

## **Results for nine months ended 31 December 2012**

This commentary relates to the interim non-audited financial statements for nine months ended 31 December 2012.

### **GROUP PERFORMANCE**

The DFCC Group recorded a consolidated profit after tax of LKR 2,374m for nine months ended 31 December 2012 compared with LKR 2,204m in the corresponding period of the previous year (comparable period).

The financial year of subsidiaries DFCC Vardhana Bank PLC (DVB) and Synapsys (Pvt) Ltd, joint venture Acuity Partners (Pvt) Ltd and associate company National Asset Management Limited ends on 31 December and therefore the results of these entities are consolidated with the bank with a time lag of three months.

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 to the consolidated performance of the two banks referred to as DFCC Banking Business (DBB) is analyzed later in this review. A consolidated Income statement for DBB derived from the interim financial statements has been released to the Colombo Stock Exchange as supplementary financial information.

Apart from the DBB which contributed LKR 2,215m to profit after tax (based on partial consolidation in the supplementary income statement of DBB) and is analyzed below in greater detail, the investment banking joint venture, Acuity Partners (Pvt) Ltd (APL) contributed LKR 105m in the current period, 16pc lower than LKR 125m 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 re-presentation of the full year financial statements under the new accounting standards, this deemed disposal gain would be accounted as other comprehensive income in the equity and not in the income statement as currently presented.

The investment banking business was adversely impacted by the economic environment that prevailed although there were signs of uplift toward the end of the current period. 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 103m in the current period (LKR 79m in the comparable period).

### **Banking Business**

Net Interest Income as well as loans and advances recorded growth although DVB due to its lower base was constrained by the credit ceiling imposed on the banking sector by the Central Bank. DBB funded the credit expansion largely through customer deposit mobilization with deposits growing to LKR 60.4 billion in the current period. However, the high interest rate regime that prevailed had an adverse impact on the Net Interest Margin (NIM). On a composite basis, NIM of DBB was 4.6% in the current period compared with 4.9% in the comparable period. The last quarter of the current period saw a reversal of the declining trend with NIM of DBB increasing to 4.6% for the 9 month period compared with 4.4% at the half year stage on an annualized basis.

Other income of DBB was LKR 1,014m in the current period, 14% lower when compared to the comparable period. This reduction was mainly due to the fact that a second interim dividend from Commercial Bank Of Ceylon PLC paid in the comparable period in Dec 2011, being declared after 31 December 2012. As a result LKR 104.6m was not accounted in the income statement in the current period. Also, gains from sale of non affiliated shares was only LKR 76m in the current period compared to LKR 254m in the comparable period since market conditions were not conducive for disposing mature investments.

DBB continued with a funding strategy of selling foreign currencies, mainly USD and generating LKR for lending activities with a better net interest income compared to the margin on foreign currency denominated loans. The market risk relating to these transactions was partially hedged through swaps. The swap cost was charged to foreign exchange income and it exceeded the foreign exchange profit from trading and translation gains thus recording an overall loss.

The gross non-performing loan ratio of DBB increased to 4.8% as at 31 December 2012 compared with 4.3%, on 31 March 2012. The gross non performing loans of DBB increased by LKR 1,064m during nine months ended 31 December 2012. However, there was a reduction of LKR 141m non-performing loans during the quarter ended December 2012. Recognizing that in a relatively high interest rate regime temporary problems of debt servicing do arise, DBB through pro-active measures and active monitoring strived to contain the incidence of default events.

The ratio of operating expenses to operating income of the DBB was 41% in the current period approximately the same as in the comparable period. The 15% increase in operating expenses in the current period was compensated by additional income.

In common with banking industry, the personnel cost is a significant proportion of the operating expenses. The personnel cost in the current period inclusive of retirement benefits was LKR 1,036m being a 26% increase over LKR 825m in the comparable period. DBB increased its head count from 1228 employees at the beginning of the current period to 1268 on 31 December 2012, a modest increase of 3%. Salary and benefits in DBB were revised following a survey to bring these in line with market. Some high level skills needed for business expansion and succession planning in personal financial services, marketing, risk management, treasury and senior management were acquired through external recruitment. The DBB has embarked on a comprehensive review of its organization structure to optimize the deployment of its human resources through further synergies to be reaped through centralization, shared services between DFCC and DVB and expected attrition. The DBB recorded a 10% increase in operating profit before taxes which to LKR 3,146 m. Profit after tax (both VAT on financial services and income tax) was LKR 2,215m, an increase of 9% over the Rs 2,031m recorded in the comparable period. The current period 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 2,031m, approximately the same as in the comparable period.

## **INVESTMENTS**

The quoted equity investment securities of DFCC are carried at a cost of LKR 4,992m as at 31 December 2012. The aggregate market value of the investments on 31 December 2012 amounted to LKR 14,702m with an unrealized gain of LKR 9,710m. The unrealized gain reported on 30 September 2012 was LKR 11,396m. As commented in my previous commentary on half year results given vagaries of the domestic and global stock markets the unrealized gain can fluctuate significantly. For instance as at 30 January 2013, the date interim financial statements for nine months ended 31 December 2012 was authorized for issue, the unrealized gain was LKR 10,009m.

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.

## **TRANSITION TO NEW ACCOUNTING STANDARDS**

This is the last occasion on which financial statements are presented under previous accounting standards. The final quarter interim financial statements and the Annual Financial Statements for the year ending 31 March 2013 will be prepared under the IFRS based new accounting standards. As indicated in the notes to the interim financial statements, based on current unaudited estimates, the impact on the equity of DFCC of transition to the new accounting standards will not be adverse.

## **PRUDENTIAL INDICATORS**

The capital adequacy and liquidity ratios continued to be well above the stipulated regulatory minimum. Specific provision cover for the DBB was 72% and un-provided NPLs as a proportion of equity was under 8%.

## **FUTURE DEVELOPMENTS**

Access to diversified sources of long term funds at a reasonable cost is important for DFCC to prudently leverage its franchise in the project lending space in post war Sri Lanka. For DVB, increasing the current and savings account (CASA) component of its customer deposits and the higher yielding personal financial assets are priorities. The environment in 2012 was not conducive to achieving either of these but looking forward the DBB is better placed to realise these objectives.

The Road Map 2013 announced by the Central Bank indicated that inflation, interest rates and exchange rate will be managed in a manner that will encourage investment and economic growth. The credit ceiling that applied in 2012 is not applicable in 2013 which will permit DVB to target the growth of personal financial assets more aggressively. The announcement made in the budget proposals for 2013 that the Government will facilitate DFCC Bank to raise up to USD 250m in long term funds from international capital markets is also a favourable development. The foreign exchange risk cover and tax free interest income from deployment of funds raised that were proposed in the budget will stand the Bank in good stead to enhance its development financing mandate. The bank is actively pursuing this opportunity.

Nihal Fonseka  
Chief Executive Officer  
8 February 2013

DFCC Bank

Income Statement

For the period ended	Notes	Bank				Group			
		For the 9 months ended		For the quarter ended		For the 9 months ended		For the quarter ended	
		31.12.12 LKR 000	31.12.11 LKR 000	31.12.12 LKR 000	31.12.11 LKR 000	31.12.12 LKR 000	31.12.11 LKR 000	31.12.12 LKR 000	31.12.11 LKR 000
<b>Income</b>		<b>6,973,748</b>	<b>5,090,705</b>	<b>2,533,573</b>	<b>1,948,716</b>	<b>12,385,918</b>	<b>8,393,065</b>	<b>4,580,309</b>	<b>3,188,351</b>
<b>Interest income</b>		<b>6,391,355</b>	<b>4,256,035</b>	<b>2,324,308</b>	<b>1,513,999</b>	<b>11,058,034</b>	<b>6,846,820</b>	<b>4,103,920</b>	<b>2,491,690</b>
Interest income on loans & advances		5,909,880	3,951,338	2,126,373	1,472,067	9,864,747	6,169,647	3,604,058	2,340,958
Interest income on other interest earning assets		481,475	304,697	197,935	41,932	1,193,287	677,173	499,862	150,732
<b>Less : Interest expenses</b>		<b>3,651,505</b>	<b>1,969,964</b>	<b>1,301,106</b>	<b>717,755</b>	<b>6,585,947</b>	<b>3,205,277</b>	<b>2,450,862</b>	<b>1,175,094</b>
Interest expense on deposits		1,442,543	375,998	557,325	153,569	4,140,352	1,473,297	1,626,432	566,620
Interest expense on other interest bearing liabilities		2,208,962	1,593,966	743,781	564,186	2,445,595	1,731,980	824,430	608,474
<b>Net interest income</b>		<b>2,739,850</b>	<b>2,286,071</b>	<b>1,023,202</b>	<b>796,244</b>	<b>4,472,087</b>	<b>3,641,543</b>	<b>1,653,058</b>	<b>1,316,596</b>
<b>Non interest income</b>	6	<b>582,393</b>	<b>834,670</b>	<b>209,265</b>	<b>434,717</b>	<b>1,327,884</b>	<b>1,546,245</b>	<b>476,389</b>	<b>696,661</b>
Foreign exchange income	5	(91,388)	(4,948)	(33,884)	3,970	(38,015)	58,292	(35,305)	26,779
Other income		673,781	839,618	243,149	430,747	1,365,899	1,487,953	511,694	669,882
<b>Less : Non interest expenses</b>		<b>943,886</b>	<b>901,640</b>	<b>325,525</b>	<b>304,902</b>	<b>2,423,473</b>	<b>2,172,643</b>	<b>882,267</b>	<b>737,087</b>
Personnel costs		459,233	397,591	160,952	144,906	1,122,550	968,282	387,395	350,457
Provision for staff retirement benefits		68,218	51,293	22,739	17,098	68,218	51,293	22,739	17,098
Premises, equipment & establishment expenses		206,751	197,911	69,372	66,194	549,349	503,194	182,024	169,422
Loss on trading / investment securities		0	0	0	0	0	0	0	0
Other operating expenses		195,198	240,729	67,729	72,271	624,205	601,299	270,244	182,599
Amortization of intangible assets									
Software		14,486	14,116	4,733	4,433	59,151	48,575	19,865	17,511
<b>Less : Provision for bad &amp; doubtful debts and loans written off</b>		<b>(142,453)</b>	<b>(199,471)</b>	<b>(34,862)</b>	<b>(73,930)</b>	<b>65,196</b>	<b>(76,686)</b>	<b>25,170</b>	<b>(34,282)</b>
Provisions - general		(9,879)	(108,008)	(2,575)	(34,140)	4,613	(95,922)	(1,379)	(28,345)
Provisions - specific		230,968	281,114	107,616	117,431	521,511	471,103	216,200	185,255
Recoveries		(370,438)	(375,199)	(146,787)	(158,943)	(472,515)	(457,828)	(198,429)	(193,813)
Loans written off		6,896	2,622	6,884	1,722	11,587	5,961	8,778	2,621
<b>Less : Provision for fall in value of dealing &amp; investment securities losses</b>		<b>0</b>	<b>18,048</b>	<b>0</b>	<b>18,048</b>	<b>0</b>	<b>681</b>	<b>0</b>	<b>681</b>
<b>Operating profit on ordinary activities before taxes</b>		<b>2,520,810</b>	<b>2,400,524</b>	<b>941,804</b>	<b>981,941</b>	<b>3,311,302</b>	<b>3,091,150</b>	<b>1,222,010</b>	<b>1,309,771</b>
Less : Value added tax on financial services	7	83,300	247,123	99,629	99,082	194,282	319,287	138,248	134,086
<b>Operating profit on ordinary activities before corporate tax</b>		<b>2,437,510</b>	<b>2,153,401</b>	<b>842,175</b>	<b>882,859</b>	<b>3,117,020</b>	<b>2,771,863</b>	<b>1,083,762</b>	<b>1,175,685</b>
Share of profit of associates after tax						20,810	3,129	14,440	5,993
<b>Operating profit before corporate tax</b>		<b>2,437,510</b>	<b>2,153,401</b>	<b>842,175</b>	<b>882,859</b>	<b>3,137,830</b>	<b>2,774,992</b>	<b>1,098,202</b>	<b>1,181,678</b>
Less : Income tax on profit on ordinary activities	8	531,072	379,065	192,403	142,825	764,005	571,415	282,082	227,161
<b>Profit for the period</b>		<b>1,906,438</b>	<b>1,774,336</b>	<b>649,772</b>	<b>740,034</b>	<b>2,373,825</b>	<b>2,203,577</b>	<b>816,120</b>	<b>954,517</b>
Attributable to									
Equity holders of the Bank						2,296,568	2,149,447	795,053	936,828
Minority interest						77,257	54,130	21,067	17,689
		<b>1,906,438</b>	<b>1,774,336</b>	<b>649,772</b>	<b>740,034</b>	<b>2,373,825</b>	<b>2,203,577</b>	<b>816,120</b>	<b>954,517</b>
Basic earnings per share -LKR		<b>7.19</b>	<b>6.69</b>	<b>2.45</b>	<b>2.79</b>	<b>8.66</b>	<b>8.11</b>	<b>3.00</b>	<b>3.53</b>

## Balance Sheet

As at	Notes	Bank		Group	
		31.12.12 LKR 000	31.03.12 LKR 000 Audited	31.12.12 LKR 000	31.03.12 LKR 000 Audited
<b>On-Balance Sheet Assets</b>					
Cash in hand		299	280	1,530,496	1,430,388
Balances with Central Bank of Sri Lanka		0	0	2,302,856	1,596,066
Due from Banks and other financial institutions		4,247,537	3,534,482	7,680,804	5,399,603
<b>Investments - trading account</b>		<b>633,135</b>	<b>189,113</b>	<b>887,525</b>	<b>719,023</b>
Government securities		559,757	123,806	814,147	653,716
Other securities		73,378	65,307	73,378	65,307
<b>Investments - held to maturity ( net of provisions )</b>		<b>10,952,887</b>	<b>8,320,829</b>	<b>24,296,932</b>	<b>19,474,088</b>
Government securities		3,954,258	1,413,712	14,649,112	9,914,652
Investments in ordinary shares		5,140,874	4,922,464	7,680,325	7,452,543
Investments in preference shares		1,435,500	1,568,000	1,464,490	1,596,990
Investments in debentures		0	0	80,750	80,750
Investments in unit trusts		422,255	416,653	434,755	441,653
Less : Provision for decline in value of Investments		0	0	12,500	12,500
Investment in associate companies		35,270	35,270	406,149	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)	-	-
<b>Total loans and advances</b>					
<b>Total performing loans and advances</b>		<b>56,999,343</b>	<b>52,941,881</b>	<b>93,203,855</b>	<b>84,557,383</b>
Bills of exchange discounted		0	0	642,094	527,476
Overdrafts		0	0	13,335,741	11,939,734
Finance leases		9,617,292	8,985,856	10,828,868	9,481,351
Other loans		47,382,051	43,956,025	68,397,152	62,608,822
<b>Total non performing loans and advances</b>		<b>3,962,911</b>	<b>3,721,145</b>	<b>7,471,101</b>	<b>6,407,272</b>
Bills of exchange discounted		0	0	39,042	32,661
Overdrafts		0	0	1,661,560	1,261,820
Finance leases		202,574	171,340	205,259	171,780
Other loans		2,395,451	2,218,735	3,536,883	3,029,448
Loan interest receivable		1,364,886	1,331,070	2,028,357	1,911,563
<b>Total gross loans and advances</b>		<b>60,962,254</b>	<b>56,663,026</b>	<b>100,674,956</b>	<b>90,964,655</b>
<b>Less :</b>					
Interest in suspense		1,364,886	1,331,070	2,798,759	2,564,083
Provision for credit losses - specific		1,625,021	1,747,151	2,581,076	2,588,509
Provision for credit losses - general		345,044	354,923	492,170	485,825
<b>Net loans and advances</b>		<b>57,627,303</b>	<b>53,229,882</b>	<b>94,802,951</b>	<b>85,326,238</b>
Group balances receivable		64,437	41,597	0	0
Prepayments		38,903	43,810	38,903	43,810
Other receivables		760,268	1,294,674	2,491,345	2,457,182
Deferred tax asset		0	0	5,663	5,583
Assets held for sale		0	0	2,875	2,875
Intangible assets		52,890	29,978	229,110	203,861
Investment property		0	0	158,232	147,981
Goodwill on consolidation		-	-	226,411	226,411
Property and equipment (Net of accumulated depreciation)		457,773	431,606	948,904	936,250
Income tax refund due		173,415	139,574	199,041	161,020
<b>Total On Balance Sheet Assets</b>		<b>79,464,203</b>	<b>71,706,635</b>	<b>136,208,197</b>	<b>118,501,178</b>

## Balance Sheet

As at	Notes	Bank		Group	
		31.12.12 LKR 000	31.03.12 LKR 000 Audited	31.12.12 LKR 000	31.03.12 LKR 000 Audited
<b>On Balance Sheet Liabilities</b>					
<b>Total deposits</b>		<b>17,098,947</b>	<b>11,710,526</b>	<b>60,365,256</b>	<b>44,420,013</b>
Demand deposits		0	0	1,330,187	1,256,908
Savings deposits		0	0	8,817,184	7,172,688
Time deposits		17,098,947	11,710,526	49,800,268	35,521,883
Margin deposits		0	0	142,085	274,006
Other deposits		0	0	275,532	194,528
<b>Total borrowings</b>		<b>37,511,510</b>	<b>36,106,592</b>	<b>43,775,140</b>	<b>43,991,927</b>
Borrowings from CBSL		439,339	564,675	441,639	564,675
Borrowings from Banks and financial institutions in Sri Lanka		7,959,000	7,271,270	9,851,705	8,588,671
Borrowings from Banks and financial institutions abroad		1,425,691	1,855,514	1,444,176	1,943,369
Borrowings under repurchase agreements		800,000	-	4,150,140	5,480,078
Debentures - Subordinated		590,000	590,000	1,590,000	1,590,000
Debentures - Others		-	700,000	-	700,000
Other Borrowings		26,297,480	25,125,133	26,297,480	25,125,134
Group balances payable		-	222	-	-
Interest accrued		1,072,298	1,144,954	2,016,256	1,731,630
Current taxation		372,373	-	498,615	56,665
Deferred taxation		352,046	328,039	415,662	376,284
Other liabilities		457,430	662,750	1,763,035	1,842,545
<b>Total On Balance Sheet Liabilities</b>		<b>56,864,604</b>	<b>49,953,083</b>	<b>108,833,964</b>	<b>92,419,064</b>
<b>Equity</b>					
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
<b>Stated Capital</b>		<b>4,715,814</b>	<b>4,715,814</b>	<b>4,715,814</b>	<b>4,715,814</b>
Statutory reserves		1,755,135	1,485,215	1,755,135	1,485,215
General reserves		13,779,839	13,779,839	13,779,839	13,779,839
Retained Earnings		2,348,811	1,772,684	6,650,651	5,686,342
<b>Shareholders' equity</b>		<b>22,599,599</b>	<b>21,753,552</b>	<b>26,901,439</b>	<b>25,667,210</b>
Minority interest		-	-	472,794	414,904
<b>Total equity</b>		<b>22,599,599</b>	<b>21,753,552</b>	<b>27,374,233</b>	<b>26,082,114</b>
<b>Total equity and liabilities</b>		<b>79,464,203</b>	<b>71,706,635</b>	<b>136,208,197</b>	<b>118,501,178</b>
<b>Off-Balance Sheet Items and Contra Accounts</b>					
Contingencies		6,458,045	3,778,802	21,738,738	18,379,290
Commitments		9,173,966	14,916,351	17,701,701	22,543,390
Net assets value per share, LKR		85.25	82.06	101.48	96.82
<b>Memorandum Information</b>					
Number of employees		469	466	1,451	1,396
Number of branches and extension offices		19	19	148	145
The highest, the lowest and the last traded market price recorded during the period ended					
		<b>31.12.2012</b>	<b>31.12.2011</b>		
- Highest price LKR		122.00	130.00		
- Lowest price LKR		106.00	106.00		
- Last traded price LKR		112.90	112.90		

## 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
<b>Balance as at 01.04.2011</b>	<b>2,648,838</b>	<b>2,054,546</b>	<b>1,068,600</b>	<b>11,379,839</b>	<b>3,067,038</b>	<b>20,218,861</b>
Issue of shares under employee share option plan	2,139	10,424				12,563
Profit for the period					1,774,336	1,774,336
Final dividends approved on 30.06.2011					(795,208)	(795,208)
Share issue expenses		(133)				(133)
Transfers			243,688		(243,688)	-
<b>Balance as at 31.12.2011</b>	<b>2,650,977</b>	<b>2,064,837</b>	<b>1,312,288</b>	<b>11,379,839</b>	<b>3,802,478</b>	<b>21,210,419</b>
<b>Balance as at 01.04.2012</b>	<b>2,650,977</b>	<b>2,064,837</b>	<b>1,485,215</b>	<b>13,779,839</b>	<b>1,772,684</b>	<b>21,753,552</b>
Profit for the period					1,906,438	1,906,438
Final dividends approved on 29.06.2012					(1,060,391)	(1,060,391)
Transfers			269,920		(269,920)	-
<b>Balance as at 31.12.2012</b>	<b>2,650,977</b>	<b>2,064,837</b>	<b>1,755,135</b>	<b>13,779,839</b>	<b>2,348,811</b>	<b>22,599,599</b>

## 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					2,149,447	54,130	2,203,577
Right issue of shares						11,682	11,682
Adjustments due to changes in holdings						(110,228)	(110,228)
Final dividends approved on 30.06.2011					(795,208)		(795,208)
Dividends distributed to minority interest by subsidiaries						(45,847)	(45,847)
Share issue expenses		(133)					(133)
Transfers			243,688		(243,688)		-
<b>Balance as at 31.12.2011</b>	<b>2,650,977</b>	<b>2,064,837</b>	<b>1,312,288</b>	<b>11,379,839</b>	<b>7,641,416</b>	<b>396,403</b>	<b>25,445,760</b>
<b>Balance as at 01.04.2012</b>	<b>2,650,977</b>	<b>2,064,837</b>	<b>1,485,215</b>	<b>13,779,839</b>	<b>5,686,342</b>	<b>414,904</b>	<b>26,082,114</b>
Profit for the period					2,296,568	77,257	2,373,825
Increase in Minority Interest on Deemed Disposal of holding in 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						(56,667)	(56,667)
Increase in ownership interest by the bank that does not result in change of control					(1,949)	(2,597)	(4,546)
Transfers			269,920		(269,920)		-
<b>Balance as at 31.12.2012</b>	<b>2,650,977</b>	<b>2,064,837</b>	<b>1,755,135</b>	<b>13,779,839</b>	<b>6,650,651</b>	<b>472,794</b>	<b>27,374,233</b>

## Selected Performance Indicators

	Bank		Group	
	31.12.12	31.03.12	31.12.12	31.03.12
<b>Regulatory Capital Adequacy</b>				
Core capital (Tier - 1 Capital) LKR Mn	16,595	17,851	21,053	22,328
Total capital base LKR Mn	13,366	14,923	19,330	21,085
Core capital ratio (Minimum requirement 5%)	22.65	24.37	19.01	21.00
Total capital ratio (Minimum requirement 10%)	18.24	20.37	17.45	19.90
<b>Asset Quality</b>				
Non-performing loans and advances - Gross exposure % (Net of interest in suspense)	4.4	4.3	4.8	4.3
- Net exposure % (Net of interest in suspense and provisions)	1.1	0.5	1.6	0.9
<b>Profitability (Annualized)</b>				
Interest margin %	4.7	4.8	4.6	4.9
Return on assets %	4.3	4.2	3.3	3.5
Return on equity %	11.5	11.0	11.6	11.8
Statutory liquid assets LKR Mn	6,906	3,859		
Statutory liquid assets ratio % (Minimum requirement 20%)	45	52		



<i>For the period ended</i>	<b>Bank</b>		<b>Group</b>	
	<b>31-12-2012</b>	<b>31-12-2011</b>	<b>31-12-2012</b>	<b>31-12-2011</b>
	<b>LKR 000</b>	<b>LKR 000</b>	<b>LKR 000</b>	<b>LKR 000</b>
<b>Cash flow from operating activities</b>				
Interest Receipts	5,817,641	3,908,204	9,680,711	6,127,576
Interest payments	(3,743,990)	(1,934,185)	(6,441,707)	(4,080,510)
Recoveries on loans previously written off	60,024	95,845	60,024	95,845
Receipts from other operating activities	311,898	340,623	958,485	999,389
Cash payments to employees & suppliers	(1,162,534)	(1,054,887)	(2,654,491)	(2,255,639)
Value added tax	(83,300)	(272,045)	(202,860)	(335,066)
Operating Cash flow before changes in operating assets and liabilities	<b>1,199,739</b>	1,083,555	<b>1,400,162</b>	551,595
(Increase )/decrease in operating assets:				
Deposits held for regulatory or monetary control purposes	0	0	(707,133)	(438,617)
Funds advanced to customers	(4,492,321)	(10,822,507)	(9,797,100)	(21,583,901)
Others	(43,875)	27,684	(271,548)	(12,932)
Increase /(decrease ) in operating liabilities:				
Security deposits from customers	0	(950)	14,152	(834)
Deposits from customers	5,388,421	2,682,710	15,943,474	9,563,278
Negotiable certificates of deposit	0	0	81,004	94,521
Others	(100,813)	(19,916)	114,438	913,654
Net cash flow from operating activities before income tax	<b>1,951,152</b>	(7,049,424)	<b>6,777,449</b>	(10,913,236)
Income tax paid	(139,921)	(538,339)	(220,119)	(739,433)
Net cash flow from/(used in )operating activities	<b>1,811,230</b>	(7,587,763)	<b>6,557,330</b>	(11,652,669)
<b>Cash flow from investing activities</b>				
Dividends received	878,366	613,190	768,332	561,090
Interest received	455,855	279,211	1,171,920	682,610
Treasury bills eligible for rediscounting with Central Bank	(2,976,348)	9,971,111	(8,690,800)	8,915,074
Proceeds from sale and redemption of securities	546,566	606,274	546,566	660,782
Purchase of securities	(563,639)	(2,905,653)	(495,683)	(2,905,653)
Investment in associates by Joint Venture	-	-	(20,000)	0
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	(101,760)
Purchase of property , equipment ,intangibles and investment property	(142,391)	(24,264)	(312,327)	(243,176)
Proceeds from sale of equipment and investment property	3,123	4,840	30,661	67,566
Net cash from investing activities	<b>(1,803,014)</b>	7,208,122	<b>(7,005,877)</b>	7,393,397
<b>Cash flow from financing activities</b>				
Issue/redemption of debentures	(700,000)	(1,910,000)	(700,000)	(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	13,469,374	9,286,973	13,431,874	11,337,401
Other borrowings	463,500	(229,000)	(944,690)	2,215,690
Repayment of borrowing ,medium and long - term	(11,793,962)	(2,840,782)	(11,793,962)	(2,627,567)
Dividends paid	(1,055,208)	(2,638,291)	(1,141,719)	(2,671,928)
Net Cash flow from/(used in ) financing activities	<b>383,704</b>	1,681,330	<b>(1,025,987)</b>	7,367,707
Net increase/(decrease) in cash & cash equivalents	<b>391,920</b>	1,301,689	<b>(1,474,536)</b>	3,108,435
Cash & cash equivalents/(overdraft-net) at the beginning of period as previously stated	<b>4,163,425</b>	1,370,810	<b>12,441,560</b>	4,777,976
Consolidated adjustment -Synapsys Limited	0	0	0	16,000
Cash & cash equivalents /(overdraft-net)at the beginning of the period	<b>4,163,425</b>	1,370,810	<b>12,441,560</b>	4,793,976
Cash & cash equivalents at the end of period	<b>4,555,345</b>	2,672,499	<b>10,967,024</b>	7,902,411
<b>Reconciliation of cash &amp; cash equivalents</b>				
Cash & short - term funds	3,926,836	2,450,557	7,125,800	4,071,992
Treasury bills & other securities eligible for rediscounting with Central Bank	628,509	221,942	3,783,839	3,426,248
Securities purchased under resale agreements	0	0	75,903	452,607
Borrowing short term - Bank overdrafts	0	0	(18,518)	(48,436)
	<b>4,555,345</b>	2,672,499	<b>10,967,024</b>	7,902,411

*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 National 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 31.12.2012 include profits of these companies for the period 01.01.2012 to 30.09.2012.

### Note 5. Foreign Exchange Income

All forward exchange contracts of the bank are in respect of 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. The Commercial Banking subsidiary trades with counterparties for authorised transactions in addition to entering into funding swaps.

### Note 6. Non-Interest Income

	Bank		Group	
	31.12.2012 LKR 000	31.12.2011 LKR 000	31.12.2012 LKR 000	31.12.2011 LKR 000
Dividend income	462,721	459,640	347,039	403,401
Net gain on sale of other investment securities	76,134	254,383	76,134	264,026
Marked to market (loss)/ gain on other dealing securities	8,373	(15,834)	8,223	(15,834)
Other income	35,165	136,481	896,488	894,652
Non-interest income	582,393	834,670	1,327,884	1,546,245

### Note 7. Value added tax on financial services

	Bank		Group	
	31.12.2012 LKR 000	31.12.2011 LKR 000	31.12.2012 LKR 000	31.12.2011 LKR 000
VAT on Financial Services expense-Current year	267,742	247,123	378,724	319,287
Over provision of VAT on Financial Services-Prior years	(184,442)	-	(184,442)	-
	83,300	247,123	194,282	319,287

### Note 8. Taxation

	Bank		Group	
	31.12.2012 LKR 000	31.12.2011 LKR 000	31.12.2012 LKR 000	31.12.2011 LKR 000
Current Income Tax	511,977	442,060	729,606	629,676
Over Provision of Income Tax	(4,911)	(33,658)	(4,911)	(33,658)
Deferred tax	24,006	(29,337)	39,309	(24,603)
	531,072	379,065	764,004	571,415

**Note 9. Investment in Quoted Ordinary Shares**

	<b>Bank</b>	
	<b>31.12.2012</b>	<b>31.03.2012</b>
	<b>LKR 000</b>	<b>LKR 000</b>
Cost	4,991,915	4,786,760
Unrecognized gain	9,710,507	9,304,328
Market Value	<u>14,702,422</u>	<u>14,091,088</u>

Market value on 30/01/2013 was LKR 15,001 million

**Note 10. Post balance sheet events**

Commercial Bank of Ceylon PLC (Investment security) has declared second interim dividend of LKR 1 per ordinary share (Voting & Non Voting) for Financial year 31 December 2012 on 28 January 2013. The Bank's entitlement net of withholding tax is LKR 104.6 Mn.

No other 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 the accounting periods commencing on or after 1 January 2012.

The Bank has obtained expert advice on the adoption of new Financial Instruments Standards which constitute the most significant change in the transition to 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 unfavorable) 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**

	<b>Number of shares</b>
Number of shares of the Bank on 31 December 2012 (No increase from 31 March 2012)	<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.

### 12.3 Twenty Major Shareholders as at 31.12.2012

	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	32,396,140	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	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	2,474,528	0.93
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 Globoal 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 31.12.2012 is 63.26%

### 12.5 Directors' Interests in Shares

	No of Shares As at 31.12.2012
Brito, J M S - Chairman	38,760
Fonseka, A N – Ex-officio Director	142,006*
Abeywardena, A S	10,380
Bandaranayake, T K	1478**
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
Chandradasa L P	500
Perumal, J E A	42,475

\*Directors' shareholding includes shares held by the spouse.

\*\* As required by section 3 (3) (i) of Direction No 12 of 2007, retired w.e.f. 03 January 2013 on reaching 70 years of age

### 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

30/01/2013

## Debenture Information

DFCC Listed Subordinated Debentures

Debenture Categories	Interest Payable Frequency	Applicable Interest Rate	Comparative Govt. Sec. Interest Rate (Gross)	Value as at 31 Dec 2012 LKR. 000
<b>Fixed Rate</b>				
2006/2016 - 14.00% p.a.	Annually	14.00%	13.33%	590,000
				<u><u>590,000</u></u>

<b>Other Ratios</b>	<b>31.12.2012</b>	<b>31.03.2012</b>
Debt Equity Ratio	1.34	1.56
Interest Cover (Times)	1.54	1.72
Quick Asset Ratio (%)	45	52

**Business Segment Information**

For the nine months ended 31 December	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
<b>Revenue</b>																
Interest income	5,345,249	3,427,537	1,046,106	828,498	-	-	4,644,663	2,570,254	85,016	96,742	-	-	(63,001)	(76,211)	11,058,033	6,846,820
Other income	101,268	58,484	-	-	538,856	713,341	534,246	414,498	460,253	496,456	(57,731)	62,164	(249,008)	(198,698)	1,327,884	1,546,245
Income from external customers	5,446,517	3,486,021	1,046,106	828,498	538,856	713,341	5,178,909	2,984,752	545,270	593,198	(57,731)	62,164	(312,009)	(274,909)	12,385,918	8,393,065
Inter segment income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total income</b>	<b>5,446,517</b>	<b>3,486,021</b>	<b>1,046,106</b>	<b>828,498</b>	<b>538,856</b>	<b>713,341</b>	<b>5,178,909</b>	<b>2,984,752</b>	<b>545,270</b>	<b>593,198</b>	<b>(57,731)</b>	<b>62,164</b>	<b>(312,009)</b>	<b>(274,909)</b>	<b>12,385,918</b>	<b>8,393,065</b>
<b>Percentage *</b>	<b>44</b>	<b>44</b>	<b>8</b>	<b>10</b>	<b>4</b>	<b>6</b>	<b>42</b>	<b>35</b>	<b>4</b>	<b>8</b>	<b>2</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>100</b>	<b>100</b>
<b>Expense</b>																
Segment losses	(114,406)	(85,216)	(28,047)	(114,255)	-	-	207,648	122,785	-	-	-	-	-	-	65,195	(76,686)
Depreciation	-	-	-	-	-	-	123,753	105,387	26,993	24,708	-	-	-	-	150,746	130,095
Other operating & interest expenses	3,493,677	2,310,660	685,664	425,467	-	-	4,138,194	2,235,147	308,669	317,609	-	-	(183,582)	(176,535)	8,442,622	5,112,348
Inter segment expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>3,379,271</b>	<b>2,225,444</b>	<b>657,617</b>	<b>311,212</b>	<b>-</b>	<b>-</b>	<b>4,469,595</b>	<b>2,463,319</b>	<b>335,662</b>	<b>342,317</b>	<b>-</b>	<b>-</b>	<b>(183,582)</b>	<b>(176,535)</b>	<b>8,658,563</b>	<b>5,165,757</b>
<b>Result</b>	<b>2,067,246</b>	<b>1,260,577</b>	<b>388,488</b>	<b>517,286</b>	<b>538,856</b>	<b>713,341</b>	<b>709,314</b>	<b>521,433</b>	<b>209,608</b>	<b>250,881</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,727,355</b>	<b>3,227,307</b>
Unallocated expenses															416,054	136,157
Value Added Tax on financial services															194,282	319,287
Share of profits/(Loss) of associates															3,117,019	2,771,863
<b>Profit on ordinary activities before tax</b>															<b>20,810</b>	<b>3,129</b>
Income tax on profit on ordinary activities															<b>3,137,829</b>	<b>2,774,992</b>
<b>Profit on ordinary activities after tax</b>															<b>764,004</b>	<b>571,415</b>
Minority interest															<b>2,373,825</b>	<b>2,203,577</b>
<b>Profit for the period</b>															<b>77,257</b>	<b>54,130</b>
															<b>2,296,568</b>	<b>2,149,447</b>
<b>Assets</b>	<b>52,397,704</b>	<b>44,673,473</b>	<b>9,749,738</b>	<b>8,357,143</b>	<b>6,998,629</b>	<b>6,585,826</b>	<b>55,888,702</b>	<b>42,745,034</b>	<b>3,867,836</b>	<b>3,835,298</b>	<b>8,070,564</b>	<b>4,071,043</b>	<b>(1,171,125)</b>	<b>(995,689)</b>	<b>135,802,048</b>	<b>109,272,128</b>
<b>Percentage</b>	<b>39</b>	<b>41</b>	<b>7</b>	<b>8</b>	<b>5</b>	<b>5</b>	<b>41</b>	<b>38</b>	<b>3</b>	<b>4</b>	<b>6</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>100</b>	<b>100</b>
Investment in associate company															406,149	278,041
															<b>136,208,197</b>	<b>109,550,169</b>
<b>Liabilities</b>	<b>41,093,971</b>	<b>35,635,936</b>	<b>8,774,764</b>	<b>7,521,429</b>	<b>-</b>	<b>-</b>	<b>50,895,451</b>	<b>38,282,384</b>	<b>2,152,410</b>	<b>2,250,332</b>	<b>6,975,505</b>	<b>1,410,017</b>	<b>(1,058,136)</b>	<b>(995,689)</b>	<b>108,833,964</b>	<b>84,104,409</b>

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

Revenue and expenses attributable to the business segment of DFCC Vardhana Bank 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.

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

## 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

	2012 LKR 000	2011 LKR 000
Interest income	11,001,235	6,769,358
Interest expense	(6,602,797)	(3,221,809)
Net interest income	4,398,438	3,547,549
<b>Other Income</b>		
Dividends received from unconsolidated - Subsidiaries	44,114	30,309
- Joint Venture	0	16,375
Dividends from non-affiliated entities	334,293	377,879
Gains from sale of non-affiliated shares	76,134	254,383
Foreign exchange income	(38,015)	58,289
Marked to market loss on other dealing securities	8,223	(16,242)
Fees and Commission income	494,842	406,358
Others	94,609	52,396
<b>Operating income</b>	5,412,638	4,727,296
Personnel costs	967,893	774,133
Provision for staff retirement benefits	68,218	51,293
Premises, equipment & establishment expenses	529,912	446,865
Other overhead expenses	635,611	643,376
<b>Operating expenses</b>	2,201,634	1,915,667
<b>Operating profit before provisions</b>	3,211,004	2,811,629
Allowances for credit losses		
- Specific Provision	521,511	471,103
- General Provision	4,613	(95,922)
-Recoveries	(472,515)	(457,828)
- Loans Written off	11,587	5,961
Less:Provision for fall in value of investments	0	18,048
<b>Operating profit before value added tax</b>	3,145,808	2,870,267
Value added tax on financial services-Current period	(378,724)	(319,287)
<b>Operating profit before income tax</b>	2,767,084	2,550,980
Income tax expense	(736,408)	(519,414)
<b>Profit after tax</b>	2,030,676	2,031,566
Value added tax on financial services-Over provision from prior year*	184,442	0
	2,215,118	2,031,566
Share of profits of National Asset Managemet Limited	4,605	4,317
<b>Profit for the period</b>	2,219,723	2,035,883

\*Adjusted for presentation purpose only

### Note 01 Reconciliation with Group profit

For the nine months ended 31 December

	2012 LKR 000	2011 LKR 000
Profit for the period-DBB	2,219,723	2,035,883
<b>Consolidation adjustments</b>		
Dividend from subsidiaries & JV accounted in DBB	(44,114)	(46,684)
WHT on dividend received	(4,901)	(3,368)
Reversal of provision for fall in value of investments in subsidiary	-	17,367
	2,170,708	2,003,198
Add: Profit from other subsidiariies and Joint venture attributable to equity holders of DFCC Bank		
Subsidiaries	97,648	74,975
Joint venture	105,469	125,404
<b>Profit for the period</b>	2,373,825	2,203,577
<b>Composition of the Joint venture results</b>		
Joint venture and its subsidiaries	89,264	126,592
Associates of joint venture and its subsidiaries	16,205	(1,188)
	105,469	125,404