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

11th March 2019

Dear Sirs

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 proposed issue of up to 100,000,000 Listed Rated Unsecured Senior Redeemable Debentures with a value of LKR 100/- each in order to raise up to LKR 10,000,000,000/- by DFCC Bank PLC ("the Bank") solely, if required regulatory approvals are obtained from the Central Bank of Sri Lanka.

We have examined the financial statements of DFCC Bank PLC ("the Bank") and the consolidated financial statements of the Bank and its subsidiaries ("the Group") for the financial years ended 31st March 2015, for the nine months ended 31st December 2015 and for the financial years ended 31st December 2016, 2017 and 2018, included in the prospectus and report as follows,

1. INTRODUCTION

DFCC Bank PLC ("the Bank") is a public 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of the DFCC Bank (Repeal and Consequential Provisions) Act No. 39 of 2014, the DFCC Bank Act No. 35 of 1955 was repealed and the Bank was incorporated under the Companies Act No. 07 of 2007 as a public limited company listed in the Colombo Stock Exchange with the name 'DFCC Bank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. The registered office of the Bank is situated at 73/5, Galle Road, Colombo 3.

The Bank is engaged in the provision of financial products and services to industrial, agricultural and commercial enterprises in Sri Lanka.

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA, T.J.S. Rajakarier FCA, Ms. S.M.B. Jayasekara ACA, G.A.U. Karunaratne FCA, R.H. Rajan FCA
P.Y.S. Perera FCA, W.W.J.C. Perera FCA, W.K.D.C Abeyrathne FCA, R.M.D.B. Rajapakse FCA, M.N.M. Shameel ACA
C.P. Jayatilake FCA, Ms. S. Joseph FCA, S.T.D.L. Perera FCA, Ms. B.K.D.T.N. Rodrigo FCA, Ms. C.T.K.N. Perera ACA
Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA

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2. FINANCIAL STATEMENTS

2.1. Five Years Summary of Financial Statements

A summary of statement of comprehensive income and statement of financial position of DFCC Bank for the financial years ended 31st March 2015, for the nine months ended 31st December 2015 and for the financial years ended 31st December 2016 , 2017 and 2018, based on the audited financial statements of the Bank are set out in the prospectus.

Summaries presented for Assets, Liabilities and Shareholders' funds as at 31st March 2015 and, 31st December 2015, 2016, 2017 and 2018 are based on the financial statements prepared in accordance with SLFRSs and LKASs, effective from 1st January 2012. Summaries presented for Assets, Liabilities and Shareholders' funds as at 31st December 2018 are based on the LKASs including SLFRS 9: Financial Instruments which came in to effect from 1st January 2018.

Operating results summaries presented for the financial years ended 31st March 2015, for the nine months period ended 31st December 2015 and for the financial years ended 31st December 2016, 2017 and 2018 are based on the financial statements prepared in accordance with SLFRSs and LKASs, effective from 1st January 2012. Operating results summaries presented for the financial years ended 31stDecember 2018 are based on the LKASs including SLFRS 9: Financial Instruments which came in to effect from 1st January 2018.

2.2. Audit Report

We have audited the financial statements of the Bank for the years ended 31st March 2015, for the nine months ended 31st December 2015 and for the years ended 31st December 2016, 2017 and 2018. Unqualified audit opinions have been issued for the said financial reporting periods.

The new audit report format became effective from 1st January 2018 which includes a section for Key Audit Matters (KAM). Accordingly following KAMs were prescribed in the audit report for the year ended 31st December 2018.

— Impairment of loans and advances and transition with the adoption of SLFRS 9 – "Financial Instruments"
Given the complexity of SLFRS 9 and its expected pervasive impact on the financial sector we focused on the Bank's disclosure of the expected impact of measuring credit losses on Loans and receivables and the significant judgment exercised by the Bank. The Bank's models to calculate ECLs are inherently complex and judgment is applied in determining the correct construct of the models. There are also a number of key assumptions made by the Bank in applying the requirements of SLFRS 9 to the models including selection and input of forward looking information.

— IT systems and controls over financial reporting
The Bank's key financial accounting and reporting processes are highly dependent on the automated controls over the Bank's information systems. As such that there exist a risk that gaps in the IT control environment, including automated accounting procedures, IT dependent manual controls and controls preventing unauthorized access to systems and data could result in the financial accounting and reporting records being materially misstated. The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key audit

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matter and our audit approach could significantly differ depending on the effective operation of the Group's IT controls

2.3. Application of Accounting Standards and Accounting Policies

The financial statements of the Bank for the financial years ended 31st March 2015, for the nine months ended 31st December 2015 and for the financial years ended 31st December 2016, 2017 and 2018 complied with the applicable Sri Lanka Accounting Standards (LKAS and SLFRS).

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 2018. The adoption of revised / new accounting standards and a summary of related amendments to the accounting policies of the Bank from the financial years ended 31st March 2015, the nine months ended 31st December 2015 and the financial years ended 31st December 2016, 2017 and 2018 are given below.

Financial Year	Adoption of revised Accounting Standards and related changes in Accounting Policies
31st March 2015	The Bank has adopted the Sri Lanka Financial Reporting Standard (SLFRS) 13 - "Fair Value Measurement" with the date of initial application on 1st January 2014. In accordance with the transitional provisions of SLFRS 13, the Bank has applied the new definition of fair value, prospectively from 1st April 2014. The change had no significant impact on the measurement of the Bank's assets and liabilities, but the Bank has included new disclosures in the financial statements which are required under SLFRS 13.
31st December 2015	The Bank changed its financial year from 31 March to 31 December in the year 2015. Accordingly, the consolidated financial statements for the period ended 31 December 2015 included the results of DFCC Bank PLC and its subsidiaries with the reporting year ending 31 March for the nine months to 31 December 2015, and results of subsidiaries, associate and joint venture company with the reporting year ending 31 December for 12 months to 31 December 2015. DFCC Vardhana Bank PLC, which was a subsidiary of the Group was amalgamated with DFCC Bank PLC on 1 October 2015. Accordingly, on 1 October 2015 the book values of DFCC Vardhana Bank PLC, was amalgamated with that of the of the DFCC Bank PLC and the investment in subsidiary of LKR 5,945 million recorded in DFCC Bank PLC (including balance payment to minority shareholders amounting to 122 million), was set off against the equity of DFCC Vardhana Bank PLC
31st December 2018	***SLFRS 09 'Financial Instruments'*** The Bank has adopted SLFRS 9 - 'Financial Instruments', issued in July 2014, with a date of initial application of 1 January 2018. The requirements of SLFRS 9 represent a significant change from LKAS 39 - 'Financial Instruments: Recognition and Measurement.' The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. The key changes to the Bank's accounting policies resulting from its adoption of SLFRS 9 are summarized below

Classification of financial assets and financial liabilities

SLFRS 9 contains three principal classification categories for financial assets – i.e. measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing LKAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. The SLFRS 9 classification is generally based on the business model in which financial asset is managed and its contractual cash flows.

Under SLFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

SLFRS 9 largely retains the existing requirements in LKAS 39 for the classification of financial liabilities. However, although under LKAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under SLFRS 9 fair value changes are generally presented as follows:

•The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and

• The remaining amount of change in the fair value is presented in profit or loss.

Reclassification

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

Although implementation of SLFRS 9 resulted in few classification changes except for the reclassification of a part of the Commercial Bank portfolio, others were not material. As at 1st January 2018, Bank decided to transfer 4.6 Bn worth of Commercial Bank share investment from fair value through other comprehensive income (FVOCI) to fair value through profit or loss (FVTPL) category after the reassessment of the classification against the business model.

Impairment of financial assets

SLFRS 9 replaces the 'incurred loss' model in LKAS 39 with an 'expected credit loss' model. The new impairment model applies to financial assets that are not measured at FVTPL and also to certain loan commitments and financial guarantee contracts but not to equity investments.

Under SLFRS 9, credit losses are recognized earlier than under LKAS 39

Measurement of impairment of financial assets

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

The most significant impact on the Bank's Financial Statements from the implementation of SLFRS 9 was resulted from the new impairment requirements. Impairment losses increased by 48% in opening day adjustment and 4% increase in 31stDecember 2018 compared to day one adjustment.

The Bank has employed statistical models to analysis the data collected and generate estimates of the remaining lifetime PD of exposure and how these are expected to change as a result of the passage of time. This analysis include the identification and calibration of relationship between changes in default rates and changes in key macroeconomic factors as well as analysis of the impact of certain other factors on the risk of default.

The Bank has estimated LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

EAD for lending commitments and financial guarantees, include the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which has been estimated based on historical observations and forward looking forecasts. Under SLFRS 9, the Bank has incorporated forward looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The Bank has completed the impact assessment on its Financial Statements for the year ended 31 December 2017 and December 2018, resulted from the application of SLFRS 9 with the assistance of an external consultant.

Based on the assessments undertaken to date which was audited, the total estimated additional loan loss provision on the financial statements for the year ended 31 December 2017 and December 2018 on adoption of SLFRS 9 was respectively 3.7 Bn and 0.474 Bn. It had an impact on capital adequacy ratio due to the reduction in the retained earnings.

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The Group did not have significant impact on the Consolidated Financial Statements resulting from the application of SLFRS 9 on the other group entities except for those reported by the Bank.

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 existing 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 1st January 2018 and did not have significant impact on its financial statements resulting from the application of SLFRS 15.

2.4. New SLFRS Issued but not effective on 31st December 2018

SLFRS 16 – "Leases"

SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between On-Balance Sheet finance leases and Off-Balance Sheet operating leases. Instead, there will be a single On-Balance Sheet accounting model that is similar to current finance lease accounting.

SLFRS 16 is effective for annual reporting periods beginning on or after 01 January 2019. The Group/Bank is assessing the potential impact on its financial statements resulting from the application of SLFRS 16.

2.5. Dividends

The Bank has paid the following dividends in respect of Ordinary Shares during the financial years ended 31st March 2015, the nine months ended 31st December 2015 and the financial years ended 31st December 2016, 2017 and 2018.

Year/ Period ended;	Dividend Paid (Rs. Mn)	Dividend declared Per Share (Rs.)
31st March 2015	1,458	6.00
31st December 2015	1,591	2.50
31st December 2016	663	4.50
31st December 2017	1,193	5.00
31st December 2018	1,325	3.50

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2.6. Events after the Reporting Date (as at 31st December 2018)

- The Directors have approved the payment of a first and final dividend of LKR 3.50 per share for the year ended 31 December 2018. 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 Auditors.

- The Bank will issue 106,039,075 shares (two shares for every five shares held) each at LKR 72 per share to raise LKR 7,634,813,400 to increase the Tier 1 capital of the Bank. The rights issue & listing of shares has been approved in principle by the Colombo Stock Exchange and is subject to obtaining shareholders' approval at an Extraordinary General Meeting to be held on 28th March 2019.

- No other circumstances have arisen which would require disclosure or adjustment to the financial statements

Yours faithfully,

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CHARTERED ACCOUNTANTS
Colombo

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

Description	Years ended 31st December;			31st December 2015 (09 months)	31st March 2015
	2018 (Rs.Mn)	2017 (Rs.Mn)	2016 (Rs.Mn)	*(Rs. Mn)*	*(Rs. Mn)*
Operating Results					
Income	39,154	35,942	26,754	10,036	10,394
Interest Income	38,148	32,987	24,194	8,918	8,010
Interest Expense	25,733	21,644	15,293	5,560	4,675
Net Interest Income	12,415	11,343	8,901	3,358	3,335
Non-Interest Income	1,005	2,954	2,919	1,119	2,384
Profit Before Income Tax and VAT	5,692	7,251	5,400	1,932	4,357
Profit Before Income Tax	4,233	5,792	4,414	1,589	3,771
Profit After Tax	2,768	4,415	3,289	1,068	3,240
Financial Position					
Assets					
Cash, Placements with Banks and Statutory Deposit with CBSL	17,307	21,355	13,745	9,859	828
Loans and Receivables	262,589	224,660	198,085	164,920	73,933
Investments	85,224	81,642	73,363	67,684	36,557
Property, Equipment and Intangible Assets	2,289	1,771	1,132	1,190	433
Deferred Tax Assets	492	-	-	-	-
Other Assets	7,007	3,679	3,737	2,497	2,861
Total Assets	**374,908**	**333,107**	**290,061**	**246,150**	**114,612**
Liabilities					
Deposits from Customers	242,238	193,308	140,514	110,891	22,485
Borrowings	56,860	50,961	58,885	60,319	26,291
Debt securities Issued (Include debentures)	25,753	33,646	38,385	27,060	20,055
Deferred Tax Liability	-	1,194	852	880	487
Other Liabilities	6,210	6,121	5,606	4,182	1,198
Total Liabilities	**331,061**	**285,230**	**244,211**	**203,332**	**70,516**
Equity					
Stated Capital	4,716	4,716	4,716	4,716	4,716
Statutory Reserve Fund	2,358	2,224	2,004	1,834	1,545
Retained Earnings	17,187	13,858	10,800	8,203	6,542
Other Reserves	19,585	27,079	28,330	28,065	31,293
Total Equity	**43,846**	**47,877**	**45,850**	**42,818**	**44,096**
Total Liabilities and Equity	**374,908**	**333,107**	**290,061**	**246,150**	**114,612**
Contingent Liabilities and Commitments	**137,143**	**135,571**	**101,452**	**76,015**	**40,980**

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

Description	Years ended 31st December; 2018 *(Rs. Mn)*	2017 *(Rs. Mn)*	2016 *(Rs. Mn)*	31st December 2015 (09 months) *(Rs. Mn)*	31st March 2015 *(Rs. Mn)*
Performance Indicators					
Return on Average Shareholder Funds (%)*	7.6	13.4	10.99	5.0	12.8
Income Growth (%)	8.9	34.34	166.58	-3.44	-0.83
Return on Average Total Assets (%)*	0.8	1.48	1.3	1.0	3.5
Dividends Cover (Times)	2.09	3.70	4.96	0.70	2.2
Property, Equipment and Intangible Assets to Shareholders' Funds (%)	5.2	3.7	2.5	2.8	1.0
Total Assets to Shareholders' Funds (Times)	8.55	6.95	6.32	5.75	2.59
Total Deposit Liabilities to Capital (%)	552.5	403.8	306.5	259.0	51.0
Capital Funds to Liabilities (including Contingent Liabilities) (%)	9.4	11.4	13.3	15.3	39.5
Statutory Liquid Assets Ratio (%)					
- DFCC	24	27	27	22	48
Share Information					
Market Value Per Share (LKR)	93.00	124	122.5	168.10	202.80
Earnings Per Share (LKR)	10.44	16.65	12.41	4.03	12.22
Dividends Per Share (LKR)	3.50	5.0	4.5	2.50	6.00
Net Assets Per Share (LKR)	165.40	180.60	172.95	161.52	166.34
Other Information					
Number of Branches	111	101	90	79	20
Number of Service Centers	27	37	47	58	-
Number of Staff	1,860	1770	1642	1,445	495

* After eliminating fair value reserve.

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Annexure 2 – Five year summary of Financial Statements (Group)

Description	Years ended 31st December;			31st December 2015 (09 months)	31st March 2015
	2018 *(Rs. Mn)*	2017 *(Rs. Mn)*	2016 *(Rs. Mn)*	*(Rs. Mn)*	*(Rs. Mn)*
Operating Results					
Income	39,448	35,987	26,980	17,503	20,094
Interest Income	38,150	32,995	24,206	15,309	16,099
Interest Expense	25,691	21,597	15,263	8,923	9,408
Net Interest Income	12,459	11,397	8,943	6.385	6,691
Non-Interest Income	1,299	2,992	2,773	2,195	3,995
Profit Before Income Tax and VAT	5,828	7,165	5,499	3,064	6,147
Profit Before Income Tax	4,676	5,891	4,674	2,553	5,416
Profit After Tax	3,070	4,434	3,469	1,642	4,439
Financial Position					
Assets					
Cash, Placements with Banks and Statutory Deposit with CBSL	17,332	21,390	13,823	9,871	8,002
Loans and Receivables	262,589	224,660	198,085	164,945	138,886
Investments	86,255	82,369	73,904	68,109	57,887
Property, Equipment and Intangible Assets	2,405	1,873	1,251	1,290	1,332
Other Assets	8,181	4,176	4,151	2,894	4,503
Total Assets	**376,762**	**334,468**	**291,214**	**247,109**	**210,610**
Liabilities					
Deposits from Customers	241,915	192,920	140,220	110,551	92,712
Borrowings	56,835	50,932	58,839	60,321	44,819
Debt securities Issued (Include debentures)	25,733	33,647	38,385	27,060	21,056
Deferred Tax Liability	90	1,232	874	880	642
Other Liabilities	6,533	6,336	5,786	4,329	3,119
Total Liabilities	**331,106**	**285,066**	**244,104**	**203,141**	**162,348**
Equity					
Stated Capital	4,716	4,716	4,716	4,716	4,716
Statutory Reserve Fund	2,358	2,224	2,004	1,834	1,545
Investment Fund Account			-	-	-
Retained Earnings	20,107	17,360	14,231	11,506	12,753
Other Reserves	18,217	24,825	25,899	25,659	28,895
Non-Controlling Interests	258	277	260	253	354
Total Equity	**45,656**	**49,402**	**47,110**	**43,968**	**48,263**
Total Liabilities and Equity	376,762	**334,468**	291,214	**247,109**	**210,610**
Contingent Liabilities and Commitments	137,144	135,571	101,452	76,015	75,073

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Description	Years ended 31st December;			31st December 2015 (09 months)	31st March 2015
	2018 *(Rs.Mn)*	**2017** *(Rs.Mn)*	**2016** *(Rs.Mn)*	*(Rs. Mn)*	*(Rs. Mn)*
Performance Indicators					
Return on Average Shareholder Funds (%)*	7.70	12.08	10.3	5.6	14.0
Income Growth (%)	9.6	33.38	54.15	(12.89)	(1.38)
Return on Average Total Assets (%)*	0.88	1.47	1.4	0.8	2.5
Dividends Cover (Times) **	3.25	3.7	4.96	0.7	2.2
Property, Equipment and Intangible Assets to Shareholders' Funds (%)	5.3	3.8	2.7	2.93	2.76
Total Assets to Shareholders' Funds (Times)	8.25	6.77	6.18	5.62	4.36
Total Deposit Liabilities to Capital (%)	536	391	298	251	192
Capital Funds to Liabilities (including Contingent Liabilities) (%)	9.75	13.63	11.74	15.75	20.33
Statutory Liquid Assets Ratio (%)					
- DFCC **	24	27	27	22	48
Share Information					
Market Value Per Share (LKR) **	93.00	124	122.5	168.10	202.80
Earnings Per Share (LKR)	11.36	16.45	12.88	6.01	16.46
Dividends Per Share (LKR) **	3.50	5.0	4.5	2.50	6.00
Net Assets Per Share (LKR)	171.25	185.31	176.73	164.90	180.72
Other Information					
Number of Branches	111	101	90	79	78
Number of Service Centres	27	37	47	58	59
Number of Staff	1,963	1869	1760	1,659	1,611

* After eliminating fair value reserve.

** Reported only for the Bank.