

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 except for reduction in general provision.

	30.06.2011	31.03.2011
	Pc	Pc
Mandatory provision by Central Bank		
Loans and Leases*	0.7	0.8
Bank's own general provision for Leases		
Leases granted prior to 30 June 10		3
Leases granted after 1 July 10		2

No General provision for leases are made from 1 April 2011.

*On performing loans and leases and non performing loans and leases for which mandatory specific provisions are not required.

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 Ltd , Synapsys Ltd (subsidiaries) and Acuity Partners (Pvt) Limited (joint venture).

Results of these companies are consolidated with DFCC Bank with a three months gap. Thus the consolidated results for the period ended 30.06.2011 include profits of these companies for the period 01.01.2011 to 31.03.2011.

Note 5. Foreign Exchange Income

All forward exchange contracts of the bank are in respect of funding swaps to take advantage of interest rate differential between LKR and USD. 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.

	Bank		Group	
	30.06.2011	30.06.2010	30.06.2011	30.06.2010
	Rs. 000	Rs. 000	Rs. 000	Rs. 000
SWAP Cost	(4,245)	(20,867)	(8,680)	(43,245)
Marked to market Gain on forward contracts	3,411	-	20,419	1,636
Other Gain/(Loss)	2,782	(5,002)	10,423	11,999
	<u>1,948</u>	<u>(25,869)</u>	<u>22,162</u>	<u>(29,610)</u>

Note 6. Non-Interest Income

	Bank		Group	
	30.06.2011	30.06.2010	30.06.2011	30.06.2010
	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Dividend income	75,312	328,915	55,148	36,988
Gain on disposal of shares of CBC*	0	6,601,727	0	4,241,606
As an associate	0	4,732,973	0	2,997,602
As investment securities	0	303,226	0	203,654
As dealing securities	0	1,565,528	0	1,040,350
Net gain on sale of other investment securities	167,492	15,056	169,736	23,426
Marked to market (loss)/ gain on other dealing	(10,152)	7,989	(10,152)	7,989
Other income	44,127	2,489	304,644	192,918
Non-interest income	<u>276,779</u>	<u>6,956,176</u>	<u>519,376</u>	<u>4,502,927</u>

*CBC ceased to be an associate company with effect from 02 June 2010.

Note 7. VAT on Financial Services

	Bank		Group	
	30.06.2011	30.06.2010	30.06.2011	30.06.2010
	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Relating to divestment of shares in CBC	0	1,320,346	0	1,320,346
Others	86,554	112,526	101,273	173,165
	<u>86,554</u>	<u>1,432,872</u>	<u>101,273</u>	<u>1,493,511</u>

Note 8. Taxation

	Bank		Group	
	30.06.2011	30.06.2010	30.06.2011	30.06.2010
	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Current Income Tax	179,044	129,568	228,514	246,300
Deferred tax	(30,686)	(26,841)	(30,884)	(27,684)
	<u>148,358</u>	<u>102,727</u>	<u>197,630</u>	<u>218,616</u>

Note 9. Profit for the Period

	Bank		Group	
	30.06.2011	30.06.2010	30.06.2011	30.06.2010
	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Profit after tax excluding gain on disposal of shares of CBC	592,568	363,586	702,441	424,876
Profit on Sale of Shares & Marked to Market Gain on CBC	-	5,281,381	-	2,921,260
	<u>592,568</u>	<u>5,644,967</u>	<u>702,441</u>	<u>3,346,136</u>

Note 10. Investment in Quoted Ordinary Shares

	Bank	
	30.06.2011	31.03.2011
	Rs. 000	Rs. 000
Cost	2,807,092	2,762,035
Unrecognized gain	12,210,738	13,585,512
Gain on CBC shares	11,399,152	12,388,890
Others	811,586	1,196,622
Market Value	<u>15,017,830</u>	<u>16,347,547</u>

Market value on 27 July 2011 was reduced to Rs.15,001 million

Note 11. Investment in DFCC Vardhana Bank Limited

DFCC Bank invested Rs. 1,333 million in DFCC Vardhana Bank during the quarter ended 30 June 2011 to subscribe to the Rights Issue and purchasing shares. The Bank thereby increased its holding to 99% from 95.6%.

Note 12. Consolidation Adjustments

Transactions are eliminated on consolidation where the financial year of subsidiary company coincides with the financial year of the Bank except in instances where the consolidation is with a three months gap due to differences in financial years.

These transactions, which will be eliminated in quarter ending 30.09.2011, are;

Entity	Transaction	Rs.'000
DFCC Vardhana Bank Limited	Loan – short term	72,031
	Deposit – short term	381,289
	Equity investment by DFCC Bank	1,332,658

Note 13. Other Reserves

	Bank		Group	
	30.06.2011	31.03.2011	30.06.2011	31.03.2011
	Rs.000	Rs.000	Rs.000	Rs.000
General Reserve	11,379,839	11,379,839	11,379,839	11,379,839
Statutory Investment Fund Reserve	143,275	53,600	143,275	53,600
	<u>11,523,114</u>	<u>11,433,439</u>	<u>11,523,114</u>	<u>11,433,439</u>

Statutory Investment Fund Reserve represents cumulative savings of financial services VAT and Income tax arising from the reduction of tax rates. The amount is appropriated from profits. The Statutory Investment Fund Reserve will be utilized for the purposes prescribed by the Central Bank of Sri Lanka and this reserve is included under other reserves.

Note 14. Post balance sheet events

The employees have exercised options during the post Balance Sheet period. Increase in ordinary share capital corresponding to the options exercised was Rs.283,320/- and the increase in the share premium was Rs 1,380,618/-

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

Note 15. Disclosures under Appendix 7B of the Listing Rules**15.1 Bank has not incurred management fees or any other similar expenditure****15.2 Share Capital**

	Number of shares
Shares as at 31 March 2011	264,883,768
Issue under share option scheme	185,588
Shares as at 30 June 2011	<u>265,069,356</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.

15.3 Twenty Major Shareholders as at 30.06.2011

	Name of Shareholder/Company	Shareholding	%
1	Bank of Ceylon No.2 A/c.	38,039,994	14.35
2	Sri Lanka Insurance Corporation Ltd-Life Fund	34,423,532	12.98
3	Hatton National Bank PLC A/c No.1	32,109,140	12.11
4	Mr M A Yaseen	22,886,700	8.62
5	Distilleries Company of Sri Lanka Limited	17,042,856	6.42
6	Seafeld International Limited	15,286,794	5.76
7	Employees Provident Fund	12,712,100	4.79
8	HSBC Intl Nom. Ltd-BPSS Lux-Aberdeen Global Asia Pacific Equity Fund	12,216,146	4.60
9	Renuka City Hotels Limited	6,926,870	2.61
10	HSBC Intl Nom Ltd-BPSS LDN-Aberdeen Asia Pacific Fund	6,750,000	2.54
11	HSBC Intl Nominees Ltd-BP2S London-Edinburg Dragon Trust PLC	4,728,800	1.78
12	Renuka Hotels Limited	4,048,360	1.52
13	HSBC Intl Nominees Ltd-SSBT- Aberdeen Institutional Commingled Funds, LLC	2,582,500	0.97
14	Cargo Boat Development Company PLC	2,048,200	0.77
15	Employee Trust Fund Board	2,001,666	0.75
16	HSBC Intl Nominees Ltd-BP2S London-Aberdeen Asia Smaller Companies Investment Trust	1,800,000	0.67
17	HSBC Intl Nominees Ltd-BP2S-London - Aberdeen New Dawn Investment Trust XCC6	1,800,000	0.67
18	Mellon Bank N.A. - Florida Retirement System	1,500,000	0.56
19	National Savings Bank	1,342,024	0.50
20	Sri Lanka Insurance Corporation Ltd-General Fund	1,243,800	0.47

15.4 Public holding as at 30.06.2011 is 60.39%

15.5 Directors' Interests in Shares

	No of Shares As at 30.06.2011
Brito, J M S - Chairman	18,760
Fonseka, A N – Ex-officio Director	142,006*
Abeywardena, A S	10,380
Bandaranayake, T K	1,478*
Dayasri, G K	1,036
Gunawardana, H M N S	Nil
Jansz, C R	1,000
Palihena, S N P	10,000
Thambiyah, R B	211,200
Thambiyah, S.R – Alternative Director	Nil

*Directors' shareholding includes shares held by the spouse, and children under 18 years of age.

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

27/07/2011