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

9th August 2024

Dear Members of the Board ,

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 issuance of green bonds amounting to an initial issue of LKR 2 Bn, with an option to raise another LKR 0.50 Bn in the event of an oversubscription. The tenor of the instrument will be 3 years and it is annually couponed. This instrument will be listed in the CSE & rated by Fitch ratings. The proceeds of the proposed green bond will be used specifically for financing,

- a) the establishment, acquisition, expansion, and/ or ongoing management of onshore ground mounted, floating, rooftop solar photovoltaic (PV) power generation facilities.
- b) the refinancing of existing onshore ground mounted, floating, rooftop solar photovoltaic (PV) power generation facilities that are compliant with the Sri Lanka Green Finance Taxonomy (May 2022).

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 2019 to 31st December 2023 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of the DFCC Bank (Repeal and Consequential Provisions) Act No. 39 of 2014, the DFCC Bank Act No. 35 of 1955 was repealed and the Bank was incorporated under the Companies Act No. 07 of 2007 as a public limited Company listed in the Colombo Stock Exchange with the name 'DFCC Bank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.

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Ms. B.K.D.T.N. Rodrigo FCA
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A.M.R.P. Alahakoon ACA

Principals: S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, Ms. F.R. Ziyad FCMA (UK), FCIT, K. Somasundaram ACMA(UK), R.G.H. Raddella ACA



The Bank is engaged in providing 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. The Bank does not have an identifiable parent of its own.

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 2019 to 31st December 2023, 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 2019 to 31st December 2023 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 2019 to 31st December 2023. 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 2019 to 2023 prepared in accordance with Sri Lanka Accounting Standards (commonly referred as "SLFRS"/"LKAS") laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and comply with the requirements of Companies Act No 7 of 2007.

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 2023. 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 2019 to 31st December 2023 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 2019 to 31st December 2023.

| Year/Period ended; | Dividend Paid (Rs. Mn) | Dividend declared Per Share |
|--------------------------------|------------------------|-----------------------------|
| 31 st December 2019 | 928 | 3* |
| 31 st December 2020 | 913 | 3** |
| 31 st December 2021 | 918 | 3*** |
| 31 st December 2022 | 962 | 2*** |
| 31 st December 2023 | 2,110 | 5**** |

* Cash dividends.

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

*** Scrip dividends.

**** Rs. 3 per share cash dividend and Rs. 2 per share scrip dividend.



2.5. Events after the Reporting Date (as at 31st December 2023)

• First and Final Dividend

The Directors have approved the payment of a first and final dividend of Rs 5.00 per share which will consist of Rs. 3.00 per share in cash Rs. 2.00 per share in the form of a scrip dividend, for the financial year ended 31 December 2023. 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 Green Bonds Issue

The Board of Directors decided to issue green bonds up to an initial issue of LKR 2 Bn with an option to raise another LKR 0.50 Bn in the event of an oversubscription. The tenor of the instrument will be 3 years and it is annually couponed. This instrument will be listed in the CSE & rated by Fitch ratings. The proceeds of the proposed green bond will be used specifically for financing,

- (a) the establishment, acquisition, expansion, and/ or ongoing management of onshore ground mounted, floating, rooftop solar photovoltaic (PV) power generation facilities.
- (b) the refinancing of existing onshore ground mounted, floating, rooftop solar photovoltaic (PV) power generation facilities that are compliant with the Sri Lanka Green Finance Taxonomy (May 2022).

2.6. Restriction on Use

This report is prepared solely for the purpose of the Board of Directors of DFCC Bank PLC for inclusion in the prospectus in connection with the issuance of green bonds amounting to an initial issue of LKR 2 Bn, with an option to raise another LKR 0.50 Bn in the event of an oversubscription.

Yours faithfully,

CHARTERED ACCOUNTANTS
Colombo

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

| Description | Years ended 31st December | | | | |
|--|---------------------------|------------------|------------------|------------------|------------------|
| | 2023 (Rs. Mn) | 2022 (Rs. Mn) | 2021 (Rs. Mn) | 2020 (Rs. Mn) | 2019 (Rs. Mn) |
| Operating results | | | | | |
| Gross income | 106,883 | 74,960 | 42,649 | 43,300 | 43,297 |
| Interest income | 96,922 | 69,863 | 36,599 | 39,090 | 42,060 |
| Interest expenses | 65,697 | 43,342 | 23,946 | 28,083 | 29,398 |
| Net interest income | 31,224 | 26,521 | 12,653 | 11,007 | 12,662 |
| Non-Interest Income | 8,627 | 4,330 | 5,757 | 4,078 | 1,117 |
| Operating profit before taxes on financial services | 14,146 | 3,693 | 5,544 | 4,400 | 4,538 |
| Operating profit after taxes on financial services | 10,960 | 2,439 | 4,326 | 3,398 | 2,989 |
| Profit for the year | 7,220 | 2,513 | 3,222 | 2,388 | 2,074 |
| Financial Position | | | | | |
| Assets | | | | | |
| Cash and cash equivalents | 14,478 | 16,123 | 10,688 | 7,724 | 5,450 |
| Balances with Central Bank of Sri Lanka | 2,108 | 9,031 | 9,359 | 4,902 | 8,667 |
| Placements with banks | 29,138 | 15,225 | 6,288 | 15,414 | 165 |
| Derivative financial assets | 16,499 | 20,474 | 280 | 835 | 631 |
| Financial assets measured at fair value through profit or loss | 1,741 | 1,429 | 219 | 610 | 5,307 |
| Financial assets at amortised cost – Loans to and receivables from banks | | | | 4,153 | 8,403 |
| Financial assets at amortised cost – Loans to and receivables from other customers | 348,767 | 369,072 | 365,901 | 301,909 | 272,818 |
| Financial assets at amortised cost – Debt and other instruments | 68,031 | 50,948 | 26,675 | 31,604 | 21,744 |
| Financial assets measured at fair value through other comprehensive income | 134,903 | 63,319 | 54,329 | 88,718 | 72,716 |
| Investments in subsidiaries | 237 | 237 | 217 | 217 | 187 |
| Investments in associate | 33 | 33 | 35 | 35 | 35 |
| Investments in joint venture | 755 | 755 | 755 | 755 | 755 |
| Investment property | 10 | 10 | 10 | 10 | 10 |
| Property, plant and equipment | 3,500 | 3,199 | 3,237 | 3,407 | 3,231 |
| Intangible assets and goodwill | 1,926 | 2,198 | 2,228 | 1,713 | 1,185 |
| Deferred tax asset | 5,408 | 4,138 | 1,359 | | 309 |
| Other assets | 12,963 | 9,751 | 3,925 | 3,070 | 3,283 |
| Asset held for sale | | – | – | – | – |
| Total assets | 640,498 | 565,940 | 485,505 | 465,077 | 404,897 |
| Liabilities | | | | | |
| Due to banks | 52,793 | 15,858 | 3,350 | 14,910 | 24,595 |
| Derivative financial liabilities | 382 | 85 | 814 | 268 | 519 |
| Financial liabilities at amortised cost – Due to depositors | 407,225 | 370,314 | 319,861 | 310,027 | 247,787 |
| Financial liabilities at amortised cost – Due to other borrowers | 72,023 | 81,146 | 69,589 | 46,847 | 47,308 |
| Debt securities in issue | 16,312 | 16,304 | 16,297 | 16,291 | 14,148 |
| Retirement benefit obligation | 1,371 | 592 | 689 | 643 | 561 |
| Current tax liabilities | 4,427 | 2,480 | 952 | 1,013 | 581 |
| Deferred tax liability | – | – | – | 244 | – |
| Other liabilities | 9,152 | 10,041 | 6,580 | 6,120 | 5,059 |
| Subordinated term debt | 9,072 | 18,400 | 18,387 | 19,357 | 16,860 |
| Total liabilities | 572,757 | 515,219 | 436,519 | 415,720 | 357,418 |
| Equity | | | | | |
| Stated capital | 13,867 | 13,182 | 8,600 | 7,682 | 7,530 |
| Statutory reserve | 3,240 | 2,875 | 2,747 | 2,584 | 2,462 |
| Retained earnings | 28,250 | 22,601 | 22,092 | 19,652 | 18,228 |
| Other reserves | 22,384 | 12,063 | 15,547 | 19,439 | 19,259 |
| Total equity attributable to equity holders of the Bank | 67,741 | 50,721 | 48,986 | 49,357 | 47,480 |
| Non-controlling interests | | – | – | – | – |
| Total equity | 67,741 | 50,721 | 48,986 | 49,357 | 47,480 |
| Total equity and liabilities | 640,498 | 565,940 | 485,505 | 465,077 | 404,897 |
| Contingent liabilities and commitments | 193,993 | 169,133 | 148,132 | 130,764 | 130,590 |



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

| Description | Years ended 31st December | | | | |
|--|---------------------------|------------------|------------------|------------------|------------------|
| | 2023 (Rs. Mn) | 2022 (Rs. Mn) | 2021 (Rs. Mn) | 2020 (Rs. Mn) | 2019 (Rs. Mn) |
| Statement of Changes in Equity | | | | | |
| Balance as at the Beginning of the year | 50,721 | 48,986 | 49,357 | 47,480 | 43,846 |
| Adjustment on surcharge tax | | (1,232) | - | - | - |
| Adjustment on initial application of SLFRS 9, net of tax | | - | - | - | - |
| Restated balance as at the Beginning of the year | | 47,754 | - | - | - |
| Profit for the year | 7,220 | 2,513 | 3,222 | 2,388 | 2,074 |
| Other comprehensive (expenses)/income, net of tax | 9,916 | (3,133) | (3,602) | 243 | (325) |
| Total comprehensive (expenses)/ income for the year | 17,136 | (620) | (381) | 2,631 | 1,749 |
| Transfers | | - | - | - | - |
| Transfer of gains/(losses) on disposal/write-off of equity investments at fair value through other comprehensive income to retained earnings | - | - | - | - | - |
| Rights issue | | 3,584 | - | - | 2,805 |
| Forfeiture of unclaimed dividends | | 3 | 10 | 7 | 6 |
| Transactions with equity holders of the Bank, recognised directly in equity | | - | - | - | - |
| Forfeiture of unclaimed dividends | 5 | - | - | - | - |
| Final dividend approved | (121) | - | - | (760) | (928) |
| Total contributions from and distribution to equity holders | (116) | 3,587 | 10 | (754) | 1,884 |
| Balance at the end of the year | 67,741 | 50,721 | 48,986 | 49,357 | 47,480 |



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

| Description | Years ended 31st December | | | | |
|---|---------------------------|---------------|---------------|---------------|---------------|
| | 2023 (Rs. Mn) | 2022 (Rs. Mn) | 2021 (Rs. Mn) | 2020 (Rs. Mn) | 2019 (Rs. Mn) |
| Statement of cash flows | | | | | |
| Operating cash flows before changes in operating assets and liabilities | 26,214 | 20,483 | 2,503 | (1,162) | (2,903) |
| (Increase)/decrease in operating assets: and operating liabilities: | 48,696 | 33,093 | (59,304) | 33,625 | (11,142) |
| Net cash flows (used in)/from operating activities before income tax | 74,910 | 53,577 | 56,801 | 32,464 | (14,045) |
| Surcharge tax paid | - | (1,232) | | | |
| Income tax paid | (4,306) | (1,531) | (1,621) | (615) | (1,692) |
| Net cash flows (used in)/from operating activities | 70,605 | 50,813 | (58,422) | 31,848 | (15,737) |
| Net cash flows used in investing activities | (84,293) | (31,257) | 41,760 | (7,397) | (5,401) |
| Net cash flows from/(used in) financing activities | 25,958 | (5,185) | 10,500 | (6,928) | 21,289 |
| Net increase/(decrease) in cash and cash equivalents | 12,269 | 14,371 | (6,162) | 17,523 | 151 |
| Cash and cash equivalents at the beginning of year | 31,347 | 16,976 | 23,139 | 5,615 | 5,465 |
| Cash and cash equivalents at the end of year | 43,617 | 31,347 | 16,976 | 23,139 | 5,615 |
| Reconciliation of cash and cash equivalents with items reported in the statement of financial position | | | | | |
| Cash and cash equivalents | 14,478 | 16,123 | 10,688 | 7,724 | 5,450 |
| Placements with banks | 29,138 | 15,225 | 6,288 | 15,414 | 165 |
| Cash and cash equivalents at the end of year | 43,617 | 31,347 | 16,976 | 23,139 | 5,615 |



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 2019 to 2023

| Financial year ended | Adoption of revised Accounting Standards and related changes in Accounting Policies |
|-----------------------------|--|
|-----------------------------|--|

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.

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 recognizes 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 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

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.

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.

31st December 2023 Disclosure of Accounting Policies – Amendments to LKAS 1 and SLFRS Practice Statement 2

The Group also adopted Disclosure of Accounting Policies (Amendments to LKAS 1 and SLFRS Practice Statement 2). the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements from 1 January 2023.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to LKAS 12

The Group has adopted deferred tax related to assets and liabilities arising from a single transaction (Amendments to LKAS 12) from 1 January 2023.

