

## DFCC BANK

### RESULTS FOR THE THREE MONTHS ENDED 30 JUNE 2007

The non-audited group profit after tax, attributable to equity holders of DFCC Bank, for the three months ended 30 June 2007 (current period) was Rs425 million, an increase of 8.6 pc over the Rs391 million in the previous comparable period (April to June 2006).

Composition of Group PAT in the consolidated financial statements attributable to equity holders of DFCC Bank is given below. In the consolidated financial statements the reported profit before tax and after tax is adjusted for **inter company dividends, and other consolidation adjustment, which are eliminated in the consolidation process.**

	Current Period Contribution		Previous Comparable period Contribution		Variance
	Rs.m	%	Rs.m.	%	%
DFCC Bank's operations – PBT (as reported)	379		428		
Inter company dividend	-		-		
Other consolidation adjustment	(5)		-		
Adjusted PBT	374		428		(12.6)
DVB Subsidiary – PBT	45		55		(18.2)
DFCC & DVB PBT	419		483		(13.25)
DFCC & DVB Tax	171		182		(6.04)
DFCC & DVB PAT	248	58.4	301	77.0	(17.61)
Other Subsidiaries – PAT	42	9.9	17	4.3	147
Associate Companies* – PAT	135	31.7	73	18.7	84.9
<b>Total PAT</b>	<b>425</b>	<b>100.0</b>	<b>391</b>	<b>100.0</b>	<b>8.4</b>

\* Mainly Commercial Bank of Ceylon Limited. The PAT of National Asset Management Limited included under Associated companies in the current period is Rs0.677 million.

The financial year of the associate company, Commercial Bank of Ceylon Limited (CBC) and two subsidiaries, DFCC Stockbrokers (Pvt) Limited and DFCC Vardhana Bank Limited (DVB) ends on 31 December. Thus the three months results for the period 1 April 2007 to 30 June 2007 includes the results of these companies for the period 1 January 2007 to 31 March 2007. The results of DFCC, DVB and CBC for the quarter to 30 June 2007 include the mandatory general provision of 0.1 pc of the performing and over due loans and advances balance on 30 June 2007 imposed by Central Bank.

#### **DFCC Bank**

The profit before Value Added Tax and Income Tax expense was Rs459 million in the current period recorded a decrease of 11 pc compared to Rs513 million in the comparable period. Absence of growth in Net Interest Income (NII) and higher provisions including the mandatory general provisioning introduced in October 2006 were the main reasons for this decline.

The gross interest income on loans and advances of Rs 1755 million in the current period was 49 pc higher than the Rs 1,179 million in the comparable period in the backdrop of a 25 pc increase in loans and advances, net of provisions by Rs9,237 million during the one year period to 30 June 2007. However, this did not translate to an increase in NII, which was static. The Bank had to resort to a significantly

higher level of short-term wholesale customer deposits towards the end of the previous financial year and during the current quarter to meet the increased credit demand and also to fund its investment of Rs 1,603 million in the Rights issue of CBC. This was a conscious decision taken to ensure a short-term liquidity cushion during April and May 2007 and to avoid dependence on the overnight inter-bank market in the run up to the infusion of new equity. Customer Deposits recorded a year on year growth of Rs 7,217 million (142 pc). Furthermore, the interest rate and market liquidity volatility that prevailed, enabled institutional wholesale depositors to command very high short term deposit interest rates. All of these factors disproportionately increased the Bank's cost of funds during the reporting period. The high cost deposits have already been re-priced downwards or shed and the equity investment in CBC has now been funded by the Bank's own Rights issue which was successfully concluded on 28 May 2007 raising Rs3,012 Million in new equity. The quarterly re-pricing upwards of part of the loan portfolio on 1 July 2007 has also proved beneficial. Also, on the funding side, a new credit line of EURO 50 million from the European Investment Bank (EIB) is now operational, after an unexpected delay and the first tranche has already been drawn. In the context of volatility of both interest rates and market liquidity levels that might continue to prevail during the current financial year, the Bank is taking measures aimed at improving NII while managing the growth of the portfolio to ensure that incremental growth is not at the expense of profitability.

A positive feature of the results of this quarter is the 24pc increase in non-interest income comprising dividend income, gain on sale of investment securities and other income. This absorbed the regulatory general provision of Rs44 million in the current period, which commenced only from 1 October 2006.

The non-performing loans and advances as a percentage of the total loans and advances were 7.2 pc at 30 June 2007, an increase from the 4.5 pc recorded on 31 March 2007. The portfolio infection rate in leases during this quarter was significantly higher. Some of the affected leases were sector specific (eg. Transportation, tourism) probably associated with increases in fuel and operating costs reducing the debt service capacity of the lessees. Two renewable energy projects with exposure totaling to Rs225 million were also classified as non-performing during the quarter due to temporary disruptions to cash flows. The projects are operational and the loans are expected to be regularized later in the year. The cumulative provision on non-performing loans as at 30 June 2007 was 20 pc of gross non-performing loans and advances. If non-performing loans fully provided and written off for accounting purposes are reinstated for purposes of computing this ratio, 49% pc of the non-performing loans are covered by full or partial provision.

#### **DVB**

The operations of both DFCC Bank and DVB, 95 pc owned subsidiary, continue to be managed to optimize synergy benefits

DVB was also adversely affected by the interest rate and liquidity volatility previously referred to. However, unlike DFCC, DVB was able to benefit to some extent from the exchange rate volatility that prevailed and increase its income from foreign exchange operations compared with the previous period. The full potential of this income stream can only be realized once DVB makes further progress in its medium term plan to significantly increase trade finance and remittance volumes. DVB is also implementing strategies to enhance its distribution capabilities and building capacity with a view to entering the personal financial services market.

The combined Profit before Income Tax of the two entities reduced by 13pc to Rs419 million in the current period (quarter), compared to Rs483 million in the previous comparable period in tandem with the reduction of profit before income tax of DFCC Bank.

The combined non-interest expense to operating income ratio of DFCC Bank and DVB (cost/income ratio) was 35 pc in the current period and 32 pc in the comparable period. For purposes of this ratio the non-interest expense exclude provision for bad and doubtful debts and Value Added Tax on financial services. This is below the industry norms due to synergies and shared services.

The consolidated net loans and advances of both DFCC Bank and DVB was Rs54,602 million as at 30 June 2007 compared to Rs53,698 Million as at 31 March 2007. The combined customer deposits of both DFCC Bank and DVB was Rs20,145 million on 30 June 2007 compared to Rs20,817 million on 31 March 2007.

The loans and advances and deposits as at 31 Mach 2007 of DVB are consolidated with those of DFCC Bank on 30 June 2007.

#### **Other Subsidiary and Associate Companies**

The share of profit after tax of CBC included in the consolidated financial statements was Rs135 million in the current period, an increase of 85pc compared to Rs73 million in the previous comparable period. The contribution for the comparable period has been restated from the previously reported amount of Rs 125 million. This was necessitated by a change in accounting policy adopted by CBC relating to its Bangladesh operations.

The subsidiaries other than DVB collectively contributed Rs 42 million to the profit after tax of the Group compared with Rs 17 million in the previous comparable period.

Nihal Fonseka  
**General Manager/Chief Executive Officer**

23 August 2007