



Results for the Six months Ended 30 September 2014

This commentary relates to the interim non-audited financial statements for 6 months ended 30 September 2014.

These Financial Statements are presented in accordance with Sri Lanka Financial Reporting Standards (SLFRS) aligned with International Financial Reporting Standards (IFRS). In this presentation, the comparative amounts previously reported, under the former accounting standards collectively referred to Generally Accepted Accounting Principles (GAAP) have been restated under SLFRS.

GROUP PERFORMANCE

The DFCC Group recorded a consolidated profit after tax of LKR 2,071m for the six months ended 30 September 2014 compared with LKR 1,222m in the corresponding period of the previous year (comparable period).

Apart from the Banking Business comprising the DFCC Bank (DFCC), a licensed specialized bank and its 99% owned subsidiary DFCC Vardhana Bank PLC (DVB), a licensed commercial bank which contributed LKR 2,002m to profit after tax and is analysed below, the investment banking joint venture, Acuity Partners (Pvt) Limited (APL) contributed LKR 33m in the current period (LKR 48m in the comparable period). The contribution from all other subsidiaries and associate company collectively was LKR 93m in the current period (LKR 56m 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 2,996m as operating profit before taxes, an increase of 53% over the comparable period. Profit after tax (both VAT on financial services and income tax) was LKR 2,002m, an increase of 70% over LKR 1,180m in the comparable period.

Net Interest Income (NII) of DBB for the period decreased by 18% from LKR 4,092m to LKR 3,364m due to the drop in on lending rates in tandem with a drop in benchmark interest rates. However DBB recorded a credit growth of 19% year on year which far exceeded industry average.

Net fee and commission income of DBB in the current period increased by 21% to LKR 453m compared to LKR 373m 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 during the period, DFCC was able to divest some of the mature equity holdings and generate a capital gain of LKR 300 million.

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 quarter ended 30 September 2014. The cumulative allowance for impairment for loans and advances as a percentage of impaired loans and advances on 30 September 2014 was 60%.

DBB added ten more branches during the 12 month period ended 30 September 2014. Due to stringent cost management DBB has been able to contain the operating cost increases to 8% over that of the comparable period including the absorption of a 3% cost increase in the current period expenses due to a charge for Nation Building Tax which was introduced with effect from 1 January 2014.

FUNDING

In August 2014 the Bank raised funds with a tenor of 3 years by way of senior, unsecured redeemable rated debentures. The initial issue was for LKR 3 billion with an option to raise a further LKR 2 billion. This was the first debenture to be issued to the market with a single digit interest rate and the issue was 3 times oversubscribed on the first day itself. Due to the favourable response received, Bank issued debentures to the total value of LKR 5 billion.

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 30 September 2014, due to market appreciation of available for sale securities there was a fair value gain of LKR 4,679 m. In the comparable period the fair value gain was LKR 569 m.

EQUITY CAPITAL

Under SLFRS, the total income for the period comprises the income reported in the income statement and other comprehensive income. Consequent to this change there are two significant changes. Shares listed in the Colombo Stock Exchange and owned by the bank are recognized at the fair value and the gain in the fair value in the current period included in other comprehensive income significantly augmented the equity capital.

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.

EVENTS AFTER 30 SEPTEMBER 2014

On 31 October 2014, the Bank divested the entire holding of 9.92% ordinary voting shares of Nations Trust Bank PLC and realised a gross gain of Rs 842 million.

The DFCC Bank (Repeal and Consequential Provisions) Act No 39 of 2014 which provides for the registration of DFCC Bank as a public limited company incorporated under the Companies Act with the name DFCC Bank PLC (Company) was certified by the Hon. Speaker on 1 November 2014. The proposed law will enable the Company to come into being from a date as may be specified by the Minister by Order published in the Gazette and continue carrying on its business as a licensed specialized bank without any interruption.

Arjun Fernando
Chief Executive Officer

12 November 2014

DFCC Bank
Income Statement

For the period ended	Bank				Group			
	For the 6 months ended		For the quarter ended		For the 6 months ended		For the quarter ended	
	30.09.14	30.09.13	30.09.14	30.09.13	30.09.14	30.09.13 Restated	30.09.14	30.09.13 Restated
Notes	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000
Interest income	4,130,220	4,954,954	2,054,138	2,386,628	8,426,988	9,405,201	4,130,376	4,655,725
Interest expense	2,310,248	2,455,202	1,175,397	1,188,530	5,041,185	5,282,681	2,446,664	2,667,630
Net interest income	1,819,972	2,499,752	878,741	1,198,098	3,385,803	4,122,520	1,683,712	1,988,095
Fees and commission Income	81,605	56,143	41,625	32,621	511,111	390,531	267,711	214,324
Less- Fees and commission expenses	-	-	-	-	9,071	3,448	4,902	2,000
Net fees and commission income	81,605	56,143	41,625	32,621	502,040	387,083	262,809	212,324
Net gain/(loss) from trading	218,338	1,028	171,911	210	333,442	83,156	254,496	65,874
Net gain/(loss) from financial instruments at fair value through profit or loss	6 (310,805)	59,532	(57,582)	37,817	(403,288)	(21,187)	(134,167)	20,746
Net gain from financial investments	7 540,013	270,138	281,084	105,132	454,195	150,141	281,595	68,823
Other operating income/(loss)- (net)	8 242,976	(416,363)	22,395	(135,271)	439,896	(309,859)	148,859	(117,722)
Total operating income	2,592,099	2,470,230	1,338,174	1,238,607	4,712,088	4,411,854	2,497,304	2,238,140
Impairment for Loans and other losses								
- Individual impairment	134,305	5,293	236,187	(22,269)	511,121	249,653	469,248	110,234
- Collective impairment	(783,455)	263,342	(220,357)	151,292	(779,487)	392,812	(395,757)	181,288
- Others	6,981	122	3,619	-	6,981	14,310	3,619	14,188
Investment - impairment losses	11,000	-	11,000	-	-	-	-	-
Net operating Income	3,223,268	2,201,473	1,307,725	1,109,584	4,973,473	3,755,079	2,420,194	1,932,430
Operational expenses								
Personnel expenses	342,605	365,940	161,330	180,507	908,661	855,408	456,259	440,942
Depreciation and amortisation	69,576	66,818	34,731	34,220	185,704	167,426	93,957	85,220
Other expenses	287,952	271,178	141,110	153,618	838,795	762,513	414,123	423,894
Operating profit before value added tax (VAT)	2,523,135	1,497,537	970,554	741,239	3,040,313	1,969,732	1,455,855	982,374
Value added tax (VAT) on financial services	265,926	172,516	114,004	84,329	355,926	259,709	178,405	128,025
Operating profit after value added tax	2,257,209	1,325,021	856,550	656,910	2,684,387	1,710,023	1,277,450	854,349
Share of profits of Associate and Joint Venture	-	-	-	-	38,591	48,802	33,049	38,635
Profit before tax	2,257,209	1,325,021	856,550	656,910	2,722,978	1,758,825	1,310,499	892,984
Income tax expense	458,772	360,396	222,415	194,343	651,813	537,288	377,434	283,207
Profit for the period	1,798,437	964,625	634,135	462,567	2,071,165	1,221,537	933,065	609,777
Profit attributable to								
Equity holders of the Bank	1,798,437	964,625	634,135	462,567	2,035,024	1,187,895	912,292	592,505
Non-controlling interests	-	-	-	-	36,141	33,642	20,773	17,272
Profit for the period	1,798,437	964,625	634,135	462,567	2,071,165	1,221,537	933,065	609,777
Basic earnings per ordinary share - LKR	6.78	3.64	2.39	1.74	7.68	4.48	3.44	2.24

DFCC Bank
Statement of Comprehensive Income

	Bank				Group			
	For the 6 months ended		For the quarter ended		For the 6 months ended		For the quarter ended	
For the period ended	30.09.14	30.09.13	30.09.14	30.09.13	30.09.14	30.09.13	30.09.14	30.09.13
	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	Restated LKR 000	LKR 000	Restated LKR 000
Profit for the period	1,798,437	964,625	634,135	462,567	2,071,165	1,221,537	933,065	609,777
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	4,954,765	618,474	2,591,461	27,681	4,931,653	635,926	2,579,973	52,013
Net amount transferred to income statement on disposal of available-for-sale financial assets	(247,324)	(69,935)	(186,189)	(23,174)	(247,324)	(69,935)	(186,189)	(23,174)
Share of profits of associates & Joint venture	-	-	-	-	(5,205)	3,087	(4,137)	977
Tax expense relating to components of other comprehensive income	-	-	-	-	-	-	-	-
Other comprehensive income for the period, net of taxes	4,707,441	548,539	2,405,272	4,507	4,679,124	569,078	2,389,647	29,816
Total comprehensive income for the period	6,505,878	1,513,164	3,039,407	467,074	6,750,289	1,790,615	3,322,712	639,593
Total comprehensive income attributable to:								
Equity holders of the Bank	6,505,878	1,513,164	3,039,407	467,074	6,714,340	1,756,820	3,302,034	622,108
Non-controlling interests	-	-	-	-	35,949	33,795	20,678	17,485
Total comprehensive income for the period	6,505,878	1,513,164	3,039,407	467,074	6,750,289	1,790,615	3,322,712	639,593

Statement of Financial Position

As at	Notes	Bank		Group	
		30-09-2014 LKR 000	31-03-2014 LKR 000 (Audited)	30-09-2014 LKR 000	31-03-2014 LKR 000 Restated
Assets					
Cash and cash equivalents		154,979	545,388	2,281,442	2,933,361
Balances with Central Bank		-	-	3,105,217	2,870,492
Placements with banks		1,417,425	2,681,779	1,804,165	3,138,180
Derivative assets held for risk management		-	1,630	278,026	183,892
Other financial assets held- for- trading		1,668,694	1,017,980	4,389,621	1,971,915
Non current assets held- for- sale		-	-	-	-
Loans to and receivables from banks		1,028,718	1,233,616	4,060,737	5,547,821
Loans to and receivables from other customers	9	68,231,602	61,341,469	122,733,163	112,167,194
Financial Investments - available-for-sale		27,825,641	25,073,487	47,801,730	39,901,586
Financial Investments - held-to-maturity		823,248	535,958	5,153,166	1,073,703
Investment in subsidiary companies		5,957,564	5,968,564	-	-
Investments in Associate and Joint Venture		690,270	690,270	1,262,562	1,213,763
Due from subsidiaries		41,077	43,028	-	-
Investment properties		-	-	193,269	183,281
Property, plant and equipment		398,125	453,015	1,038,574	1,089,188
Intangible assets		49,411	60,378	234,793	237,434
Goodwill on consolidation		-	-	156,226	156,226
Deferred tax asset		-	-	2,273	2,285
Govt Grant Receivable	11.1	45,878	276,878	45,878	276,878
Income tax refund due		-	-	-	1,546
Prepayments		63,480	35,833	63,480	35,833
Other receivables		553,685	982,009	2,161,194	2,010,716
Total assets		108,949,797	100,941,282	196,765,516	174,995,294
Liabilities					
Due to banks		3,751,499	5,153,754	9,717,604	6,673,576
Derivative liabilities held for risk management		133,784	55,609	431,923	227,994
Due to other customers	10	17,877,948	16,630,363	80,892,264	80,917,356
Other borrowing		23,565,620	25,434,079	35,464,123	27,782,493
Debt securities issued	11	19,145,323	14,009,017	19,145,323	14,009,017
Current tax liability		317,149	157,615	437,897	242,848
Deferred tax liability		417,471	433,069	553,347	553,222
Govt Grant-Deferred Income	11.1	45,878	295,628	45,878	295,628
Other liabilities		586,144	752,698	2,713,998	2,228,988
Subordinated term debt		651,063	609,373	1,651,358	1,609,674
		66,491,879	63,531,205	151,053,715	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		2,404,201	2,381,648	2,404,201	2,381,648
Retained earnings		4,407,448	4,089,601	9,738,756	9,163,494
Other reserves		30,930,455	26,223,014	28,539,129	23,859,814
Total equity attributable to equity holders of the Bank		42,457,918	37,410,077	45,397,900	40,120,770
Non-Controlling interest		-	-	313,901	333,728
Total equity		42,457,918	37,410,077	45,711,801	40,454,498
Total equity and Liabilities		108,949,797	100,941,282	196,765,516	174,995,294
Contingent Liabilities & commitments		37,461,080	30,234,047	66,469,386	57,788,965
Net Asset value per share,LKR		160.16	141.12	171.25	151.34

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

	30.09.2014	30.09.2013
- Highest price Rs.	203.00	136.20
- Lowest price Rs.	152.10	115.20
- Last traded price Rs.	200.30	119.20

Statement of Changes in Equity
For the period ended 30.09.2014
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							964,625	964,625
Other comprehensive income (net of tax)					548,539			548,539
Total comprehensive income for the period	-	-	-	-	548,539	-	964,625	1,513,164
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 30 September 2013	2,650,977	2,064,837	1,285,000	896,437	11,715,824	13,779,839	2,578,633	34,971,547
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							1,798,437	1,798,437
Other comprehensive income (net of tax)					4,707,441		-	4,707,441
Total comprehensive income for the period	-	-	-	-	4,707,441	-	1,798,437	6,505,878
Transfers				22,553			(22,553)	-
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 30 September 2014	2,650,977	2,064,837	1,380,000	1,024,201	17,150,616	13,779,839	4,407,448	42,457,918

Statement of Changes in Equity
For the period ended 30.09.2014
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							1,187,895	1,187,895	33,642	1,221,537
Other comprehensive income (net of tax)					568,925		-	568,925	153	569,078
Total comprehensive income for the period	-	-	-	-	568,925	-	1,187,895	1,756,820	33,795	1,790,615
Transfers				175,412			(175,412)	-		-
Transactions with equity holders, recognised directly in equity										
Share Deemed disposal gain JV							24,278	24,278		24,278
Dividends to equity holders							(1,325,488)	(1,325,488)	(55,567)	(1,381,055)
Total transactions with equity holders	-	-	-	-	-	-	(1,301,210)	(1,301,210)	(55,567)	(1,356,777)
Balance as at 30 September 2013	2,650,977	2,064,837	1,285,000	896,437	9,287,410	13,779,839	7,305,409	37,269,909	287,783	37,557,692
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							2,035,024	2,035,024	36,141	2,071,165
Other comprehensive income (net of tax)					4,679,315		-	4,679,315	(191)	4,679,124
Total comprehensive income for the period	-	-	-	-	4,679,315	-	2,035,024	6,714,339	35,950	6,750,289
Transfers				22,553			(22,553)	-		-
Transactions with equity holders, recognised directly in equity										
Share issue by sub of JV							158	158	-	158
other equity adjustment JV							(3,241)	(3,241)	-	(3,241)
Share Deemed disposal gain JV							23,911	23,911	-	23,911
Dividends to equity holders							(1,458,037)	(1,458,037)	(55,777)	(1,513,814)
Total transactions with equity holders				22,553			(1,459,761)	(1,437,209)	(55,777)	(1,492,985)
Balance as at 30 September 2014	2,650,977	2,064,837	1,380,000	1,024,201	14,759,290	13,779,839	9,738,756	45,397,900	313,901	45,711,801

Cash Flow Statement

For the 6 months ended	Bank		Group	
	30.09.2014 LKR 000	30.09.2013 LKR 000	30.09.2014 LKR 000	30.09.2013 LKR 000 Restated
Cash flow from operating activities				
Interest Receipts	3,599,287	4,106,655	7,210,802	7,718,670
Interest payments	(2,319,095)	(2,454,028)	(5,073,671)	(5,002,261)
Recoveries on loans previously written off	15,344	10,536	18,013	11,017
Receipts from other operating activities	(10,122)	933	738,931	316,659
Cash payments to employees & suppliers	(756,702)	(846,055)	(1,892,207)	(1,958,550)
Value added tax	(245,430)	(175,089)	(296,477)	(260,591)
Other taxes and levies	(59,557)	-	(71,432)	-
Operating Cash flow before changes in operating assets and liabilities	223,725	642,952	633,959	824,944
(Increase)/decrease in operating assets:				
Deposits held for regulatory or monetary control purposes	-	-	(234,725)	(537,073)
Funds advanced to customers	(6,157,131)	2,720,347	(11,250,542)	(3,629,330)
Others	192,786	106,167	(260,857)	224,759
Increase /(decrease) in operating liabilities:				
Security deposits from customers	-	-	(57,375)	-
Deposits from customers	1,301,875	(1,319,535)	158,499	4,321,625
Negotiable certificates of deposit	-	-	29,834	62,991
Others	100,395	(43,503)	736,621	(66,469)
Net cash flow from operating activities before income tax	(4,338,350)	2,106,428	(10,244,586)	1,201,447
Income tax paid	(314,836)	(176,344)	(372,615)	(250,074)
Net cash flow from/(used in) operating activities	(4,653,186)	1,930,084	(10,617,201)	951,373
Cash flow from investing activities				
Dividends received	762,277	797,966	579,578	647,944
Interest received	313,657	545,120	940,517	1,229,304
Government Securities	1,288,449	(1,238,597)	(7,822,220)	(4,630,357)
Proceeds from sale and redemption of securities	821,037	444,134	821,037	444,134
Purchase of securities	(564,280)	(228,830)	(3,455,102)	(228,830)
Purchase of property , equipment ,intangibles and investment property	(3,793)	(46,356)	(142,512)	(177,489)
Proceeds from sale of equipment and investment property	605	4,427	605	6,630
Net cash from/(used in) investing activities	2,617,952	277,864	(9,078,097)	(2,708,664)
Cash flow from financing activities				
Issue of debentures	5,000,000	-	5,000,000	-
Borrowing , medium and long - term	153,702	270,960	157,034	519,492
Other borrowings(Net)	(1,402,000)	2,381,705	12,107,002	4,730,531
Repayment of borrowing ,medium and long - term	(1,937,016)	(5,757,045)	(1,937,016)	(5,757,045)
Dividends paid	(1,449,167)	(1,317,029)	(1,499,227)	(1,372,596)
Net Cash flow from/(used in) financing activities	365,519	(4,421,409)	13,827,793	(1,879,618)
Net increase/(decrease) in cash & cash equivalents	(1,669,715)	(2,213,461)	(5,867,505)	(3,636,909)
Cash & cash equivalents/(overdraft-net) at the beginning of period	3,242,119	7,558,956	9,953,112	12,374,546
Cash & cash equivalents at the end of period	1,572,404	5,345,495	4,085,607	8,737,637
Reconciliation of cash & cash equivalents with items reported in the statement of financial position				
Cash and cash equivalents	154,979	599,530	2,281,442	2,897,171
Placements with banks	1,417,425	4,656,436	1,804,165	5,677,212
Government Securities-less than 3 months	-	89,529	-	163,254
	1,572,404	5,345,495	4,085,607	8,737,637

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:

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.

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 31st 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 method adopted with regard to the collective impairment process. The effect of this change is an increase in profit after tax of the Bank by LKR 553 million. The External Auditors have verified the accuracy of the revised impairment assessment of loans and receivables as at 30 June 2014 by way of a special purpose audit.

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 30 September

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	(79,805)	59,532	(172,288)	(21,187)
Gain/(loss) on CBSL Swap	(231,000)	-	(231,000)	-
Total	(310,805)	59,532	(403,288)	(21,187)

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

For the period ended 30 September

Gain on sale of securities

Dividend income

Net gain from repurchase transactions

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

For the period ended 30 September

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
Gain on sale of securities	300,195	74,211	300,195	74,211
Dividend income	219,056	191,825	30,942	36,290
Net gain from repurchase transactions	20,762	4,102	123,058	39,640
Total	540,013	270,138	454,195	150,141

	Bank		Group	
	2014	2013	2014	2013
	LKR 000	LKR 000	LKR 000	LKR 000
Foreign exchange gain/(loss)	(66,006)	(463,984)	34,360	(358,137)
Amortisation of deferred income on Govt Grant- CBSL Swap	249,750	-	249,750	-
Others	59,232	47,621	155,786	48,278
Total	242,976	(416,363)	439,896	(309,859)

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	
	30-09-2014	31-03-2014	30-09-2014	31-03-2014
As at	LKR 000	LKR 000	LKR 000	LKR 000
Gross loans and receivables (Note 9.1)	70,862,886	64,733,749	128,369,105	119,058,962
Less: Individual impairment (Note 9.2.1)	(1,621,143)	(1,486,838)	(3,483,158)	(3,794,550)
Collective impairment (Note 9.2.2)	(1,010,141)	(1,905,442)	(2,152,784)	(3,097,218)
Net loans and receivables	68,231,602	61,341,469	122,733,163	112,167,194

Note 9.1 Loans and Receivables to Other Customers - By product

	Bank		Group	
	30-09-2014	31-03-2014	30-09-2014	31-03-2014
As at	LKR 000	LKR 000	LKR 000	LKR 000
By product-Domestic Currency				
Overdrafts	-	-	19,231,075	19,230,658
Trade finance	-	-	8,033,287	8,258,437
Lease rentals receivable	7,604,498	8,109,397	9,295,013	9,611,637
Credit cards	-	-	139,889	114,956
Pawning	-	-	2,495,632	3,426,803
Staff loans	553,858	533,093	918,732	871,123
Term loans	53,681,718	47,269,519	72,016,171	61,932,880
Commercial papers and asset back notes	2,501,817	2,321,850	2,501,817	2,321,850
Debenture loans	579,539	886,132	579,539	886,132
Preference shares unquoted	1,240,000	1,500,401	1,240,000	1,500,401
Securities purchased under resale agreements	-	-	1,243,313	825,880
	66,161,430	60,620,392	117,694,468	108,980,757
By product-Foreign Currency				
Overdrafts	-	-	264,651	275,450
Trade finance	-	-	4,819,617	4,840,862
Term loans	4,701,457	4,113,357	5,590,369	4,961,893
	4,701,457	4,113,357	10,674,637	10,078,205
Gross Loans and Receivables	70,862,886	64,733,749	128,369,105	119,058,962

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

	Bank		Group	
	30-09-2014	31-03-2014	30-09-2014	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	134,305	11,308	511,121	569,034
Effect of foreign currency movements	-	-	(719)	5,563
Effect of discounting	-	(2,456)	-	(2,456)
Write-off during the year	-	-	(821,794)	(7,516)
Closing balance	1,621,143	1,486,838	3,483,158	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	(783,455)	281,123	(779,487)	621,595
Effect of foreign currency movements	-	-	331	718
Transfers to dues on terminated leases	(13,221)	(15,460)	(13,221)	(15,460)
Write-off during the year	(98,625)	(229,113)	(152,057)	(276,766)
Closing balance	1,010,141	1,905,442	2,152,784	3,097,218
Total Individual and Collective impairment	2,631,284	3,392,280	5,635,942	6,891,768

Note 10. Due to Other Customers - By product

	Bank		Group	
	30-09-2014	31-03-2014	30-09-2014	31-03-2014
As at	LKR 000	LKR 000	LKR 000	LKR 000
By product-Domestic Currency				
Demand deposits (current accounts)	-	-	2,894,173	1,810,331
Savings deposits	-	-	12,660,364	12,167,462
Fixed deposits	17,877,948	16,616,195	56,581,241	57,260,770
Margin deposits	-	-	187,921	648,251
Certificate of deposits	-	-	627,873	586,707
	17,877,948	16,616,195	72,951,573	72,473,521
By product- Foreign Currency				
Demand deposits (current accounts)	-	-	210,636	98,900
Savings deposits	-	-	1,126,007	814,203
Fixed deposits	-	14,168	6,594,770	7,529,571
Margin deposits	-	-	9,279	1,161
	-	14,168	7,940,692	8,443,835
Total	17,877,948	16,630,363	80,892,264	80,917,356

Note 11. Debt Securities issued**11.1 Notes issue (USD)**

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 currency SWAP arrangement with Central Bank of Sri Lanka (CBSL) for 75% of the US Dollar (USD) denominated liability.

	Bank		Group	
	30-09-2014	31-03-2014	30-09-2014	31-03-2014
	LKR 000	LKR 000	LKR 000	LKR 000
11.1.1 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 for the period	(231,000)	(478,080)	(230,999)	(478,080)
Fair value at the end of period	45,878	276,878	45,878	276,878
11.2.1 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 for the period	(231,000)	(478,080)	(230,999)	(478,080)
Foreign exchange (loss)/gain on revaluation	(18,750)	18,750	(18,750)	18,750
Amotisation of deferred income on government grant	(249,750)	(459,330)	(249,750)	(459,330)
Fair value at the end of period	45,878	295,628	45,878	295,628

11.2. Debenture Issue

On 07 August 2014 the bank opened the issuance of 30,000,000 Senior Unsecured Redeemable rated Debentures to the public at an issue price of LKR.100/- with the option to issue further 20,000,000 debentures in the event the issue is oversubscribed. As the issue was oversubscribed, the Bank allotted 50,000,000 debentures amounting to LKR. 5 Bn at an effective interest rate of 8.5% p.a on 18 August 2014

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. Post Balance Sheet Events

13.1 The DFCC Bank (Repeal and Consequential Provisions) Act No 39 of 2014 which provides for the registration of DFCC Bank as a public limited company incorporated under the Companies Act with the name DFCC Bank PLC (Company) was certified by the Hon. Speaker on 1 November 2014. The proposed law will enable the Company to come into being from a date as may be specified by the Minister by Order published in the Gazette to continue to carry on its business as a licensed specialized bank without any interruption.

13.2 On 31 October 2014, the Bank divested the entire holding of 9.92% ordinary voting shares of Nations Trust Bank PLC and realised a gross gain of Rs 842 million.

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 30 September 2014 (No increase from 31 March 2014)	<u>265,097,688</u>

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

14.3 Twenty Major Shareholders as at 30.09.2014

	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	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-BP2S London-Aberdeen Asia Smaller Companies Investment Trust	3,889,870	1.47
14	Mrs. L.E.M. Yaseen	3,300,400	1.25
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 30.09.2014 is 63.31% and 8,663 respectively.

14.5 Directors' Interests in Shares

	No of Shares As at 30.09.2014
Jansz, C R	1,000
Fernando, A R –CEO/ Ex-officio Director	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
Ex-officio Director
& Chief Executive

A Withana
Chief Financial Officer

11.11.2014

DFCC Listed Debenture

	Interest Payable Frequency	Applicable Interest Rate p.a.	Interest rate of Comparative Government Securites (Gross) p.a.	Balance as at 30.09.2014 LKR 000
Debenture Category				
Fixed Rate				
2006/2016	Annually	14.00%	6.81%	651,063
20014/2017	Annually	8.50%	7.10%	3,865,789
20014/2017	Semi annually	8.50%	7.10%	883,473
20014/2017	Quarterly	8.50%	7.10%	301,697

Other Ratios	30.09.2014	31.03.2014
Debt to equity Ratio	1.44	1.07
Interest cover	1.26	1.34
Liquid Asset Ratio (%)	36.2	77.5

Business Segment Information
For the period ended 30 Sep 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	3,527,739	4,252,292	725,455	802,805	-	-	4,170,556	4,356,422	22,289	30,420	-	-	(19,052)	(36,738)	8,426,987	9,405,201
Net fees and commission income	81,605	56,143					371,029	316,599	142,007	92,644			(92,601)	(78,303)	502,040	387,083
Net gain/(loss) from trading							115,104	82,128			218,338	1,028			333,442	83,156
Net gain/(loss) from financial instruments designated at fair value through PL							(92,483)	(80,775)			(310,805)	59,588			(403,288)	(21,187)
Net gain/(loss) from financial investments					519,251	270,138	102,404	35,538			20,762		(188,222)	(155,535)	454,195	150,141
Other income	(23,645)	(7,172)			(4,102)		104,042	24,691	107,843	96,402	266,621	(405,146)	(14,965)	(14,532)	439,896	(309,859)
Income from external customers	3,585,699	4,301,263	725,455	802,805	519,251	266,036	4,770,652	4,734,603	272,139	219,466	194,916	(344,530)	(314,840)	(285,108)	9,753,272	9,694,535
Total income	3,585,699	4,301,263	725,455	802,805	519,251	266,036	4,770,652	4,734,603	272,139	219,466	194,916	(344,530)	(314,840)	(285,108)	9,753,272	9,694,535
Percentage *	37	44	6	8	5	3	50	49	3	2	2	(3)	-	-	103	103
Expense																
Segment losses	(638,431)	226,543	15,284	30,925	-	11,803	372,762	387,504	-	-			(11,000)		(261,385)	656,775
Depreciation		-					100,976	87,418	15,151	13,190					116,127	100,608
Other operating & interest expenses	1,908,557	2,004,947	270,536	340,019	-	-	3,766,222	3,796,533	162,122	141,323			(126,618)	(129,573)	5,980,819	6,153,249
	1,270,126	2,231,490	285,820	370,944	-	11,803	4,239,960	4,271,455	177,273	154,513	-	-	(137,618)	(129,573)	5,835,561	6,910,632
Result	2,315,573	2,069,773	439,635	431,861	519,251	254,233	530,692	463,148	94,866	64,953	194,916	(344,530)	(155,535)	(155,535)	3,917,711	2,783,903
Unallocated expenses															877,399	814,171
Value Added Tax															355,926	259,709
Share of profits of associates															2,684,386	1,710,023
Profit before tax															38,591	48,802
Income tax on profit on ordinary activities															2,722,977	1,758,825
Profit after tax															651,812	537,288
Non controlling interests															2,071,165	1,221,537
Profit for the Equity Holders of the Bank															36,141	33,642
Profits for the year															2,035,024	1,187,895
Other Comprehensive Income net of tax					4,707,440	548,539	(23,111)	17,452	(5,205)	3,087					2,071,165	1,221,537
Total Comprehensive Income															4,679,124	569,078
Total Comprehensive Income - Non controlling interests															6,750,289	1,790,615
Profit for the Equity Holders of the Bank															35,949	33,795
															6,714,340	1,756,820
Assets	68,300,633	52,002,658	9,219,852	10,073,364	29,290,710	21,811,025	91,438,923	67,006,254	768,166	670,206	3,258,726	6,299,266	(6,774,056)	(4,797,768)	195,502,954	153,065,005
Percentage*	35	34	5	7	15	14	47	44	-	-	2	4	(3)	(3)	100	100
Investment in associate & Joint venture company															1,262,562	1,161,949
															196,765,516	154,226,954
Liabilities	54,137,823	41,990,021	6,772,146	7,818,591	-	-	85,033,817	63,019,850	200,905	135,142	5,540,830	4,092,474	(631,806)	(386,816)	151,053,715	116,669,262

* 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 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

	2014	2013
	LKR 000	LKR 000
Income	9,657,954	9,637,753
Interest income	8,417,894	9,397,854
Interest expenses	5,054,381	5,305,753
Net Interest Income	3,363,513	4,092,101
Fee and commission income	461,705	376,190
Less: Fee and commission expenses	9,071	3,448
Net Fee and Commission Income	452,634	372,742
Net gain/(loss) from trading	333,442	83,156
Net gain/(loss) from financial instruments at fair value through profit or loss	(403,288)	(21,187)
Net gain from financial investments	515,576	207,066
Other operating income (net)	332,626	(405,325)
Total Operating Income	4,594,503	4,328,553
Charge of Impairment for loans and other losses		
Individual Impairment	511,121	249,653
Collective Impairment	(779,487)	392,812
Others	17,981	14,310
Net Operating Income	4,844,888	3,671,778
Less: Operating Expenses		
Personnel expenses	809,323	774,117
Depreciation and Amortisation	170,552	154,236
Other operating expenses	869,184	781,721
Operating Profit Before Value Added Tax	2,995,829	1,961,704
Value added tax (VAT) on financial services	355,926	259,709
Profit Before Tax	2,639,903	1,701,995
Tax expenses	638,165	521,961
Profit for the Period	2,001,738	1,180,034

Note 01 Reconciliation with Group profit

For the six months ended 30 September

	2014	2013
	LKR 000	LKR 000
Profit for the period - DBB	2,001,738	1,180,034
Consolidation adjustments		-
Dividend from subsidiaries accounted in DBB	(61,381)	(56,926)
WHT on dividend received	(6,218)	(5,718)
Reversal of provision for fall in value of investments in subsidiary	11,000	-
	1,945,139	1,117,390
Add: Profit from other subsidiaries and Joint venture attributable to equity holders of DFCC Bank		
Subsidiaries	87,438	55,346
Share of profits of Joint venture	33,191	47,807
Share of profits of associate	5,399	994
Profit for the Period	2,071,165	1,221,537