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19th December 2019

Board of Directors,
First Capital Treasuries PLC
No. 2, Deal Place
Colombo 3.

Dear Madam / Sirs,

ACCOUNTANTS' REPORT FOR INCLUSION IN THE PROSPECTUS OF FIRST CAPITAL TREASURIES PLC

This report has been prepared for the inclusion in the Prospectus issued in connection with the Public Offer of 7,500,000 Listed, Rated, Subordinated, Unsecured and Redeemable Debentures at a face value of Rs. 100/- each to raise Rs. 750 Million.

We have examined the financial statements of First Capital Treasuries PLC ("the Company") for the financial years ended 31st March 2015 to 31st March 2019, included in the prospectus and report as follows.

1. INCORPORATION

First Capital Treasuries PLC ("the Company") is a public limited liability company incorporated on 19th August 1982 and domiciled in Sri Lanka. The debentures of the Company have a primary listing on the Colombo Stock Exchange. The Company engages in the business operations of a Primary Dealer in Government Securities. The registered office of the Company is situated at No. 2, Deal Place, Colombo 3.

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 Changes in Equity and Statement of Cash Flows of First Capital Treasuries PLC for the years ended 31st March 2015 to 31st March 2019, based on the audited financial statements of the Company are set out in Annexure 1.

Summaries presented for Operating Results, Assets, Liabilities and Shareholders' funds for financial years ended 31st March 2015 to 31st March 2019 are based on the financial statements prepared in accordance with SLFRSs and LKASs.



2.2 Audit Reports

We have audited the financial statements of the Company for the years ended 31st March 2015 to 31st March 2019. Unqualified audit opinions have been issued for the said financial years.

2.3 Application of Accounting Standards and Accounting Policies

The financial statements of the Company for the financial years ended 31st March 2015 to 31st March 2019 complied with the applicable Sri Lanka Accounting Standards.

The accounting policies of the Company are stated in detail in the audited financial statements of First Capital Treasuries PLC for the year ended 31st March 2019. The adoption of revised/new accounting standards and a summary of related amendments to the accounting policies of the Company from financial years ended 31st March 2015 to 31st March 2019 are given below.

Financial Year	Adoption of revised Accounting Standards and related changes in Accounting Policies
31 st March 2015	<p>The Company has adopted the Sri Lanka Financial Reporting Standard (SLFRS – 13 “Fair Value Measurement”) with the initial date of application of 1st January 2014.</p> <p>In accordance with the transitional provisions of SLFRS 13, the Company has applied the new definition of fair value prospectively. The change had no significant impact on the measurement of the Company’s assets and liabilities, but the Company has included new disclosures in the financial statements which are required under SLFRS 13.</p>
31 st March 2016	There were no material changes.
31 st March 2017	There were no material changes.
31 st March 2018	There were no material changes.
31 st March 2019	<p>The Institute of Chartered Accountants of Sri Lanka issued a new Sri Lanka Financial Reporting Standard which became applicable for the annual financial periods beginning on or after 1st January 2018. The nature and the effects of the changes are explained below:</p> <p>Classification and measurement of financial assets and financial liabilities</p> <p>SLFRS 9 – “Financial Instruments” contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under SLFRS 9 – “Financial Instruments” is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. SLFRS 9 - Financial Instruments” eliminates the previous LKAS 39 – “Financial Instruments: Recognition and Measurement” categories of held for trading, held to maturity, loans and receivables and available for sale.</p> <p>Impairment of financial assets</p> <p>SLFRS 9 – “Financial Instruments” replaces the “Incurred Loss” model in LKAS 39 – “Financial Instruments: Recognition and Measurement” with a forward-looking “Expected Credit Loss” (ECL) model. The new model applies to financial assets that are not measured at FVTPL, including loans and receivables, and all other debt securities. ECL does not apply to equity investments and those should be measured at fair value.</p>



	<p>Hedge accounting</p> <p>The new general hedge accounting model in SLFRS 9 – “Financial Instruments” requires the Company to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward – looking approach to assessing hedge effectiveness. SLFRS 9 – “Financial Instruments” require extensive new disclosures in particular about hedge accounting.</p> <p>The general hedge accounting requirements of SLFRS 9 – “Financial Instruments” retain the three types of hedge accounting mechanisms in LKAS 39 – “Financial Instruments: Recognition and Measurement”. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an “economic relationship”. Retrospective assessment of hedge effectiveness is no longer required.</p>
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2.4 Dividends

The Company has paid the following dividends in respect of Ordinary Shares during the years ended 31st March 2015 to 31st March 2019.

Year ended 31 st March	Dividend Paid Rs. Mn	Dividend per share Rs.
2015	630.99	41.00
2016	None	None
2017	124.65	8.10
2018	200.07	13.00
2019	None	None

2.5 Purpose and restriction on use and distribution

This report is made solely for the purpose of the Board of Directors of First Capital Treasuries PLC for the inclusion in the prospectus in connection with the debenture issue of Rs. 750 Million. This report should not be used, circulated, quoted or otherwise referred to any other purpose.

Yours faithfully,

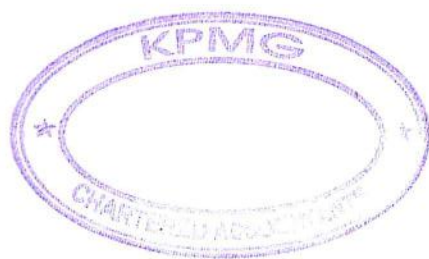
Chartered Accountants
Colombo

Annexure I
Five year summary of financial statements

FIRST CAPITAL TREASURIES PLC
STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st March

	2019 Rs.'000	2018 Rs.'000	2017 Rs.'000	2016 Rs.'000	2015 Rs.'000
Income	2,671,869	2,510,251	2,536,109	847,442	1,937,351
Direct Expenses	(2,334,942)	(1,651,367)	(2,075,273)	(622,079)	(771,230)
Net Trading Income	336,927	858,884	460,836	225,363	1,166,121
Other Income	8,448	48	3,552	9,139	7
Gain on Fair Valuation of Financial assets recognised through profit or loss measured at fair value	(76,249)	139,259	24,887	(55,558)	(222,907)
	269,126	998,191	489,275	178,944	943,221
Operating Expenses					
Personnel Expenses	(73,914)	(101,525)	(64,888)	(81,429)	(126,943)
Premises, Equipment and Establishment Expenses	(32,470)	(44,498)	(50,960)	(75,759)	(71,875)
Other Operating Expenses	(25,314)	(28,762)	(29,662)	(10,543)	(14,698)
	(131,698)	(174,785)	(145,510)	(167,731)	(213,516)
Profit before Taxation	137,428	823,406	343,765	11,213	729,705
Income Tax (expense)/reversal	(41,621)	847,465	-	-	-
Profit for the Year	95,807	1,670,871	343,765	11,213	729,705
Other Comprehensive Income					
<i>Items that will never be reclassified to Profit or Loss</i>					
Gain/(loss) on financial assets fair value through other comprehensive income	(1,000)	-	-	-	-
Actuarial Gain/ (Loss) on Retirement Benefit Obligation	(1,672)	(608)	4,410	(697)	2,414
Tax Effect on Other Comprehensive Income	468	170	-	-	-
<i>Item that are or may be reclassified to Profit or Loss</i>	-	-	-	-	-
Other Comprehensive Income / (Expense)	(2,204)	(438)	4,410	(697)	2,414
Total Comprehensive Income for the Year	93,603	1,670,433	348,175	10,516	732,119
Basic Earnings per Share (Rs.)	6.23	108.57	22.34	0.73	47.41

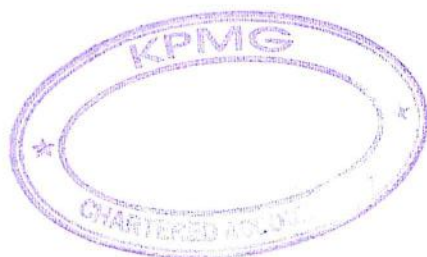


Annexure 1 (Continued)

Five year summary of financial statements

FIRST CAPITAL TREASURIES PLC
STATEMENT OF FINANCIAL POSITION

As at 31 st March	2019 Rs.'000	2018 Rs.'000	2017 Rs.'000	2016 Rs.'000	2015 Rs.'000
ASSETS					
Cash at Banks and in Hand	2,144	3,077	13,731	1,382	2,120
Derivative Financial Instruments	3,454	47,868	24,075	40,861	40,609
Financial assets recognised through profit or loss - measured at fair value	29,533,427	23,376,073	15,384,251	9,206,856	8,637,938
Financial assets - at Amortised cost	1,863,996	968,887	6,369,562	5,903,738	7,323,882
Financial assets - fair value through other comprehensive income	-	1,000	1,000	1,000	1,000
Receivable from Related Companies	11,616	5,239	480	422	225
Taxes Receivable	1,468	12,093	12,093	12,093	11,051
Deferred tax asset	806,482	847,635	-	-	-
Other Assets	97,706	239,030	130,835	137,591	57,088
Property, Plant and Equipment	1,255	1,393	2,581	5,697	18,991
Intangible Assets	1,399	389	928	1,552	2,615
Total Assets	32,322,947	25,502,684	21,939,536	15,311,192	16,095,519
Equity and Liabilities					
Liabilities					
Bank Overdraft	6,660	2,759	-	1,532	-
Derivative Financial Instruments	2,878	21,659	2,240	20,835	31,359
Securities sold under Repurchase Agreements	27,482,737	21,691,825	19,677,003	13,271,621	14,011,649
Short term borrowings	991,384	-	-	-	-
Creditors, accrued Charges and Other Payables	7,392	9,568	18,203	16,670	71,898
Payable to Related Companies	716	42,478	1,253	3,495	5,288
Taxes Payable	83,740	81,452	61,016	37,358	33,929
Borrowing on Listed Debentures	511,111	510,689	510,304	509,953	505,143
Retirement Benefit Obligations	11,446	10,974	8,600	12,327	9,368
Total Liabilities	29,098,064	22,371,404	20,278,619	13,873,791	14,668,634
Equity					
Stated Capital	256,500	256,500	256,500	256,500	256,500
Risk Reserve	1,082,307	1,072,726	905,639	871,262	870,141
Retained Earnings	1,887,076	1,802,054	498,778	309,639	300,244
Fair Valuation Reserve	(1,000)	-	-	-	-
Total Equity	3,224,883	3,131,280	1,660,917	1,437,401	1,426,885
Total Equity and Liabilities	32,322,947	25,502,684	21,939,536	15,311,192	16,095,519
Net Assets per Share (Rs.)	209.54	203.46	107.92	93.40	92.72

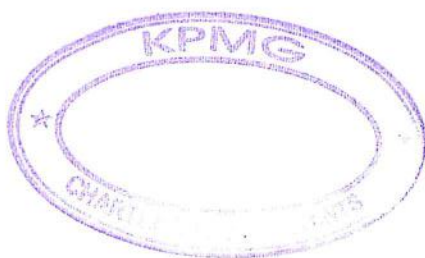


Annexure 1 (Continued)

Five year summary of financial statements

FIRST CAPITAL TREASURIES PLC
STATEMENT OF CASH FLOWSFor the year ended 31st March

	2019 Rs.'000	2018 Rs.'000	2017 Rs.'000	2016 Rs.'000	2015 Rs.'000
Cash Flows from Operating Activities					
Interest Receipts and Gains realised	2,667,994	2,509,176	2,533,987	845,152	1,928,548
Interest Payments and Other Direct Cost	(2,151,693)	(1,238,588)	(1,787,728)	(409,517)	(945,029)
Other Receipts	442	48	45	9,065	7
Cash Payments to Employees and Suppliers	(118,284)	(170,545)	(137,889)	(147,566)	(194,876)
Operating profit/ (loss) before changes in operating assets and liabilities	398,459	1,100,091	608,415	297,134	788,650
(Increase)/ Decrease in Financial Assets at Amortised cost	(891,234)	5,401,751	(463,700)	1,422,434	(6,403,864)
(Increase)/ Decrease in Financial Assets- Recognised through profit or loss- Measured at fair value	(6,207,970)	(7,856,931)	(6,154,318)	(635,251)	2,667,355
(Increase)/ Decrease in Other Assets	141,324	(108,195)	6,756	(80,503)	5,903
Increase/ (Decrease) in Short term Borrowings	990,306	-	-	-	-
(Increase)/ Decrease in Receivable from Related Companies	(6,377)	(4,813)	(58)	(196)	(160)
Increase/ (Decrease) in Securities sold under Repurchase Agreements	5,609,163	1,602,427	6,118,187	(947,780)	3,033,401
Increase/ (Decrease) in Payable to Related Companies	(41,762)	40,542	(2,242)	(1,793)	(817)
Increase/ (Decrease) in Creditors and Accrued Charges	112	12,533	23,864	(51,799)	54,550
Cash generated from/ (used in) operations	(7,979)	187,405	136,904	2,246	145,018
Income Tax paid	-	-	-	(1,041)	(9,661)
Gratuity paid	(2,822)	-	-	(693)	-
Net cash flows generated from/ (used in) operating activities	(10,801)	187,405	136,904	512	135,357
Cash Flows from Investing Activities					
Acquisition of Property, Plant and Equipment	(309)	(574)	(1,448)	(2,316)	(2,139)
Acquisition of Intangible Assets	(1,730)	(174)	(423)	(676)	(1,374)
Proceeds from Sale of Property, Plant and Equipment	8,006	-	3,507	210	-
Net cash flows generated from/ (used in) investing activities	5,967	(748)	1,636	(2,782)	(3,513)
Cash Flows from Financing Activities					
Dividend paid	-	(200,070)	(124,659)	-	(630,990)
Borrowings on debentures	-	-	-	-	500,000
Net cash flows used in financing activities	-	(200,070)	(124,659)	-	(130,990)
Net increase / (decrease) in cash and cash equivalents	(4,834)	(13,413)	13,881	(2,270)	854
Cash and cash Equivalents at the beginning of the year	318	13,731	(150)	2,120	1,266
Cash and cash Equivalents at the end of the year (Note A)	(4,516)	318	13,731	(150)	2,120
Note A					
Cash at banks and in hand	2,144	3,077	13,731	1,382	2,120
Bank overdraft	(6,660)	(2,759)	-	(1,532)	-
	(4,516)	318	13,731	(150)	2,120



Annexure 1 (Continued)
Five year summary of financial statements

FIRST CAPITAL TREASURIES PLC
STATEMENT OF CHANGES IN EQUITY

FOR THE YEARS ENDED 31st MARCH 2015 TO 2019

	Stated Capital	Risk Reserve	Retained Earnings	Fair Valuation Reserve	Total Equity
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 1 st April 2014	256,500	687,715	381,541	-	1,325,756
Total Comprehensive Income for the Year					
Profit for the Year	-	-	729,705	-	729,705
Other Comprehensive Income	-	-	2,414	-	2,414
Total Comprehensive Income	-	-	732,119	-	732,119
Transactions with Equity Holders					
Distribution to Equity Holders					
Dividend paid	-	-	(630,990)	-	(630,990)
Total distribution to Equity Holders	-	-	(630,990)	-	(630,990)
Total Transactions with Equity Holders	-	-	(630,990)	-	(630,990)
Transfers to Risk Reserve	-	182,426	(182,426)	-	-
Balance as at 31st March 2015	256,500	870,141	300,244	-	1,426,885
Balance as at 1 st April 2015	256,500	870,141	300,244	-	1,426,885
Total Comprehensive Income for the Year					
Profit for the Year	-	-	11,213	-	11,213
Other Comprehensive Income/(expenses)	-	-	(697)	-	(697)
Total Comprehensive Income	-	-	10,516	-	10,516
Transactions with Equity Holders					
Distribution to Equity Holders					
Dividend paid	-	-	-	-	-
Total distribution to Equity Holders	-	-	-	-	-
Total Transactions with Equity Holders	-	-	-	-	-
Transfers to Risk Reserve	-	1,121	(1,121)	-	-
Balance as at 31st March 2016	256,500	871,262	309,639	-	1,437,401
Balance as at 1 st April 2016	256,500	871,262	309,639	-	1,437,401
Total Comprehensive Income for the Year					
Profit for the Year	-	-	343,765	-	343,765
Other Comprehensive Income/(expenses)	-	-	4,410	-	4,410
Total Comprehensive Income	-	-	348,175	-	348,175
Transactions with Equity Holders					
Distribution to Equity Holders					
Dividend paid	-	-	(124,659)	-	(124,659)
Total distribution to Equity Holders	-	-	(124,659)	-	(124,659)
Total Transactions with Equity Holders	-	-	(124,659)	-	(124,659)
Transfers to Risk Reserve	-	34,377	(34,377)	-	-
Balance as at 31st March 2017	256,500	905,639	498,778	-	1,660,917
Balance as at 1 st April 2017	256,500	905,639	498,778	-	1,660,917
Total Comprehensive Income for the Year					
Profit for the Year	-	-	1,670,871	-	1,670,871
Other Comprehensive Income/(expenses)	-	-	(438)	-	(438)
Total Comprehensive Income	-	-	1,670,433	-	1,670,433
Transactions with Equity Holders					
Distribution to Equity Holders					
Dividend paid	-	-	(200,070)	-	(200,070)
Total distribution to Equity Holders	-	-	(200,070)	-	(200,070)
Total Transactions with Equity Holders	-	-	(200,070)	-	(200,070)
Transfers to Risk Reserve	-	167,087	(167,087)	-	-
Balance as at 31st March 2018	256,500	1,072,726	1,802,054	-	3,131,280
Balance as at 1 st April 2018	256,500	1,072,726	1,802,054	-	3,131,280
Total Comprehensive Income for the Year					
Profit for the Year	-	-	95,807	-	95,807
Other Comprehensive Income/(expenses)	-	-	(1,204)	(1,000)	(2,204)
Total Comprehensive Income	-	-	94,603	(1,000)	93,603
Transactions with Equity Holders					
Distribution to Equity Holders					
Dividend paid	-	-	-	-	-
Total distribution to Equity Holders	-	-	-	-	-
Total Transactions with Equity Holders	-	-	-	-	-
Transfers to Risk Reserve	-	9,581	(9,581)	-	-
Balance as at 31st March 2019	256,500	1,082,307	1,887,076	(1,000)	3,224,883

