements with certain adjustments for ease of analysis. Since the financial year of DVB ends in December, the accounts of DVB are consolidated with a 3 month lag.

The interest income of DBB in the current period was LKR 6,929m, an increase of 61% over LKR 4,303m in the previous comparable period. Thus the second quarter was an improvement over the 54% increase recorded in the first quarter over the previous comparable period. The higher interest income in the current period was the result of portfolio growth with total loans and advances (excluding interest receivable) increasing 33% from LKR 72,426m on 30 September 2011 to LKR 96,468m on 30 September 2012, as well as due to the increase in market interest rates. As in the first quarter, the funding cost in DVB was also correspondingly high, but there was a marginal improvement in the interest margin.

DVB reached the 18% maximum LKR credit growth ceiling for 2012 imposed by the Central Bank of Sri Lanka by 30 June 2012 which is consolidated with half year ended 30 September 2012 of DFCC Bank with a 3 month gap. It recently obtained a foreign currency line of credit which was converted to LKR on a hedged basis which enables it to increase its LKR advances portfolio by about LKR 1 billion during the period leading up to December 2012; DVB's customer deposit base increased from LKR 24,041m on 30 September 2011 to LKR 43,022m on 30 September 2012, an increase of 79% resulting in reducing its exposure to inter bank borrowing and significant improvement to the cash equivalent on 30 September 2012 to LKR 8,278m compared to LKR 4,112m one year ago.

DFCC also increased its customer deposit base from LKR 5,787m on 30 September 2011 to LKR 15,269m on 30 September 2012. Thus both constituent banks of the DBB made use of reduced domestic investor appetite for medium and long term funds in the relative volatility of interest rates by growing its customer deposit base. Depending on future market conditions and credit demand, DFCC will replace or supplement these deposits with longer term funding from domestic or international sources.

Other income of DBB was LKR 645m in the current period, 10% higher when compared to the comparable period. Main contributors were dividend income, fees and commission income which offset lower gains from sale of listed shares and a marginal net loss in foreign exchange operations.

Foreign exchange income of the DBB is primarily derived from DVB, the commercial banking arm. The income generated from trading activities was slightly lower than the cost of hedging swaps of foreign currencies to LKR for a higher interest yield and net interest income. This funding strategy was overall beneficial to DBB. The gross non-performing loan ratio of DBB marginally increased to 4.9% as at 30 September 2012 compared with 4.3%, on 31 March 2012. This is however much lower than 5.8% one year ago.

The ratio of operating expenses to operating income was 42% in the current period compared with 45% in the comparable period. The 13% increase in operating expenses in the current period was compensated by additional income. The increase in operating cost was largely due to personnel cost. As explained in my previous commentary, concomitant with expansion of branch network and diversification of product and services particularly in DVB, there was an increase in head count from 1316 employees in the group one year ago to 1463 employees in the group as at 30 September 2012. This head count increase included strengthening of management positions with a few external recruits. These factors contributed to an increase in the personnel cost on a year on year basis.

The DBB recorded LKR 1961m as operating profit before taxes which was an increase of 21% over the comparable period, an improvement over 11% recorded in the first quarter. Profit after tax (both VAT on financial services and income tax) was LKR 1,442m, an increase of 28% over the Rs 1,128 m recorded in the comparable period. The current quarter included an adjustment for a one off, non recurrent financial services value added tax over provision for

the prior year amounting to LKR 184m. Without this, DBB's profit after tax for the current period was LKR 1,257 m, an increase of 11% over the comparable period.

As stated in my previous commentary, going forward, the credit ceiling will have an adverse impact on the growth of DVB during the remainder of the year since because of its smaller base than DFCC at the end of December 2011. DFCC has room and can expect to grow as previously approved project loans are progressively disbursed, although there is a general slowdown in the demand for new project loans.

INVESTMENTS

The quoted equity investment securities of DFCC are carried at a cost of LKR 4,969m as at 30 September 2012. The aggregate market value of the investments on 30 September 2012 amounted to LKR 16,365m with an unrealized gain of LKR 11,396m. Thus the unrealized gain during the quarter ended 30 September 2012 has increased by LKR 2,634m or 30%. However, given vagaries of the domestic and global stock markets the current increase may not be indicative of future performance of this portfolio and in fact as at 31 October 2011, the unrealized gain has reduced to LKR 1124m. The interim non-audited financial statements are not based on the new accounting standards and therefore the unrealized gain is currently not recognized in the financial statements. However, under the new accounting standards all listed shares currently classified as investment securities would be reclassified as available for sale and marked to market and the unrealized gains recognized in the equity of DBB.

PRUDENTIAL INDICATORS

The capital adequacy and liquidity ratios continued to be well above the stipulated regulatory minimum. Specific provision cover for the DBB was 73% and unprovided NPL s as a proportion of equity was under 8%.

Nihal Fonseka
Chief Executive Officer

5 November 2012

DFCC Bank

Income Statement

For the period ended	Notes	Bank				Group			
		For the 6 months ended		For the quarter ended		For the 6 months ended		For the quarter ended	
		30.09.12 LKR 000	30.09.11 LKR 000	30.09.12 LKR 000	30.09.11 LKR 000	30.09.12 LKR 000	30.09.11 LKR 000	30.09.12 LKR 000	30.09.11 LKR 000
Income		4,440,175	3,141,989	2,297,819	1,488,051	7,805,608	5,204,714	4,079,425	2,562,907
Interest income		4,067,047	2,742,036	2,130,948	1,364,877	6,954,113	4,355,130	3,694,253	2,232,699
Interest income on loans & advances		3,783,507	2,479,271	1,976,220	1,273,766	6,260,689	3,828,689	3,307,760	2,009,016
Interest income on other interest earning assets		283,540	262,765	154,728	91,111	693,424	526,441	386,493	223,683
Less : Interest expenses		2,350,399	1,252,209	1,229,461	635,588	4,135,085	2,030,183	2,224,534	1,055,361
Interest expense on deposits		885,219	222,429	477,654	124,235	2,513,920	906,677	1,402,866	477,124
Interest expense on other interest bearing liabilities		1,465,180	1,029,780	751,807	511,353	1,621,165	1,123,506	821,668	578,237
Net interest income		1,716,648	1,489,827	901,487	729,289	2,819,028	2,324,947	1,469,719	1,177,338
Non interest income		373,128	399,953	166,871	123,174	851,495	849,584	385,172	330,208
Foreign exchange income	6	(57,504)	(8,918)	(30,463)	(10,866)	(2,710)	31,513	(18,902)	9,351
Other income	5	430,632	408,871	197,334	134,040	854,205	818,071	404,074	320,857
Less : Non interest expenses		618,361	596,738	318,425	300,059	1,541,205	1,435,556	797,214	725,450
Personnel costs		298,281	252,685	152,121	124,514	735,155	617,825	390,272	304,999
Provision for staff retirement benefits		45,478	34,195	22,739	17,097	45,478	34,195	22,739	17,097
Premises, equipment & establishment expenses		137,379	131,717	74,219	64,411	367,325	333,772	195,250	165,884
Loss on trading / investment securities		0	0	0	0	0	0	0	0
Other operating expenses		127,469	168,458	64,063	89,159	353,961	418,700	168,843	221,616
Amortization of intangible assets									
Software		9,754	9,683	5,283	4,878	39,286	31,064	20,110	15,854
Less : Provision for bad & doubtful debts and loans written off		(107,591)	(125,541)	(22,012)	(38,699)	40,026	(42,404)	48,622	6,141
Provisions - general		(7,304)	(73,868)	(5,437)	(24,826)	5,992	(67,577)	(5,024)	(29,577)
Provisions - specific		123,352	163,683	59,672	89,998	305,311	285,848	168,313	155,874
Recoveries		(223,651)	(216,256)	(56,482)	(104,682)	(274,086)	(264,015)	(95,381)	(121,576)
Loans written off		12	900	(19,765)	811	2,809	3,340	(19,286)	1,420
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		1,579,006	1,418,583	771,945	591,103	2,089,292	1,781,379	1,009,055	775,955
Less : Value added tax on financial services	7	(16,329)	148,041	(102,012)	61,487	56,034	185,201	(68,302)	83,928
Operating profit on ordinary activities before corporate tax		1,595,335	1,270,542	873,957	529,616	2,033,258	1,596,178	1,077,357	692,027
Share of profits/(Loss) of associates after tax						6,369	(2,864)	7,806	1,216
Operating profit before corporate tax		1,595,335	1,270,542	873,957	529,616	2,039,627	1,593,314	1,085,163	693,243
Less : Income tax on profit on ordinary activities	8	338,669	236,240	169,417	87,882	481,921	344,254	240,035	146,624
Profit for the period		1,256,666	1,034,302	704,540	441,734	1,557,706	1,249,060	845,128	546,619
Attributable to									
Equity holders of the Bank						1,501,516	1,212,619	819,134	529,581
Minority interest						56,190	36,441	25,994	17,038
		1,256,666	1,034,302	704,539	441,734	1,557,706	1,249,060	845,128	546,619
Basic earnings per share - LKR		4.74	3.90	2.66	1.67	5.66	4.57	3.09	2.00

Balance Sheet

As at	Notes	Bank		Group	
		30.09.12 LKR 000	31.03.12 LKR 000 Audited	30.09.12 LKR 000	31.03.12 LKR 000 Audited
On-Balance Sheet Assets					
Cash in hand		367	280	1,351,268	1,430,388
Balances with Central Bank of Sri Lanka		0	0	2,300,885	1,596,066
Due from Banks and other financial institutions		5,508,211	3,534,482	9,769,321	5,399,603
Investments - trading account		565,387	189,113	1,402,676	719,023
Government securities		487,815	123,806	1,325,104	653,716
Other securities		77,572	65,307	77,572	65,307
Investments - held to maturity (net of provisions)		9,653,048	8,320,830	22,264,035	19,474,088
Government securities		2,848,451	1,413,713	12,785,247	9,914,652
Investments in ordinary shares		5,088,806	4,922,464	7,628,257	7,452,543
Investments in preference shares		1,295,500	1,568,000	1,324,490	1,596,990
Investments in debentures		0	0	80,750	80,750
Investments in unit trusts		420,291	416,653	457,791	441,653
Less : Provision for decline in value of Investments		0	0	12,500	12,500
Investment in associate companies		35,270	35,270	391,709	370,799
Investment in subsidiary companies		3,782,453	3,777,907	-	-
Investment in joint venture company		655,000	655,000	-	-
Less : Provision for decline in value of Investments in Subsidiaries		(17,367)	(17,367)	-	-
Total loans and advances					
Total performing loans and advances		55,262,650	52,941,881	90,904,856	84,557,382
Bills of exchange discounted		0	0	527,568	527,476
Overdrafts		0	0	12,654,153	11,939,734
Finance leases		9,538,884	8,985,856	10,681,900	9,481,351
Other loans		45,723,766	43,956,025	67,041,235	62,608,822
Total non performing loans and advances		4,184,493	3,721,145	7,611,897	6,407,272
Bills of exchange discounted		0	0	38,884	32,661
Overdrafts		0	0	1,646,626	1,261,820
Finance leases		279,079	171,340	287,318	171,780
Other loans		2,515,095	2,218,735	3,590,415	3,029,448
Loan interest receivable		1,390,319	1,331,070	2,048,654	1,911,563
Total gross loans and advances		59,447,143	56,663,026	98,516,753	90,964,654
Less :					
Interest in suspense		1,390,319	1,331,070	2,885,487	2,564,083
Provision for credit losses - specific		1,663,657	1,747,151	2,653,174	2,588,509
Provision for credit losses - general		347,619	354,923	493,912	485,825
Net loans and advances		56,045,548	53,229,882	92,484,180	85,326,237
Group balances receivable		33,127	41,597	0	0
Prepayments		39,912	43,810	39,908	43,810
Other receivables		938,051	1,294,674	2,313,343	2,457,183
Deferred tax asset		0	0	5,673	5,583
Assets held for sale		0	0	2,875	2,875
Intangible assets		50,535	29,978	238,973	203,861
Investment property		0	0	133,542	147,981
Goodwill on consolidation		-	-	226,411	226,411
Property and equipment (Net of accumulated depreciation)		457,714	431,606	949,316	936,250
Income tax refund due		139,574	139,574	162,895	161,020
Total On Balance Sheet Assets		77,886,830	71,706,635	134,037,010	118,501,178

Balance Sheet

As at	Notes	Bank		Group	
		30.09.12 LKR 000	31.03.12 LKR 000 Audited	30.09.12 LKR 000	31.03.12 LKR 000 Audited
On Balance Sheet Liabilities					
Total deposits		15,269,276	11,710,526	58,291,065	44,420,013
Demand deposits		0	0	1,335,405	1,256,908
Savings deposits		0	0	7,295,555	7,172,688
Time deposits		15,269,276	11,710,526	49,185,773	35,521,883
Margin deposits		0	0	213,710	274,006
Other deposits		0	0	260,622	194,528
Total borrowings		38,060,158	36,106,592	44,407,305	43,991,926
Borrowings from CBSL		482,457	564,675	484,757	564,675
Borrowings from Banks and financial institutions in Sri Lanka		7,199,770	7,271,270	8,229,806	8,588,671
Borrowings from Banks and financial institutions abroad		1,657,910	1,855,514	1,698,143	1,943,369
Borrowings under repurchase agreements		0	0	4,274,578	5,480,078
Debentures - Subordinated		590,000	590,000	1,590,000	1,590,000
Debentures - Others		700,000	700,000	700,000	700,000
Other Borrowings		27,430,021	25,125,133	27,430,021	25,125,134
Group balances payable		0	222	0	0
Interest accrued		1,655,321	1,144,954	2,570,244	1,731,630
Current taxation		181,881	0	291,765	56,665
Deferred taxation		339,213	328,039	386,766	376,284
Other liabilities		431,154	662,750	1,524,095	1,842,545
Total On Balance Sheet Liabilities		55,937,003	49,953,083	107,471,240	92,419,064
Equity					
Share capital	12.2	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		1,655,772	1,485,215	1,655,772	1,485,215
General reserve		13,779,839	13,779,839	13,779,839	13,779,839
Retained profit		1,798,402	1,772,684	5,954,961	5,686,342
Shareholders' equity		21,949,827	21,753,552	26,106,386	25,667,210
Minority interest		-	-	459,384	414,904
Total equity		21,949,827	21,753,552	26,565,770	26,082,114
Total equity and liabilities		77,886,830	71,706,635	134,037,010	118,501,178
Off-Balance Sheet Items and Contra Accounts					
Contingencies		3,349,671	3,778,802	16,654,869	18,379,290
Commitments		9,946,648	14,916,351	18,559,109	22,543,390
Net assets value per share, LKR		82.80	82.06	98.48	96.82
Memorandum Information					
Number of employees		469	466	1,463	1,396
Number of branches and extension offices		19	19	146	145
The highest, the lowest and the last traded market price recorded during the period ended		30.09.2012	30.09.2011		
- Highest price LKR.		128.10	150.00		
- Lowest price LKR.		104.00	125.50		
- Last traded price LKR.		122.30	129.00		

Statement of Changes in Equity - Bank

	Ordinary Shares LKR. 000	Share Premium LKR. 000	Statutory Reserves LKR. 000	General Reserve LKR. 000	Retained Earnings LKR. 000	Total LKR. 000
Balance as at 01.04.2011	2,648,838	2,054,546	1,068,600	11,379,839	3,067,038	20,218,861
Issue of shares under employee share option plan	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	1,222,926	11,379,839	3,151,806	20,470,385
Balance as at 01.04.2012	2,650,977	2,064,837	1,485,215	13,779,839	1,772,684	21,753,552
Profit for the period					1,256,666	1,256,666
Final dividends approved on 29.06.2012					(1,060,391)	(1,060,391)
Share issue expenses						-
Transfers			170,557		(170,557)	-
Balance as at 30.09.2012	2,650,977	2,064,837	1,655,772	13,779,839	1,798,402	21,949,827

Statement of Changes in Equity - Group

	Attributable to equity holders of the bank					Minority Interest LKR. 000	Total LKR. 000
	Ordinary Shares LKR. 000	Share Premium LKR. 000	Statutory Reserves LKR. 000	General Reserve LKR. 000	Retained Earnings LKR. 000		
Balance as at 01.04.2011	2,648,838	2,054,546	1,068,600	11,379,839	6,530,865	486,666	24,169,354
Issue of shares under employee share option plan	2,139	10,424					12,563
Profit for the period					1,212,619	36,441	1,249,060
Right issue of shares						11,682	11,682
Adjustments due to changes in holdings						(107,598)	(107,598)
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	1,222,926	11,379,839	6,793,950	389,001	24,501,530
Balance as at 01.04.2012	2,650,977	2,064,837	1,485,215	13,779,839	5,686,342	414,904	26,082,114
Profit for the period					1,501,516	56,190	1,557,706
Increase in Minority Interest on Deemed Disposal of holding in a Subsidiary of JV						39,897	39,897
Final dividends approved on 29.06.2012					(1,060,391)		(1,060,391)
Dividends distributed to minority interest by subsidiaries						(49,010)	(49,010)
Increase in ownership interest by the bank that does not result in change of control					(1,949)	(2,597)	(4,546)
Transfers			170,557		(170,557)		-
Balance as at 30.09.2012	2,650,977	2,064,837	1,655,772	13,779,839	5,954,961	459,384	26,565,770

Selected Performance Indicators

	Bank		Group	
	30.09.12	31.03.12	30.09.12	31.03.12
Regulatory Capital Adequacy				
Core capital (Tier - 1 Capital) LKR. Mn	16,624	17,851	21,077	22,328
Total capital base LKR. Mn	13,425	14,923	19,583	21,085
Core capital ratio (Minimum requirement 5%)	22.82	24.37	19.19	21.00
Total capital ratio (Minimum requirement 10%)	18.43	20.37	17.83	19.90
Asset Quality				
Non-performing loans and advances - Gross exposure %	4.8	4.3	4.9	4.3
(Net of interest in suspense)				
- Net exposure %	1.3	0.5	1.7	0.9
(Net of interest in suspense and provisions)				
Profitability (Annualized)				
Interest margin %	4.5	4.8	4.4	4.9
Return on assets %	4.3	4.2	3.2	3.5
Return on equity %	11.5	11.0	11.6	11.8
Statutory liquid assets LKR. Mn	5,624	3,859		
Statutory liquid assets ratio % (Minimum requirement 20%)	44	52		

<i>For the period ended</i>	Bank		Group	
	30-09-2012	30-09-2011	30-09-2012	30-09-2011
	LKR 000	LKR 000	LKR 000	LKR 000
Cash flow from operating activities				
Interest Receipts	3,674,409	2,459,577	6,082,986	3,812,957
Interest payments	(1,845,592)	(1,320,914)	(3,382,547)	(2,142,751)
Recoveries on loans previously written off	36,787	57,866	36,787	57,866
Receipts from other operating activities	269,458	131,263	675,851	581,719
Cash payments to employees & suppliers	(842,168)	(717,009)	(1,790,497)	(1,559,800)
Value added tax	16,329	(171,157)	(70,111)	(200,284)
Operating Cash flow before changes in operating assets and liabilities	1,309,223	439,626	1,552,469	549,707
(Increase)/decrease in operating assets:				
Deposits held for regulatory or monetary control purposes	0	0	(704,891)	(249,745)
Funds advanced to customers	(2,636,056)	(5,659,690)	(7,142,181)	(11,325,389)
Others	230,304	(10,231)	190,059	(418,064)
Increase /(decrease) in operating liabilities:				
Security deposits from customers	0	(950)	95	(856)
Deposits from customers	3,558,750	2,098,568	13,884,194	4,283,827
Negotiable certificates of deposit	0	0	66,094	66,243
Others	(322,640)	66,783	(341,944)	252,737
Net cash flow from operating activities before income tax	2,139,581	(3,065,894)	7,503,895	(6,841,540)
Income tax paid	(130,274)	(353,696)	(177,369)	(439,175)
Net cash flow from/(used in)operating activities	2,009,307	(3,419,590)	7,326,526	(7,280,715)
Cash flow from investing activities				
Dividends received	672,284	320,037	561,018	274,774
Interest received	210,393	247,200	632,923	582,846
Treasury bills eligible for rediscounting with Central Bank	(2,345,923)	9,628,575	(2,891,613)	12,939,527
Proceeds from sale and redemption of securities	386,374	466,864	386,374	587,208
Purchase of securities	(209,415)	(874,613)	(148,048)	(874,613)
Investment in additional shares of subsidiaries-DFCC Vardhana Bank PLC	(4,546)	(1,336,587)	(4,546)	(243,136)
Investment in associate by joint venture	0	0	0	(96,000)
Purchase of property , equipment ,intangibles and investment property	(107,766)	(10,888)	(214,456)	(108,206)
Proceeds from sale of equipment and investment property	624	2,133	28,162	36,475
Net cash from investing activities	(1,397,975)	8,442,721	(1,650,186)	13,098,875
Cash flow from financing activities				
Issue of debentures	0	(910,000)	0	(910,000)
Issue of new shares under option	0	12,563	0	12,563
Issue of new shares by subsidiary (Rights issue)	0	0	0	11,681
Share issue expenses	0	(133)	0	(133)
Borrowing , medium and long - term	9,825,711	2,412,243	9,825,711	4,256,597
Other borrowings	(1,686,500)	(1,956,996)	(2,593,929)	(1,316,801)
Repayment of borrowing ,medium and long - term	(6,270,321)	(1,451,925)	(6,270,321)	(1,238,710)
Dividends paid	(1,053,506)	(2,636,715)	(1,102,517)	(2,670,352)
Net Cash flow from/(used in) financing activities	815,384	(4,530,963)	(141,056)	(1,855,155)
Net increase/(decrease) in cash & cash equivalents	1,426,716	492,168	5,535,284	3,963,005
Cash & cash equivalents/(overdraft-net) at the beginning of period as previously stated	4,163,425	1,370,810	12,441,560	4,777,976
Consolidated adjustment -Synapsys Limited	0	0	0	16,000
Cash & cash equivalents /(overdraft-net)at the beginning of the period	4,163,425	1,370,810	12,441,560	4,793,976
Cash & cash equivalents at the end of period	5,590,141	1,862,978	17,976,844	8,756,981
Reconciliation of cash & cash equivalents				
Cash & short - term funds	5,508,578	1,805,625	8,557,472	2,552,580
Treasury bills & other securities eligible for rediscounting with Central Bank	81,563	57,353	8,172,443	5,824,641
Securities purchased under resale agreements	0	0	1,265,468	450,001
Borrowing short term - Bank overdrafts	0	0	(18,539)	(70,241)
	5,590,141	1,862,978	17,976,844	8,756,981

The Cash Flow Statement of the bank includes the results of associate, joint venture and subsidiary companies only to the extent of the cash flows between Bank and respective companies as required by Sri Lanka Accounting Standards

EXPLANATORY NOTES

Note 1. Accounting policies

The accounting policies and methods of computation are consistent with those policies and methods followed during the previous financial year.

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

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

Note 3. Accounting for investment in Joint Venture Company

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

Note 4. 31 December financial year companies

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

Results of these companies are consolidated with DFCC Bank with a three months gap. Thus the consolidated results for the period ended 30.09.2012 include profits of these companies for the period 01.01.2012 to 30.06.2012.

Note 5. Foreign Exchange Income

Foreign exchange income includes cost of forward exchange premium on funding swaps (swap of foreign currency for LKR). The income derived from LKR is included under net interest income while the premium on forward purchases to cover foreign exchange risk is expensed to foreign exchange income.

Note 6. Non-Interest Income

	Bank		Group	
	30.09.2012 LKR. 000	30.09.2011 LKR. 000	30.09.2012 LKR. 000	30.09.2011 LKR. 000
Dividend income	256,640	149,431	139,861	100,069
Net gain on sale of other investment securities	74,848	167,444	74,848	174,121
Marked to market (loss)/ gain on other dealing securities	12,190	(1,398)	11,793	(1,404)
Other income	29,450	84,476	624,993	576,798
	<u>373,128</u>	<u>399,953</u>	<u>851,495</u>	<u>849,584</u>

Note 7. Value added tax on financial services

	Bank		Group	
	30.09.2012 LKR. 000	30.09.2011 LKR. 000	30.09.2012 LKR. 000	30.09.2011 LKR. 000
VAT on Financial Services expense-Current year	168,113	148,041	240,476	185,201
Over provision of VAT on Financial Services-Prior year	(184,442)	-	(184,442)	-
	<u>(16,329)</u>	<u>148,041</u>	<u>56,034</u>	<u>185,201</u>

Note 8. Taxation

	Bank		Group	
	30.09.2012 LKR. 000	30.09.2011 LKR. 000	30.09.2012 LKR. 000	30.09.2011 LKR. 000
Current Income Tax	327,496	311,538	471,438	419,588
Over Provision of Income Tax	-	(38,580)	-	(38,580)
Deferred tax	11,173	(36,718)	10,482	(36,754)
	<u>338,669</u>	<u>236,240</u>	<u>481,920</u>	<u>344,254</u>

Note 9. Investment in Quoted Ordinary Shares

	Bank	
	30.09.2012 LKR. 000	31.03.2012 LKR. 000
Cost	4,969,272	4,786,760
Unrecognized gain	11,395,942	9,304,328
Market Value	<u>16,365,214</u>	<u>14,091,088</u>

Market value on 31/10/20012 was LKR 14,857 million

Note 10. Post balance sheet events

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

Note 11.

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

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

Note 12. Disclosures under Appendix 7B of the Listing Rules**12.1 Bank has not incurred management fees or any other similar expenditure****12.2 Share Capital**

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

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

12.3 Twenty Major Shareholders as at 30.09.2012

	Name of Shareholder/Company	Shareholding	%
1	Bank of Ceylon No.2 A/c.	38,039,994	14.35
2	Hatton National Bank PLC A/c No.1	32,109,140	12.11
3	Sri Lanka Insurance Corporation Ltd-Life Fund	26,509,832	10.00
4	Employees Provident Fund	24,368,995	9.19
5	Mr M A Yaseen	22,886,700	8.63
6	Distilleries Company of Sri Lanka PLC	17,042,856	6.43
7	Seafeld International Limited	15,286,794	5.77
8	HSBC Intl Nom. Ltd-BPSS Lux-Aberdeen Global Asia Pacific Equity Fund	12,216,146	4.61
9	Renuka City Hotels PLC	6,926,870	2.61
10	HSBC Intl Nom Ltd-BPSS LDN-Aberdeen Asia Pacific Fund	6,750,000	2.55
11	HSBC Intl Nominees Ltd-BP2S London-Edinburg Dragon Trust PLC	5,620,164	2.12
12	Renuka Hotels Limited	4,073,360	1.54
13	HSBC Intl Nominees Ltd-SSBT- Aberdeen Institutional Commingled Funds, LLC	3,002,500	1.13
14	Employee Trust Fund Board	2,444,528	0.92
15	HSBC Intl Nominees Ltd-BP2S London-Aberdeen Asia Smaller Companies Investment Trust	2,389,870	0.90
16	HSBC Intl Nominees Ltd-BP2S Luxembourg-Aberdeen Global Frontier Markets Equity Fund	2,133,300	0.80
17	Cargo Boat Development Company PLC	2,098,200	0.79
18	HSBC Intl Nominees Ltd-BP2S-London - Aberdeen New Dawn Investment Trust XCC6	1,800,000	0.68
19	Mellon Bank N.A. - Florida Retirement System	1,500,000	0.57
20	National Savings Bank	1,342,024	0.51

12.4 Public holding as at 30.09.2012 is 63.37%

12.5 Directors' Interests in Shares

	No of Shares As at 30.09.2012
Brito, J M S - Chairman	38,760
Fonseka, A N – Ex-officio Director	142,006*
Abeywardena, A S	10,380
Bandaranayake, T K	1,478
Dayasri, G K	1,036
Gunawardana, H M N S	Nil
Jansz, C R	1,000
Thambiyah, R B	211,200
Thambiyah, S.R – Alternative Director	Nil
Chandrasasa L P	500
Perumal, J E A	42,475

*Directors' shareholding includes shares held by the spouse.

Certification

We, the undersigned, being the Chairman, the Chief Executive Officer and the Chief Financial Officer of DFCC Bank certify that:

- (a) the above statements have been prepared in compliance with the format and definitions prescribed by the Central Bank of Sri Lanka.
- (b) the information contained in these statements have been extracted from the unaudited financial statements of the Bank unless indicated as audited .

J M S Brito
Chairman

A.N Fonseka
Ex-officio Director
& Chief Executive

S. Nagarajah
Chief Financial Officer

31/10/2012

Business Segment Information

For the six months ended 30 September	Lending		Financial Leasing		Investing in Equity		Commercial Banking		Other		Unallocated		Eliminations		Total	
	2012 LKR 000	2011 LKR 000	2012 LKR 000	2011 LKR 000	2012 LKR 000	2011 LKR 000	2012 LKR 000	2011 LKR 000	2012 LKR 000	2011 LKR 000	2012 LKR 000	2011 LKR 000	2012 LKR 000	2011 LKR 000	2012 LKR 000	2011 LKR 000
Revenue																
Interest income	3,403,579	2,210,995	663,468	531,041	-	-	2,892,654	1,595,894	41,981	63,903	-	-	(47,569)	(46,703)	6,954,113	4,355,130
Other income	64,697	72,316	-	-	331,486	313,625	368,218	245,781	364,360	353,152	(23,055)	14,135	(254,211)	(149,425)	851,495	849,584
Income from external customers	3,468,276	2,283,311	663,468	531,041	331,486	313,625	3,260,872	1,841,675	406,341	417,055	(23,055)	14,135	(301,780)	(196,128)	7,805,608	5,204,714
Inter segment income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total income	3,468,276	2,283,311	663,468	531,041	331,486	313,625	3,260,872	1,841,675	406,341	417,055	(23,055)	14,135	(301,780)	(196,128)	7,805,608	5,204,714
Percentage *	44	44	8	10	4	6	42	35	5	8	3	3	-	-	100	100
Expense																
Segment losses	(99,392)	(51,089)	(8,199)	(74,452)	-	-	147,617	83,137	-	-	-	-	-	-	40,026	(42,404)
Depreciation	-	-	-	-	-	-	81,741	68,336	18,251	15,735	-	-	-	-	99,992	84,071
Other operating & interest expenses	2,290,812	1,472,611	465,128	279,126	-	-	2,565,433	1,436,879	215,456	209,997	-	-	(173,353)	(114,277)	5,363,476	3,284,336
Inter segment expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	2,191,420	1,421,522	456,929	204,674	-	-	2,794,791	1,588,352	233,707	225,732	-	-	(173,353)	(114,277)	5,503,494	3,326,003
Result	1,276,856	861,789	206,539	326,367	331,486	313,625	466,081	253,323	172,635	191,323	-	-	-	-	2,302,114	1,878,711
Unallocated expenses															212,822	97,333
Value Added Tax on financial services															56,034	185,201
Share of profits/(Loss) of associates															2,033,258	1,596,178
Profit on ordinary activities before tax															6,369	(2,864)
Income tax on profit on ordinary activities															2,039,627	1,593,314
Profit on ordinary activities after tax															481,921	344,254
Minority interest															1,557,706	1,249,060
Profit for the period															56,190	36,441
															1,501,516	1,212,619
Assets	51,781,193	38,684,618	9,730,004	7,729,515	6,804,596	4,607,257	56,057,352	35,432,046	3,282,167	3,788,915	7,285,582	4,024,045	(1,295,593)	(544,265)	133,645,301	93,722,131
Percentage	39	41	7	8	5	5	42	38	2	4	5	4	-	-	100	100
Investment in associate company															391,709	266,287
															134,037,010	93,988,418
Liabilities	39,589,276	31,349,507	8,757,004	6,956,563	-	-	51,187,801	31,134,533	1,599,980	2,245,400	7,590,575	(1,654,850)	(1,253,396)	(544,265)	107,471,240	69,486,888

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

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

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

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

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

* Net of eliminations

Debenture Information

DFCC Listed Subordinated Debentures

Debenture Categories	Interest Payable Frequency	Applicable Interest Rate	Comparative Govt. Sec. Interest Rate (Gross)	Value as at 30 Sep 2012 LKR'. 000
Fixed Rate				
2006/2016 - 14.00% p.a.	Annually	14.00%	13.61%	590,000
				<u>590,000</u>
Other Ratios				
	30.09.2012	31.03.2012		
Debt Equity Ratio	1.71	1.56		
Interest Cover (Times)	1.34	1.72		
Quick Asset Ratio (%)	44	52		

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

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

Income statement of DVB for the 6 months ended 30 June is consolidated with Income statements of DFCC for the 6 months ended 30 September

For the six months ended 30 September

	2012 LKR 000	2011 LKR 000
Interest income	6,929,263	4,303,414
Interest expense	(4,144,762)	(2,040,933)
Net interest income	<u>2,784,501</u>	<u>2,262,481</u>
Other Income		
Dividends received from other Subsidiaries	44,114	30,309
Dividends from non-affiliated entities	128,212	67,470
Gains from sale of non-affiliated shares	74,848	167,444
Foreign exchange income	(2,711)	31,514
Marked to market loss on other dealing securities	11,793	(3,427)
Fees and Commission income	327,392	240,430
Others	61,352	48,613
Operating income	<u>3,429,501</u>	<u>2,844,834</u>
Personnel costs	631,152	498,003
Provision for staff retirement benefits	45,478	34,195
Premises, equipment & establishment expenses	352,428	326,545
Other overhead expenses	399,644	408,279
Operating expenses	<u>1,428,702</u>	<u>1,267,022</u>
Operating profit before provisions	2,000,799	1,577,812
Allowances for credit losses		
- Specific Provision	305,311	285,848
- General Provision	5,992	(67,577)
- Recoveries	(274,086)	(264,015)
- Loans Written off	2,809	3,340
Operating profit before value added tax	1,960,773	1,620,216
Value added tax on financial services -Current period	(240,476)	(185,201)
Operating profit before income tax	<u>1,720,297</u>	<u>1,435,015</u>
Income tax expense	(463,092)	(306,591)
	<u>1,257,205</u>	<u>1,128,424</u>
Value added tax on financial services -Over provision from prior year*	184,442	-
Profit after tax before share of associate profit	<u>1,441,647</u>	<u>1,128,424</u>
Share of profits of National Asset Managemet Limited	2,853	3,045
Profit for the period	<u>1,444,500</u>	<u>1,131,469</u>
<i>* Adjusted for presentation purpose only</i>		
Note 01- Reconciliation with Group profit		
For the six months ended 30 September		
	2012 LKR 000	2011 LKR 000
Profit for the period-DBB	1,444,500	1,131,469
<i>Consolidation adjustments</i>		
Dividend from subsidiaries accounted in DBB	(44,114)	(30,309)
WHT on dividend received	(4,901)	(3,368)
	<u>1,395,485</u>	<u>1,097,792</u>
Add: Profit from other subsidiariies and Joint venture		
Subsidiariies	75,290	61,600
Joint venture	86,931	89,668
Profit for the period	<u>1,557,706</u>	<u>1,249,060</u>
Composition of the Joint venture results		
Joint venture and its subsidiaries	83,414	95,576
Associates of joint venture and its subsidiaries	3,517	(5,908)
	<u>86,931</u>	<u>89,668</u>