



Debenture Issue 2024 - Prospectus

Joint Managers and Placement Agents

Structuring Partner



DFCC BANK PLC



PROSPECTUS

AN INITIAL ISSUE OF FIFTY MILLION (50,000,000) BASEL III COMPLIANT-TIER 2, LISTED, RATED, UNSECURED, SUBORDINATED, REDEEMABLE 5- AND 7-YEAR DEBENTURES WITH A NON-VIABILITY CONVERSION ("DEBENTURES"), AT THE PAR VALUE OF LKR 100/- EACH TO RAISE SRI LANKAN RUPEES FIVE BILLION (LKR 5,000,000,000/-) WITH AN OPTION TO ISSUE UPTO A FURTHER THIRTY MILLION (30,000,000) OF SAID DEBENTURES TO RAISE UP TO SRI LANKAN RUPEES THREE BILLION (LKR 3,000,000,000/-), AT THE DISCRETION OF THE BANK IN THE EVENT OF AN OVER SUBSCRIPTION OF THE INITIAL ISSUE. MAXIMUM ISSUE WILL NOT EXCEED EIGHTY MILLION (80,000,000) OF SAID DEBENTURES OF A VALUE OF NOT EXCEEDING SRI LANKAN RUPEES EIGHT BILLION (LKR 8,000,000,000/-)

TO BE LISTED ON THE
COLOMBO STOCK EXCHANGE

(Subject to the compliance with the CSE Listing Rules at the time of Listing)

Rated 'BBB (lka)' by Fitch Ratings Lanka Limited

(Please note that this is the minimum rating that is allowed by the CSE for listing debentures. Furthermore, should the rating go below the regulatory requirement of the CSE at a point of time prior to listing, the debenture will not be listed. Should the rating go down post listing, the instrument will be subject to enforcement actions as set out in the listing rules)

ISSUE OPENS ON
05TH JANUARY 2024

ISSUE IS LIMITED ONLY TO 'QUALIFIED INVESTORS' AS DEFINED HEREUNDER



Joint Managers and Placement Agents to the issue



Structuring Partner to the Issue

The delivery of this Prospectus shall not under any circumstance constitute a representation or create any implication or suggestion that there has been no material change in the affairs of the Bank since the date of this Prospectus. If any material change in the affairs of the Bank occurs subsequent to the Prospectus date and before the Issue opening, same will be notified by way of a market disclosure/an addendum.

By acquiring any Debenture, each Debenture Holder irrevocably consents to the Principal Amount of the Debenture and any accrued and unpaid interest thereon being deemed paid in full by the issuance of Ordinary Shares upon occurrence of a Trigger Event and the resulting Non-Viability Conversion required to be affected by the Bank.

Upon a Non-Viability Conversion:

- i. The Trustees shall not be required to take any further directions from holders/beneficial owners of the Debentures under the Trust Deed and
- ii. The Trust Deed shall impose no duties upon the Trustees whatsoever with respect to conversion of the Debentures into Ordinary Shares upon a Trigger Event
- iii. Upon the occurrence of a Trigger Event, each outstanding Debenture of this Issue will be converted, on a full and permanent basis

We advise you to read the content of the Prospectus carefully prior to investment.

This investment instrument is riskier than a bank deposit.

These Debentures are complex products and have provision for loss absorption in the form of Non-Viability Conversion as set out in the Prospectus. This means that following the occurrence of a Trigger Event as may be determined by the Central Bank of Sri Lanka, the Bank will convert the Debentures into Ordinary Shares. An investor will be deemed paid in full the principal plus accrued and unpaid interest due on the Debentures, upon such conversion. The number and value of Ordinary Shares to be received on a Non-Viability Conversion may be worth significantly less than the Par Value of the Debentures and can be variable.

Please refer to the “Risk Factors Section” of the Prospectus for further details.

Each potential investor in these Debentures must determine the suitability of investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether the investor:

- i. Has sufficient knowledge and experience to make a meaningful evaluation of these Debentures, the merits and risks of investing in the Debentures and the information contained or incorporated by reference in this Prospectus;
- ii. Has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in these Debentures and the impact the Debentures will have on its overall investment portfolio;
- iii. Has sufficient financial resources and liquidity to bear all of the risks of an investment in these Debentures;
- iv. Understands thoroughly the terms of these Debentures, including the provisions relating to the Non-Viability Conversion of the Debentures, and is familiar with the behavior of financial markets; and
- v. Is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

A potential investor should not invest in these Debentures unless the investor has the expertise (either alone or with its financial and other professional advisors) to evaluate how the Debentures will perform under changing conditions, the resulting effects on the value of the Debentures and the impact this investment will have on the potential investor’s overall investment portfolio.

This Prospectus is dated 22nd December 2023

Responsibility for the Content of the Prospectus

This Prospectus has been prepared with available information.

The Directors of the DFCC Bank PLC (the Bank) have seen and approved this Prospectus and collectively and individually, accept full responsibility for the accuracy of the information given and confirm that after making all reasonable inquiries and to the best of their knowledge and belief, the information contained herein is true and correct in all material respects and that there are no other material facts, the omission of which would make any statement herein misleading or inaccurate.

Where representations regarding the future performance of the Bank have been given in this Prospectus, such representations have been made after due and careful enquiry of the information available to the Bank and making assumptions that are considered to be reasonable at the present point in time in its best judgment.

The Bank accepts responsibility for the information contained in this Prospectus. While the Bank has taken reasonable care to ensure full and fair disclosure of pertinent information, it does not assume responsibility for any investment decisions made by the investors based on the information contained herein. In making such investment decisions, prospective investors are advised to read the Prospectus and rely on their own examination and assessment of the Bank and the terms of the Debentures issued including the risks associated.

FOR ENQUIRIES, PLEASE CONTACT JOINT MANAGERS AND PLACEMENT AGENTS TO THE ISSUE

The Colombo Stock Exchange (CSE) has taken reasonable care to ensure full and fair disclosure of information in this Prospectus. However, CSE assumes no responsibility for accuracy of the statements made, opinions expressed or reports included in this Prospectus. Moreover, the CSE does not regulate the pricing of Debentures which is decided solely by the Issuer.

Registration of the Prospectus

A copy of the Prospectus has been delivered to the Registrar of Companies for registration in compliance with the provisions of section 40 of the Companies Act No.7 of 2007. The following are the documents attached to the copy of the Prospectus delivered to the Registrar of Companies for registration pursuant to section 40(1) of the Companies Act.

- a) The written consent of the Auditors and Reporting Accountants for the inclusion of their name in the Prospectus as Auditors and Reporting Accountants to the Issue and to the Bank.
- b) The written consent of the Rating Agency for the inclusion of their name in the Prospectus as Rating Agency to the Issue and to the Bank.
- c) The written consent of the Trustee to the Issue for the inclusion of their name in the Prospectus as Trustee to the Issue.
- d) The written consent of the Bankers to the Issue for the inclusion of their name in the Prospectus as Bankers to the Issue.
- e) The written consent of the Company Secretary of the Bank for the inclusion of the name in the Prospectus as Company Secretary to the Bank.
- f) The written consent of the Registrars to the Issue for the inclusion of their name in the Prospectus as Registrars to the Issue.
- g) The written consent of the Lawyers to the Issue for the inclusion of their name in the Prospectus as Lawyers to the Issue.

- h) The written consent of the Joint Managers and Placement Agents to the Issue for the inclusion of their names in the Prospectus as Joint Managers and Placement Agents to the Issue.
- i) The written consent of the Structuring Partner to the Issue for the inclusion of their name in the Prospectus as Structuring Partner to the Issue.
- j) The declaration made and subscribed to, by each of the Directors of the Bank herein named as a Director, jointly and severally confirming that each of them have read the provisions of the Companies Act and the CSE Listing Rules relating to the Issue of the Prospectus and that those provisions have been complied with.

The said Auditors and Reporting Accountants to the Issue and to the Bank, Trustee to the Issue, Bankers to the Issue, Company Secretary, Joint Managers and Placement Agents to the Issue, Registrars to the Issue, Lawyers to the Issue, Structuring Partner to the Issue, Rating Agency have not, before the delivery of a copy of the Prospectus for registration with the Registrar of Companies in Sri Lanka withdrawn such consent.

Submission of the Prospectus to the Securities and Exchange Commission of Sri Lanka

A copy of the Prospectus has been delivered to the Securities and Exchange Commission of Sri Lanka prior in compliance with Section 82(2) of the Securities and Exchange Commission of Sri Lanka Act No.19 of 2021.

Registration of the Prospectus in Jurisdictions Outside of Sri Lanka

This Prospectus has not been registered with any authority outside of Sri Lanka. Non-Resident investors may be affected by the laws of the jurisdiction of their residence. Such investors are responsible to comply with the laws relevant to the country of residence and the laws of Sri Lanka, when making the investment.

Representation

The Debentures are issued solely on the basis of the information contained and representations made in this Prospectus. No dealer, sales person, individual or any other outside party has been authorized to give any information or to make any representation in this connection with the Issue other than the information and representations contained in this Prospectus and if given or made such information or representations must not be relied upon as having been authorized by the Bank.

Forward Looking Statements

Any Statements included in this Prospectus that are not statements of historical fact constitute "Forward Looking Statements". These can be identified by the use of forward looking terms such as "expect", "anticipate", "intend", "may", "plan to", "believe", "could" and similar terms or variations of such terms. However, these words are not the exclusive means of identifying Forward Looking Statements. As such, all or any statements pertaining to expected financial position, business strategy, plans and prospects of the Bank are classified as Forward Looking Statements.

Such Forward Looking Statements involve known and unknown risks, uncertainties and other factors including but not limited to regulatory changes in the sectors in which the Bank operates and its ability to respond to them, the Bank's ability to successfully adapt to technological changes, exposure to market risks, general economic and fiscal policies of Sri Lanka, inflationary pressures, interest rate volatilities, the performance of financial markets both globally and locally, changes in domestic and foreign laws, regulation of taxes and changes in competition in the industry and further uncertainties that may or may not be in the control of the Bank.

Such factors may cause actual results, performance and achievements to materially differ from any future results, performance or achievements expressed or implied by Forward Looking Statements herein. Forward Looking Statements are also based on numerous assumptions regarding the Bank's present and future business strategies and the environment in which the Bank will operate in the future.

Given the risk and uncertainties that may cause the Bank's actual future results, performance, or achievements to materially differ from that expected, expressed, or implied by Forward Looking statements in this Prospectus, investors are advised not to place sole reliance on such statements.

Presentation of Currency Information and Other Numerical Data

The financial statements of the Bank and currency values of economic data or industry data in a local context will be expressed in Sri Lanka Rupees. References in the Prospectus to "LKR", "Rupees" or "Rs." is the lawful currency of Sri Lanka.

Certain numerical figures in the Prospectus have been subject to rounding adjustments, accordingly numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

All numerical figures given under Section 7.0 of the Prospectus are audited figures unless otherwise stated.

IMPORTANT

All Qualified Investors should indicate in the Application for Debentures, their Central Depository Systems (Private) Limited (CDS) account number.

In the event the name, address or NIC number/passport number/company number of the Qualified Investor mentioned in the Application Form differs from the name, address or NIC number/passport number/company number as per the CDS records, the name, address or NIC number/passport number/company number as per the CDS records will prevail and be considered as the name, address or NIC number/passport number/company number of such Qualified Investor. Therefore, Qualified Investors are advised to ensure that the name, address or NIC number/passport number/company number mentioned in the Application Form tally with the name, address or NIC number/passport number/company number given in the CDS account as mentioned in the Application Form.

As per the directive of the Securities and Exchange Commission made under Circular No.08/2010 dated 22nd November 2010 and Circular No.13/2010 issued by the CDS dated 30th November 2010, all Debentures are required to be directly deposited in to the CDS. To facilitate compliance with this directive, all Qualified Investors are required to indicate their CDS account number.

In line with this directive, THE DEBENTURES ALLOTTED TO A QUALIFIED INVESTOR WILL BE DIRECTLY DEPOSITED IN THE CDS ACCOUNT OF SUCH QUALIFIED INVESTOR, the details of which is indicated in their Application Form. If the CDS account number indicated in the Application Form is found to be inaccurate /incorrect or there is no CDS number indicated, the Application will be rejected and no allotments will be made. The Bank may require a Qualified Investor to provide such documentation as is reasonably necessary to satisfy itself that the investor is a Qualified Investor.

PLEASE NOTE THAT DEBENTURE CERTIFICATES WILL NOT BE ISSUED.

Qualified Investors who wish to open a CDS account, may do so through a Trading Participant of the CSE as set out in Annexure II or through any Custodian Bank as set out in Annexure III of this Prospectus.

ISSUE AT A GLANCE

Issuer	DFCC BANK PLC																							
Instrument	BASEL III compliant - Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable 5- and 7-year Debentures (2024/29 and 2024/31) with a Non-Viability Conversion.																							
Listing	The Debentures will be listed on the Colombo Stock Exchange																							
Number of Debentures to be Issued	An initial Issue of Fifty Million (50,000,000) Basel III compliant – Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable 5- and 7-year Debentures (2024/29 and 2024/31) with a Non-Viability Conversion, with an option to issue up to a further Thirty Million (30,000,000) of said Debentures at the discretion of the Bank in the event of an over subscription of the initial Issue.																							
Amount to be Raised	A sum of up to Sri Lankan Rupees Five Billion (LKR 5,000,000,000/-) with an option to issue up to a further Sri Lankan Rupees Three Billion (LKR 3,000,000,000/-) at the discretion of the Bank in the event of an over subscription of the initial Issue.																							
Entity Rating	“A- (lka)/stable)” by Fitch Ratings Lanka Limited																							
Issue Rating	“BBB (lka)” by Fitch Ratings Lanka Limited for Type A and Type B Debentures																							
Issue Price	LKR 100/- per each Debenture																							
Par Value	LKR 100/- per each Debenture																							
Details of Debentures	Basel III compliant – Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable 5- and 7-year Debentures (2024/29 and 2024/31) with a Non-Viability Conversion, as described below.																							
	<table><tr><th>Type</th><th>Type of Interest</th><th>Tenure</th><th>Interest Rate (per annum)</th><th>Annual Effective Rate (AER)</th><th>Interest Payment Frequency</th></tr><tr><td>Type A</td><td>Fixed Rate</td><td>5 years</td><td>15.25%</td><td>15.25%</td><td>Annual</td></tr><tr><td>Type B</td><td>Fixed Rate</td><td>7 years</td><td>14.75%</td><td>14.75%</td><td>Annual</td></tr></table>						Type	Type of Interest	Tenure	Interest Rate (per annum)	Annual Effective Rate (AER)	Interest Payment Frequency	Type A	Fixed Rate	5 years	15.25%	15.25%	Annual	Type B	Fixed Rate	7 years	14.75%	14.75%	Annual
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Type B	Fixed Rate	7 years	14.75%	14.75%	Annual																			
Number of Debentures to be Subscribed	<p>Applicants are allowed to invest in either;</p> <ul style="list-style-type: none">▪ Debentures of Type A; and/or▪ Debentures of Type B <p>Subject to the minimum subscription under each type as given below.</p> <p>The minimum subscription requirement applicable for a Qualified Investor applying for debt Securities shall be Rupees Ten Thousand (LKR 10,000/-).</p> <p>Provided however, the minimum subscription requirement applicable for an individual investor applying for BASEL III Compliant Debt Securities shall be Rupees Five Million (LKR 5,000,000/-).</p> <p>Any Application in excess of the minimum subscription requirement shall be in multiples of Rupees Ten Thousand (LKR 10,000/-).</p>																							

Interest Payment Date(s)	<p>The dates on which payments of interest in respect of the Debentures shall fall due, which shall be one (1) year from the Date of Allotment and every year therefrom of each year from the Date of Allotment until the Date of Redemption and includes the Date of Redemption.</p> <p>Interest would be paid not later than three (03) Working Days from each Interest Payment Date. (Excluding such interest payment date)</p> <p>The final interest payment will be paid together with the Principal Sum within three (03) Working Days from the Date of Redemption.</p>
Interest Period	<p>The one (1) year period from the date immediately succeeding a particular Interest Payment Date and ending on the next Interest Payment Date (inclusive of the aforementioned commencement date and end date) and shall include the period commencing from the Date of Allotment and ending on the first Interest Payment Date (inclusive of the aforementioned commencement date and end date) and the period from the date immediately succeeding the last Interest Payment Date before the Date of Redemption and ending on the date immediately preceding the Date of Redemption (inclusive of the aforementioned commencement date and end date).</p>
Mode of Payment of Principal Sum and Interest	<p>Through an electronic fund transfer mechanism recognized by the banking system of Sri Lanka such as SLIPS and RTGS where accurate bank account details are provided by the Debenture Holders subject to the prevalent limitation with regard to SLIPS and RTGS or by cheque marked "Account Payee Only".</p>
Issue Opening Date	05 th January 2024
Date of Allotment	<p>The date on which the Debentures will be allotted by the Bank to Applicants subscribing thereto.</p>
Closure Date of the Subscription List	<p>Subject to the provisions contained below, the subscription list for the Debentures will open at 9.30 a.m. on 05th January 2024 and will remain open for fourteen (14) Market Days including the Issue opening date until closure at 4.30 p.m. on 26th January 2024</p> <p>However, the subscription list will be closed on an earlier date at 4.30 p.m. with notification to the CSE on the occurrence of the following:</p> <ul style="list-style-type: none"> - The maximum of 80,000,000 Debentures being fully subscribed; or - The Board of Directors of the Bank decides to close the Issue upon the initial Issue of 50,000,000 Debentures becoming fully subscribed. <p>In the event the Board of Directors of the Bank decides to exercise the option to issue further up to 30,000,000 Debentures (having subscribed the initial Issue of 50,000,000 Debentures) but subsequently decides to close the subscription list upon part of the further issue of 30,000,000 Debentures becoming subscribed, such decision is to be notified to the CSE on the day such decision is made and the subscription list will be closed on the following Market Day at 4.30 pm.</p> <p>In the event the Board of Directors of the Bank decides to close the Debenture Issue without the full subscription of the initial 50,000,000 Debentures, such decision is to be notified to the CSE on the day such decision is made and the subscription list will be closed on the following Market Day at 4.30 pm.</p>

	(refer Section 5.2 of this Prospectus).
Basis of Allotment	<p>In the event of an over subscription, the Board of Directors of the Bank will endeavor to decide the basis of allotment of the Debentures in a fair manner within seven (07) Market days from the closure of the Issue.</p> <p>The Board however shall reserve the right to allocate up to a maximum of 75% of the Number of Debentures to be allotted under this Prospectus on a preferential basis, to identified Qualified Investor/s of strategic importance with whom the Bank might have mutually beneficial relationships in the future as future investors.</p> <p>Number of Debentures to be allotted to identified Qualified Investor/s of strategic and operational importance, on a preferential basis or otherwise will not exceed 75% of the total number of Debentures to be issued under this Prospectus under any circumstances, unless there is an under subscription from the other investors (Qualified investors that do not fall under preferential category). In the event of such undersubscription from the other Qualified Investors, such other investor category to be allotted in full and any remaining Debentures to be allotted to identified Qualified Investor/s</p>
Non-Viability Conversion	<p>In the event of an occurrence of a Trigger Event as determined at the sole discretion of the Central Bank of Sri Lanka, there would be a conversion of Debentures to Ordinary Shares by the Bank without any requirement of approval by the Debenture Holders, in compliance with BASEL III requirements.</p> <p>Upon the occurrence of a Trigger Event, the outstanding balance of the Debentures including the total Par Value of the Debentures and the Debenture Interest accrued and unpaid as at that date will be permanently converted to Ordinary Shares at the Conversion Price. In the event of any Debenture Holder being entitled to a fractional allotment of an Ordinary Share on such issuance and allotment, the Bank shall settle such sums in cash, based on the issue price of such share.</p>
Conversion Price	The price based on the simple average of the daily Volume Weighted Average Price (VWAP) of an Ordinary Share during the three months (03) period, immediately preceding the date of the Trigger Event.
Volume Weighted Average Price (VWAP)	The daily Volume Weighted Average Price (VWAP) of an Ordinary Share as published by the Colombo Stock Exchange.
Trigger Event	Means a point at which the Monetary Board of the Central Bank of Sri Lanka determines (a) that the Bank would become non-viable without a write down in terms of item 10(iii)(a) of the Web Based Return Code 20.2.3.1.1.1 of the Banking Act Direction No. 1 of 2016 dated 29 th December 2016 (as may be amended from time to time); or (b) to make a public sector injection of capital or equivalent support without which the Bank would have become non-viable in terms of item 10 (iii)(b) of the said Direction.

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1.0 CORPORATE INFORMATION

Name of the Bank/Issuer	DFCC Bank PLC																							
Legal Status	A quoted public company with limited liability established by DFCC Bank Act No. 35 of 1955 and with the enactment of the DFCC Bank (Repeal and Consequential Provisions) Act No. 39 of 2014, incorporated under the Companies Act No. 07 of 2007 with the name ‘DFCC Bank PLC’ with effect from January 06, 2015. A licensed commercial bank under the Banking Act, No. 30 of 1988.																							
Company Number	PQ 233																							
Place of Incorporation	Colombo, Sri Lanka																							
Registered Address	DFCC Bank PLC No. 73/5, Galle Road Colombo 03 Tel: +94 11 2 442 442 / Fax: +94 11 2 440 376																							
Company Secretary	Ms. Nimali Ranaraja DFCC Bank PLC No. 73/5, Galle Road Colombo 03 Tel: +94 11 2 442 219 / Fax: +94 11 2 440 376																							
Rating Agency	Fitch Ratings Lanka Limited No.15-04, East Tower World Trade Centre Colombo 01 Tel: +94 11 2 541 900 / Fax: +94 11 2 541 903																							
Auditors	KPMG Chartered Accountants No. 32A, Sir Mohamed Macan Markar Mawatha Colombo 03 Tel: +94 11 5 426 426 / Fax: +94 11 2 445 872																							
Board of Directors	<table><tr><td>Mr. J. Durairatnam</td><td>Chairman, Independent Non-Executive Director</td></tr><tr><td>Mr. N. H. T. I. Perera</td><td>Chief Executive Officer, Executive Director</td></tr><tr><td>Ms. V. J. Senaratne</td><td>Non – Independent Non-Executive Director</td></tr><tr><td>Ms. L. K. A. H. Fernando</td><td>Independent Non-Executive Director</td></tr><tr><td>Mr. N. K. G. K. Nemmawatta</td><td>Independent Non-Executive Director</td></tr><tr><td>Ms. H. M. N. S. Gunawardana</td><td>Independent Non-Executive Director</td></tr><tr><td>Mr. H. A. J. De Silva Wijeyeratne</td><td>Independent Non-Executive Director</td></tr><tr><td>Mr. N Vasantha Kumar</td><td>Independent Non-Executive Director</td></tr><tr><td>Ms. A. L. Thambiayah</td><td>Independent Non-Executive Director</td></tr><tr><td>Mr. W. R. H. Fernando</td><td>Independent Non-Executive Director</td></tr><tr><td>Mr. W D Batagoda</td><td>Non – Independent Non-Executive Director</td></tr></table>		Mr. J. Durairatnam	Chairman, Independent Non-Executive Director	Mr. N. H. T. I. Perera	Chief Executive Officer, Executive Director	Ms. V. J. Senaratne	Non – Independent Non-Executive Director	Ms. L. K. A. H. Fernando	Independent Non-Executive Director	Mr. N. K. G. K. Nemmawatta	Independent Non-Executive Director	Ms. H. M. N. S. Gunawardana	Independent Non-Executive Director	Mr. H. A. J. De Silva Wijeyeratne	Independent Non-Executive Director	Mr. N Vasantha Kumar	Independent Non-Executive Director	Ms. A. L. Thambiayah	Independent Non-Executive Director	Mr. W. R. H. Fernando	Independent Non-Executive Director	Mr. W D Batagoda	Non – Independent Non-Executive Director
Mr. J. Durairatnam	Chairman, Independent Non-Executive Director																							
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Ms. H. M. N. S. Gunawardana	Independent Non-Executive Director																							
Mr. H. A. J. De Silva Wijeyeratne	Independent Non-Executive Director																							
Mr. N Vasantha Kumar	Independent Non-Executive Director																							
Ms. A. L. Thambiayah	Independent Non-Executive Director																							
Mr. W. R. H. Fernando	Independent Non-Executive Director																							
Mr. W D Batagoda	Non – Independent Non-Executive Director																							

2.0 RELEVANT PARTIES TO THE ISSUE

Structuring Partner to the Issue	Treasury and Investment Banking Unit DFCC Bank PLC DFCC Building, P.O. Box 1397 No. 73/5, Galle Road Colombo 03 Tel: +94 11 2 442 442 / Fax: +94 11 2 440 376
Joint Managers and Placement Agents to the Issue	Capital Alliance Partners Limited Level 5, "Millennium House", 46/58, Navam Mawatha, Colombo 02. Tel: +94 11 2317777, Fax: +94 11 2317788 Acuity Partners (Private) Limited Acuity House No. 53, Dharmapala Mawatha Colombo 03 Tel: +94 11 2 206 206 / Fax: +94 11 2 437 149
Lawyers to the Issue	Nithya Partners No. 97A, Galle Road Colombo 03 Tel: +94 11 4 712 625 / Fax: +94 11 2 328 817
Registrars to the Issue	S S P Corporate Services (Private) Limited No. 101, Inner Flower Road Colombo 03 Tel: +94 11 2 573 894 / Fax: +94 11 2 573 609
Trustee to the Issue	People's Bank No. 75, Sir Chittampalam A. Gardiner Mawatha Colombo 02 Tel: +94 11 2 481 481 / Fax: +94 11 2 458 842

Company Secretary	<p>Ms. Nimali Ranaraja DFCC Building, P.O. Box 1397 No. 73/5, Galle Road Colombo 03 Tel : +94 11 2 442 219 / Fax :+94 11 2 440 376</p>
Rating Agency to the Issue	<p>Fitch Ratings Lanka Limited No.15-04, East Tower World Trade Centre Colombo 01 Tel: +94 11 2 541 900 / Fax: +94 11 2 541 903</p>
Bankers to the Issue	<p>DFCC Bank PLC No. 73/5, Galle Road Colombo 03 Tel: +94 11 2 442 442 / Fax: +94 11 2 440 376</p>
Auditors and Reporting Accountants to the Issue	<p>KPMG Chartered Accountants No. 32A, Sir Mohamed Macan Markar Mawatha Colombo 03 Tel : +94 11 5 426 426 / Fax : +94 11 2 445 872</p>

3.0 LIST OF ABBREVIATIONS

AER	Annual Effective Rate
AWPLR	Average Weighted Prime Lending Rate
CAR	Capital Adequacy Ratio
CBSL	Central Bank of Sri Lanka
CDS	Central Depository Systems (Pvt) Limited
CSE	Colombo Stock Exchange
DFCC/Issuer/Bank	DFCC Bank PLC
IIA	Inward Investment Account
NIC	National Identity Card
POA	Power of Attorney
RTGS	Real Time Gross Settlement
SEC	Securities and Exchange Commission of Sri Lanka
SLIPS	Sri Lanka Inter-bank Payment System
VWAP	Volume Weighted Average Price

4.0 GLOSSARY OF TERMS RELATED TO THE ISSUE

Applicant	Any Qualified Investor who submits an Application Form under this Prospectus.
Application Form/Application	The Application Form that constitutes part of this Prospectus through which an Applicant may apply for the Debentures in Issue.
Bank/ Issuer	DFCC Bank PLC
Basel III	A Global Regulatory Framework for More Resilient Banks and Banking System, issued by the Basel Committee on Banking Supervision of the Bank for International Settlement in December 2010 (Revised in June 2011).
Closure Date	<p>Subject to the provisions contained below, the subscription list for the Debentures will open at 9.30 a.m. on 05th January 2024 and will remain open for fourteen (14) Market Days including the Issue opening date until closure at 4.30 p.m. on 26th January 2024</p> <p>However, the subscription list will be closed on an earlier date at 4.30 p.m. with notification to the CSE on the occurrence of the following:</p> <ul style="list-style-type: none"> - The maximum of 80,000,000 Debentures being fully subscribed; or - The Board of Directors of the Bank decides to close the Issue upon the initial Issue of 50,000,000 Debentures becoming fully subscribed. <p>In the event the Board of Directors of the Bank decides to exercise the option to issue further up to 30,000,000 Debentures (having subscribed the initial Issue of 50,000,000 Debentures) but subsequently decides to close the subscription list upon part of the further issue of 30,000,000 Debentures becoming subscribed, such decision is to be notified to the CSE on the day such decision is made and the subscription list will be closed on the following Market Day at 4.30 pm.</p> <p>In the event the Board of Directors of the Bank decides to close the Debenture Issue without the full subscription of the initial 50,000,000 Debentures, such decision is to be notified to the CSE on the day such decision is made and the subscription list will be closed on the following Market Day at 4.30 pm. (refer Section 5.2 of this Prospectus).</p>
Conversion Price	The price based on the simple average of the daily Volume Weighted Average Price (VWAP) of an Ordinary Share during the three (03) months period, immediately preceding the date of the Trigger Event.
Date of Allotment	The date on which the Debentures will be allotted by the Bank to Applicants subscribing thereto.
Date of Redemption	The date on which Redemption of the Debentures will take place as referred to in Section 5.7 of this Prospectus.
Debentures	Basel III compliant – Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable 5- and 7-year Debenture Issue with a Non- Viability Conversion, to be issued pursuant to this Prospectus.
Debenture Holder(s)	Any Qualified Investor who is for the time being the holder of the Debentures and his/her/respective heirs, executors, administrators, or successors in title, as the case may be.

Entitlement Date	The Market Day immediately preceding the respective Interest Payment Date or Date of Redemption, in the event a Trigger Event does not occur.
Interest Payment Date(s)	<p>The dates on which payments of interest in respect of the Debentures shall fall due, which shall be one (1) year from the Date of Allotment and every year therefrom of each year from the Date of Allotment until the Date of Redemption and includes the Date of Redemption.</p> <p>Interest would be paid not later than three (03) Working Days from each Interest Payment Date. (Excluding such interest payment date)</p> <p>The Final interest payment will be paid together with the Principal sum within three (03) Working Days from the Date of Redemption</p>
Interest Period	The one (1) year period from the date immediately succeeding a particular Interest Payment Date and ending on the next Interest Payment Date (inclusive of the aforementioned commencement date and end date) and shall include the period commencing from the Date of Allotment and ending on the first Interest Payment Date (inclusive of the aforementioned commencement date and end date) and the period from the date immediately succeeding the last Interest Payment Date before the Date of Redemption and ending on the date immediately preceding the Date of Redemption (inclusive of the aforementioned commencement date and end date).
Issue	The offer of Debentures to Qualified Investors pursuant to this Prospectus.
Issue Price	LKR 100/- per each Debenture
Market Day	Any day on which trading takes place at the CSE.
Non-Resident(s)	Persons resident outside Sri Lanka including country funds, regional funds, investment funds and mutual funds established outside Sri Lanka.
Non Viability Conversion	<p>In the event of an occurrence of a Trigger Event as determined at the sole discretion of the Central Bank of Sri Lanka, there would be a conversion of Debentures to Ordinary Shares by the Bank without any requirement of approval by the Debenture Holders in compliance with BASEL III requirements.</p> <p>Upon the occurrence of a Trigger Event, the outstanding balance of the Debentures including the total Par Value of the Debentures and debenture interest accrued and unpaid (if any) as at that date will be permanently converted to Ordinary Shares at the Conversion Price.</p> <p>In the event of any Debenture Holder being entitled to a fractional allotment of an Ordinary Share on such issuance and allotment, the Bank shall settle such sums in cash, based on the issue price of such share.</p>
Par Value	LKR 100/- per each Debenture
Principal Sum	The product of the number of Debentures allotted and the Par Value
Prospectus	This prospectus dated 22 nd December 2023 issued by DFCC Bank PLC
Qualified Investors	<p>(a) A commercial bank licensed by the Central Bank of Sri Lanka in terms of the Banking Act, No. 30 of 1988 (as amended).</p> <p>(b) A specialized bank licensed by the Central Bank of Sri Lanka in terms of the Banking Act, No.30 of 1988 (as amended).</p> <p>(c) A mutual fund, pension fund, Employee Provident Fund or any other</p>

	<p>similar pooled fund.</p> <p>(d) A venture capital fund/ company and private equity company.</p> <p>(e) A finance company licensed by the Central Bank of Sri Lanka in terms of the Finance Business Act. No 42 of 2011 (as amended).</p> <p>(f) A company licensed by the Central Bank of Sri Lanka to carry on finance leasing business under the Finance Leasing Act, No. 56 of 2000 (as amended)</p> <p>(g) A company licensed by the Insurance Board of Sri Lanka to carry on Insurance business in terms of the Regulation of the Insurance Industry Act, No. 43 of 2000 (as amended)</p> <p>(h) A corporate (listed or unlisted) which does not fall under the above categories and is incorporated under the Companies Act No.7 of 2007.</p> <p>(i) An investment trust or investment company</p> <p>(j) A Non-Resident institutional investor</p> <p>(k) An individual with a minimum initial investment amount of LKR 5,000,000/-</p>
Redemption	Repayment of the Principal Sum and unpaid and accrued interest (if any) with regard to a Debenture to a Debenture Holder by the Bank
Registered Address	The address provided by the Debenture Holders to the CDS
Subordinated	Means the claims of the Debenture Holders shall in the event of winding up of the Bank rank after all the claims of depositors and secured and other unsecured creditors of the Bank and any preferential claims under any Statutes governing the Bank, but shall rank <i>pari passu</i> with other BASEL III subordinated Debenture Holders and in priority to and over the claims and rights of the Shareholder/s of the Bank <u>unless there has been an issuance of shares to the Debentures Holders upon the occurrence of a Trigger Event in which case a Debenture Holder would cease to be a Debenture Holder and become a shareholder of the Bank to the extent of such issuance</u>
Tier 2	Tier 2 Capital includes qualifying Tier 2 capital instruments, revaluation gains approved by CBSL and general loan loss provision of the Bank
Trigger Event	Means a point at which the Monetary Board of the Central Bank of Sri Lanka determines (a) that the Bank would become non-viable without a write down in terms of item 10(iii)(a) of the Web Based Return Code 20.2.3.1.1.1 of the Banking Act Direction No.1 of 2016 dated 29 th December 2016 (as maybe amended from time to time); or (b) to make a public sector injection of capital, or equivalent support, without which the Bank would have become non-viable, in terms of Item 10(iii)(b) of the Banking Act Direction No.1 of 2016 dated 29th December 2016 (as maybe amended from time to time).
Trustee	People's Bank
Trust Deed	Trust Deed executed between the Bank and People's Bank on 01 st December 2023
Unsecured	Repayment of the Principal Sum and payment of interest on the Debentures are not secured by a charge on any assets of the Issuer
Volume Weighted Average Price (VWAP)	The daily Volume Weighted Average Price (VWAP) of an Ordinary Share as published by the Colombo Stock Exchange
Working Day	Any day (other than a Saturday or Sunday or any statutory holiday) on which the banks are open for business in Sri Lanka

5.0 PRINCIPAL FEATURES OF THE DEBENTURES

5.1 INVITATION TO SUBSCRIBE

The Board of Directors of DFCC Bank PLC (hereinafter referred to as the “Board”) at the Board Meeting held on 25th January 2023 resolved to raise a sum of Rupees Five Billion (LKR 5,000,000,000/-) by an initial issue of up to Fifty Million (50,000,000) Debentures, each with a Par Value of LKR 100/- and to raise a further sum of Rupees Three Billion (LKR 3,000,000,000/-) by an issue of a further Thirty Million (30,000,000) Debentures, in the event of an over subscription of the initial issue.

As such a maximum amount of Rupees Eight Billion (LKR 8,000,000,000) would be raised by the issue of a maximum of Eighty Million (80,000,000) Debentures each with the Par Value of LKR 100/-.

DFCC Invites Applications for Debentures of Type A and/or Debentures of Type B which will rank equal and *pari passu* in all respects other than with respect to the rate of interest and the tenure of the Debentures as more fully described in Section 5.3 and Section 5.5 of this Prospectus.

The rights of the Debenture Holders with respect to payment of the Principal Sum and accrued interest due thereon upon a winding - up of the Bank will rank after all claims of depositors and secured and other unsecured creditors of the Bank and any preferential claims under any Statutes governing the Bank, but shall rank *pari passu* with other BASEL III subordinated Debenture Holders and in priority to and over the rights of any ordinary shareholders. However, if there has been an issuance of Ordinary Shares to the Debenture Holders upon the occurrence of a Trigger Event a Debenture Holder would cease to be Debenture Holder and would become a shareholder of the Bank to the extent of such issuance and will rank equal and *pari passu* with existing Ordinary Share Holders.

The Bank has obtained shareholders’ approval through the special resolution passed at the extra ordinary general meeting held on 30th March 2023 for the issuance of Ordinary Shares in the event of a non-viability conversion upon the occurrence of a Trigger Event.

It is the intention of the Bank to list the Debentures on the Colombo Stock Exchange. The CSE has given its in principle approval for the listing of the Debentures and any Ordinary Shares which would be issued upon the occurrence of a Trigger Event on the CSE.

However, the CSE reserves the right to withdraw such approval, in the circumstances set out in Rule 2.3(b) of the Listing Rules of the CSE.

As set out in Rule 2.2.1 (n) of the CSE Listing Rules, only Qualified Investors would be eligible to invest in these Debentures. Further, as set out in Rule 3.3.5 (ii) (a) (ii) of the CSE Listing Rules, the secondary trading of these Debentures shall also be limited to Qualified Investors. Accordingly, the primary and secondary market investments of the Debentures are limited to the Qualified Investors.

5.2 SUBSCRIPTION LIST

Subject to the provisions contained below, the subscription list for the Debentures will open at 9.30 a.m. on 05th January 2024 and will remain open for fourteen (14) Market Days including the Issue opening date until closure at 4.30 p.m. on 26th January 2024.

However, the subscription list will be closed on an earlier date at 4.30 p.m. with notification to the CSE on the occurrence of the following.

- The maximum of 80,000,000 Debentures being fully subscribed; or
- The Board of Directors of the Bank decides to close the Issue upon the initial Issue of 50,000,000 Debentures becoming fully subscribed

In the event the Board of Directors of the Bank decides to exercise the option to issue further up to 30,000,000 Debentures (having subscribed the initial Issue of 50,000,000 Debentures) but subsequently decides to close the subscription list upon part of the further Issue of 30,000,000 Debentures becoming subscribed, such decision is to be notified to the CSE on the day such decision is made and the subscription list will be closed on the following Market Day at 4.30 p.m.

In the event the Board of Directors of the Bank decides to close the Debenture Issue without the full subscription of the initial Fifty Million (50,000,000) Debentures, such decision is to be notified to the CSE on the day such decision is made and subscription list will be closed on the following Market Day at 4.30 p.m.

5.3 TYPES OF DEBENTURES

The Issue consists of only two types of Debentures, i.e. Debentures with fixed coupon rates each with a Par Value of Rupees One Hundred (LKR 100/-).

Type	Type of Interest	Tenure	Interest Rate (per annum)	Annual Effective Rate (AER)	Interest Payment frequency
Type A	Fixed Rate	5 years	15.25%	15.25%	Annual
Type B	Fixed Rate	7 years	14.75%	14.75%	Annual

5.4 OBJECTIVES OF THE ISSUE & SPECIFIC RISK RELATING TO THE OBJECTIVES OF THE DEBENTURE ISSUE

The funds generated from the Debenture Issue will be utilized for the following purposes:

(a) Support the Bank's balance sheet growth

The Bank intends to utilize the funds generated through the Debenture Issue to support the lending activities of the Bank as part of its normal course of business.

It is the understanding of the Bank that the entire quantum of funds will be utilized within a period of 12 months from the date of allotment of the Debentures and in the interim period these funds will be invested in Government Securities at the current market rates. The current 182 day Treasury bill yield is 14.29% while the 364 day Treasury bill yield is 12.83%

Growth in net loans and advances as per audited financials

Net Loans and advances	LKR Million
<i>Position as at 31-12-2021</i>	<i>384,959</i>
<i>Position as at 31-12-2022</i>	<i>402,976</i>
<i>Growth during the 12 month period</i>	<i>18,017</i>

Based on the past performance of the lending growth, Bank is confident of utilizing the funds generated through the Issue as stated within a period of 12 months. The monthly average disbursement of funds for the months of August, September, and October 2023 is LKR 20,528,808,950.14

The proceeds from the Issue will be added to the Bank's pool of funds. This pool is available for lending activities of the Bank as part of its normal course of business.. There is no pre-allocation of proceeds from this debenture issue to be lent to the related parties. However, any potential transaction with related parties will be carried out in compliance with all applicable Statutes, Directions, Regulations, and section 9 of the CSE Listing Rules including following the due process of RPT Review committee (RPTRC). Please refer to Section 8.2 for the composition of the Related Party Transactions Review Committee as at 30th September 2023.

As at 30.09.2023 the Bank has utilized the proceeds of all previous Debenture Issues towards achieving the objectives of the respective Issues.

The proposed debenture issue does not fall within the definition of a major transaction in terms of Section 185 of the Companies Act No 7 of 2007.

(b) Improve the Tier 2 Capital Adequacy Ratio (CAR).

Funds raised through this Debenture Issue are expected to improve the Capital Adequacy of the Bank. The Subordinated nature of the medium to long term debentures to be issued in compliance with the requirements under BASEL III with a Non-Viability Conversion option will enable the Bank to strengthen the Tier II Capital Base as per Basel III requirements.

The Bank has obtained the Approval from the Central Bank of Sri Lanka to include the Basel III compliant Debentures under Tier II capital. The approval has been granted via the letter dated 16th November 2023 by the Central Bank of Sri Lanka

The Bank has complied with the CBSL BASEL III minimum capital adequacy requirement as at 30 September 2023 with Tier I ratios of 11.09% and Total capital ratio of 13.72%

The minimum Capital Adequacy requirements under BASEL III are as follows;

Components of Capital	Minimum Regulatory Requirements	Bank's Actual position as at 30.09.2023
Common Equity Tier 1 capital with buffers	7.0%	11.09%
Total Tier 1 capital with buffers	8.5%	11.09%
Total capital ratio with buffers	12.5%	13.72%

The forecasted ratios considering the intended proceeds of the Debenture Issue computed under BASEL III will be as follows:

Current CAR position of the Bank as at 30.09.2023		13.72%
Minimum CAR requirement to be maintained as at 30.09.2023 as per the Banking Act Direction No. 01 of 2016 (as amended)		12.50%
Minimum amount of funds the Bank is required to raise from the Debenture Issue which will have a convertible feature in compliance with BASEL III requirements to meet the CAR requirement as at 31/12/2023		--
Minimum CAR requirement to be maintained as at 31.12.2023 as per the Banking Act Direction No. 01 of 2016 (as amended)		12.50%
Expected CAR position to be achieved by the Bank, subsequent to the Debenture Issue which will have a convertible feature in compliance with BASEL III requirement	As at 31.12.2023 with Rs 5 Bn	14.03%
	As at 31.12.2023 with Rs 8 Bn	14.78%

Approval has been obtained from the CBSL to include the Debentures as Tier 2 Capital of the Bank subject to conditions detailed under this section. Strengthening the Tier 2 Capital will facilitate the Bank to maintain its Capital adequacy at satisfactory levels. The relevant approvals from CSE have been obtained.

Further, the Bank has obtained the shareholder approval by way of a Special Resolution for the issuance of Ordinary Voting Shares which may be occasioned by the occurrence of a 'Trigger Event' with regards to BASEL III Compliant, Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable, Debentures. Further as per the Rule 2.2.1 (m) of the CSE Listing Rules, the Bank has also obtained the Shareholder approval by way of a Special Resolution at the Extraordinary General Meeting of the Bank held on **30th March 2023** for the issuance of the Basel III compliant Debentures.

The rationale behind the issue of a fresh Debenture issue is that as a result of the growth in business and the maturity of the existing Tier 2 debentures, the CAR of the Bank has declined in recent years and will decline further by December 2023 (under Basel III). The Bank is of the view that the CAR of the Bank should be maintained at a level above the minimum requirement to accommodate the projected asset growth.

Specific risks relating to objectives of the Debenture Issue

Dependence of proceeds of the Issue to achieve the objectives is marginal, as the Bank in the ordinary course of business has access to multiple sources of funds such as different types of deposits and borrowings.

Further, the risk of under subscription of the Debenture Issue will be greatly mitigated through appointing experienced managers to the Issue, pre-marketing and building a pipeline of potential investors.

No further shareholder approval will need to be sought in the event the Debenture Issue is not fully subscribed.

The Bank's portfolio of loans and advances recorded a growth of LKR 63,991 Million and LKR 3,171 Million respectively during the year 2021 and 2022. As such, based on Banks past experience and the growth achieved as at date there is no specific risk factor that may lead to non-achievement of expanding the Bank's loans and advances portfolio within the specified time line via the proceeds of the Issue up to a maximum of LKR 8 Billion. However, in the highly unlikely event of the Bank failing to lend these funds due to an unforeseen reason, these funds would be invested in Government Securities at the current market rates.

The utilization of the proceeds of the Debenture Issue will be disclosed in the Annual Report and the Interim Financial Statements in the following format from the Issue Opening Date and until the objectives of the Debenture Issue are achieved.

Debenture Issue proceeds utilization as at (dd-mm-yyyy)

Objective as per Prospectus	Amount allocated as per Prospectus (LKR)	Proposed Date of allocation as per Prospectus	Amount allocated from proceeds (LKR) (A)	% of Total Proceeds	Amount utilized (LKR) (B)	% of utilization against allocation (B/A)	Clarification if not fully utilized including where the funds are invested (eg: whether lent to related parties, etc.)
To improve the capital adequacy ratio	Initial issue of LKR 5 Bn and a maximum issue of LKR 8 Bn	Upon the allotment of the Debentures.					
To support the bank's balance sheet growth		Over a period of twelve (12) months from the Date of Allotment					
To be disclosed in the Annual Report and the Interim Financial Statements							

In the event the proceeds raised are fully utilized in terms of the objectives disclosed in the Prospectus prior to submission of the Bank's next immediate financial statements (i.e. either interim financial statements or annual report), the Bank to disclose the fact that proceeds have been utilized in its entirety as per the above template.

5.5 PAYMENT OF INTEREST

The Debentures will carry a rate of interest as described below on the Interest Payment Dates:

Type	Tenure	Coupon Payment Frequency	Interest Rate
Type A	5 year	Payable Annually on the Interest Payment Date	15.25% p.a. (AER 15.25%)
Type B	7 year	Payable Annually on the Interest Payment Date	14.75% p.a. (AER 14.75%)

The interest rates have been determined giving consideration to the DFCC Bank PLC's rating as Issuer, the instrument rating, market conditions and features of the instruments, including the "convertible feature".

Interest on the Debentures accruing on a daily basis will be paid annually from the Date of Allotment until the Date of Redemption on the outstanding Principal Sum.

The interest due on the Debentures for a particular Interest Period will be calculated based on the actual number of days in such Interest Period and will be paid not later than three [03] Working Days from each Interest Payment Date.

In order to accommodate the debenture interest cycles in the CDS System of the CSE, the payment of interest on a particular Interest Payment Date will include Debenture Holders holding Debentures in the CDS as of the Entitlement Date.

Upon the occurrence of the "Trigger Event", the Bank shall be required and entitled to issue and within twenty (20) days to allot shares of the Bank ranking equal and *pari passu* with the existing Ordinary Shares, to the Debenture Holders up to the outstanding balance of such Debentures including the total Par Value of the Debentures and debenture interest. As such upon issuance of Ordinary Shares as above, no interest will be accrued on Debentures thereafter, **as the Debentures will cease to exist.**

5.6 APPLICATION OF TAX ON INTEREST PAYMENTS

Interest on the Debentures will be paid after deducting any taxes and charges thereon (if any) as per the applicable laws prevalent at the time of interest payment to the Debenture Holders.

Qualified Investors are advised to obtain clarifications in this regard from their tax advisors.

5.7 REDEMPTION OF DEBENTURES AND CONSEQUENCE OF A TRIGGER EVENT

Redemption of Debentures

Redemption of the Debentures will take place on the respective Date of Redemption as described below in accordance with the provisions of the Trust Deed. The Principal Sum and unpaid and accrued interest (if any) payable on the Redemption of Debentures will be paid not later than three (03) Working Days from the Date of

Redemption.

If the Date of Redemption falls on a day which is not a Market Day, then the Date of Redemption shall be the immediately succeeding Market Day and Interest shall be paid for each calendar day up to the date immediately preceding such Market Day.

These Debentures shall not be redeemed by the Bank prior to maturity for any reason whatsoever except due to the occurrence of an Event of Default contemplated in Clause 10.1 of the Trust Deed. The Debenture Holder shall not have any right or option to call for Redemption of the Debentures before the date of maturity of such Debenture. However, if a Trigger Event occurs prior to maturity, the Debenture will get converted to Ordinary Shares ranking *pari passu* with the existing Ordinary Shares of the Bank.

Trigger Event

A "Trigger Event" is determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka, and is defined in the Banking Act Direction No. 1 of 2016 of Web Based Return Code 20.2.3.1.1.1 (10) (iii) (a & b) as a point/event is the earlier of;

a) "Decision that a write down, without which the Bank would become non-viable, is necessary, as determined by the Monetary Board OR

b) The decision to make a public sector injection of capital, or equivalent support, without which the Bank would have become non-viable, as determined by Monetary Board".

Conversion Price

Outstanding balance of the Debentures including the total Par Value of the Debentures and accrued unpaid Debenture Interest (if any), will be converted at an issue price of such Ordinary Shares which will be based on the simple average of the daily Volume Weighted Average Price (VWAP) of an Ordinary Share as published by the Colombo Stock Exchange during the three months (03) period, immediately preceding the date of the Trigger Event.

Averaging out of the VWAP over a period of 03 months preceding the Trigger Event as opposed to a shorter window closer to the Trigger Event, is aimed at smoothing out price effects.

If the prevailing 3 month VWAP at the time of the Trigger Event is low, it would result in a comparatively higher number of Ordinary Shares being issued to the Debenture Holders. Alternately, where a higher 3 month Volume Weighted Average Share Price prevails at the time of the Trigger Event it would result in a comparatively lower number of Ordinary Shares being issued to Debenture Holders.

Issuance of Ordinary Shares upon occurrence of a Trigger Event

Based on above conversion mechanism the outstanding balance of the Debentures will get converted to Ordinary Shares. In the event of any Debenture Holder being entitled to a fractional allotment of an Ordinary Share on such issuance and allotment, the Bank shall settle such sums in cash, based on the issue price of such share.

Applicable timelines

Upon the occurrence of the Trigger Event as determined by the Monetary Board of the Central Bank of Sri Lanka, the Bank shall be required and entitled to issue and within twenty (20) days to allot Ordinary Shares of the Bank ranking equal and *pari passu* with the existing Ordinary Shares to the Debenture Holders as of the Trigger Date, up to the outstanding balance of such Debentures including the total Par Value of the Debentures and unpaid and accrued Debenture Interest (if any) at an issue price for such Ordinary Shares which will be based on the Conversion Price.

The CDS upload pertaining to Ordinary Shares will be completed within 10 Market Days from the Date of Allotment of such shares. In the event of any Debenture Holder being entitled to a fractional allotment of an Ordinary Share on such issuance and allotment, the Bank shall settle such sums in cash, based on the issue price of such share within fourteen (14) Market Days from the Date of Allotment of the said Ordinary Shares.

Market Announcements

The Bank on receipt of a Trigger Event notification from the Central Bank of Sri Lanka will immediately make a market announcement of the same and further announce the “Conversion Price” and “dates” (i.e. Trigger Event date, Date of Allotment and CDS upload date) pertaining to such conversion of Debentures to Ordinary Shares.

Compliance with applicable laws and regulations

Issue of any new Ordinary Shares due to occurrence of a Trigger Event, would be carried out in compliance with the applicable laws and regulations of Sri Lanka, including any regulations applicable on ‘material interest that a shareholder may hold’ in terms of the Banking Act No 30 of 1988.

Non Occurrence of a Trigger Event

The proposed Type A and Type B Debentures will be redeemed after 05 years and 07 years respectively from the Date of Allotment of such Debentures and the Principal Sum and unpaid and accrued interest (if any) payable on the Redemption of Debentures will be paid not later than three (03) Working days from the Date of Redemption, unless otherwise a Trigger Event’ occurs as detailed above.

5.8 PAYMENT METHOD

Payment of principal and interest will be made after deducting taxes at source, (if applicable) in Sri Lankan Rupees to the registered Debenture Holders only as of the Entitlement Date. In the case of joint Debenture Holders, the payment of Principal Sum and interest will be made to the one whose name stands first in the register of Debenture Holders on the date of payment.

In the event accurate bank account details are provided to the CDS by the Debenture Holders, the payment of Principal Sum and interest shall be made to Debenture Holders through an electronic fund transfer mechanism recognized by the banking system of Sri Lanka such as RTGS (arranged only at the expense of the investor) or SLIPS. RTGS transfers however shall be accommodated only for amounts over and above the maximum value of Rupees Five Million (LKR 5,000,000/-) that can be accommodated via SLIPS transfers.

If the Debenture Holder has not provided to the CDS accurate and correct details of his/her/its/their bank account for the payment of Principal Sum and interest, such payment to the Debenture Holder will be posted to the address registered with the CDS through registered post to the Debenture Holder, by crossed cheques marked “Account Payee Only”. Interest payable will be made only by cheques within three (03) Market Days from the end of each period.

It is the responsibility of the Non-Resident and Foreign Investors to ensure that their IIA through which they invest for Debentures is recorded correctly against the records in CDS to dispatch their Debenture interest payments.

5.9 TRUSTEE TO THE ISSUE

Bank has entered into an agreement with Peoples’ Bank, who will act as Trustee to the Issue and who is in compliance with the requirements Rule 2.2.1 (k) (ii), (iii) (iv) and (v) of the CSE Listing Rules. Debenture Holders

in their Application Forms for subscription will be required to authorize the Trustee, to act as the agent in entering into such deeds, writings and instruments with the Bank and to act as the Agent and Trustee for the Debenture Holders.

The rights and obligations of the Trustee are set out in the Trust Deed and the Debentures will be subject to the terms and conditions incorporated in the said Trust Deed.

The fee payable to the Trustee will be Sri Lankan Rupees Three Hundred and Fifty Thousand (LKR 350,000/-) per annum (payable semi-annually) plus statutory levies. Trustee has no conflict of interest with the Bank, except that the Trustee is one of the Bank's rendering banking related services to the Bank.

5.10 RATING OF THE DEBENTURE

Fitch Ratings Lanka Limited has assigned a credit rating of 'BBB (lka)' to the Debentures.

'BBB' Ratings denote good credit quality and expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate, but adverse business or economic conditions are more likely to impair this capacity. The modifiers "+" or "-" may be appended to a rating to denote relative status within major rating categories.

Source: <https://www.fitchratings.com/products/rating-definitions#about-rating-definitions>

The Board of Directors will undertake to keep the Trustee of the Debenture Issue and CSE informed on any change to the credit rating of the Debentures as soon as the Company / any of the Directors are aware of any changes to the ratings.

Fitch Ratings Lanka Limited has downgraded the National Long-Term Rating of DFCC Bank PLC to 'A-(lka)'/Rating Watch Negative (from 'A+(lka)'/Rating Watch Negative) due to the sovereign downgrade and recalibration of the Sri Lankan National Rating Scale. The outstanding Sri Lankan Rupee denominated Subordinated Debt of the Bank was also revised two notches below the National Rating, i.e. 'BBB(lka)'/RWN from 'A-(lka)'/RWN and Senior Debentures to 'A-(lka)'/RWN from 'A+(lka)'/RWN. A market announcement in this regard was made to the Colombo Stock Exchange on 13th January 2023.

5.11 RIGHTS AND OBLIGATIONS OF THE DEBENTURE HOLDERS

(a) Debenture Holders are entitled to the following rights.

- Receive the interest on the Interest Payment Dates at the interest rates set out in Section 5.5 of this Prospectus and the Principal Sum on the Date of Redemption as set out in Section 5.7 of this Prospectus, subject to the provisions contained in this Prospectus regarding the occurrence of a Trigger Event.
- Call and attend meetings of Debenture Holders as set out in the Trust Deed.
- Receive a copy of the Annual Report within 5 months from the financial year end at the same time and in the same manner as an ordinary shareholder would receive the same.
- The other rights of the holders of these Debentures as set out in the Trust Deed.

In the event of the Bank winding up, the claims of the Debenture Holders will rank after all the claims of depositors and the secured and other unsecured creditors of the Bank and the preferential claims under any Statutes governing the Bank, but shall rank *pari passu* with other BASEL III subordinated Debenture Holders and in priority to

and over the claims and rights of the shareholders of the Bank, unless there has been an issuance of ordinary shares to the Debenture Holders upon the occurrence of a Trigger Event in which case a Debenture Holder would cease to be a Debenture Holder and would become a shareholder of the Bank to the extent of such issuance and will rank equal and *pari passu* with existing Ordinary Shareholders.

(b) Debenture Holders do not have the following rights

- Attend and vote at meetings of holders of shares and other Debentures
- Share the profits of the Bank
- Participate in any surplus in the event of liquidation
- Calling for Redemption before maturity, subject to the provisions stated in the Trust Deed
- Convert the Debentures into Ordinary Shares at their option

However, in the event the Debenture Holders become shareholders of the Bank, due to the occurrence of Trigger Event as described in Section 5.7 above there would be an entitlement to exercise such rights as are exercisable by the shareholders of the Bank.

(c) Each Debenture Holder must ensure that the information in respect of the securities account maintained with the CDS is up to date and accurate. Each Debenture Holder shall absolve the Bank from any responsibility or liability in respect of any error or inaccuracy or absence of necessary changes in the information recorded with the CDS. Provided further that the Debenture Holder shall absolve the CSE and the CDS from any responsibility or liability in respect of any error or inaccuracy or absence of necessary changes in the information recorded with the CDS where such errors or inaccuracies or absence of changes are attributable to any act or omission of the Debenture Holders.

5.12 BENEFITS OF INVESTING IN DEBENTURES OFFERED BY THE BANK

- (a) Provides an opportunity to diversify the investment portfolio of the Qualified Investor.
- (b) Provides the Qualified Investor with a regular cash inflow of interest payments.
- (c) Provides the Qualified Investor with an opportunity to invest in Debentures issued by a leading Bank in Sri Lanka.
- (d) Being listed on the CSE, the Debentures will have a secondary market subject to secondary market trading of these Debentures being limited to 'Qualified Investors' as defined in the Prospectus, thus providing the Qualified Investor with an opportunity to exit at the market price prevailing at the time of divestiture subject to market conditions.
- (e) The Debentures may be used as collateral to obtain credit facilities from banks and financial institutions with the exception of the issuing Bank.

5.13 RISKS INVOLVED IN INVESTING IN THE DEBENTURES

Subscribers to the Debentures could be exposed to the following risks.

(a) Interest Rate Risk

Provided all other factors are equal, the market price of the Debentures will generally fluctuate in the opposite direction to the fluctuation in market interest rates. Thus, the interest rate risk could be identified as the reduction in the market price of Debentures resulting from a rise in interest rates.

(b) Reinvestment Risk

Interest on the Debentures are payable annually. A Qualified Investor may decide to reinvest these interest payments and earn interest from that point onwards. Depending on the prevailing interest rates at the point of reinvestment, the risk of returns generated by Debenture Holders by reinvesting

such interest received being higher or lower than the return offered by the Debentures is known as reinvestment risk.

(c) Duration Risk

Duration is a measure of the price sensitivity of fixed income investments to a change in interest rates based on the time to maturity of principal and coupon payments. The higher the duration, the greater the price volatility or duration risk, while a lower duration carries a lower risk.

(d) Subordinated Risk

The Debentures will be the Bank's direct Unsecured obligations which, if the Bank becomes insolvent or is wound-up (prior to the occurrence of a Trigger Event), will rank equal with the Bank's other subordinated indebtedness and will be Subordinated in right of payment to the claims of the Bank's depositors and other unsubordinated creditors. Therefore, if, prior to the occurrence of a Trigger Event, the Bank becomes insolvent or is wound-up, the assets of the Bank would first be applied to satisfy all rights and claims of holders of senior indebtedness. If the Bank does not have sufficient assets to settle claims of such senior indebtedness holders in full, the claims of the holders of the Debentures will not be settled and, as a result, the holders will lose the entire amount of their investment in Debentures. The Debentures will share equally in payment with claims under other subordinated indebtedness if the Bank does not have sufficient funds to make full payments on all of them, as applicable. In such a situation, holders could lose all or part of their investment.

In addition, holders should be aware that, upon the occurrence of a Trigger Event, all the Bank's obligations under the Debenture shall be deemed paid in full by the issuance of Ordinary Shares upon a Non-Viability Conversion, and each holder will be effectively further Subordinated due to the change in their status following such a conversion from being the holder of a debt instrument ranking ahead of holders of Ordinary Shares to being the holder of Ordinary Shares. As a result, upon Non-Viability Conversion, the holders could lose all or part of their investment in the Debentures irrespective of whether the Bank has sufficient assets available to settle what would have been the claims of the holders of the Debentures or other securities subordinated to the same extent as the Debentures, in proceedings relating to an insolvency or winding-up.

(e) Credit Risk

Credit risk is also referred to as default risk. This is the risk that the issuer of a debenture may default, i.e. the issuer will not be able to pay interest and principal payments on a timely basis. This risk is gauged in terms of rating assigned by different rating agencies. Fitch Ratings Lanka Limited has assigned a National Long-term Rating of 'BBB- (lka) / Stable' to these Debentures and will be periodically reviewing the same.

(f) Liquidity Risk

Liquidity risk is associated with the ease in which an investment can be sold after the initial placement. In order to reduce the liquidity risk of the Debentures, the Bank has applied for a listing of these Debentures on the CSE and has received in-principle approval for such listing whereby Debenture Holders will be able to sell the Debentures through the CSE in order to convert the Debentures to cash and exit from the investment. However, transaction price or bid-ask spread will be dependent upon the marketability, demand, supply and other macro factors such as market interest rates. Furthermore, it should be noted that the secondary debt market is not as developed as the secondary equity market in Sri Lanka.

Additional risks arising from the debentures being a Basel III Non-Viability conversion instrument

(g) Risks arising from Non-Viability Conversion features

(i) Conversion Risk

Upon the occurrence of a Trigger Event the Bank shall convert the Debentures into Ordinary Shares and any accrued but unpaid interest will be added to the Par Value of the Debentures and such accrued but unpaid interest, together with the principal amount of the Debentures will be deemed paid in full by the issuance of Ordinary Shares. Upon conversion the Debenture Holders shall have no further rights and the Bank shall have no further obligations to holders of the Debentures under the Trust Deed. Moreover, Non-Viability Conversion upon the occurrence of a Trigger Event is not an event of default under the terms of the Debenture or the Trust Deed.

Potential investors in Debentures should understand that, if a Trigger Event occurs and Debentures are converted into Ordinary Shares, Investors are obliged to accept the Ordinary Shares even if they do not at the time consider such Ordinary Shares to be an appropriate investment for them and despite any change in the financial position of the Bank since the Issue of the Debentures or any disruption to the market for those Ordinary Shares or to capital markets generally.

(ii) The number and value of Ordinary Shares to be received on a Non - Viability Conversion may be worth significantly less than the Par Value of the Debentures and can be variable.

Upon the occurrence of Non-Viability Conversion even though Ordinary Shares of equivalent value would be initially issued at the VWAP, yet there is no certainty of the value of such Ordinary Shares to be received by the holders of the Debentures being maintained at such levels and the value of such Ordinary Shares could eventually be significantly less than the Par Value of the Debentures.

Moreover, there may be an illiquid market, or no market at all, in Ordinary Shares received upon the occurrence of a Non-Viability Trigger Event, and investors may not be able to sell the Ordinary Shares at a price equal to the value of their investment and as a result may suffer significant loss.

(iii) The Debentures are loss-absorption instruments that involve risk and may not be a suitable investment for all investors

The Debentures are loss-absorption financial instruments designed to comply with applicable banking regulations and involve certain risks. Each potential Qualified Investor of the Debentures must determine the suitability (either alone or with the help of a financial advisor) of the investment in light of its circumstances. In particular, each potential Qualified Investor should understand thoroughly the terms of the Debentures, such as the provisions governing the Non-Viability Conversion, including under what circumstances a Trigger Event could occur.

A potential Qualified Investor should not invest in the Debentures unless he/she has the knowledge and expertise (either alone or with the financial advisor) to evaluate how the Debentures will perform under changing conditions, the resulting effects on the likelihood of the Non-Viability Conversion into Ordinary Shares and the value of the Debentures, and the impact this investment will have on the potential Qualified Investor's overall investment portfolio. Prior to making an investment decision, potential Qualified Investor should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this Prospectus.

(iv) Uncertainty regarding the Trigger Event

Due to the inherent uncertainty regarding the determination of when a Trigger Event may occur, it will be difficult to predict when, if at all, the Debentures will be converted into Ordinary Shares. In addition, investors in the Debentures are likely not to receive any advance notice of the occurrence of a Non-Viability Trigger Event. As a result of its uncertainty, trading behavior in respect of the Debentures is not necessarily expected to follow trading behavior associated with other types of convertible and exchangeable securities. Any indication, whether real or perceived, that the Bank is trending towards a Trigger Event can be expected to have an adverse effect on the market price of the Debentures and the Ordinary Shares, whether or not such Trigger Event actually occurs. Therefore, in such circumstances, investors may not be able to sell their Debentures easily or at prices that will provide them with a yield comparable to other types of subordinated debentures, including the Bank's other subordinated debt securities. In addition, a Non-Viability Conversion could drive down the price of Ordinary Shares subsequent to the conversion itself arising from the additional shares in issue of the Bank.

(v) Following a Non-Viability Conversion, the Qualified Investor will no longer have rights as a creditor and will only have rights as a holder of Ordinary Shares

Upon a Non-Viability Conversion, the rights, terms and conditions of the Debentures, including with respect to priority and rights on liquidation, will no longer be relevant as all such Debentures will have been converted on a full and permanent basis into Ordinary Shares ranking *pari passu* with all other outstanding Ordinary Shares. If a Non-Viability Conversion occurs, then the interest of depositors, other creditors of the Bank, and holders of Bank securities which are not contingent instruments will all rank in priority to the holders of contingent instruments, including the Debentures.

Given the nature of the Non-Viability Trigger Event a Holder of Debentures will become a holder of Ordinary Shares at a time when the Bank's financial condition has deteriorated. If the Bank were to become insolvent or wound-up after the occurrence of a Non-Viability Trigger Event, as holders of Ordinary Shares investors may receive substantially less than they might have received had the Debentures not been converted in to Ordinary Shares.

(vi) An investor's remedies for the Bank's breach of its obligations under the Debentures are limited

Absent an Event of Default (which shall occur if the Bank becomes insolvent or bankrupt, the Bank goes into liquidation either voluntarily or under an order of a court of competent jurisdiction, or the Bank otherwise acknowledges its insolvency), the Trustees and holders of Debentures shall not be entitled to declare the principal amount of the Debentures due and payable under any circumstance. As a result, the Qualified Investor will have no right of acceleration in the event of a non-payment of interest or a failure or breach in the performance of any other covenant of the Bank, although legal action could be brought to enforce any covenant given by the Bank.

(h) Acknowledgement of the CBSL Resolution Powers

The CBSL retains full discretion regarding the determination that a Trigger Event has occurred; as the resolution authority of banks in Sri Lanka, the CBSL has resolution powers through statute.

The Monetary Board determines the Trigger Event and effects a conversion after considering the other bail-in alternatives available to the Bank. Further, Section 30 and 30(9) of the Monetary Law Act No.58 of 1949 (as amended) and Part VII (A) and Part VIII of the Banking Act No.30 of 1988 (as amended) specify certain events upon which Monetary Board can exercise its resolution mechanism. In view of the above, based on the statutory authority of the Monetary Board, CBSL retains full discretion to

choose or not to choose to trigger for Non-Viability as has been provided for in the Banking Act Direction No.1 of 2016 on Capital Requirements under BASEL III for Licensed Commercial Banks and Licensed Specialized Banks.

As the CBSL retains full discretion to choose not to trigger Non-Viability Conversion notwithstanding a determination that the Bank has ceased, or is about to cease to be viable, under such circumstances, the holders of the Debentures may be exposed to losses through the use of other resolution tools under applicable statutes.

(i) Generic Risks

(i) The ability to transfer the Debentures may be limited by the absence of an active trading market, and there is no assurance that any active trading market will develop for the Debentures

In Sri Lanka the secondary trading activity in the corporate debt market is limited. The debentures are a new issue of securities and have no established secondary trading market. Further, the secondary market trading is only limited to Qualified Investors as defined in the Prospectus. There can be no assurance that an active secondary trading market will develop. If the Debentures are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Bank.

Even if an active secondary trading market does develop, it may not be liquid and may not continue. Therefore, Qualified Investors may not be able to sell their Debentures easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. If the secondary market for the Debentures is limited, there may be few buyers for the Debentures and this may significantly reduce the relevant market price of the Debentures.

(ii) Credit ratings may not reflect all risks associated with an investment in the Debentures

A credit rating reflects a relative ranking of credit risk and does not reflect the potential impact of all risks related to the structure, market, additional factors discussed herein, and other factors that may affect the value of the Debentures.

(iii) A Downgrade, suspension or withdrawal of the rating assigned by any rating agency to the Debentures could cause the liquidity or market value of the Debentures to decline

Rating initially assigned to the Debentures may be lowered or withdrawn entirely by the rating agency if, in the rating agency's judgment, circumstances relating to the basis of the rating, such as adverse changes to the Bank's business, so warrant. If the rating agency lowers or withdraws its rating, such event could reduce the liquidity or market value of the Debentures. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

(iv) Changes in law, or changes in regulatory classification may affect the rights of holders as well as the market value of the Debentures

The regulatory regime in connection to these instruments is evolving. Changes in law may include change in statutory, tax and regulatory regimes during the life of the Debentures, which may have an adverse effect on the investment in the Debentures.

5.14 TRANSFER OF DEBENTURES

The Debentures will be transferable and transmittable in the manner set out in the Trust Deed, which is reproduced below.

- (a) These Debentures shall be freely transferable amongst Qualified Investors and the registration of such transfer shall not be subject to any restriction, save and except to the extent required for compliance with statutory requirements.
- (b) The Debentures shall be transferable and transmittable through the CDS among Qualified Investors as long as the Debentures are listed in the CSE. Subject to the provisions contained herein the Bank may register without assuming any liability on any transfer of Debentures, which are in accordance with the statutory requirements and rules and regulations in force for the time being as laid down by the CSE, SEC and the CDS.
- (c) In the case of death of a Debenture Holder;
 - (i) The survivor where the deceased was a joint holder; and
 - (ii) The executors or administrators of the deceased or where the administration of the estate of the deceased is in law not compulsory the heirs of the deceased where such Debenture Holder was the sole or only surviving holder;shall be the only persons recognized by the Bank as having any title to his/her Debentures.
- (d) Any person becoming entitled to any Debentures in consequence of bankruptcy or winding up of any Debenture Holder, upon producing proper evidence that he/she/it sustains the character in respect of which he/she/it proposes to act or his/her title as the Board of Directors of the Bank thinks sufficient may in the discretion of the Board be substituted and accordingly registered as a Debenture Holder in respect of such Debentures subject to the applicable laws, rules and regulations of the Bank, CDS, CSE and SEC.
- (e) No change of ownership in contravention to these conditions will be recognized by the Bank.

5.15 LISTING

An Application has been made to the CSE for permission to obtain a listing for the Debentures and any shares which may be issued upon the occurrence of a Trigger Event and the CSE has granted its approval in-principle for the same. It is the intention of the Bank to list the Debentures in the Colombo Stock Exchange upon the allotment thereof. However, the CSE reserves the right to revoke such approval granted, in the circumstances set out in Rule 2.3 of the CSE Listing Rules.

The CSE however, assumes no responsibility for the correctness of the statements made or opinions expressed or reports included in this Prospectus. Admission to the official list is not to be taken as an indication of the merits of the Bank or of its Debentures.

5.16 COST OF THE ISSUE

The Board of Directors estimates that the total cost of the Issue including fees to professionals, printing, advertising and other costs connected with the Issue will be approximately LKR 40 Million. Such costs will be financed by the

internally generated funds of the Bank.

5.17 BROKERAGE FEE

Brokerage fee of Fifteen Cents (LKR 0.15) per Debenture shall be paid in respect of the number of Debentures allotted on Applications bearing the original seal of any Bank operating in Sri Lanka or a Trading Participant of the CSE or any other party identified by the Bank and/or Joint Managers and Placement Agents as involved in the Issue.

5.18 UNDERWRITING

This Issue is not underwritten.

The offering is not conditional to any minimum amount to be raised through this Issue. In the event of an under subscription, the Bank is confident that any short fall in the funds required to meet the objectives of the Issue can be financed through internally generated funds and other credit facilities that could be obtained by the Bank, at its discretion depending on the situation.

6.0 PROCEDURE FOR APPLICATION

6.1 INSPECTION OF DOCUMENTS

Articles of Association, the Trust Deed, Auditors' Report and Audited Financial Statements for the five (05) financial years ended 31st December 2022 (i.e. the five (05) financial years immediately preceding the date of this Prospectus) and all other documents referred to in Rule 3.3.13 (a) of the CSE Listing Rules, including material contracts and management agreements entered into by the Bank (if any) would be made available for inspection by the public during normal working hours, seven (07) Market Days prior to the date of opening of the subscription list at the registered office of the Bank at DFCC Building, P.O. Box 1397, No.73/5, Galle Road, Colombo 03, Sri Lanka until the Date of Redemption of the Debentures.

The Prospectus, Trust Deed and the Articles of Association of the Bank, will be available on the website of CSE, www.cse.lk and the website of the Bank, www.dfcc.lk from seven (07) Market Days prior to the date of opening of the subscription list until the date of maturity of the Debentures as stipulated in Rule 3.3.18 (b) of the CSE Listing Rules.

Audited financial statements of DFCC Bank PLC made up to 31st December 2022, Accountants Report and the five year summary of financial statements will be available on the website of CSE, www.cse.lk and the website of the Bank, www.dfcc.lk.

Furthermore, copies of the Prospectus and Application Forms will be made available free of charge from the collection points as set out in Annexure II of this Prospectus from four (04) Market Days prior to the date of opening of the subscription list.

6.2 ELIGIBLE APPLICANTS

Applications are invited for the subscription of Debentures from the following categories of Qualified Investors.

- (a) A commercial bank licensed by the Central Bank of Sri Lanka in terms of the Banking Act, No. 30 of 1988 (as amended).
- (b) A specialized bank licensed by the Central Bank of Sri Lanka in terms of the Banking Act, No. 30 of 1988 (as amended).
- (c) A mutual fund, pension fund, Employee Provident Fund or any other similar pooled fund.
- (d) A venture capital fund/ company and private equity company.
- (e) A finance company licensed by the Central Bank of Sri Lanka in terms of the Finance Business Act. No. 42 of 2011 (as amended).
- (f) A company licensed by the Central Bank of Sri Lanka to carry on finance leasing business under the Finance Leasing Act, No. 56 of 2000 (as amended).
- (g) A company licensed by the Insurance Board of Sri Lanka to carry on insurance business in terms of the Regulation of the Insurance Industry Act, No. 43 of 2000 (as amended).
- (h) A corporate (listed or unlisted) which does not fall under the above categories and is incorporated under the Companies Act No. 7 of 2007.
- (i) An investment trust or investment company.
- (j) A Non-Resident institutional investor.
- (k) An individual with a minimum initial investment amount of LKR 5,000,000/-.

In view of the above, trading of the Debentures on the CSE will also be limited to Qualified Investors.

Applications will not be accepted from individuals and Sri Lankans residing outside Sri Lanka who are under the age of 18 years, or in the names of sole proprietorships, partnerships or unincorporated trusts, or bodies of persons. Applications will also not be entertained from any financial institution over which the Bank has control.

“Persons resident outside Sri Lanka” will have the same meaning as in the notice published under the Foreign Exchange Act No. 12 of 2017 in Gazette No.2213/40 dated 3rd February 2021.

When permitting Non - Residents to invest in the Debentures, the Bank will comply with the relevant Foreign Exchange Regulations including, the conditions stipulated in the notice under the Foreign Exchange Act with regard to the Issue and transfer of Debentures of Companies incorporated in Sri Lanka to persons resident outside Sri Lanka as published in the Government Gazette (Extraordinary) No. 2213/35 dated 3rd February 2021.

6.3 HOW TO APPLY

The terms and conditions applicable to the Applicants are as follows.

- (a) Applications should be made on the Application Forms, which accompany and constitute a part of this Prospectus (exact size photocopies of Application Forms will also be accepted). Care must be taken to follow the instructions given herein and in the Application Form. Applicants using photocopies are requested to inspect the Prospectus which is available for inspection with the Registrar to the Issue and also issued free of charge by the parties listed in Annexure II of this Prospectus.

The Application Form can also be downloaded from the website of CSE, www.cse.lk, the website of the Bank, www.dfcc.lk until the Closure Date.

The Prospectus will be made available and can be downloaded from the website of CSE, www.cse.lk and the website of the Bank, www.dfcc.lk until the Date of Redemption of the Debentures until the Closure Date.

Applications which do not strictly conform to instructions and other conditions set out herein or which are incomplete or illegible may be rejected. The Bank reserves the right to ask for additional information to satisfy itself that the Applicant is a Qualified Investor.

- (b) Applicants should apply for only one Type of Debentures (i.e. either Debentures of Type A or Debentures of Type B) under one Application Form.
- (c) In the event an Applicant wishes to apply for more than one Type of Debentures, separate Application Forms should be used. Once an Application Form has been submitted for a particular Type of Debentures, it will not be possible for an Applicant to switch between the Types of Debentures.
- (d) More than one Application submitted by an Applicant under the same Type of Debentures will not be accepted. If more than one Application Forms are submitted for one Type of Debentures from a single Applicant, those would be construed as multiple Applications and the Bank reserves the right to reject such multiple Applications or suspected multiple Applications.
- (e) If the ownership of the Debentures is desired in the name of one Applicant, full details should be given only under the heading SOLE/FIRST APPLICANT in the Application Form. In the case of joint Applicants, the signatures and particulars in respect of all Applicants must be given under the relevant headings in the Application Form.

- (f) An Applicant of a joint Application will not be eligible to apply for the Debentures through a separate Application Form either individually or jointly. Such Applicants are also deemed to have made multiple Applications and will be rejected.

In the case of joint Applications, the refunds (if any), interest payments and the Redemption will be remitted in favour of the first Applicant as identified in the Application Form.

The Bank shall not be bound to register more than three (03) natural persons as joint holders of any Debentures (except in the case of executors, administrators or heirs of a deceased member).

Joint Applicants should note that all parties should either be residents of Sri Lanka or Non-Residents.

- (g) Applications by companies, corporate bodies, incorporated societies, approved provident funds, trust funds and approved contributory pension schemes registered/incorporated/established in Sri Lanka should have obtained necessary internal approvals as provided by their internal approval procedures at the time of applying for the Debentures and should be made under their common seal or in any other manner as provided by their Articles of Association or such other constitutional documents of such Applicant or as per the statutes governing them. In the case of approved provident funds, trust funds and approved contributory pension schemes, the Applications should be in the name of the Trustee/board of management.
- (h) All Qualified Investors should indicate in the Application for Debentures, their CDS account number.

In the event the name, address or NIC number/passport number/company number of the Qualified Investor mentioned in the Application Form differ from the name, address or NIC number/passport number/company number as per the CDS records, the name, address or NIC number/company number as per CDS records will prevail and be considered as the name, address or NIC number/passport number company number of such Qualified Investor. Therefore, Qualified Investors are advised to ensure that the name, address or NIC number/passport number company number mentioned in the Application Form tally with the name, address or NIC number/passport number/ company number given in the CDS account as mentioned in the Application Form.

In the case of joint Applicants, a joint CDS account in the name of the joint Applicants should be indicated.

Application Forms stating third party CDS accounts, instead of Applicants' own CDS account numbers, except in the case of margin trading, will be rejected.

- (i) Applicants who wish to apply through their margin trading accounts should submit the Application Forms in the name of the "Margin Provider / Applicant's name" signed by the margin provider, requesting a direct deposit of the Debentures to the Applicant's margin trading account in the CDS. The margin provider should indicate the relevant CDS account number relating to the margin trading account in the Application Form. A photocopy of the margin trading agreement must be submitted along with the Application.

Margin providers can, apply under their own name and such Applications will not be construed as multiple Applications.

- (j) Application Forms may be signed by a third party on behalf of the Applicant(s) provided that such person holds the Power of Attorney (POA) of the Applicant(s) which has been executed and submitted for registration in accordance with the Powers of Attorney (Amendment) Act No.28 of 2022. A copy of such POA

certified by a Notary Public as “True Copy” should be attached with the Application Form. Original of the POA should not be attached.

- (k) As per the Foreign Account Tax Compliance Act (FATCA) “US Persons” must provide the duly completed declaration as per the specimen given in Annexure IV together with the Application Form. Under the provisions of FATCA, “US Persons” include;
- US Citizens (including an individual born in U.S. but resident in another country who has not renounced U.S. citizenship)
 - A lawful citizen of the U.S. (including Green card holders)
 - A person residing in the U.S.
 - A person who spends certain number of days in the U.S. each year
 - U.S. Corporations, estates and trusts
 - Any entity that has a linkage or ownership to U.S. or the U.S. territories
 - Non U.S. entities that have at least one U.S. Person as a “substantial beneficial owner”
- (l) Funds for the investments in Debentures and the payment for Debentures by Non-Residents should be made only out of funds received as inward remittances or available to the credit of “Inward Investment Account” (IIA) (formerly known as Securities Investment Accounts) of the Non-Residents opened and maintained in a licensed commercial bank in Sri Lanka in accordance with directions given by the Director of the Department of Foreign Exchange in that regard to licensed commercial banks.

An endorsement by way of a letter by the licensed commercial bank in Sri Lanka in which the Applicant maintains the IIA, should be attached to the Application Form to the effect that such payment through bank draft/bank guarantee/RTGS has been made out of the funds available in the IIA.

Applications not made in line with the instructions will be rejected.

- (m) Non-Residents should have obtained necessary internal approvals as provided by their internal approval procedures at the time of applying for the Debentures and may be affected by the laws of the jurisdiction of their residence. If the Non-Resident Applicants wish to apply for the Debentures, it is their responsibility to comply with the laws relevant to the jurisdiction of their residence and of Sri Lanka.

Application Forms properly filled in accordance with the instructions thereof together with the remittance for the full amount payable on Application if not remitted through RTGS transfer should be enclosed in an envelope Marked “DFCC BANK PLC - DEBENTURE ISSUE 2024” on the top left hand corner in capital letters and dispatched by post or courier or delivered by hand to Registrars to the Issue or collection points mentioned in Annexure II of this Prospectus.

Applications sent by post or courier or delivered to any collection point set out in Annexure II of this Prospectus should reach the office of the Registrar to the Issue, S S P Corporate Services (Private) Limited, No. 101, Inner Flower Road, Colombo 03 at least by 4.30 p.m. on the following Market Day immediately upon the Closure Date. Applications received after the said period will be rejected even though they have been delivered to any of the said collection points prior to the Closure Date or carry a postmark dated prior to the Closure Date.

Applications delivered by hand to the Registrars to the Issue after the Closure Date of the Issue will also be rejected.

Please note that Applicant information such as full name, address, NIC number/passport number/company number and residency will be downloaded from the database of CDS, based on the CDS account number indicated in the Application Form. Such information will take precedence over information provided in the Application Form.

Care must be taken to follow the instructions on the reverse of the Application Form.

Applications that do not strictly conform to such instructions and additional conditions set out hereunder or which are illegible may be rejected.

PLEASE NOTE THAT ALLOTMENT OF DEBENTURES WILL ONLY BE MADE IF THE APPLICANT HAS A VALID CDS ACCOUNT AT THE TIME OF SUBMISSION OF APPLICATION.

Please note that upon the allotment of Debentures under this Issue, the allotted Debentures would be credited to the Applicant's CDS account so indicated.

Hence, DEBENTURE CERTIFICATES SHALL NOT BE ISSUED.

6.4 NUMBER OF DEBENTURES TO BE SUBSCRIBED

Applicants are allowed to invest in either;

- Debentures of Type A; and/or
- Debentures of Type B

subject to the minimum subscription under each Type of Debentures as given below.

The minimum subscription requirement applicable for a Qualified Investor applying for Debt Securities shall be Rupees Ten Thousand (LKR 10, 000/-).

Provided however, the minimum subscription requirement applicable for an individual investor applying for BASEL III Compliant Debt Securities shall be Rupees Five Million (LKR 5,000,000/-).

Any Application in excess of the minimum subscription requirement shall be in multiples of Rupees Ten Thousand (LKR 10,000/-).

An Applicant should apply only for one Type of Debentures under one Application Form.

6.5 MODE OF PAYMENT OF THE INVESTMENT BY THE APPLICANTS

- (a) Payment in full for the total value of Debentures applied for should be made separately in respect of each Application either by cheque/s, bank draft/s, bank guarantee drawn upon any licensed commercial bank operating in Sri Lanka or RTGS transfer directed through any licensed commercial bank operating in Sri Lanka, as the case may be, subject to the following:
- (b) Payments for Applications for values above and inclusive of Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-) should be supported by either a;
 - Bank guarantee issued by a licensed commercial bank; or

- Multiple bank drafts/cheques drawn upon any licensed commercial bank operating in Sri Lanka, each of which should be for a value less than LKR 100,000,000/-; or
- RTGS / Internal Direct transfer with value on the Issue opening date.

Multiple cheques, Bank Guarantees or RTGS transfers will not be accepted for Applications for values below Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-).

In the case of Application values above and inclusive of Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-), multiple bank drafts/cheques drawn upon any licensed commercial bank operating in Sri Lanka each of which should be for a value less than Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-) will be accepted.

- (c) Cheques or bank drafts should be made payable to **“DFCC Bank PLC - Debenture Issue 2024”** and crossed **“Account Payee Only”**, and must be honoured on the first presentation.
- (d) In case of bank guarantees, such bank guarantees should be issued by any licensed commercial bank in Sri Lanka in favour of **“DFCC BANK PLC - DEBENTURE ISSUE 2024”** in a manner acceptable to the Bank, and be valid for a minimum of one (01) month from the Issue opening date (05th January 2024).

Applicants are advised to ensure that sufficient funds are available in order to honour the bank guarantees, inclusive of charges when called upon to do so by the Registrars to the Issue. It is advisable that the Applicants discuss with their respective bankers the matters with regard to the issuance of bank guarantees and all charges involved. All expenses with regard to such bank guarantees should be borne by the Applicants.

- (e) In case of RTGS transfers (only for Application values above and inclusive of Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-), such transfers should be made to the credit of **“DFCC Bank PLC - Debenture Issue 2024”** bearing Account Number **109925244211** at DFCC Bank PLC (Ramanayake Mawatha Branch) with value on the Issue opening date (i.e. the funds to be made available to the above account on the Issue opening date).

It is mandatory to provide the CDS Account Number as the transaction reference for RTGS transfers

The Applicant should obtain a confirmation from the Applicant’s bank, to the effect that arrangements have been made to transfer payment in full for the total value of Debentures applied for to the credit of **“DFCC Bank PLC - Debenture Issue 2024”** bearing Account Number **109925244211** at DFCC Bank PLC with value on Issue opening date (i.e. the funds to be made available to the above account on the Issue opening date) and should be attached with the Application Form.

- (f) For RTGS transfers above and inclusive of Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-), the Applicants are entitled to an interest at the rate of Two Decimal Five Zero per centum (2.50%) per annum from the date of such transfers up to the Date of Allotment. However, no interest will be paid if the RTGS transfers are not realized before 4.30 p.m of the Closure Date of the Subscription List. Furthermore, even if such RTGS transfers are effected prior to the Issue opening date, no interest will be paid for the period prior to the Issue opening date.
- (g) Cash and SLIPS/CEFTS transfers will not be accepted to ensure the accuracy of the application submission process, bank reconciliation process and timely allocation of debenture within the given time lines
- (h) Payment for the Debentures by Non-Residents should be made only out of funds received as inward remittances or available to the credit of **“Inward Investment Account”** (IIA) maintained with any licensed

commercial bank in Sri Lanka in accordance with directions given by the Director Department of Foreign Exchange in that regard to licensed commercial banks.

An endorsement by way of a letter by the licensed commercial bank in Sri Lanka in which the Applicant maintains the IIA, should be attached to the Application Form to the effect that such payment through bank draft/bank guarantee/RTGS has been made out of the funds available in the IIA.

- (i) In the event that cheques are not realized within Two (02) Market Days of deposit, the monies will be refunded and no allotment of Debentures will be made. Cheques must be honoured on first presentation for the Application to be valid.
- (j) The amount payable should be calculated by multiplying the number of Debentures applied for by the Par Value (LKR 100/-). If there is a discrepancy in the amount payable and the amount specified in the cheque/bank draft or bank guarantee or transferred via RTGS, the Application will be rejected.
- (k) All cheques/bank drafts received in respect of the Applications for Debentures will be banked commencing from the Working Day immediately following the Closure Date of the Subscription List.
- (l) Applications should not be posted, couriered or hand delivered to any other address.

6.6 REJECTION OF APPLICATIONS

Application Forms and the accompanying cheques/bank drafts/bank guarantees or RTGS transfers, which are illegible or incomplete in any way and/or not in accordance with the terms, conditions and instructions, set out in this Prospectus and in the Application Form will be rejected at the sole discretion of the Bank.

Applications from individuals and Sri Lankans residing outside Sri Lanka who are under the age of 18 years or in the names of sole proprietorships, partnerships and unincorporated trusts will also be rejected.

Any Application Form, which does not state a valid CDS account number, will be rejected.

More than one Application Form submitted under one Type of Debentures by an Applicant will not be accepted. If more than one Application Form is submitted under one type of Debentures by a single Applicant, those would be considered as multiple Applications and the Bank reserves the right to reject such multiple Applications or suspected multiple Applications.

Any Application Form from a non-Qualified Investor will also be rejected.

Any Application Form with more than three (03) natural persons as joint Applicants for any type of Debentures will be rejected.

Applications delivered by hand to the Registrars to the Issue after the 'Closure Date' will be rejected. Applications received at the Registrar's office by post or courier after 4.30 p.m. on the Market Day immediately following the Closure Date, will also be rejected even if they carry a post mark dated prior to the Closure Date.

Applications delivered to any place mentioned in Annexure II should also reach the office of the Registrars to the Issue at least by 4.30 p.m. on the Market Day immediately following the Closure Date. Applications received after the said duration will be rejected even though they have been delivered to any of the said collection points prior to the Closure Date.

In the event that cheques are not realized within Two (02) Market Days of deposit and realized after such date, the monies will be refunded and no allotment of Debentures will be made. Cheques must be honoured on first presentation for the Application to be valid. In the event cheques are dishonoured/returned on first presentation, such Applications will be rejected.

6.7 BANKING OF PAYMENTS

All cheques or bank drafts or bank guarantees received in respect of Applications will not be banked or called on until the Working Day immediately after the Closure Date as set out in Section 5.2 of this Prospectus, in terms of the CSE Listing Rules.

6.8 BASIS OF ALLOTMENT OF DEBENTURES

In the event of an over subscription, the Board of Directors of the Bank will endeavour to decide the basis of allotment in a fair manner as soon as practicable so as to ensure compliance with the CSE Listing Rules. Upon the allotments being decided, an announcement will be made to the CSE.

The Board however shall reserve the right to allocate up to a maximum of 75% of the number of Debentures to be allotted under this Issue to identified Qualified investor/s of strategic importance with whom the Bank might have mutually beneficial relationships in the future.

Number of Debentures to be allotted to identified Qualified investor/s of strategic and operational importance, on a preferential basis or otherwise will not exceed 75% of the total number of Debentures to be issued under this Prospectus under any circumstances, unless there is an under subscription from the other investors (investors that do not fall under preferential category). In the event of such undersubscription from the other Qualified Investors, such other investor category to be allotted in full and any remaining Debentures to be allotted to identified Qualified Investor/s.

The number of Debentures to be issued under Debentures of Type A and Debentures of Type B will be in accordance with the basis of allotment which will be decided at the discretion of the Board of Directors of the Bank in a fair manner in the event of an oversubscription.

The allotment of Debentures as above will be done subject to the provisions in 3.3.5 (ii) (a) (i) & (ii) of the CSE Listing Rules.

The Bank reserves the right to reject any Application or to accept any Application in part only, without assigning any reason therefor.

A written confirmation informing successful Applicants of the allotment of Debentures will be dispatched within ten (10) Market Days from the Closure Date as required by the CSE.

6.9 REFUNDS

Monies will be refunded where;

- an Application is rejected for reasons given in Section 6.6 of this Prospectus; or
- the Application is accepted only in part.

The Applicants may indicate the preferred mode of refund payments in the Application Form (i.e. direct transfer via SLIPS/RTGS or cheque).

If the Applicant has provided accurate and complete details of his/her bank account in the Application, the Bankers to the Issue will make refund payments up to and inclusive of Rupees Five Million (LKR 5,000,000/-) to the bank account specified by the Applicant, through SLIPS and a payment advice will be sent in the event of refunds over Rupees Five Million (LKR 5,000,000/-). If the Applicant has provided accurate and correct details of his/her bank account refunds will be made via RTGS or if the Applicant has not provided accurate and correct details of his/her bank account in the Application Form, the Bank will make such refund payments to the Applicant by way of a cheque and sent by post at the risk of the Applicant.

In the case of joint Application, the cheques will be drawn in favour of the Applicant's name appearing first in the Application Form.

It is the responsibility of Non-Residents/Foreign Investors to ensure that their IIA details are accurately provided on the Application Form to forward the refund to IIA through which the Application was made.

Applicants can obtain details on bank and branch codes required for providing instructions on SLIPS transfers at the following website;

<https://www.lankaclear.com/products-and-services/slips/#slips-member>

Refunds on Applications rejected or partly allotted Debentures would be made within eight (8) Market Days excluding the Closure Date. Applicants would be entitled to receive interest at the rate of the last quoted Average Weighted Prime Lending Rate (AWPLR) published in the immediately preceding week by the Central Bank of Sri Lanka or any other authority (in the event that the Central Bank of Sri Lanka ceases to publish the AWPLR) plus five per centum (5.00%) for the delayed period on any refunds not made within this period.

6.10 CDS ACCOUNTS AND SECONDARY MARKET TRADING

Debentures allotted will be directly deposited to the respective CDS accounts given in the Application Forms before the expiry of twelve (12) Market Days, from the Closure Date. A written confirmation of the credit will be sent to the Applicants within two (02) Market Days of crediting the CDS account, by ordinary post to the address provided by each Applicant.

The Bank will submit to the CSE a 'Declaration' on direct upload to CDS on the Market Day immediately following the day on which the Applicants' CDS accounts are credited with the Debentures.

Trading of Debentures on the secondary market will commence on or before the third (3rd) Market Day from the receipt of the Declaration by the CSE as per the CSE Listing Rules.

Further, as per CSE Listing Rule 3.3.5 (ii) (a) (ii), the secondary market trading of the Debentures shall be limited to the "Qualified Investors".

7.0 THE BANK

7.1 BACKGROUND

Founded in 1955, DFCC Bank is one of the oldest development banks in Asia. A unique institution; private sector in form but more like a public-private partnership in outlook, DFCC Bank was set up under an act of Parliament, to give rise to the post independent industrial growth through private sector participation.

Setting off to accomplish its mandate in uncharted territory, against a tapestry of changing political and economic scenarios, DFCC has for over half a century played an innovative and catalytic role in the development of the private sector with special support from the government which continues to date. DFCC's role has not been confined to providing long term loans alone but one that has extended to capacity building and business facilitation.

In January 2015, DFCC became a Public Quoted Company incorporated under the Companies Act No. 07 of 2007, transforming into DFCC Bank PLC. In October 2015, in a landmark event in Sri Lanka's banking and financial sector, DFCC Bank PLC and its subsidiary – DFCC Vardhana Bank amalgamated to form a fully-fledged commercial bank supervised by the Central Bank of Sri Lanka

DFCC Bank delivers its services through 139 branches island-wide and customers are served by over 2000 plus dedicated employees. Our customers have access to over 4,500 ATMs across the country via the LankaPay ATM network and can avail themselves of the Bank's services via online and mobile banking and DFCC MySpace, the Bank's self-banking solution.

7.2 NATURE OF BUSINESS

DFCC Bank operates within a broad ecosystem that includes a number of stakeholders namely its customers, shareholders, employees, regulators, communities, and the environment. The Bank's activities have a direct and wide-ranging impact on these stakeholders, depending on how the Bank manages its operations. To create value for its stakeholders, DFCC Bank uses a range of capitals, such as financial, employee, intellectual, social, and natural capitals. These capitals are continually transformed and enhanced by the Bank's activities, resulting in outputs and outcomes that generate value for all stakeholders. The Bank's on-balance sheet activities, such as loans and investments, generate financial value for its shareholders and customers. These activities also contribute to the growth and development of the economy, which benefits society.

Licenses to carry out banking business do not have a date of expiry

7.3 FINANCIAL YEAR

The financial year of the Bank commences on 01st January and ends on 31st December.

7.4 STATED CAPITAL

The stated capital of the Bank represents ordinary shares as given below.

Stated Capital	31 st December 2022	30 th September 2023*
Balance (LKR' 000)	13,182,025	13,866,557 *
Number of Shares (No.)	402,666,056	421,948,655

*unaudited

The Bank does not have non - voting, preference, or any other classes of shares in issue. The Bank also does not have any outstanding convertible debt securities other than the Basel III Compliant Tier 2 Debentures with a Non- Viability Conversion issued in 2018 and 2020.

The board of directors on 17th February 2023 authorized and approved a distribution to the shareholders by way of a first and final dividend of LKR 2.00 per share in the form of a scrip dividend for the financial year ending 31st December 2022. As per the Article 19 of the Articles of Association of the Bank, payment of any dividend is not subject to the approval of the shareholders. Thereby 19,282,599 number of shares were issued in the form of scrip dividend and was listed on the Colombo Stock Exchange with effect from 17th March 2023.

7.5 MAJOR SHAREHOLDERS AS AT 30TH SEPTEMBER 2023

Twenty (20) largest shareholders of the Bank as at 30th September 2023 are given below:

No	Name	No. of Shares	%
1	Hatton National Bank PLC A/C No 1	52,629,168	12.47
2	Bank Of Ceylon-No2 A/C (BOC PTF)	44,141,353	10.46
3	LOLC Investment Holding Three (Private) Limited	42,194,864	9.99
4	Mr. M.A. Yaseen	35,524,244	8.41
5	Sri Lanka Insurance Corporation Ltd-Life Fund	32,000,355	7.58
6	Don And Don Holdings Privat Limited	30,256,510	7.17
7	Employee's Provident Fund	28,277,617	6.7
8	Melstacorp PLC	25,973,794	6.15
9	Seafeld International Limited	20,558,446	4.87
10	People's Leasing & Finance PLC / Don And Don Holdings (Private) Limited	9,891,470	2.34
11	Renuka City Hotels PLC	8,037,892	1.9
12	Seylan Bank PLC /Arrc Capital (Pvt) Ltd	5,043,934	1.19
13	Renuka Hotels PLC	4,726,698	1.12
14	Employees Trust Fund Board	4,627,590	1.09
15	Mr. G.B.D. Tilakaratne	3,348,737	0.79
16	Akbar Brothers Pvt Ltd A/C No 1	3,149,088	0.74
17	Anverally International (Pvt) Limited	3,089,081	0.73
18	Cargo Boat Development Company PLC	2,898,893	0.68
19	Peoples Leasing & Finance Plc/Mrs. M.E.Amarasinghe	2,678,062	0.63
20	Sri Lanka Insurance Corporation Ltd-General Fund	2,499,191	0.59
	Tota Shares held by the Top 20	361,546,987	
	Balance held by Other Shareholders	60,401,668	
	Total number of shares in issue	421,948,655	

7.6 DETAILS OF OTHER DEBENTURES IN ISSUE

The details of other debentures issued by DFCC Bank PLC as at the date of this Prospectus are given in the table below;

Debenture Code	Ranking	Tenure	Interest Rate p.a.	Issue Value LKR (Mn)	Issue Date	Maturity Date
DFCC-BD-29/03/25-C2394-13	Subordinated	7 years	13.00%	4,086.53	29-Mar-2018	29-Mar-2025
DFCC-BD-28/03/24-C2416-13.5	Senior	5 years	13.50%	3,804.76	28-Mar-2019	28-Mar-2024
DFCC-BD-28/03/26-C2418-13.75	Senior	7 years	13.75%	1,784.07	28-Mar-2019	28-Mar-2026
DFCC-BD-28/03/29-C2417-13.9	Senior	10 years	13.90%	4,411.17	28-Mar-2019	28-Mar-2029
DFCC-BD-23/10/27-C2457-9.25	Subordinated	7 years	9.25%	205.00	23-Oct-2020	23-Oct-2027
DFCC-BD-23/10/25-C2458-9	Subordinated	5 years	9.00%	4,318.00	23-Oct-2020	23-Oct-2025

Outstanding Basel III Compliant Tier 2 Debentures with a Non- Viability Conversion as at the date of this Prospectus are as follows;

- DFCC-BD-29/03/25-C2394-13 – LKR 4,086,530,000
- DFCC-BD-23/10/27-C2457-9.25 – LKR 205,000,000
- DFCC-BD-23/10/25-C2458-9 – LKR 4,318,000,000

The debenture holders of the above stated debentures do not have the following rights;

- Sharing in the profits of the Bank
- Participating in any surplus in the event of liquidation or any special rights

The above mentioned debenture holders are at any event not barred from being shareholders of the Bank and if they are shareholders they will enjoy the rights and privileges entitled to shareholders.

In the case of the death of a debenture holder pertaining to above mentioned classes:

- i) the survivor where the deceased was a joint holder; or
- ii) if not the joint holder the heirs of the deceased shall be the only person/s recognized by the Bank as having any title to his/her debentures. Any person becoming entitled to debentures in consequence of bankruptcy or winding up of any debenture holder, upon producing proper evidence that it/he/she sustains the character in respect of which it/he/she proposes to act or its/his/her title as the Board of

Directors of the Bank thinks sufficient may at the discretion of the Board be substituted and accordingly registered as a debenture holder in respect of such debentures subject to the applicable laws and rules and regulations of the Bank and the CSE.

In the event of liquidation or winding up, the claims of the above mentioned subordinated debenture holders will be ranked after all the claims of the senior debt holders of the Bank and the preferential claims under Section 365 of the Companies Act No.7 of 2007 but in priority to the claims and rights of the Shareholders of the Bank.

7.7 PARTICULARS OF LONG TERM LOANS AND OTHER BORROWINGS OF THE BANK

As at 31st December 2022 and 30th September 2023 the outstanding balances are given in the table below.

Category	LKR' 000
Balance as at 31 st December 2021	107,623,497
Net of New borrowings / (Settlements)	24,084,295
Balance as at 31 st December 2022	131,707,792

Category	LKR' 000
Balance as at 31 st December 2022	131,707,792
Net of New borrowings / (Settlements)	(9,604,414)
Balance as at 30 th September 2023*	122,103,378

*unaudited

Borrowing of DFCC Bank PLC as at 31st December 2022 and 30th September 2023 comprise of the following categories.

Category	As at 31 st December 2022 LKR' 000	As at 30 th September 2023* LKR' 000
Due to banks	15,857,994.00	18,313.888.00
Other borrowings	81,145,692.00	72,002,002.00
Debt securities in issue	16,304,115.00	15,819,356.00
Subordinated term debt	18,399,991.00	15,968,132.00
Total	131,707,792.00	122,103,378.00

*unaudited

7.8 CONTINGENT LIABILITIES AND LITIGATION AGAINST THE BANK

The details of the contingent liabilities as at 31st December 2022 and 30th September 2023 and litigation against the Bank as at the date of the Prospectus are given below.

Commitments and Contingencies	As at 31 st December 2022 LKR' 000	As at 30 th September 2023* LKR' 000
Product-wise commitments and contingencies		
Domestic currency		
Credit related commitments & contingencies		
Undrawn -Credit facilities	77,353,623	72,337,584
Acceptances	99,777	12,038
Documentary Letter of credit	447,009	77,434
Guarantees	21,354,434	24,018,867
	99,254,843	96,445,923
Other commitments & contingencies		
Capital commitments	148,378	296,559
Bid Bonds	593,805	310,790
	742,183	607,349
Sub total	99,997,026	97,053,272
Foreign currency		
Credit related commitments & contingencies		
Undrawn - Credit facilities	16,495,045	15,359,202
Acceptances	4,875,293	2,813,862
Documentary Letter of credit	9,027,626	2,725,835
Guarantees	4,974,784	1,699,809
	35,372,748	22,598,708
Other commitments & contingencies		
Forward exchange contracts	53,886,632	49,480,528
Capital commitments	697,184	-
	54,583,816	49,480,528
Sub total	89,956,564	72,079,236
Total gross commitments and contingencies	189,953,590	169,132,508

*unaudited

LITIGATIONS AGAINST THE BANK

Apart from legal proceedings in the normal course of its banking business, the Bank is not a party to any litigation or arbitration proceedings and is not aware of any pending or threatened litigation or arbitration that, if decided adversely to the Bank, would have a significant effect upon the Bank's financial position nor has it been a party to any such proceedings in the recent past

7.9 KEY FINANCIAL RATIOS

	31.12.2018	31.12.2019	31.12.2020	31.12.2021	31.12.2022	30.09.2023*
Debt / Equity Ratio (Times) **	1.88	2.03	2.06	1.85	2.51	2.11
Interest Cover Ratio (Times) ***	0.89	1.44	1.52	2.26	1.47	2.28
Capital adequacy - Core capital ratio % ****	10.766	11.342	10.82	9.31	10.09	11.09
Capital adequacy - Total capital ratio % ****	16.065	15.81	15.764	13.03	13.15	13.72

*unaudited

** *Debt/ Equity Ratio* = $\frac{\text{Long Term Borrowings}}{\text{Total Equity}}$

*** *Interest Cover Ratio* = $\frac{\text{Profit before Tax} + \text{Depreciation} + \text{Amortization} + \text{Impairment} + \text{Interest Expense}}{\text{Interest Expense}}$

**** Minimum Statutory requirement of core capital and total capital ratio for the year 2022 was 8.50% and 12.50% respectively.

7.10 DEBENTURE INTEREST PAYMENT DETAILS

	2018	2019	2020	2021	2022
Gross interest due on debentures (LKR' 000)	1,912.53	2,810.87	4,168.21	4,114.79	3,998.53
Debenture interest paid on or before due date (LKR' 000)	1,912.53	2,810.87	4,168.21	4,114.79	3,998.53
Debenture interest paid after the due date (LKR' 000)	-	-	N/A	N/A	N/A
Debenture interest not paid as of to date (LKR' 000)	-	-	N/A	N/A	N/A

7.11 TAXATION

The Bank is not enjoying any tax exemptions as at the date of the Prospectus.

7.12 FINANCIAL STATEMENTS & FINANCIAL SUMMARY

The following financial information is hosted on the Bank's web site, www.dfcc.lk and CSE web site www.cse.lk;

- Audited financial statements of DFCC Bank PLC as at 31st December 2022
- Interim financial statements of DFCC Bank PLC as at 30th September 2023
- Summarized financial statement for the five years ended 31st December 2018 to 31st December 2022 preceding the date of the Application stating the accounting policies adopted by the Bank certified by the Auditors and Qualifications carried in any of the Auditors Reports covering the period in question and any material changes in accounting policies during the relevant period.

8.0 BOARD OF DIRECTORS

8.1 DETAILS OF THE DIRECTORS

The details of the Board of Directors of DFCC Bank PLC as at the date of this Prospectus are given below:

Name of Directors	Designation
Mr. J. Durairatnam	Chairman, Independent Non-Executive Director
Mr. N. H. T. I. Perera	Chief Executive Officer, Executive Director
Ms. V. J. Senaratne	Non – Independent Non-Executive Director
Ms. L. K. A. H. Fernando	Independent Non-Executive Director
Mr. N. K. G. K. Nemmawatta	Independent Non-Executive Director
Ms. H. M. N. S. Gunawardana	Independent Non-Executive Director
Mr. H. A. J. De Silva Wijeyeratne	Independent Non-Executive Director
Mr. N Vasantha Kumar	Independent Non-Executive Director
Ms. A. L. Thambiayah	Independent Non-Executive Director
Mr. W. R. H. Fernando	Independent Non-Executive Director
Mr. W D Batagoda	Non – Independent Non-Executive Director

8.2 BOARD RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

The Related Party Transactions Review Committee was established by the Board to be effective from 1st January 2016 in terms of Section 9 of the Listing Rules of the Colombo Stock Exchange.

Composition of the Related Party Transactions Review Committee as at 30th September 2023 is as follows.

Name of the Board Subcommittee Member	Membership Status	Directorship Status
N K G K Nemmawatta	Chairman	Independent Non-Executive Director
J Durairatnam	Member	Independent Non-Executive Director
N H T I Perera	Member	Chief Executive Officer, Executive Director

9.0 STATUTORY DECLARATIONS

9.1 STATUTORY DECLARATION BY THE DIRECTORS

We, the undersigned who are named herein as Directors of DFCC Bank PLC hereby declare and confirm that we have read the provisions of CSE Listing Rules and of the Companies Act No.7 of 2007 and any amendments thereto relating to the issue of the Prospectus and those provisions have been complied with.

This Prospectus has been seen and approved by us and we collectively and individually accept full responsibility for the accuracy of the information given and confirm that after making all reasonable enquiries and to the best of our knowledge and belief, there are no other facts the omission of which would make any statement herein misleading or inaccurate. Where representations regarding the future performance of the Bank have been given in the Prospectus, such representations have been made after due and careful enquiry of the information available to the Bank and making assumptions that are considered to be reasonable at the present point in time in our best judgment.

The parties to the Issue including Joint Managers and Placement Agents, Lawyers, Auditors, Registrars, Company Secretary and Rating Company have submitted declarations to the Bank declaring that they have complied with all regulatory requirements applicable to such parties, and that such parties have no conflict of interest with the Bank. Nevertheless, Acuity Partners (Pvt) Limited, one of the Joint Managers and Placement Agents to the Issue is a joint venture between DFCC Bank PLC and Hatton National Bank PLC. Additionally, two of the Directors of Acuity Partners (Pvt) Limited are also Directors of the Bank.

An Application has been made to the CSE for permission to deal in and for a listing for Debentures issued by the Bank and those Debentures which are the subject of this Issue.

Such permission will be granted when Debentures are listed on the CSE. The CSE assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports included in this Prospectus. Listing on the CSE is not to be taken as an indication of the merits of the Bank or of the Debentures issued.

Name of Directors	Designation	Signature
Mr. J. Durairatnam	Chairman, Independent Non-Executive Director	Sgd.
Mr. N. H. T. I. Perera	Chief Executive Officer, Executive Director	Sgd.
Ms. V. J. Senaratne	Non – Independent Non-Executive Director	Sgd.
Ms. L. K. A. H. Fernando	Independent Non-Executive Director	Sgd.
Mr. N. K. G. K. Nemmawatta	Independent Non-Executive Director	Sgd.
Ms. H. M. N. S. Gunawardana	Independent Non-Executive Director	Sgd.
Mr. H. A. J. De Silva Wijeyeratne	Independent Non-Executive Director	Sgd.
Mr. N Vasantha Kumar	Independent Non-Executive Director	Sgd.
Ms. A. L. Thambiayah	Independent Non-Executive Director	Sgd.
Mr. W. R. H. Fernando	Independent Non-Executive Director	Sgd.
Mr. W D Batagoda	Non – Independent Non-Executive Director	Sgd.

9.2 STATUTORY DECLARATION BY THE JOINT MANAGERS AND PLACEMENT AGENTS TO THE ISSUE

We, Capital Alliance Partners Limited, of Level 5, Millennium House, 46/58, Navam Mawatha, Colombo 02, who are named in the Prospectus as the Joint Managers and Placement Agents to the Issue hereby declare and confirm that to the best of our knowledge and belief based on the information provided to us by DFCC Bank PLC, the Prospectus constitutes full and true disclosure of all material facts about the Issue and DFCC Bank PLC whose Debentures are being listed.

Signed by two Directors of Capital Alliance Partners Limited, being duly authorised thereto, at Colombo on this 22nd December 2023

Sgd.
Director

Sgd.
Director

We, Acuity Partners (Private) Limited of No. 53, Dharmapala Mawatha, Colombo 03, who are named in the Prospectus as the Joint Managers and Placement Agents to the Issue hereby declare and confirm that to the best of our knowledge and belief based on the information provided to us by DFCC Bank PLC, the Prospectus constitutes full and true disclosure of all material facts about the Issue and DFCC Bank PLC whose Debentures are being listed.

Signed by two Directors of Acuity Partners (Private) Limited, being duly authorised thereto, at Colombo on this 22nd December 2023

Sgd.
Director

Sgd.
Director

10.0 FINANCIAL INFORMATION

10.1 ACCOUNTANTS' REPORT AND FIVE YEAR SUMMARY OF FINANCIAL STATEMENTS



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300, Sri Lanka.

Tel +94 - 11 542 6426
Fax +94 - 11 244 5872
+94 - 11 244 6058
Internet www.kpmg.com/lk

The Board of Directors,
DFCC Bank PLC,
No. 73/5, Galle Road,
Colombo 03.

8th November 2023

Dear Sirs and Mesdames,

ACCOUNTANTS' REPORT FOR INCLUSION IN THE PROSPECTUS OF DFCC BANK PLC

This report has been prepared for the inclusion in the Prospectus issued in connection with the public offer of BASEL III compliant, subordinated, listed rated, unsecured, redeemable in 5 and 7 years debentures with a feature for Non-viability Conversion option which said debenture issue comprises an issue of 50 million of such debentures of Rs. 100/= each amounting to Rs. 5 billion; with the option to issue further 30 million debentures of Rs. 100/= each amounting to Rs. 3 billion in the event of an oversubscription of such initial issue by DFCC Bank PLC ("the Bank").

We have examined the financial statements of the Bank and the consolidated financial statements of the Bank and its subsidiaries ("the Group"), for the financial years ended 31st December 2018 to 2022 extracted from the annual reports of the respective years, included in the prospectus and report as follows.

1. INCORPORATION

DFCC Bank PLC ("the Bank") is a limited liability company incorporated and domiciled in Sri Lanka. It was incorporated in 1955 under DFCC Bank Act No. 35 of 1955. Consequent to the enactment of the DFCC Bank (Repeal and Consequential Provisions) Act No. 39 of 2014, the DFCC Bank Act No. 35 of 1955 was repealed and the Bank was incorporated under the Companies Act No. 07 of 2007 as a public limited company listed in the Colombo Stock Exchange with the name 'DFCC Bank PLC' with effect from 6th January 2015.

DFCC Bank PLC (DFCC) also obtained a commercial banking license from the Monetary Board of the Central Bank of Sri Lanka in terms of the Banking Act No. 30 of 1988, as amended, and accordingly upon the amalgamation now operates as a licensed commercial bank.

The registered office of the Bank is at 73/5, Galle Road, Colombo 3.

The Bank is engaged in provisioning range of financial services such as accepting deposits, corporate credit and retail banking, personal financial services, project financing, investment banking, foreign currency operations, trade finance, and dealing in Government Securities and Treasury-related products.

KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

C. P. Jayatilaka FCA
Ms. S. Joseph FCA
G. A. U. Karunaratne FCA
R. H. Rajan FCA
A. M. K. P. Aishakoon ACA

T. J. S. Rajakariya FCA
W. K. D. C. Abayaratne FCA
R. M. D. B. Rajapaksa FCA
M. N. M. Shamsel FCA
Ms. P. M. K. Sumanasekara FCA

W. W. J. C. Perera FCA
S. T. D. L. Perera FCA
Ms. B. K. D. T. N. Rodrigo FCA
Ms. G. T. K. N. Perera FCA
R. W. M. O. W. D. B. Rathnayekara FCA

Principals: S.R.J. Perera FCPA(UK), LL.B., Attorney-at-Law, H.S. Gooneratne ACA, Ms. F.R. Zynd FCPA (UK), FTII



2. FINANCIAL STATEMENTS

2.1. Five Years Summary of Financial Statements

A summary of Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Cash Flow and Statement of Changes in Equity of the bank for the financial years ended 31st December 2018 to 2022 based on the audited financial statements of the Bank are set out in Annexure 1.

Summaries presented for operating results, assets, liabilities and shareholders' funds for financial years ended 31st December 2018 to 2022 are based on the financial statements prepared in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs), effective from 1st January 2012 in the annual reports of the respective years.

2.2. Audit Report

We have audited the financial statements of the Bank for the years ended 31st December 2018 to 2022. Unqualified audit opinions have been issued for the said financial reporting years.

2.3. Application of Accounting Standards and Accounting Policies

The financial statements of the Bank for the financial years ended 31st December 2018 to 2022 complied with the applicable LKASs and SLFRSs.

The accounting policies of the Bank are stated in detail in the audited financial statements of DFCC Bank PLC for the year ended 31st December 2022. The adoption of revised / new accounting standards and a summary of related amendments to the accounting policies of the Bank for the financial years ended 31st December 2018 to 2022 are set out in Annexure 2.

2.4. Dividends

The Bank has paid the following dividends in respect of Ordinary Shares during the financial years ended 31st December 2018 to 2022.

Year/ Period ended;	Dividend Paid (Rs. Mn)	Dividend declared Per Share
31 st December 2018	1,325	3.50*
31 st December 2019	928	3.00*
31 st December 2020	913	3.00**
31 st December 2021	918	3.00***
31 st December 2022	962	2.00***

*Cash dividends.

** Rs. 2.50 per share cash dividend and Rs. 0.50 per share scrip dividend.

***Scrip dividends.



2.5. Events after the Reporting Date (as at 31st December 2022)

- **First and Final Dividend**

The Directors have approved the payment of a first and final dividend of Rs 2.00 per share in the form of a scrip dividend, for the financial year ended 31 December 2022. The Board of Directors confirms that the Bank has satisfied the solvency test in accordance with Section 57 of the Companies Act No. 07 of 2007 and has obtained the certificate from the Auditor.

- **Proposed Debenture Issue**

The Board of Directors decided to issue up to eighty million rupees (Rs. 80,000,000) Basel III compliant, subordinated, listed, rated, unsecured, redeemable debentures with a non-viability conversion option, each at an issue price (par value) of Rs. 100 with a term up to seven years subject to obtaining all necessary regulatory and other approvals.

Yours faithfully,

CHARTERED ACCOUNTANTS
Colombo

Annexure 1-Five year summary of Financial Statements (Bank)

Description	Years ended 31st December					
	2022 (Rs. Mn)	2021 (Rs. Mn)	2020 (Rs. Mn)	2019 (Rs. Mn)	2018 (Rs. Mn)	
Operating results						
Gross income	73,008	42,649	43,300	43,297	39,154	
Interest income	67,460	36,599	39,090	42,060	38,148	
Interest expenses	41,391	23,946	28,083	29,398	25,733	
Net interest income	26,069	12,653	11,007	12,662	12,415	
Non-Interest Income	4,782	5,757	4,078	1,117	937	
Operating profit before taxes on financial services	3,693	5,544	4,400	4,538	5,692	
Operating profit after taxes on financial services	2,439	4,326	3,398	2,989	4,233	
Profit for the year	2,513	3,222	2,388	2,074	2,768	
Financial Position						
Assets						
Cash and cash equivalents	16,123	10,688	7,724	5,450	5,040	
Balances with Central Bank of Sri Lanka	9,031	9,359	4,902	8,667	11,842	
Placements with banks	15,225	6,288	15,414	165	425	
Derivative financial assets	20,474	280	835	631	3,415	
Financial assets measured at fair value through profit or loss	1,429	219	610	5,307	6,079	
Financial assets at amortised cost – Loans to and receivables from banks	-	-	4,153	8,403	12,855	
Financial assets at amortised cost – Loans to and receivables from other customers	369,072	365,901	301,909	272,818	249,734	
Financial assets at amortised cost – Debt and other instruments	50,948	26,675	31,604	21,744	22,874	
Financial assets measured at fair value through other comprehensive income	63,319	54,329	88,718	72,716	55,314	
Investments in subsidiaries	237	217	217	187	167	
Investments in associate	33	35	35	35	35	
Investments in joint venture	755	755	755	755	755	
Investment property	10	10	10	10	10	
Property, plant and equipment	3,199	3,237	3,407	3,231	1,620	
Intangible assets and goodwill	2,198	2,228	1,713	1,185	669	
Deferred tax asset	4,138	1,359	-	309	492	
Other assets	9,737	3,925	3,070	3,283	3,574	
Total assets	565,926	485,505	465,077	404,897	374,908	
Liabilities						
Due to banks	15,858	3,350	14,910	24,595	9,446	
Derivative financial liabilities	85	814	268	519	121	
Financial liabilities at amortised cost – Due to depositors	370,314	319,861	310,027	247,787	242,238	
Financial liabilities at amortised cost – Due to other borrowers	81,146	69,589	46,847	47,308	47,414	
Debt securities in issue	16,304	16,297	16,291	14,148	8,898	
Retirement benefit obligation	592	689	643	561	409	
Current tax liabilities	2,480	952	1,013	581	1,221	
Deferred tax liability	-	-	244	-	-	
Other liabilities	10,028	6,580	6,120	5,059	4,459	
Subordinated term debt	18,400	18,387	19,357	16,860	16,855	
Total liabilities	515,205	436,519	415,720	357,418	331,061	
Equity						
Stated capital	13,182	8,600	7,682	7,530	4,716	
Statutory reserve	2,875	2,747	2,584	2,462	2,358	
Retained earnings	22,601	22,092	19,652	18,228	17,187	
Other reserves	12,063	15,547	19,439	19,259	19,585	
Total equity	50,721	48,986	49,357	47,480	43,846	
Total equity and liabilities	565,926	485,505	465,077	404,897	374,908	
Contingent liabilities and commitments	169,133	148,132	130,764	130,590	137,144	



Annexure 1-Five year summary of Financial Statements (Bank) - Cont.

Description	Years ended 31st December				
	2022 (Rs. Mn)	2021 (Rs. Mn)	2020 (Rs. Mn)	2019 (Rs. Mn)	2018 (Rs. Mn)
Statement of Changes in Equity					
Balance as at the Beginning of the year	48,986	49,357	47,480	43,846	47,877
Surcharge Tax Paid	(1,232)	-	-	-	-
Adjustment on initial application of SLFRS 9, net of tax	-	-	-	-	(2,533)
Restated balance as at the Beginning of the year	47,754	-	-	-	45,344
Profit for the year	2,513	3,222	2,388	2,074	2,768
Other comprehensive (expenses)/income, net of tax	(3,133)	(3,602)	243	(325)	(2,882)
Total comprehensive (expenses)/ income for the year	(620)	(381)	2,631	1,749	(114)
Transfer of gains/(losses) on disposal/write-off of equity investments at fair value through other comprehensive income to retained earnings	-	-	-	-	(63)
Rights issue	3,584	-	-	2,805	-
Forfeiture of unclaimed dividends	3	10	7	6	5
Transactions with equity holders of the Bank, recognised directly in equity	-	-	-	-	-
Forfeiture of unclaimed dividends	-	-	-	-	0
Final dividend approved	-	-	(760)	(928)	(1,325)
Total contributions from and distribution to equity holders	3,587	10	(754)	1,884	(1,320)
Balance at the end of the year	50,721	48,986	49,357	47,480	43,846



Annexure 1-Five year summary of Financial Statements (Bank) - Cont.

Description	Years ended 31st December					
	2022 (Rs. Mn)	2021 (Rs. Mn)	2020 (Rs. Mn)	2019 (Rs. Mn)	2018 (Rs. Mn)	
Statement of cash flows						
Operating cash flows before changes in operating assets and liabilities	12,849	2,503	(1,162)	(2,903)	1,974	
(Increase)/decrease in operating assets and operating liabilities	33,093	(59,304)	33,625	(11,142)	17,544	
Net cash flows (used in)/from operating activities before income tax	45,942	56,801	32,464	(14,045)	19,518	
Surcharge tax paid	(1,232)	-	-	-	-	
Income tax paid	(1,531)	(1,621)	(615)	(1,692)	(318)	
Net cash flows (used in)/from operating activities	43,179	(58,422)	31,848	(15,737)	19,200	
Net cash flows used in investing activities	(23,623)	41,760	(7,397)	(5,401)	(15,629)	
Net cash flows from/(used in) financing activities	(5,185)	10,500	(6,928)	21,289	(8,904)	
Net increase/(decrease) in cash and cash equivalents	14,371	(6,162)	17,523	151	(5,333)	
Cash and cash equivalents at the beginning of year	16,976	23,139	5,615	5,465	10,798	
Cash and cash equivalents at the end of year	31,347	16,976	23,139	5,615	5,465	
Reconciliation of cash and cash equivalents with items reported in the statement of financial position						
Cash and cash equivalents	16,123	10,688	7,724	5,450	5,040	
Placements with banks	15,225	6,288	15,414	165	425	
Cash and cash equivalents at the end of year	31,347	16,976	23,139	5,615	5,465	

Description	Years ended 31st December					
	2022 (Rs. Mn)	2021 (Rs. Mn)	2020 (Rs. Mn)	2019 (Rs. Mn)	2018 (Rs. Mn)	
Debt / Equity Ratio (Times) **	2.51	1.85	2.06	2.03	1.88	
Interest Cover Ratio (Times) ***	1.47	2.26	1.52	1.44	0.89	
Capital adequacy - Core capital ratio % ****	10.09	9.31	10.82	11.342	10.766	
Capital adequacy - Total capital ratio % ****	13.15	13.03	15.764	15.81	16.065	



Annexure 2 – The adoption of revised / new accounting standards and a summary of related amendments to the accounting policies of the Bank for the financial years ended 31st December 2018 to 2022

Financial year ended	Adoption of revised Accounting Standards and related changes in Accounting Policies
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31 st December 2018	SLFRS 09 'Financial Instruments'
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Financial Assets

1. Recognition and measurement

The financial asset is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction cost that are directly attributable to its acquisition.

Loans and advances are initially recognised on the date at which they are originated at fair value which is usually the loan amount granted and subsequent measurement is at amortised cost.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

All other financial assets are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

2. Classification

2.1 Policy applicable after 1 January 2018

On initial recognition, the Bank classifies financial assets as measured at:

- Amortised cost,
- Fair value through other comprehensive income (FVOCI); and
- Fair value through profit or loss (FVTPL)

The subsequent measurement of financial assets depends on their classification.

2.1.1 Financial assets measured at amortised costs

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2.1.2 Financial assets at fair value through other comprehensive income

A debt instrument is measured at FVOCI only if it meets both of the following



Annexure 2 – The adoption of revised / new accounting standards and a summary of related amendments to the accounting policies of the Bank for the financial years ended 31st December 2018 to 2022 - Cont.

conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

2.1.3 Financial assets at fair value through profit or loss

All financial assets other than those classified at amortised costs or FVOCI are classified as measured at FVTPL.

- Financial assets are mandatorily fair valued through profit and loss when the Instruments are held for trading, or
- are managed, evaluated and reported internally on a fair value basis, or
- designation eliminates or significantly reduces an accounting mismatch which would otherwise arise, or
- contains an embedded derivative that significantly modifies the cash flows which would otherwise have been required under the contract.

2.1.3.1 Financial assets designated at fair value through profit or loss

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI or at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Bank has not designated any financial asset upon initial recognition at fair value through profit or loss as at the reporting date.

2.2 Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to the Management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether Management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's Management;
- the risks that affect the performance of the business model (and the financial assets



Annexure 2 – The adoption of revised / new accounting standards and a summary of related amendments to the accounting policies of the Bank for the financial years ended 31st December 2018 to 2022 - Cont.

- held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

2.3 Assessments whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument.

This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

2.4 Policy applicable before 1 January 2018

At the inception, a financial asset is classified and measured at fair value and classified as follows:

- Loans and receivables – at amortised cost.
- Held to maturity – non-derivative financial assets with fixed or determinable payments and fixed maturity (for example, bonds, debentures and debt instruments listed in the Colombo Stock Exchange) that the Bank has the positive intent and ability to hold to maturity are measured at amortised cost.
- Fair value through profit or loss – financial assets held for trade measured at fair value with changes in fair value recognised in the income statement.
- Designated at fair value – this is an option to deal with accounting mismatches



Annexure 2 – The adoption of revised / new accounting standards and a summary of related amendments to the accounting policies of the Bank for the financial years ended 31st December 2018 to 2022 - Cont.

- and currently the Bank has not exercised this option.
- Derivative assets – are mandatorily measured at fair value with fair value changes recognised in the income statement.
- Available for sale – this is measured at fair value and is the residual classification with fair value changes recognised in other comprehensive income.

3. Reclassification

Policy applicable after 1 January 2018

Financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the Bank's changes its objective of the business model for managing such financial assets. Financial Liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

3.1 Timing of reclassification of financial assets

Consequent to the change in the business model, the Bank reclassifies all affected assets prospectively from the first day of the next reporting period (the reclassification date). Prior periods are not restated.

3.2 Measurement of reclassification of financial assets

3.2.1 Reclassification of financial instruments at "fair value through profit or loss"

- **To Fair value through other comprehensive income**
The fair value on reclassification date becomes the new gross carrying amount. The EIR is calculated based on the new gross carrying amount. Subsequent changes in the fair value are recognised in OCI.
- **To amortised costs**
the fair value on reclassification date becomes the new carrying amount. The EIR is calculated based on the new gross carrying amount.

3.2.2 Reclassification of financial instruments at "fair value through other comprehensive income"

- **To fair value through profit or loss**

The accumulated balance in OCI is reclassified to profit and loss on the reclassification date.

- **To amortised costs**

The financial asset is reclassified at fair value. The cumulative balance in OCI is



Annexure 2 – The adoption of revised / new accounting standards and a summary of related amendments to the accounting policies of the Bank for the financial years ended 31st December 2018 to 2022 - Cont.

removed and is used to adjust the reclassified fair value. The adjusted amount becomes the amortised cost. EIR determined at initial recognition and gross carrying amount are not adjusted as a result of reclassification.

3.2.3 Reclassification of financial instruments at “amortised costs”

• **To Fair value through other comprehensive income**

The asset is remeasured to fair value, with any difference recognised in OCI. EIR determined at initial recognition is not adjusted as a result of reclassification.

• **To Fair value through profit or loss**

The fair value on the reclassification date becomes the new carrying amount. The difference between amortised cost and fair value is recognised in profit and loss.

Policy applicable before 1 January 2018

The bank classified its financial assets into one of the following categories:

Loans and receivable

- Held-to-maturity
- Available for sale and
- At FVTPL, and within this category as:
 - held-for-trading; or
 - designated as at FVTPL

3.4 Derecognition of financial assets

Financial assets are derecognised when the contractual right to receive cash flows from the asset has expired; or when Bank has transferred its contractual right to receive the cash flows of the financial assets, and either

- Substantially all the risks and rewards of ownership have been transferred; or
- Bank has neither retained nor transferred substantially all the risks and rewards but has not retained control of the financial asset.

From 1 January 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the group is recognised as a separate asset or liability.

3.5 Modifications of financial assets and financial liabilities

Policy applicable from 1 January 2018

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.



Annexure 2 – The adoption of revised / new accounting standards and a summary of related amendments to the accounting policies of the Bank for the financial years ended 31st December 2018 to 2022 - Cont.

If the cash flows are substantially different, then the contractual right to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and new financial asset is recognised at fair value plus any eligible transaction cost. Any fees received as part of the modification are accounted as follows:

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- Other fees are included in profit or loss as part of the gain or loss on the derecognition.

If cash flows are modified when the borrower is in financial difficulty, then the objective of the modification is usually to minimise recovery of the original contractual term rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates a gross carrying amount of the financial asset using the original effective interest rate of the asset and recognizes the resulting adjustment as modification gain or loss in profit or loss. For floating- rate financial asset, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the financial asset.

3.6 Fair value measurement

“Fair value” is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its nonperformance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active, if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from



Annexure 2 – The adoption of revised / new accounting standards and a summary of related amendments to the accounting policies of the Bank for the financial years ended 31st December 2018 to 2022 - Cont.

observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price.

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio. The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as end of the reporting period during which the change has occurred.

3.7 Identification and measurement of impairment

3.7.1 Policy applicable after 1 January 2018

3.7.1.1 Recognition of impairment of financial assets

The Bank recognises loss allowances for Expected Credit Losses (ECL) on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments;
- Lease receivables;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

The Bank considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of "investment grade". 12-month ECL are the portion of ECL that result from default events on a financial instrument that are



Annexure 2 – The adoption of revised / new accounting standards and a summary of related amendments to the accounting policies of the Bank for the financial years ended 31st December 2018 to 2022 - Cont.

possible within the 12 months after the reporting date.

7.1.2 Presentation of allowance for ECL in the statement of financial position

- Loss allowances for ECL are presented in the statement of financial position as follows:
- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: generally, as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components: The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- Debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

7.2 Policy applicable before 1 January 2018

At each reporting date, the Bank assesses whether there is an objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) that can be estimated reliably.

7.2.1 Loans and advances and held-to-maturity investment securities

Objective evidence that loans and advances and held-to maturity investment securities (e.g., debt instruments quoted in the Colombo Stock Exchange, Treasury Bills and Bonds) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Bank or economic conditions that correlate with defaults in the Bank.

7.2.2 Available-for-sale financial assets

At each date of statement of financial position an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset.

Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a "loss event") and that loss event (or events) have an impact on the



Annexure 2 – The adoption of revised / new accounting standards and a summary of related amendments to the accounting policies of the Bank for the financial years ended 31st December 2018 to 2022 - Cont.

estimated future cash flows of the financial asset that can be reliably estimated.

If the available-for-sale financial asset is impaired, the difference between the financial asset's acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

7.2.3 Available-for-sale debt securities

When assessing available-for-sale debt securities for objective evidence of impairment at the reporting date, Bank considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. These events may include a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial recognition, or the disappearance of an active market for the debt security.

These types of specific events and other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment of a debt security.

7.2.4 Available-for-sale equity securities

Objective evidence of impairment for available-for-sale equity securities may include specific information about the issuer and information about significant changes in technology, markets, economics or the law that provide evidence that the cost of the equity securities may not be recovered.

A significant or prolonged decline in the fair value of the asset below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition.

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

For an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, a decline in the fair value of the financial asset is recognised in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement. If there is no longer objective evidence that the debt security is impaired, the impairment loss is also reversed through the income statement.

For an available-for-sale equity security, all subsequent increases in the fair value of the



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instrument are treated as a revaluation and are recognised in other comprehensive income. Impairment losses on the equity security are not reversed through the income statement. Subsequent decreases in the fair value of the available-for-sale equity security are in the income statement, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security.

8 Offsetting

Financial assets and financial liabilities are off set and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under SLFRSs/LKASs or for gains and losses arising from a group of similar transactions.

9 Fiduciary assets

Assets held in a fiduciary capacity are not reported in these financial statements as they do not belong to the Bank.

10 Write-off of financial assets

The Bank writes off a loan or an investment debt security, and any related allowances for impairment losses, when Bank determines that the loan or security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status.

Financial liabilities

1. Recognition and measurement of financial liabilities

Policy applicable after 1 January 2018

On initial recognition, the Bank classifies financial liabilities, other than financial guarantees and loan commitments, into one of the following categories:

- Financial liabilities at amortised cost; and
- Financial liabilities at fair value through profit or loss,

Policy applicable before 1 January 2018

Deposits, borrowing from foreign multilateral, bilateral sources and domestic sources, debt securities issued and subordinated liabilities are initially recognised on the date at which they are originated. A financial liability is measured initially at fair value plus, transaction costs that are directly attributable to its acquisition or issue.



Annexure 2 – The adoption of revised / new accounting standards and a summary of related amendments to the accounting policies of the Bank for the financial years ended 31st December 2018 to 2022 - Cont.

Subsequent measurement of financial liability is at fair value or amortised cost. The amortised cost of a financial liability is the amount at which the financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount.

2. Classification and subsequent measurement of financial liabilities

The subsequent measurement of financial liabilities depends on their classification.

2.1 Financial liabilities at amortised cost

Financial Liabilities issued by the Bank that are not designated at fair value through profit or loss are recognised initially at fair value plus any directly attributable transaction costs, by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method. Deposit liabilities including savings deposits, current deposits, fixed/time deposits, call deposits, certificates of deposit and debentures are classified as financial liabilities measured at amortised cost.

The EIR amortisation is included in “Interest expense” in the income statement. Gains and losses too are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

2.2 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include derivative liabilities held for risk management purposes.

3 Derecognition of Financial Liabilities

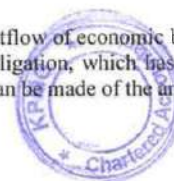
Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

4 Due to Banks, customers, debt securities issued and other borrowing

Financial liabilities are recognised when Bank enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at fair value, which is normally the consideration received, net of directly attributable transaction costs incurred. Subsequent measurement of financial liabilities is at amortised cost, using the effective interest method to amortise the difference between proceeds received, net of directly attributable transaction costs incurred, and the redemption amount over the expected life of the instrument.

5 Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the



Annexure 2 – The adoption of revised / new accounting standards and a summary of related amendments to the accounting policies of the Bank for the financial years ended 31st December 2018 to 2022 - Cont.

obligation.

6 Sale and repurchase agreements.

When securities are sold subject to a commitment to repurchase them at a predetermined price ("repos"), they remain on the statement of financial position and a liability is recorded in respect of the consideration received.

Securities purchased under commitments to sell ("reverse repos") are not recognised on the statement of financial position and the consideration paid is recorded in "Financial assets at amortised cost – Loans to and receivables from banks", "Financial assets at amortised cost – Loans to and receivables from other customers" as appropriate. The difference between the sale and repurchase price is treated as interest and recognised over the life of the agreement for loans and advances to banks and customers.

SLFRS 15 - "Revenue from Contracts with Customers"

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. New qualitative and quantitative disclosure requirements aim to enable financial statements users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Entities applied five step model to determine when to recognise revenue and at what amount. The model specified that revenue is recognised when or as an entity transfers control of goods and services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised.

It replaced existed revenue recognition guidance, including LKAS 18 - "Revenue" and LKAS 11 "Construction Contracts" and IFRIC 13 - "Customer Loyalty Programs".

The Group/Bank adopted this standard from 15th January 2018 and did not have significant impact on its financial statements resulting from the application of SLFRS 15.

31st December 2019 SLFRS 16 - 'Leases'

The Bank has applied SLFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under LKAS 17 and IFRIC 4. The details of accounting policies under LKAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in SLFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.



Annexure 2 – The adoption of revised / new accounting standards and a summary of related amendments to the accounting policies of the Bank for the financial years ended 31st December 2018 to 2022 - Cont.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Bank has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made or payable at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Bank by the end of the lease term or the cost of the right-of-use asset reflects that the Bank will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property, plant and equipment.

In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate.

Generally, the Bank uses its incremental borrowing rate as the discount rate.

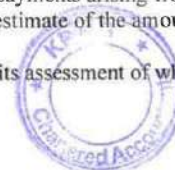
The bank determines its incremental borrowing rate by obtaining interest rates from the Bank's internal records (weighted average cost of funds) to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable

under a residual value guarantee, if the Bank changes its assessment of whether it will



Annexure 2 – The adoption of revised / new accounting standards and a summary of related amendments to the accounting policies of the Bank for the financial years ended 31st December 2018 to 2022 - Cont.

exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessor

At inception or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Bank acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Bank is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately.

It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Bank applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Bank applies SLFRS 15 to allocate the consideration in the contract.

The Bank applies the derecognition and impairment requirements in SLFRS 9 to the net investment in the lease. The Bank further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Bank recognises lease payments received under operating leases as income on a straightline basis over the lease term as part of “other revenue”.

Generally, the accounting policies applicable to the Bank as a lessor in the comparative



Annexure 2 – The adoption of revised / new accounting standards and a summary of related amendments to the accounting policies of the Bank for the financial years ended 31st December 2018 to 2022 - Cont.

period were not different from SLFRS 16.

Policy applicable prior to 1 January 2019

Determining whether an Arrangement Contains a Lease

At inception of an arrangement, the Bank determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Bank separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Bank concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Bank's incremental borrowing rate.

Leased Assets

Leases of property, plant and equipment that transfer to the Bank substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset. Assets held under other leases are classified as operating leases and are not recognised in the Bank's statement of financial position.

Lease Payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Contingent rents, if any, are recognised as revenue in the period in which they are earned.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability

31st December 2020 SLFRS 3 - 'Business Combinations'

The Bank has initially adopted Definition of a Business (Amendments to SLFRS 3) from 1 January 2020 to business combinations whose dates of acquisition are on or after 1 January 2020 in assessing whether it had acquired a business or a group of assets.



Annexure 2 – The adoption of revised / new accounting standards and a summary of related amendments to the accounting policies of the Bank for the financial years ended 31st December 2018 to 2022 - Cont.

31st December 2021 **Interest Rates Benchmark Reform -Phase 2 (Amendments to SLFRS 9, LKAS 39, LKAS 39, SLRFS 7)**

Interest Rates Benchmark Reform -Phase 2 (Amendments to SLFRS 9, LKAS 39, SLRFS 7 become effective on 1 January 2021.




Maninda Wickramasinghe
Country Head MD/CEO



Fitch Assigns DFCC Bank's Basel III Subordinated Debt Final 'BBB(lka)'

Fitch Ratings - Colombo/Mumbai - 05 Dec 2023: Fitch Ratings has assigned DFCC Bank PLC's (A-(lka)/Stable) proposed Sri Lankan rupee-denominated Basel III-compliant subordinated debentures of up to LKR8 billion a final National Long-Term Rating of 'BBB(lka)'.

The final rating is the same as the expected rating assigned on 19 October 2023 and follows the receipt of documents conforming to information already received.

The proposed debentures will mature in five and seven years and will be listed on the Colombo Stock Exchange. DFCC plans to use the proceeds to strengthen its Tier 2 capital base and support loan growth. The bank expects the proposed debentures to qualify as Basel III-compliant regulatory Tier 2 capital. The debentures include a non-viability clause whereby they convert to ordinary voting shares upon the occurrence of a trigger event, as determined by the Monetary Board of Sri Lanka.

KEY RATING DRIVERS

DFCC's Sri Lankan rupee-denominated subordinated debt is rated two notches below the bank's National Long-Term Rating anchor. This reflects Fitch's baseline notching for loss severity for this type of debt and expectation of poor recoveries. There is no additional notching for non-performance risk, as the notes do not incorporate going-concern loss-absorption features.

DFCC's National Long-Term Rating is used as the anchor rating for this instrument because it reflects the bank's standalone financial strength and best indicates the risk of the bank becoming non-viable.

For further details of the key rating drivers and rating sensitivities for DFCC, see the [rating action commentary](#) published on 5 October 2023.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

DFCC's subordinated debt would be downgraded if the bank's National Long-Term Rating is downgraded.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

DFCC's subordinated debt would be upgraded if the bank's National Long-Term Rating is upgraded.

DATE OF RELEVANT COMMITTEE

04 October 2023

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

RATING ACTIONS

ENTITY / DEBT	RATING	PRIOR
<input type="text"/>	<input type="text"/>	<input type="text"/>
DFCC Bank PLC		
subordinated	Natl LT BBB(Ika)	New Rating BBB(EXP)(Ika)

PREVIOUS

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10 rows

NEXT

[VIEW ADDITIONAL RATING DETAILS](#)

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

- [National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)
- [Bank Rating Criteria \(pub. 02 Sep 2023\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

- [Solicitation Status](#)
- [Endorsement Policy](#)
- [Potential Conflicts Resulting from Revenue Concentrations](#)

ENDORSEMENT STATUS

DFCC Bank PLC -

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating s

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SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

ANNEXURE II - COLLECTION POINTS

Copies of the Prospectus and the Application Form can be obtained free of charge from the following collection points.

Issuer DFCC Bank PLC No. 73/5, Galle Road Colombo 03 Tel: +94 11 2 442 442 Fax: +94 11 2 440 376	Joint Managers and Placement Agents to the Issue Capital Alliance Partners Limited Level 5, "Millennium House", 46/58, Navam Mawatha, Colombo 02. Tel: +94 11 2317777, Fax: +94 11 2317788 Acuity Partners (Private) Limited Acuity House No. 53, Dharmapala Mawatha Colombo 03 Tel: +94 11 2 206 206 Fax: +94 11 2 437 149
Registrars to the Issue S S P Corporate Services (Private) Limited No. 101, Inner Flower Road Colombo 03 Tel: +94-11 2 573 485 Fax: +94-11 2 573 037	Bankers to the Issue DFCC Bank PLC DFCC Building, No. 73/5, Galle Road Colombo 03 Tel: +94 11 2 442 442 Fax: +94 11 2 440 376

Branch Network of DFCC Bank PLC

Copies of the Application Form can be obtained free of charge from all branches/customer centers of DFCC Bank PLC

Trading Participants of the CSE

Acuity Stockbrokers (Private) Limited Level 6, Acuity House 53, Dharmapala Mawatha Colombo 03 Tel: +94 11 2 206 206 Fax: +94 11 2 206 298-9 E-mail: sales@acuitystockbrokers.com	Asha Securities Limited No. 60, 5 th Lane, Colombo 03 Tel: +94 11 2 429 100 Fax: +94 11 2 429 199 E-mail: asl@ashasecurities.net
Asia Securities (Private) Limited 4 th Floor, Lee Hedges Tower No. 349, Galle Road Colombo 03 Tel: +94 11 7 722 000 Fax: +94 11 2 372 280 E-mail: inquiries@asiasecurities.lk	Bartleet Religare Securities (Private) Limited Level "G", "Bartleet House" 65, Braybrooke Place Colombo 02 Tel: +94 11 5 220 200 Fax: +94 11 2 434 985 E-mail: info@bartleetstock.com
Capital TRUST Securities (Private) Limited 42, Sir Mohamed Macan Markar Mawatha Colombo 03 Tel: +94 11 2 174 174 / 75 Fax: +94 11 2 174 173 E-mail: inquiries@capitaltrust.lk	CT CLSA Securities (Private) Limited 4-14, Majestic City 10, Station Road Colombo 04 Tel: +94 11 2 552 290-4 Fax: +94 11 2 552 289 E-mail: info@ctclsa.lk
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SC Securities (Private) Limited 5 th Floor, No. 26B, Alwis Place Colombo 03 Tel: +94 11 4 711 000 Fax: +94 11 2 394 405 E-mail: itdivision@sampathsecurities.lk	Nation Lanka Equities (Pvt) Ltd No. 44, Guildford Crescent, Colombo 07 Tel: +94 11 789 8302 E-mail: info@nlequities.com
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Trading Participants – Debt

NSB Fund Management Limited No. 400 , Galle Road Colombo 3 Tel: +94 -11 2 564 601 Fax: +94 11 2 574 387	Capital Alliance Limited Level 5, "Millenium House" 46/58, Nawam Mawatha Colombo 2 Tel: +94 11 2 317 777 Fax: +94 11 2 317 788 E-mail: info@cal.lk
Wealthtrust Securities Limited No. 102/1 Dr. N. M. Perera Mawatha Colombo 08. Tel: +94 11 2 675 091 – 4 Fax: +94 11 2 689 605 E-mail: info@wealthtrust.lk	Seylan Bank PLC Level 3, Seylan Towers, 90, Galle Road, Colombo 03. Tel: +94 11 245 6300 Fax: +94 11 245 2215 E-Mail: info@seylan.lk

ANNEXURE III - CUSTODIAN BANKS

Bank of Ceylon (Head Office) 11th Floor, 04, Bank of Ceylon Mawatha, Colombo 01 T: +94 11 2 448 348, 2 338 742/55, 2 544 333	Citi Bank, N A 65 C, Dharmapala Mawatha, Colombo 07 T: +94 11 2 447 316/8, 2 447 318, 2 449 061
Commercial Bank of Ceylon PLC Commercial House, 21, Sir Razik Fareed Mawatha, Colombo 01 T: +94 11 2 445 010-15, 238 193-5, 430 420	Deutsche Bank AG 86, Galle Road, Colombo 03 T: +94 11 2 447 062, 2 438 057
Hatton National Bank PLC HNB Towers, 479, T. B. Jayah Mawatha, Colombo 10 T: +94 11 2 661 762	The Hong Kong and Shanghai Banking Corporation Limited 24, Sir Baron Jayathilake Mawatha, Colombo 01 T: +94 11 2325435, 2446591, 2446303
People's Bank (Head Office) 5th Floor, Sir Chittampalam A Gardiner Mawatha, Colombo 02 T: +94 11 2 206 782	Standard Chartered Bank 37, York Street, Colombo 01 T: +94 11 4 794 400, 2480 450
Sampath Bank PLC 110, Sir James Peiris Mawatha, Colombo 02 T: +94 11 5 600 374	State Bank of India 16, Sir Baron Jayathilake Mawatha, Colombo 01 T: +94 11 4 622 350
Seylan Bank PLC Level 8, Ceylinco Seylan Towers, 90, Galle Road, Colombo 03 T: +94 11 2 456 789, 4 701 812, 4 701 819	Union Bank of Colombo Limited 64, Galle Road, Colombo 03 T: +94 11 2 374 100
Nations Trust Bank PLC 256, Sri Ramanathan Mawatha, Colombo 15 T: +94 11 4 711 411	Pan Asia Banking Corporation PLC (Head Office) 450, Galle Road, Colombo 03 T: +94 11 2 565 565
Public Bank Berhad 340, R.A. De Mel Mawatha, Colombo 03 T: +94 11 2 576 289	Banque Indosuez C/o Hatton National Bank Limited, Cinnamon Garden Branch, 251, Dharmapala Mawatha, Colombo 07. T: +94 11 2 686 537, 011 2 689 176

ANNEXURE IV – FATCA DECLARATION

Manager

DFCC Bank PLC

.....

I/We.....

.....and.....

.....of.....

(address).....holder/s of Passport Number/
NIC Number..... who fall under definition of a US Persons under the provision of the Foreign
Account Tax Compliance Act ("FATCA") which is a US legislation aimed at preventing tax evasion by US persons
through overseas assets. I/We confirm that I/We understand FATCA is extraterritorial by design and requires
"US Persons" to report their financial assets held overseas.

I/We hereby request DFCC Bank PLC which is recognized as a Foreign Financial Institutions (FFIs) in terms of
the FATCA to report all information pertaining to the accounts and investments held by me/us in the DFCC
Bank PLC and to remit any tax payable to the Internal Revenue Services (IRS) of the United States of America.
I/We further confirm that this request is made by me/us with full knowledge and understanding of FATCA.

Date:.....

Signature/s of Applicants

