CargillsBank
Banking on the Human Spirit

POSITIONED FOR GROWTH...






Cargills Bank Limited | Annual Report 2015

POSITIONED FOR GROWTH...

Growth and evolution is pivotal to a company's progress. That progress is equivalent to the prowess of an athlete setting a trailblazing trajectory and improving with every performance, be it on familiar terrain or a fresh track.

Cargills Bank led by a dynamic management team is on a journey of excellence having embarked on business expansion through 8 new branches opened within 4 months. Its dedication to its clients and commitment to remain on course towards its Vision has ensured the endurance of Cargills Bank on the most difficult of terrains.

A business legacy that is in the making...

Positioned for growth....Your Company is on the Right Track.

VISION

To be the most inclusive bank harnessing the spirit of progress in every Sri Lankan.

MISSION

We aim to directly engage every customer at their convenience by a unique and far reaching network, through efficient and innovative technology.

To facilitate and empower small and medium entrepreneurs, enhance industry standards through a highly motivated team of innovative bankers.

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FINANCIAL HIGHLIGHTS

	Bank			Group		
	2015 Rs. '000	2014 Rs. '000	Change %	2015 Rs. '000	2014 Rs. '000	Change %
Operating Results						
Gross Income	604,478	362,941	67	770,443	434,779	77
Total Operating Income	386,748	330,865	17	489,945	370,157	32
Loss Before Tax	(316,208)	(235,054)	(35)	(323,781)	(229,063)	(41)
Taxation	–	(116,000)	(100)	(8,074)	(115,851)	(93)
Loss After Tax	(316,208)	(119,054)	(166)	(315,707)	(113,212)	(179)
Assets and Liabilities						
Customer Deposits	3,870,200	1,265,615	206	4,587,188	1,919,132	139
Loans and Receivables to Other Customers	7,206,375	2,230,418	223	8,084,912	3,085,835	162
Total Assets	13,448,391	6,751,280	99	14,253,284	7,503,029	90
Total Liabilities	8,605,146	2,203,447	291	9,336,033	2,881,778	224
Shareholders' Funds	4,843,245	4,547,833	6	4,839,516	4,543,654	7
Key Indicators						
Loss per Share (Rs.)	(0.72)	(0.27)	(167)	(0.72)	(0.26)	(177)
Net Assets Value per Share (Rs.)	10.03	10.34	(3)	10.02	10.33	(3)
Return on Assets (Rs.)	(13.13)	(1.76)	(646)	(2.98)	(1.51)	(97)
Return on Equity (Rs.)	(5.01)	(2.62)	(91)	(6.67)	(2.49)	(168)
Liquid Assets Ratio	93.27%	237.10%	(61)	80.61%	154.59%	(48)
Capital Adequacy						
Tier 1	47.62%	90.40%	(47)	41.52%	74.80%	(44)
Tier 1 & 2	45.31%	85.44%	(47)	41.86%	75.20%	(44)

Chairman's Message

CHAIRMAN'S MESSAGE

INTRODUCTION

We are pleased to present to you, the second Annual Report of Cargills Bank Limited. This has also been the first full year of operations for Cargills Bank since our official launch of operations in June 2014 and while our inception has not been easy, I am pleased to report that we have surmounted every challenge set before us and now stand ready to embark upon a journey of growth and prosperity.

The formation of a new bank was never expected to be an easy feat, particularly when against the backdrop of a strictly regulated and highly competitive market place which is home to several well-established players.

Despite this Cargills Bank has been able to lay a firm and stable foundation for future growth. We are confident that the Bank, backed by the reputation and standing of the CT Holdings/ Cargills Group together with a dynamic and dedicated team of employees, supportive shareholders and stakeholders, will be able to carve out a meaningful space in the Sri Lankan financial markets.

THE SRI LANKAN ECONOMY

At the national level, 2015 saw the people exercise their democratic rights and the nation elected a new President at a peaceful General elections. The composition and demographic distribution of the population and the national economic development played a key role in the outcome of last year's electoral outcome. We believe that this emphasis on economic matters from the electorate is symptomatic of the urgent need to improve on Sri Lanka's development trajectory through a process of strategic reform of both Government policy and institutions. In that context it was commendable that the incoming Government was keen to reassure its citizens that values of transparency and good governance would form the foundation of the decision making processes moving forward whilst working towards economic development and inclusion of the people of Sri Lanka. Cargills Bank with its ethos of banking on the human spirit and inclusive banking to service the community at large is poised to be part to this momentum.

"We are confident that the Bank, backed by the reputation and standing of the CT Holdings/ Cargills Group together with a dynamic and dedicated team of employees, supportive shareholders & stakeholders"

Chairman's Message Contd.

While this focus on reform did result in temporary delays in certain projects and infrastructure development initiatives at the start of 2015, many of these projects have since been resumed and it is anticipated that Sri Lanka's demand for further development will continue as we move into 2016 with several large-scale projects – including the Megapolis and Port City projects – having been announced.

From a macro-economic standpoint Sri Lanka's GDP grew at 4.8% at the end of 2015, falling below the 7% target set by the Central Bank at the start of the year and below the previous year's GDP of 4.9%. Low inflation was a characteristic feature of the national economy in 2015, falling under 4.2% by the end of the year. Several domestic and international factors drove this low-inflation regime in 2015, including a lowering of energy tariffs and reduction of taxes on certain essential commodities. However, the predominant factor behind the low inflation is the continuing fall of crude oil prices in the international market.

All three of the country's economic sectors recorded improvements in terms of their overall contribution to total GDP with provisional estimates showing the agricultural sector recording a 5.5% Year-on-Year (YoY) improvement while the industrial and services sectors posted increases of 3.0% YoY and 5.3% YoY respectively. Despite the growth across all three sectors there was considerable volatility within each sector. The agricultural sector recorded positive growth in the first quarter of 2015 before rebounding strongly in the third quarter. The services sector on the other hand started the year at 56.3% of GDP (7.5% growth), before showing rapid improvements in the second quarter, up to 7.9% before falling to just 3.4% in the third quarter. Similarly, the industrial sector contribution fell to just 2% in the second quarter of 2015 before rebounding to 6.2% in the third quarter. While the agricultural sector tends to be affected by weather conditions, it was disconcerting to see volatile fluctuations in the industrial and services sector. Nevertheless, we believe that all three sectors are ripe for investment and development in the coming year in line with the Government aim to boost the economy.

Broad money growth continued to expand at a high rate of 17.8% as at December 2015, driven by an expansion of credit extended to both the private and public sectors while domestic liquidity remained high, fuelling monetary expansion into the new year.

OVERCOMING OBSTACLES – OUR EXPANSION

In contrast with 2014 when the Bank was compelled to re-design its entire business strategy due to the imposition of certain external restrictions, 2015 has been a much more successful year for Cargills Bank, particularly from a regulatory stand-point with the Central Bank of Sri Lanka (CBSL) having lifted prior restrictions that limited the scope of our operations solely to the Colombo Municipality. With the lifting of these restrictions, Cargills Bank has been empowered to take its unique service offering to locations across the island, a development which was crucial to the core strategy of Cargills Bank.

"The Bank would continue to establish itself physically through an increased number of branches but equally importantly in the hearts and minds of Sri Lankans"

Consequently, the Bank opened 8 new branches across the Island in 2015, bringing our total number of branches to 11. In the coming year, we are confident that with the support of CBSL, we will be able to further expand the coverage of our branch network. Parallel to our brick-and-mortar expansion, extensive effort and resources were also directed into the expansion of our product and service offering which will be further elaborated in our CEO's review. With the core components of our product portfolio having been established over the last year, we anticipate more growth in our service offerings moving forward. In the year under review the Bank further strengthened its Corporate Governance and Regulatory Compliance with the setting up of relevant Board Sub-Committees, adopting new policies for the operational aspects of the Bank.

Cargills Bank now operates a fully-fledged commercial bank with a fast-growing consumer, corporate, SME and Business Banking Book. Cargills Bank also possesses an excellent line of sight into the agricultural and dairy segments of the Sri Lankan economy as a result of our relationship with the parent company. The Bank would continue to establish itself physically through an increased number of branches but equally importantly in the hearts and minds of Sri Lankans through its services and products.

During the course of 2015, we recruited new talent to drive our business forward and the results have been promising. Complementing our recruitment drive, the management has also put in place extensive training and development plans for 2016. Cargills Bank has also allocated sizeable resources towards the augmentation of IT and operational systems, the details of which will be elaborated later in this Annual Report.

ACKNOWLEDGEMENTS

Cargills Bank was founded on the investment of a consortium of investors comprising of eminent entrepreneurs and well-established corporate sector players whose consistent support has been invaluable to the continued success of Cargills Bank. I thank them for their support and I am confident that it will lead us to further heights in the years to come.

I also wish to express my sincere thanks to the Board of Directors of the Bank who have stayed committed to getting the Organisation off the ground while aligning the management to create sustainable value for stakeholders and staying true to our embedded principles of ethical and accountable business practices.

We remain cognisant of the stringent minimum capital requirements and the importance of migration to the Basel II Adequacy Framework, and eventually, to Basel III standards. With the support of our management team working under the invaluable guidance provided by the Regulator and relevant authorities, we are confident that we will maintain the highest compliance standards moving forward.

I wish to express my sincere gratitude to our dedicated and driven team of employees. The team at Cargills Bank comprises a potent blend of dynamic young blood and top calibre professionals whose combined exposure in local and international markets will certainly deliver us a competitive advantage. I thank this highly motivated team for their untiring efforts to deliver performance excellence across all levels of our organisation.

It has been a truly remarkable year for Cargills Bank and for Sri Lanka as a whole. Today we are confident that the seeds of prosperity have been sown and now we must strive to grow in a sustainable, responsible and ethical manner. These values have long been a core facet of the Sri Lankan identity and it is that identity which we will bank on as we move into another exciting year.

Louis R Page
Chairman

26 February 2016
Colombo

CEO's Review

CEO's Review

CEO'S REVIEW

INTRODUCTION

2015 was a year of challenges and opportunities for both for Sri Lanka and the Cargills Bank Limited: a new government was elected, our operating environment remained highly competitive, and of course the many anticipated challenges inherent to the founding of a totally new banking legacy kept your team fully engaged and focused in building our business franchise. I am pleased to state that the foundations of Cargills Bank have been firmly established during the course of last year. There will certainly be many new challenges and opportunities in the future. However, having completed our first full year of operations, I am confident that our journey is now firmly underway. In that context, it is with great pleasure that I present to you the CEO's review of the operations of Cargills Bank for the year 2015.

"The promise of Cargills Bank is truly multi-faceted and while we are faced with formidable competition from the many well-established brands"

The promise of Cargills Bank is truly multi-faceted and while we are faced with formidable competition from the many well-established brands that currently hold sway in the Sri Lankan banking sector, we remain as confident as ever that the Cargills brand will have a unique and re-vitalizing role to play in our nation's banking industry and burgeoning economy. Being a new entrant to the Sri Lankan market,which is a challenging enterprise, we believe that there are unique strengths in our franchise that we can capitalise on and that processes is now underway and will set the foundation of our growth and be the differentiator in our offering to the community.

We are able to invest our resources strategically in order to ensure that Cargills Bank is built from ground-up with the best people, processes and information systems in place without the burden of backwards integration. Nevertheless, despite being a new name to the field of banking, we are also able to strongly leverage on the uniquely Sri Lankan heritage of our parent company and the Cargills brand - a household name for well over a century.

As our vision to harness the spirit of progress in every Sri Lankan and become the most inclusive name in banking continues to gather momentum, we remain committed to inculcating values of sustainable and ethical business practices across every level of our organisation so that ultimately Cargills Bank will grow to touch and enrich the lives of all Sri Lankans from every walk of life.

THE START OF A JOURNEY

Over the last year, numerous measures were taken to achieve this goal and further augment our unique service offering while refining processes to achieve operational excellence. Meanwhile, we continue to work in close concert with the Central Bank of Sri Lanka (CBSL) and other regulatory bodies in order to maintain strict compliance with our regulatory and statutory obligations while ensuring a smooth roll-out of our network across the country. Many of our strategies are already beginning to yield positive results which will be discussed in greater detail in the following paragraphs of this report.

Perhaps one of the most important developments that took place during the period in review was the lifting of limitations on our branch network which was previously confined to the Colombo Municipality. As rightly noted by our Chairman in the preceding chapter of this report these limitations had a constricting effect on the growth of Cargills Bank. In that context, our renewed ability to expand out of the Colombo district will generate new opportunities for our bank. Further given the vast potential for synergies between Cargills Bank and the Cargills Group as a whole, we are confident that our eventual expansion into all parts of Sri Lanka will be a vital first step in unleashing the true potential of our bank.

Cargills Bank was quick to seize upon the opportunities created by the new licencing arrangement and applications were made to the regulator to open more branches. Subsequently, and as previously noted by our Chairman, the Bank received the go-ahead for 8 branches all of which were opened in 2015, bringing our total branch network to 11. The establishment of a basic physical presence island-wide continues to be a priority moving forward and further applications have since been submitted to the regulator for approval. Another 4 were approved in principle in January 2016 and management is working towards opening these 4 branches in 2016. While the previous restrictions had the unforeseen benefit of compelling innovation in terms of our product and service portfolio, the ability of our bank to touch the lives of all Sri Lankans has certainly benefited a great deal from our new-found freedom and we intend to extend our presence at a prudent rate in the coming year, maximising and leveraging off the Cargills Food City footprint and value chain.

We believe the key to the success of Cargills Bank will be the winning formula of the Cargills Food City value chain, an unprecedented level of customer-centric service excellence combined with innovative, accessible personalised financial solutions leveraging off technology, our dedicated staff and the support of our customers and other stakeholders. Hence over the last year, the Bank committed resources towards the training of staff in order to inculcate what we consider to be the fundamental values driving our bank and such investments are expected to continue in coming years.

In line with the CBSL capital requirements the Bank undertook an exercise to increase capital through issue of new

"We believe the key to the success of Cargills Bank will be the winning formula of the Cargills Food City value chain, an unprecedented level of customer-centric service"

shares to existing shareholders in December 2015. Although the recent Share Issue was not fully subscribed by all existing shareholders, the Promoters have indicated their willingness to take up the unsubscribed shares and increase the capital to meet the regulatory requirements. This reinforces their faith and confidence in Cargills Bank. The additional capital will provide growth opportunities and stability to the Bank's future further enabling your Bank to meet its aspirations. We are awaiting CBSL approval for the additional infusion of capital by the Promoters.

SURMOUNTING OBSTACLES

As discussed by our Chairman, peaceful political transition and election of the new government had a positive impact across many spheres of the Sri Lanka. While there were numerous concessions granted to the wider public a certain measure of continuity was maintained across Sri Lanka's macro-economic fundamentals whereby indicators like GDP, inflation, and the generally low-interest rate regime enabled policy changes and reforms.

One noteworthy area where this policy change was felt was in easing of the mandatory consolidation of the banking and NBFI sector under proposed Financial Sector Consolidation Framework. Hence, in addition to consolidating our fledgling banking operations, Cargills Bank who had previously made a mandatory offer to purchase a total of 29,660,140 shares constituting approximately 76.51 % of its total shares of Colombo Trust Finance PLC for a total of Rs. 459 Mn in 2014, was no longer subject to a regulatory mandatory acquisition of another two finance companies as previously stipulated.

With the change in Government, the consolidation framework has now been amended by the Regulator to willing buyer willing-seller basis. We anticipate that, supported by the continuous guidance of the Regulator, Cargills Bank will continue its forward march having already proved our agility in responding to change.

Policy shifts in other areas coupled with limited delays in infrastructure and construction projects created some knock-on effects that placed strain on some of our customers. Nevertheless, given the fact that Cargills Bank is still a fairly new player to this sector, our exposure was very limited hence there was little impact due to these delays on our own operations.

Touching briefly on a further subject of policy, the government has expressed the desire to develop Sri Lanka as an international financial centre akin to Dubai or Singapore. This is a commendable objective which we believe is achievable with a carefully designed policy framework to support it and if successful, could serve to bring significant sums of foreign direct investment into the country. A re-examination of exchange control regulations and other policy related areas will be important in achieving this objective towards build foreign investor confidence.

FINANCIAL PERFORMANCE

During the period under review, Cargills Bank made a loss of Rs. 316.2 Mn, as compared with a loss of Rs. 119 Mn during the six months of operations in 2014.

Whilst the Bank is still loss making, we are encouraged to note that the losses posted were well within our targets and having planned for these losses, the Bank was able to record substantial improvements in key business segments that helped mitigate the financial impact to our bottom line.

Interest income for the year increased by 55% Year-on-Year (YoY) to reach Rs. 531.9 Mn with interest expenses of Rs. 207 Mn as we expanded our intermediation business. Net interest income grew by 4% YoY, to Rs. 324.9 Mn. Net fee and commission income increased from Rs. 11.1 Mn to Rs. 36.6 Mn, a healthy 17% YoY increase in total operating income which stood at Rs. 386.7 Mn at end 2015. Gross loans and advances before impairment stood at Rs. 7.24 Bn compared to Rs. 2.24 Bn in the previous year while the NPA percentage was at 1.4%.

Operating losses for the year before the deduction of taxes stood at Rs. 316.2 Mn, as compared to Rs. 235 Mn during the six months of operations in 2015. Basic loss per share increased from Rs. 0.27 during that same period to a loss per share of Rs. 0.72 by the end of 2015.

While the Bank has made excellent progress since our official commencement of operations in June 2014, particularly in terms of our portfolio growth, our expanded reach and parallel growth in operational capacity and product and service offering, the fact remains that more investments will need to be carried out during the course of 2016 in order to further consolidate and strengthen our position.

Our product and services portfolio offers a range of retail banking services including savings and current accounts, fixed deposits, children's savings and senior savings accounts and foreign currency accounts. We have also been increasing our share of wallet in the corporate banking segment of business, given the potential for the generation of more stable incomes from this segment and have made progress into the SME Sector. We are also actively

CEO's Review Contd.

pursuing opportunities in the Agri and Dairy Sectors, capitalising on our Parent's strength and relationship in these segments aligned with the core focus areas of the government by participating in schemes promoted by the Regulator.

As alluded to previously, from an operational perspective, Cargills Bank has made significant other inroads such as the securing of MasterCard affiliation in 3Q15, which is targeted for implementation with debit cards offerings during the third quarter of 2016. We also launched our preliminary Internet Banking facilities during 2Q15 and expect to launch retail and corporate banking modules in the near future.

The foundations were also being laid for the Cargills Bank Mobile banking facility, a unique proposition in collaboration with our Group member, Cargills Food City. Steps were also taken to develop an Investment Plan for our Minor's Savings Accounts and a Pension Plan for our Senior's Savings Accounts. Additionally, discussions were also commenced with insurance companies in relation to the development of bancassurance products and we anticipate further progress in this area in the coming year while the Bank also commenced issuing mortgage-based products from September 2015.

A BRIGHT FUTURE

We are determined to expend every effort in wanting to carve out a space for our bank to grow and we anticipate that in the coming year, our progress will continue despite the competitive environment and global challenges the world economies are facing. We take inspiration from our long-term objectives and are committed to expand the reach and service of Cargills Bank while acquiring new customers, servicing their needs and growing our existing business and adding value to all stakeholders.

Continuing the journey we commenced in 2014, I take pride in affirming our growth moving into another year. We have substantially expanded our capacity in the last year, developing products and services supported by quality processes and people, and are gearing up for increased volumes as we progress towards our founding aim of inclusive banking, improving the lives of the community in which we operate and building a bank on transparency, accountability and good governance.

With our investments in mobile banking, card technology, internet banking, the construction of databases for Management Information Systems and the improvement of connectivity, both within the Bank's networks and with external parties, we have channelled extensive resources into ensuring that Cargills Bank stays technology-driven in order to constantly raise the bar on innovation and customer service.

Our workforce is strong and growing with our headcount increasing to 266 employees by December 2015, as compared with 141 staff in the previous year. We are keen to build a system that ensures retention of quality personnel and building up of skills and expertise within the organisation through training and development programmes both internally and externally.

"We have substantially expanded our capacity in the last year, developing products and services supported by quality processes and people"

Over the last year, comprehensive training and development plans were finalised and undertaken with even more training commitments for the subsequent year. In placing an emphasis on training and development we aim to ensure that our people understand the values upon which Cargills Bank has been founded so that those values will be sincerely reflected in our service to customers. We are building an accountable, performance based culture where key performance indicators are measured and good quality work is rewarded.

With the anticipated expansion of our branch network moving into 2016 and recruitment having already commenced in 2015 to address other gaps in our human resources, we expect our employee headcount to increase in a controlled manner in the coming year.

From a national perspective, there remains a vast proportion of our population that is under served in terms of access to finance. We are confident that Cargills Bank can play a vital role in bringing these SMEs and under served communities into a position of greater integration with the national economy, connecting them to lines of credit and capital that can help be a catalyst to a better, financially empowered life. Balanced with our rapidly developing business banking and consumer segment, bolstered by a growing deposit base, we believe that the long-term horizon for Cargills Bank holds much promise.

ACKNOWLEDGEMENTS

Our customers will always be the source of our success and in the short time since our inception, they have been enthusiastic in their support and unwavering in their loyalty to Cargills Bank. We are grateful for the confidence they have placed in us and we are committed to providing them with the best possible service and value in return. Our investors too have stood beside us through some of our most challenging times and deserve much appreciation for the assurance they have placed in us.

Our growing team of employees at Cargills Bank continue to be a valuable source of strength to this organisation as a whole and we look forward to building our relationships further as we strive towards our common goal and continue to bank on the human spirit. Our cordial professional relationship with the regulators and officials at CBSL has also been of invaluable assistance to our bank and we aim to grow and enhance that relationship further in the coming years.

Our Chairman and Board of Directors have also been vital to our efforts having time and again provided timely advice and decisive leadership and I wish to express my gratitude to them in this regard. Cargills Bank stands geared and ready for a new year and together, I am sure that we will be able to rise above adversity and establish Cargills Bank as a thriving and vibrant part of the Sri Lankan growth story.

Prem Kumar
Managing Director/CEO

26 February 2016
Colombo

Our course is clear and we look ahead with resilience and confidence, ready to surmount every challenge and succeed at every turn.

BOARD OF DIRECTORS

1. LOUIS PAGE

Chairman
(Non - Executive Director)

Louis R Page is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and a Fellow Member of the Chartered Institute of Management Accountants (UK). He is the Chairman of the CT Holdings Group of Companies. He has also held a number of Board and Senior Management positions at highest levels in overseas Public Companies and Public Institutions.

2. RANJIT PAGE

Deputy Chairman
(Non - Executive Director)

Ranjit Page possesses over 29 years of management experience with expertise in food retailing, food service, and manufacturing, having introduced the concept of super marketing to the Sri Lankan masses. He also serves on the Boards of several other companies, and is the Managing Director of the Parent Company, C T Holdings PLC.

3. PREM KUMAR

Managing Director
(Executive Director)

Prem Kumar has over thirty years of result oriented international experience in financial services. He has worked extensively within the HSBC Group for 29 years including having served as Area Chief Financial Officer in Thailand, Indonesia and New Zealand. He was also Head of Finance Information Systems for HSBC Asia Pacific in Hong Kong. Mr. Prem Kumar was Chief Financial Officer at Bank International Indonesia in Jakarta for five years before serving at ICB Financial Holdings Group as Group Chief Executive Officer.

Prem Kumar holds a Master of Business Administration in International Management, New Zealand. He is an Associate Member of the Australian Institute of Bankers-New Zealand, and an Associate of the New Zealand Institute of Management.

4. PRABHU MATHAVAN

Deputy Managing Director / Chief Financial Officer
(Executive Director)

Prabhu Mathavan is an Associate Member of the Chartered Institute of Management Accountants (UK) and the Institute of Chartered Accountants of Sri Lanka. He also holds a Bachelor's Degree in Commerce. He possesses over 23 years of experience in the fields of Finance, Auditing, Accounting and Taxation. He serves on the Boards of several other companies of Cargills Group including Cargills (Ceylon) PLC.

5. MANGALA BOYAGODA

Senior Director
(Non-Executive Independent Director)

Mangala Boyagoda is a Senior Banker, possessing over 35 years' experience holding key positions in the filed of Financial Services. He is the former CEO of Standard Chartered Bank. He is the present Chairman of Wealth Lanka Management (Pvt) Ltd., Director SAFE Holdings (Pvt) Ltd., Wealth Trust Securities Ltd., Asset Trust Management (Pvt) Ltd., Ceylon Hotels Corporation PLC, Sierra Constructions (Pvt) Ltd., Ceylon Leather Products PLC, Dankotuwa Porcelain PLC, Sri Lanka Gateway Industries (Pvt) Ltd., CA Crushing (Pvt) Ltd., Ceylinco Insurance General (Pvt) Ltd., Maskeliya Plantation PLC, Colombo Trust Finance PLC, Royal Fernwood Porcelain (Pvt) Ltd., Faber Capital (Pvt) Ltd. & Virginia International Investments Ltd.

He has served as a Consultant to the Asian Development Bank (ADB), the World Bank, the Central Bank of Sri Lanka & the Securities and Exchange Commissions of Sri Lanka & Bangladesh. He also serves as a Committee member of the Financial Reform Task Force and is a former President of the FOREX Association of Sri Lanka.

He holds a Master's Degree in Business Administration from the Irish International University (European Union).

6. MS. KAMALINI DE SILVA

Non - Executive Independent Director

Ms. De Silva is an Attorney-at-Law and she was the former Secretary to the Ministry of Justice, Sri Lanka and presently she is the secretary to the cabinet sub committee on constitutional reforms.

Ms. De Silva a lawyer by profession joined the Justice Ministry as an Assistant Secretary in 1984. During her career at the Justice Ministry she showed a commitment to the process of dispute resolution by mediation and was greatly responsible for making mediation an effective dispute resolution mechanism in Sri Lanka.

Ms. de Silva has over the years also contributed to the conduct of legal literacy programmes and has worked specifically on child rights and protection issues. She has also negotiated on behalf of the Government of Sri Lanka on mutual legal assistance with several foreign governments.

She was formerly a member of the Legal Aid Commission, National Child Protection Authority, National Tobacco and Alcohol Authority, Prisons Licence Board and the National Task Force on Trafficking Human Beings.

7. RICHARD EBELL

Non - Executive Independent Director

Richard Ebell is a Fellow of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Chartered Institute of Management Accountants (CIMA), UK, and holds a Diploma in Marketing from the Chartered Institute of Marketing (CIM), UK. He has 39 years of experience in finance and operations after qualifying as a Chartered Accountant in 1977. This includes 32 years at Hayleys PLC, where he was Finance Director when he left in late 2009.

Richard Ebell is a Past President of CIMA, Sri Lanka Division, and a member of CA Sri Lanka's Quality Assurance Board. He was involved in establishing an Audit Committee Forum in June 2014, and remains engaged with that initiative. He serves as an Independent Non-Executive Director of Finlays Colombo PLC and Softlogic Holdings PLC, and chairs their Audit Committees. He has previously served in the same capacity on Boards of other listed and regulated entities.

8. FAIZAL SALIEH

Non - Executive Independent Director

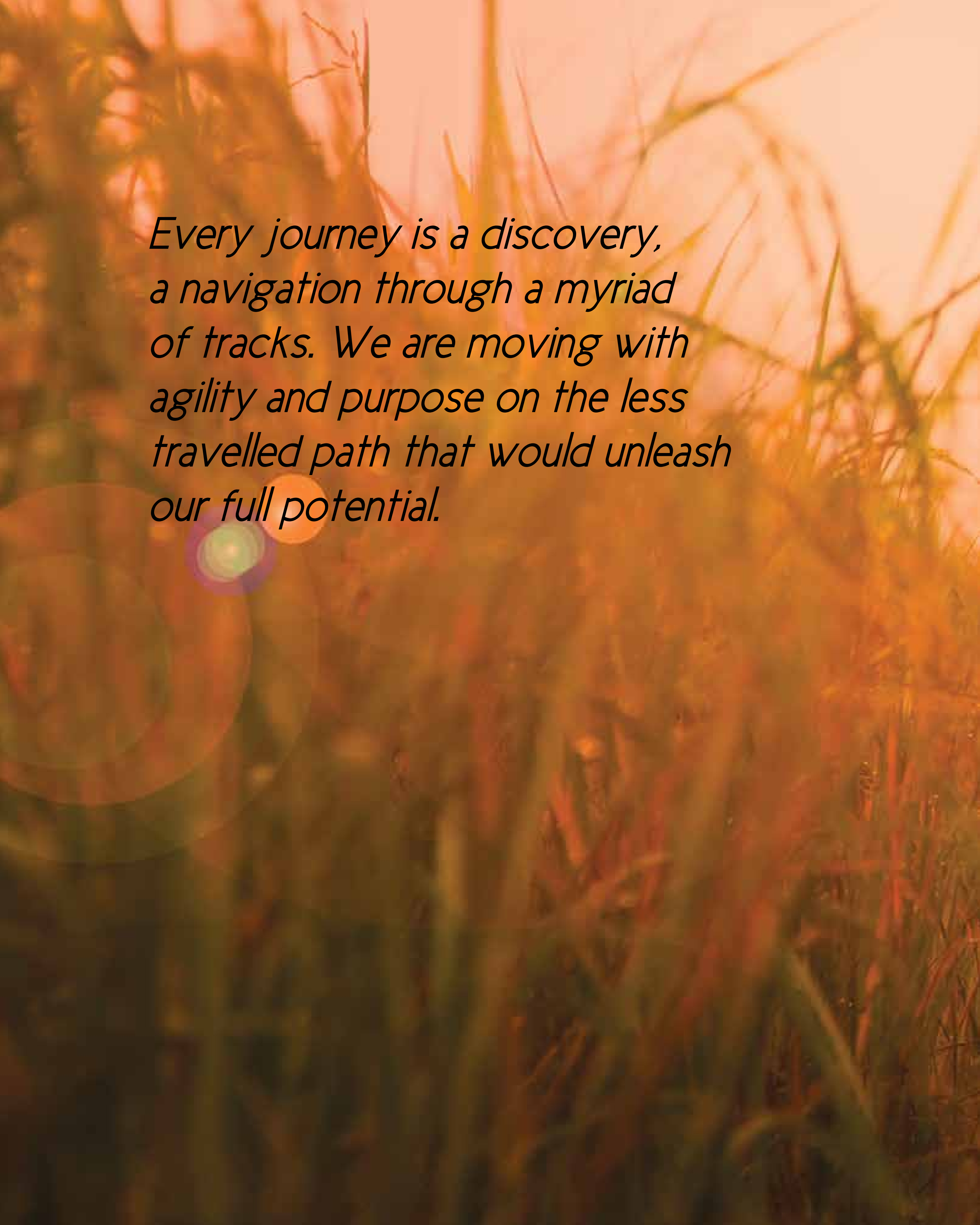
Fizal Salieh is well known for the outstanding leadership role he has played in initiating, developing and furthering the practice of interest-free banking in Sri Lanka based on the principles of profit and loss sharing. In 2004 he took a tremendously challenging job as Managing Director of an unregulated non-bank financial institution, transformed its entire business and led the formation and establishment of Amana Bank in 2011, as the country's first commercial bank operating entirely on the principles of Islamic banking. He also played a key role in facilitating appropriate changes to the country's regulatory, fiscal and legislative framework to support interest-free banking. He was the founder Managing Director and CEO of Amana Bank and retired in June 2014 after 10 years of outstanding contribution to the first Islamic finance initiative in Sri Lanka. He was the first Chairman of the Technical Committee on Islamic Banking of the Sri Lanka Banks' Association, a committee which he initiated and led.

Earlier he had led the formation of NDB Housing Bank, the country's first private sector housing bank and was its CEO and Board Director.

Fizal has well over three decades of extensive experience in commercial and development banking both in Sri Lanka and overseas; has held top management positions in global and local banks such as Grindlays Bank, ANZ Bank and National Development Bank; Board Director of several companies in the business of banking, finance, insurance, fund management, stockbroking, manufacturing, trading, and education; has served on State University Boards, and several Government and Non-Governmental Committees in the fields of finance, economic affairs, housing, construction and tertiary education.

In addition, he served on the Boards of Lanka Clear (Private) Limited which is the Country's automated cheque clearing house and The Institute of Bankers of Sri Lanka. He also serves on the Boards of The Ceylon Chamber of Commerce, The Sri Lanka Institute of Directors, Distance Learning Centre, and HNB General Insurance Limited, as a Non-Executive Independent Director, and is a Visiting Faculty Member at the Postgraduate Institute of Management of the University of Sri Jayewardenepura.

He holds a Bachelor's Degree in Economics with First Class Honours, a Master's Degree in Business Administration and is a Fellow of the Institute of Certified Professional Managers in Sri Lanka.



Every journey is a discovery, a navigation through a myriad of tracks. We are moving with agility and purpose on the less travelled path that would unleash our full potential.

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

Cargills Bank which officially commenced operations in June 2014 completed its first full year of operations in 2015. The period under review has borne witness to many notable developments both globally and domestically, many of which have been touched upon in the preceding chapters of this Annual Report by our Chairman and CEO in their respective reviews. This discussion will provide further information and insight into the prevalent economic climate during 2015 and its impact on the operations of Cargills Bank Limited during the period under review.

You will further note in this review of the operational highlights and financial performance that your Bank was able to achieve significant progress towards the achievement of its strategic goals for 2015.

GLOBAL ECONOMIC CLIMATE

It has been a year of uncertainty, volatility and challenges for the global economy at large. While emerging economies, particularly those in the ASEAN region, continue to play a vital role in overall economic growth, these emerging economies recorded a slowdown while advanced economies were a mixed bag in 2015.

Global GDP during the period under review was most recently projected at 3.1%, marginally lower than 3.4% in 2014. Advanced economies, particularly in North America recorded weak performance during the first quarter of 2015 before gradually strengthening over the remainder of the year; driven by, but not limited to, easier financial conditions, improving confidence and labour market conditions.

The performance of the Chinese economy is a source of concern with the most recent data indicating that the Asian economic powerhouse grew at its slowest rate in a quarter of a century. The resultant downturn in Chinese demand played a major role in the on-going fall of global commodity prices which in turn has created numerous knock-on impact for economies around the world.

Emerging markets continue to be hampered by a mix of factors, particularly in the case of export dependent nations. Tighter external conditions mixed with the need for correction and re-balancing in the Chinese economy will wield significant influence on the trajectory of economic growth among China's trading partners and emerging markets in 2016.

Generally, volatility in financial markets, uncertainty of monetary policy in the United States and mixed economic performances across the board will also create downside risks moving into 2016, particularly in the context of constrained global trade conditions. If current projections are realised, 2015 will mark the fourth consecutive year in which annual growth in trade volumes would have fallen below 3% and the fourth year where trade has grown at roughly the same rate as world GDP, rather than twice as fast, as was the case in the 1990s and early 2000s. While global exports volumes peaked in 4Q14, they proceeded to post sharp declines from 1Q15 onward.

The United States

As stated previously, the American economy continued its slow recovery during the year with current estimates putting GDP growth at a modest 2.5% in 2015, as compared with 2.4% in 2014 while current forecasts for American growth is anticipated to reach 2.6% in 2016. The modest recovery in the American economy was supported by improved labour market conditions as unemployment rates fell from 5.6% in 2014 to 5.0% in 2015. The positive performance of the American economy also prompted the long-debated rise in interest rates by a quarter of a percentage point, the first such increase since interest rates plunged to their current levels in 2008 in response to the Global Financial Crisis.

While the interest rate increase is likely to increase borrowing costs which in turn is expected to place constraints on small-medium enterprises and start-up companies in the US, the move also had the effect of re-directing capital that was previously flowing out of the US and advanced economies into emerging and frontier markets back into the American economy.

As the American economy continues to improve, further increases to interest rates are possible, notwithstanding the fact that 2016 is an election year. However, this debate continues to rage on as market participants balance between the US economic improvements against the soft global economic environment and prevailing uncertainty.

The European Union

Similarly, the European Union also displayed modest signs of recovery, as GDP growth is expected to have increased to 1.48% by the end of 2015, as compared with 0.87% in the previous year. The recovery was driven primarily by an increase in private consumption but was weighed down by sagging growth in the region's external sector. Low oil prices and more favourable financing conditions remained at the core of the region's growth however socio-political risk continues to generate serious down-side risks for the European Union as the feasibility of its economically inter-linked structure continues to be called into question in the face of rising socio-political opposition to the EU among member states.

German economic growth ticked up from 1.6% in 2014 to 1.7% in 2015 on the back of strong domestic consumption figures, which posted their largest gains in 15 years - due in part to a surge in public spending in response to the rapid influx of refugees fleeing conflict in the Middle East. The issue of how Germany and the EU is to cope with the refugee crisis has been contentious and is expected to generate significant political instability in the region moving forward.

The French economy displayed significant improvements during the period under review, and is expected to achieve a GDP growth of 1.16% against 0.2% in the previous year. Nevertheless, unemployment has stayed near an 18-year high of 10.3% - and related social issues continue to be a source of downside risk moving forward.

China

In the wake of the global financial crisis, Brazil, Russia, India, China and South Africa (BRICS) were touted as being the next major source of economic growth and development in the global economy. While China went on to expand at a feverish pace, both in terms of internal and external infrastructure development and trade, the speed of that growth left most experts anticipating an imminent course correction in order to avoid 'overheating'; a prediction which has since been vindicated.

The Chinese economy slowed to 6.9% GDP growth in 2015, falling short of the 7.3% reported in 2014. The necessity for structural reform with a view to boosting the nation's long-term economic prospects has since been acknowledged by the Chinese leadership however a weaker currency, volatile stock markets and continued foreign outflows weigh heavily on China's short to medium term outlook.

India

While India was able to accelerate its growth momentum from 7.2% in 2014 to 7.5% during the period under review, questions remain as to the health of its economy given the contractions in industrial production and anticipated increases to public expenditure required to maintain its growth momentum into the new year.

Oil prices

Tumbling international commodity prices and the historic drop in Brent Crude Oil prices were perhaps the defining feature across the global economy during the period under review. On the supply side, low prices combined with generally uninhibited production of crude oil among OPEC nations and increased supply from shale oil, particularly in the United States, resulted in crude oil being cheap and widely available. Consequently, countries that are net-importers of crude oil have enjoyed significant reductions in energy costs which created pervasive deflationary pressure across most economies. As growth in China continues to slow-down, it's consumption of crude oil and other commodities tied to infrastructure development, is expected to decline, potentially resulting in lower demand. This combined with continued technologically driven improvements to the fuel efficiency across the board and a rising contribution from alternative energy sources and Iranian oil coming on stream is expected to maintain downward pressure on crude oil prices into 2016. In this climate, nations that are net-exporters of crude oil, such as Saudi Arabia, Iran, and Russia are expected to contend with lower export revenues which could create further instability in the global economy in the event of a further drop of prices.

"It has been a year of uncertainty, volatility and challenges for the global economy at large."

Management Discussion and Analysis Contd.

THE SRI LANKAN CONTEXT

As discussed in the Chairman's review and CEO's review of operations for the year 2015, Sri Lanka bore witness to notable changes during this period, including a newly elected President, a shift in the composition of its legislature and accompanying changes to its social, foreign and economic policies. The new Government has placed great emphasis on liberalising monetary and exchange rate policy while efforts are also being made to streamline the nation's tax code and improve the efficiency with which foreign direct investments are processed.

Reform of state sector institutions and a re-evaluation of public investments were among the other key priorities listed out by the new Government. This process of re-evaluation, as discussed by our Chairman, resulted in delays with respect to certain large-scale infrastructure and development projects initiated by the previous regime however, work on some of those projects has since resumed while further large-scale developments are also in the pipeline. Noteworthy in this context are the ambitious plans for the development of Colombo into a Megapolis that is planned to serve as an international financial and services hub. If these goals are achieved, they could likely open up significant new opportunities for local and international players alike.

In terms of the impact that these developments had on the Sri Lankan economy, the country's GDP growth, according to the most recent data available, reduced from 4.9% in 2014 down to 4.8% in 2015. GDP growth was recorded at 6.7% in 2Q15 following a rebasing of GDP from 2002 to 2010.

"Great emphasis on liberalising monetary and exchange rate policy while efforts are also being made to streamline the nation's tax code and improve the efficiency"

Thereafter, growth moderated sharply in 3Q15 down to 4.8%. However, the International Monetary Fund (IMF) projections for the country appear to be largely positive with current forecasts for the country's growth remaining at 6.5% by the end of 2016.

Inflation based on Colombo Consumer Prices Index, rose from 2.1% in 2014 to 2.8% in 2015. GDP per capita is expected to increase from US$ 3,654 in 2014, up to US$ 3,767.6 during the period under review and is projected to cross US$ 4,000 during the course of 2016.

From a sectorial perspective, the country's agricultural sector posted a 5.5% Year-on-Year (YoY) increase while the industrial sector, which includes the country's burgeoning construction sector, posted growth of 3.0% YoY while the services sector recorded a 5.3% YoY increase during the period under review.

Meanwhile, gross government debt as a percentage of GDP which was at 75.5% in 2014 is presently forecast to rise over the next 2 years according to recent estimates by the World Bank.

Export earnings recorded declines for the 10th consecutive month in December 2015, dropping by 18.7%, year-on-year, to US $ 817 Mn during the period in review, largely due to weak global demand. The leading markets for merchandise exports of Sri Lanka were the USA, UK, India, Germany and Italy accounting for about 51% of the total exports.

Meanwhile expenditure on imports posted declines for the sixth consecutive month in December 2015, dropping by 8.5% to US $ 1.645 Bn during the year despite the significant drop in international commodity prices, especially fuel. During 2015, the main import origin countries were India, China, Japan, UAE and Singapore accounting for about 60% of total imports.

The deficit in the trade account in December 2015 expanded by 4.4% to US$ 827 Mn in comparison to US$ 792 Mn recorded in August 2014. However, on a cumulative basis, the trade deficit during 2015 increased by 1.7% to US$ 8,430 Mn.

CARGILLS BANK OPERATIONAL HIGHLIGHTS

As discussed in some detail in the Chairman's review and CEO's review of this annual report, 2015 was a landmark year for Cargills Bank Limited. It was the first full year of operations as the Bank had only been officially operational for a period of 6 months in 2014 commencing from June 2014. During the period under review, the Bank made significant progress in terms of establishing operational processes, a core product range and a preliminary branch network and further details are provided in the succeeding paragraphs.

Branch Network

The Central Bank of Sri Lanka (CBSL) has now lifted prior restrictions on the ability of Cargills Bank to establish a branch network outside of the Colombo Municipality. Cargills Bank embarked on opening new branches. This was a development of crucial importance for the Bank and constitutes a major step forward in terms of establishing Cargills Bank as a vibrant, fully-fledged commercial bank.

"Cargills Bank was operating 11 branches across the Island "

Management Discussion and Analysis Contd.

Subsequently efforts were made to rapidly and aggressively expand the Cargills branch network. Upon submission of applications for new branches to CBSL in September 2015, Cargills Bank was granted approval to commission eight (08) additional branches.

All approved branches were established and operational by the end of the year and Cargills Bank was operating 11 branches across the island as at end 2015. The opening of these new branches enabled the Bank to more effectively engage with retail clients, in addition to SME and Agri sectors which tend to be concentrated mostly in regions outside the Colombo District. In that context, the expansion of our branch network has created immense potential for Cargills Bank, particularly in relation to growth opportunities for the Bank.

"New branches enabled the Bank to more effectively engage with retail clients, in addition to SME and Agri sectors"

Ceremonial opening of Jaffna Branch by His Excellency Maithripala Sirisena, the President of Sri Lanka

Our Flagship Branch at Maitland Crescent, Colombo 7

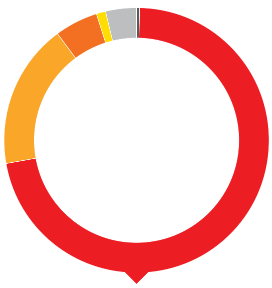
Commissioning of ATM at Staple Street, Cargills Food City

"Cargills Bank grew its product range by offering seven new consumer products"

Human resources development

Parallel to Cargills Bank's physical expansion of its branch network, resources were also channelled into building the human resources of the Bank through a targeted approach to recruitment wherein gaps in the Bank's operational capacity were identified and interviews for suitable candidates were carried out. Consequently, the Bank's workforce increased to 266 employees over the course of the year, as compared with 141 employees as at the end of 2014.

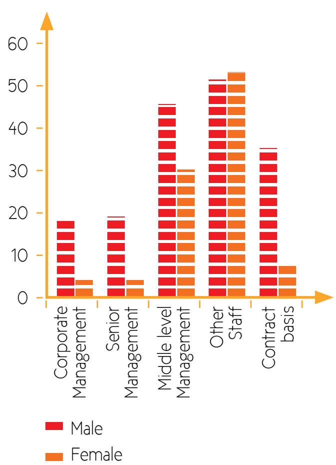
Additionally a detailed Training and Development plan for the year 2016 – comprising internal and external training – focused on issues of compliance, risk management, single window implementation, information security awareness, and other programmes designed to improve product and service knowledge were designed and implemented in 2015 with additional training planned for the future. Similarly, the Bank's Human Resources Policy Manual was also completed and approved by the Board of Directors during the year while an overhaul of HR systems were also approved with a new computerised system scheduled for implementation in 2016.



AGE ANALYSIS OF THE STAFF

20 – 30 years	72%
31 – 40 years	18%
41 – 50 years	5%
51 – 60 years	1%
61 + years	4%
Below 20 years	0%

STAFF COMPOSITION



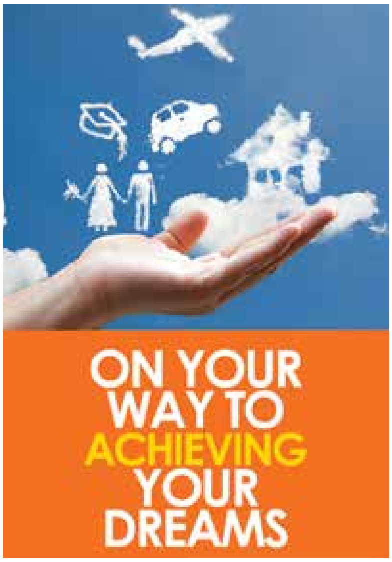
Product services and IT development

Working together with the regulator, Cargills Bank succeeded in expanding and consolidating its range of products and services in 2015. In total, the Bank launched 11 products and services during the course of the year.

As a result, Cargills Bank grew its product range by offering seven (07) new consumer products: the Enhancer fixed deposit and a further two fixed deposit promotions, Salary Saver, Smart Saver, Personal Loans, Vehicle Loans and Housing Loans.

Additionally, the Bank further bolstered its service offering by joining the Lanka Pay ATM network, allowing its customers access to a network of over 2,500 ATMs island-wide, a development which helped to expand the reach of Cargills Bank further . This network combined with the Bank's own expanded branch network and the addition of multiple off-site ATMs will help to further expand our presence in the coming year.

Management Discussion and Analysis Contd.



The Bank also introduced real-time electronic payments through its collaboration with Lanka Clear, enabling the Bank's customers to transfer funds to any other participating bank online real time and also receive funds from any of these banks on a real time basis. The Bank places importance on evolving technology and seeks to utilise these advances its products and services to provide convenience to its customers in their everyday financial activities. Cargills Bank is the 6th bank to offer this facility to its customers.

The revolutionary launch of the Bank's remittance service was another highlight of 2015, enabling the Bank to offer customers convenient receipt of cash from any Cargills Food City outlet from 9 a.m. till 11 p.m. and in partnership with Cargills Food City offered recipients of remittances a 5% discounts off their shopping when collecting their remittance.

The Cargills Bank and LankaPay celebrating their partnership

"The Bank further bolstered its service offering by joining the Lanka Pay ATM network, allowing its customers access to a network of over 2,500 ATMs island-wide"

Similarly, Cargills Bank also launched e-statements combined with SMS alerts on CASA accounts, a valuable additional service which will also serve to reduce reliance on paper and provide convenience. Combined with a sincere internal effort on the part of the Cargills Bank team to reduce and re-use paper where possible, it is anticipated that this area could provide a useful platform to move the Bank towards more environmentally sustainable, efficient operations in future.

"The Bank offers customers convenient receipt of cash from any Cargills Food City outlet"

Meanwhile, efforts to establish and centralise quick account opening at our front offices was initiated in 2015 with full implementation set to commence from 1Q16. Similarly, arrangements are also being made to establish a centralised unit for digital banking, an effort that is targeted for finalisation parallel to the launch of internet banking in 2016.

During the course of 2015, Cargills Bank also succeeded in securing MasterCard affiliation and debit cards are expected to be ready for launch. Headway is being made on our Internet Banking and Mobile Banking facilities while product development was commenced on the Bank's minor's investment plan and senior's pension plan during the period under review. Additionally, work also commenced on the development of bancassurance products in the final quarter of 2015.

Information systems

With respect to the information technology systems of Cargills Bank, extensive progress was made towards establishment of a comprehensive IT infrastructure capable of ensuring smooth and efficient operations across the organisation while supporting sophisticated tech-based banking services.

Over the course of 2015, the Bank completed certification for Internet Banking in addition to the implementation of a new, more efficient email system. Further, the development of in-house solutions for Business Intelligence and Management Information Systems was also initiated in 3Q15 and significant progress has been made in this regard. The Bank is currently on target with plans for the E-Government project while a workflow system is also being implemented for its loan origination system.

Marketing and brand position

Being a recently established institution, significant resources were allocated towards formulation of an effective marketing strategy for the Bank. Given the highly competitive nature of Sri Lanka's banking industry, a hybrid approach of traditional and non-traditional marketing and branding strategies was adopted in order to generate better returns on the Bank's marketing investments.

Our highest priority was the establishment of Cargills Bank in the hearts and minds of existing, potential and future clients through the use of appropriate thematic elements combined with simple and effective marketing messages that had the most likelihood of bringing Cargills Bank and its product and service offering to top-of-mind awareness among Sri Lanka's diverse consumer demographics.

Management Discussion and Analysis Contd.

With the expansion of its branch network and the launch of a wider range of products and services as described in the above, Cargills Bank launched simultaneous media campaigns – spread across traditional channels of print, radio, and television and non-traditional channels such as direct SMS and e-mail – in order to spread awareness of the Bank's growing ability to meet the diverse requirements of Sri Lankans across the island.

In order to mitigate the preliminary nature of the Bank's branch network, extensive promotional activities were carried out on a regional basis, particularly during periods of increased seasonal demand such as the Sinhala and Tamil New Year. Our sales teams proved to be highly effective having successfully engaged with farmers and entrepreneurs advising them on funding needs for business growth.

The promotion of financial literacy and financial inclusivity remain key tenants of the Cargills Bank's business strategy due to the potential to provide fresh opportunity to financially underserved portions of the island. By providing prudent financial advice and effective access to capital, Cargills Bank was able to build on its preliminary market share while empowering Sri Lankans working in the Agri and SME sectors to substantially improve their livelihood and living standards.

Notably, in addition to building product awareness and the launch of seasonal promotions, Cargills Bank was able to leverage its relationship with the Cargills Group to generate valuable synergies with Cargills Food City in 2015. Given the trusted nature of the Cargills brand and its extensive presence across Sri Lanka, leveraging of such synergies will form a core aspect of the Bank's marketing and business strategy moving into 2016 with measures having already been implemented over the last year to market the Bank and its product and service offering to the loyalty base of Cargills Food City, a strategy which is yielding dividends.

Given the emphasis being placed on technological innovation, the Bank will work to increase its presence in terms of digital marketing platforms over the next year including a more pronounced social media presence. Further the Bank will move to create as much opportunity for cross selling across its marketing platforms as possible.

Segment highlights

The Bank was able to grow its total asset base substantially from Rs. 6.75 Bn during the 6 months of operations in 2014 up to Rs. 13.45 Bn during the year under review, due in large part to the increased scope of the Bank's operations in the last year – particularly in terms of network reach and product range – allowing for an improved contribution from our retail banking segment.

Similarly, our business banking segment – which includes the SME and Agri portfolios – also increased its growth momentum during the year. In this regard the Bank signed up with CBSL for a concessionary line of credit to finance 2,700 dairy farmers through the National Agri Development Program (NADEP). With a strong pipeline of new business anticipated in this segment founded on a healthy client mix ranging from top-tier corporates to small and medium businesses, also shows significant growth potential in the coming year. Moving forward, Cargills Bank aims to maintain its strong credit quality through carefully targeted customer acquisitions.

The Bank was also engaged in extensive trade business during the year and it is anticipated that further enhancements to trade financing operations will continue to generate growth for the Bank over the course of 2016.

Meanwhile, the Bank's treasury operations – which comprises foreign exchange, fixed income and investments – continued to service our growing base of customers whilst maintaining its stringent focus on management of liquidity to mitigate operational risk. Through a concerted effort towards forging new relationships and building on existing relationships with counter parties and customers the treasury operations of the Bank together with the other business lines was able to respond effectively to volatility and contribute towards the Bank's bottom-line performance.

“Our highest priority was the establishment of Cargills Bank in the hearts and minds of existing, potential and future clients”

Financial performance

The Bank's interest income grew by 55% YoY to Rs. 531.9 Mn while interest expenses recorded a corresponding increase from Rs. 30.9 Mn during the 6 months of operations in 2014 to Rs. 207.1 Mn, leading to a 4% YoY increase in net interest income which stood at Rs. 324.9 Mn by the end of the period under review

Fees and commission income recorded a 284% YoY growth to reach Rs. 47.3 Mn while fee and commission expenses increased from Rs. 1.2 Mn in 2014 to Rs. 10.7 Mn in 2015. Net fee and commission income grew by 229% YoY to Rs. 36.6 Mn while the Bank's total operating income posted 17% YoY growth to reach Rs. 386.7 Mn by end of the year.

Due to Cargills Bank's on-going expansion of its branch network and the full year of operations in 2015 relative to the previous year, the Bank's personnel expenses increased by 35% YoY to Rs. 267.3 Mn while other expenses increased by 25% YoY to Rs. 435.3 Mn, leading to an operating loss of Rs. 316.2 Mn, against Rs. 232.8 Mn in the previous year.

Given the preliminary nature of Cargills Bank's operation and the requirement for extensive investments in products, processes, technology and personnel needed to establish a firm foothold in the highly competitive Sri Lankan banking sector, the Bank posted a loss of Rs. 316.2 Mn for the year under review, as compared with a loss of Rs. 119.1 Mn during the six months of operations in 2014. Basic loss per share stood at Rs. 0.72, against a previous loss per share of Rs. 0.27. As noted previously in the CEO's review of operations, the losses generated by Cargills Bank during 2015 were anticipated well in advance and well within the planned target levels.

CSR project

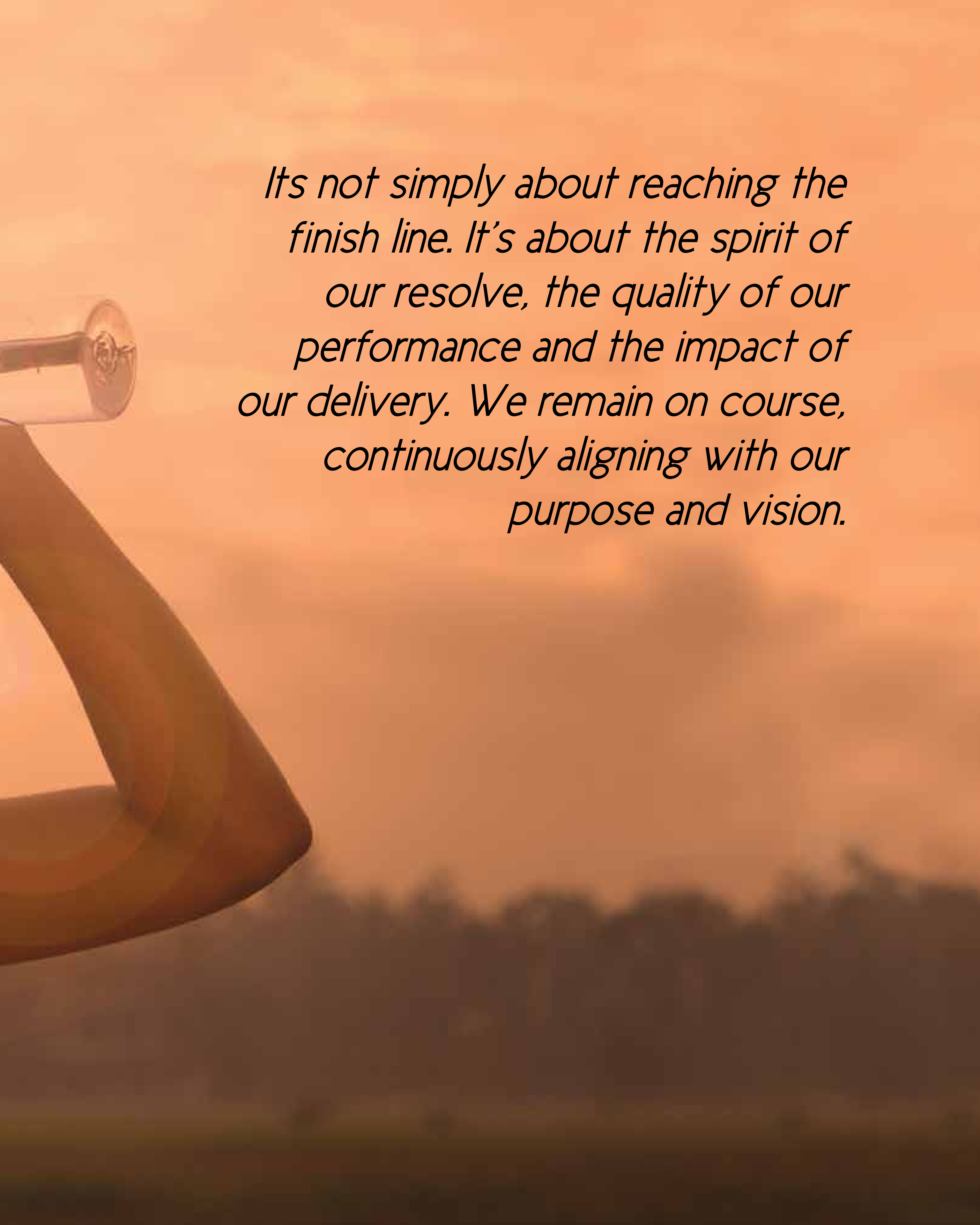
Spending time in Sucharithodaya Child Development Centre (CSR project, made substantial donation towards the children's education and mentally retarded persons).

"The Cargills brand has been intrinsically linked with the history of Sri Lanka"

Outlook

With well over a century of rich history behind it, the Cargills brand has been intrinsically linked with the history of Sri Lanka itself and remains deeply etched in the hearts and minds of its citizens. Given the trust and confidence that the Cargills brand has built over time, it is clear that Cargills Bank is positioned to generate powerful synergies with the Cargills Group to develop rapidly into one of the country's premier financial houses.

While Cargills Bank posted losses in 2015 and anticipates losses moving into 2016, given its ongoing investments in the development of further operational capacity and branch network expansion, the Management remains confident that a strategic, holistic approach at the preliminary phase of the Bank's operations will yield valuable rewards over the medium to long term horizon. Having displayed considerable agility and endurance in withstanding the initial challenges associated with its establishment, we are confident that Cargills Bank is well on track to becoming a vibrant component of the Sri Lankan economy in years to come.



Its not simply about reaching the finish line. It's about the spirit of our resolve, the quality of our performance and the impact of our delivery. We remain on course, continuously aligning with our purpose and vision.

CORPORATE GOVERNANCE

Corporate Governance is the system by which companies are directed and controlled in the proper manner. It provides the structure through which objectives are set and the means of attaining those objectives and monitoring performance are determined. The purpose of Corporate Governance is to facilitate effective relationships between the management and its Board, shareholders, and other stakeholders.

Complying with the Central Bank of Sri Lanka (CBSL) Directions, Cargills Bank has appointed the following Board Committees reporting to the Board.

1. Audit Committee
2. Integrated Risk Management Committee
3. Human Resource and Remuneration Committee
4. Nomination Committee
5. Credit Committee

In 2015, statutory examiners from the Bank Supervision Department of CBSL and the Bank's external auditors KPMG examined and reported on compliance with the Corporate Governance Principles from 3 (1) to 3 (9) specified in CBSL Direction No.11 of 2007 and amendments thereto. The Bank is actively engaged in addressing the areas requiring attention in terms of these reports.

The Chairman and Board of Directors of the Bank consciously strive to maintain and communicate a tone from the top which emphasises good governance and inspires a positive work ethic in the Bank's employees.

ANNUAL CORPORATE GOVERNANCE REPORT OF CARGILLS BANK LIMITED ('THE BANK') FOR THE YEAR ENDED 31 DECEMBER 2015 IS GIVEN BELOW

In terms of Section 46 (1) of the Banking Act No. 30 of 1988 (as amended), the Monetary Board has been empowered to issue Directions to the Licensed Commercial Banks, regarding the manner in which the business of such banks is to be conducted, in order to ensure the soundness of the Banking System. In the exercise of the powers conferred by the above Section, the Monetary Board has issued Banking Act Direction No. 7 of 2007 on' Corporate Governance for Licensed Commercial Banks in Sri Lanka'.

The below mentioned numbering is to coincide with the "Section 3" of the Banking Act Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka, Sections 1 & 2 are not applicable for this document.

No.	Rule	Degree of Compliance
3 (1)	Responsibilities of the Board	
3 (1) (i)	The Board shall Strengthen the safety and soundness of the Bank by ensuring the implementation of the following:	
	a) Approve and oversee the Bank's strategic objectives and corporate values	Complied with. The Board has approved the Business Plan for 2016, 2017 and 2018. Approving, overseeing and monitoring the execution of the strategic objectives, corporate values, overall business strategy and policies are handled directly by the Board. The Board's views relating to the above are communicated throughout the Bank.
	b) Approve the overall business strategy of the Bank including Risk Policy and Risk Management procedures and mechanisms	Complied with. The Board has approved the Business Plan for 2016, 2017 and 2018. The overall business strategy was approved by the Board in December 2015, after discussing the related issues in detail with the Corporate Management. Risk Management Policies and Risk Management Procedures and Mechanisms with measurable goals are available.
	c) Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently	Complied with. The Board Integrated Risk Management Committee is responsible for overseeing the implementation of the risk management function, approving overall Risk Policy and Risk Management Procedures.

Corporate Governance Contd.

No.	Rule	Degree of Compliance
	d) Policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers	Complied with. The Board approved policy of communication with all stakeholders is available and reviewed.
	e) Review the Bank's internal control systems and management information systems	Complied with. Internal Control System has been reviewed on a regular basis and findings reported to the Board by the Board Audit Committee. The Internal Audit division of the Bank has carried out regular reviews on the Internal Control System and has reported directly to the Board Audit Committee. With the expansion of banking operations the Internal Controls System will be further strengthened to include testing of system controls.
	f) Identify and designate Key Management Personnel	Complied with. Key Management Personnel ("KMP") have been identified by the Board of Directors in accordance with LKAS 24 –"Related Party Disclosures" which states that the Key Management Personnel are those having authority and responsibility for planning, directing and controlling the activities of the entity. For corporate governance reporting the Bank has defined the Board of Directors and selected officials of the Bank as KMP.
	g) Define the area of authority and key responsibilities for the Board Directors themselves and for the Key Management Personnel	Partially complied with. Authority and responsibility of the Corporate Management are included in their respective job descriptions which are approved by the Board as evidenced by the Board minutes. The Board charter is being developed to define the areas of authorities and key responsibilities for the Board of Directors. The job descriptions for CEO and Deputy MD are being developed.

No.	Rule	Degree of Compliance
	h) Ensure appropriate over sight of the affairs of the Bank by Key Management Personnel	Complied with. Oversight by the Board over Corporate Management takes place at Board Meetings and through Board appointed Sub Committees.
	i) Periodically assess the effectiveness of the Board of Directors' own governance practices	Complied with. A self-evaluation form specifically designed to cover the related areas was completed by the Directors for the purpose of evaluating effectiveness of Corporate Governance Practices for 2015.
	j) Ensure an appropriate succession plan for Key Management Personnel	Complied with. A succession plan has been developed and reviewed by the Board Human Resource and Remuneration Committee.
	k) Regular meetings with the Key Management Personnel	Complied with. The members of the Corporate Management regularly make presentations and take part in discussions on their areas of responsibility and the Board monitor progress made towards achieving corporate objectives at Board Meetings.
	l) Understand the regulatory environment	Complied with.
	m) Exercise due diligence in the hiring and over sight of External Auditors	Complied with. The Audit Committee has the primary responsibility for making the recommendation on the appointment, re-appointment or removal of the External Auditors in line with the professional standards and regulatory requirements. In addition to this, External Auditors submit a statement annually confirming their independence as required by Section 163 (3) of the Companies Act No. 7 of 2007 in connection with the External Audit.

Corporate Governance Contd.

No.	Rule	Degree of Compliance
3 (1) (ii)	The Board shall appoint the Chairman and the Chief Executive Officer (CEO)	Complied with. The Board has approved the appointment of the Chairman and the Chief Executive Officer. The two positions are separated. The functions and responsibilities of the Chairman and CEO are in line with Direction 3 (5).
3 (1) (iii)	The Board shall meet regularly	Complied with. There have been 12 Board Meetings during 2015.
3 (1) (iv)	The Board shall ensure arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board Meetings	Complied with. All Board Members are given equal opportunity to include matters and proposals in the agenda. The Directors are given adequate time and notice of regular Board meetings. The agenda and particulars of such meetings are given at the same time allowing time for the Directors to provide their views, observations and proposals.
3 (1) (v)	The Board shall ensure that notice of at least 7 days for a regular Board meeting and for all other Board Meetings, notice may be given	Complied with. Monthly Board Meetings are generally scheduled for the last Friday of the month and notice sent one week before the date of the meeting. Adequate notice is given for any other Special Meetings.
3 (1) (vi)	Action on Directors who have not attended at least two-thirds of the meetings	Complied with. All Directors have attended more than the adequate number of meetings held during 2015.
3 (1) (vii)	Appoint a Company Secretary and setting responsibilities	Complied with. The Board appointed a Company Secretary, who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988. The Company Secretary's primary responsibility is to handle the secretarial services of the Board, Shareholder Meetings and carry out other functions specified in the statutes and other regulations.

No.	Rule	Degree of Compliance
3 (1) (viii)	All Directors to have access to advice and services of the Company Secretary	Complied with. The Directors have direct access to the Company Secretary at all working hours of the Bank as per the compliance requirements.
3 (1) (ix) and (x)	Maintain the minutes of Board Meetings with sufficient detail and serve as a reference for regulators and supervisory authorities	Complied with. The Company Secretary maintains the minutes of the Board Meetings with sufficient details and they are available for inspection by any Director, Regulators and Auditors. Draft minutes are circulated among all Directors for their observations and necessary amendments are made thereto based on the comments of the Directors.
3 (1) (xi)	Seeking independent professional advice in appropriate circumstances	Complied with. Board Members are encouraged to obtain independent advice, if required, with the concurrence of the Board of Directors when necessary.
3 (1) (xii)	Avoid conflicts of interests, or the appearance of conflicts of interest due to other commitments to other organisations and related parties	Complied with. The Bank follows Directions issued by the Director Bank Supervision with regard to related party transactions. The Board is conscious of its obligations to ensure that Directors avoid conflicts of interest (both real and apparent) between their duty to the Bank and their other interests. There is a process in place to ensure Directors do not participate in discussions on matters, in which they have an interest and avoid conflict of interest with the activities of the Bank. The Board has taken steps to ensure that conflicts and potential conflicts of interest of Directors are disclosed to the Board by way of a self-declaration. This process is being further strengthened.

Corporate Governance Contd.

No.	Rule	Degree of Compliance
3 (1) (xiii)	Formal schedule of matters to ensure the direction and control of the Bank.	Complied with. Pre-set agenda of meetings ensuring the direction and control of the Bank is firmly under the Boards control and authority.
3 (1) (xiv)	Inform the Director of Bank Supervision in a possible insolvency	Not applicable. No such situation has arisen. The Bank has a Board approved procedure to take actions in the event of such a possibility.
3 (1) (xv)	The Board shall ensure the Bank is capitalised at levels as required by the Monetary Board	Complied with. The Bank has duly complied with the Capital Adequacy requirements throughout the year 2015. Further, the Bank is in the process of making arrangements to comply with new regulatory requirement on Capital Adequacy from January 2016. The Bank will take the required action as soon as the relevant regulatory approvals are obtained.
3 (1) (xvi)	Publish Corporate Governance report	Complied with. This report serves the said requirement.
3 (1) (xvii)	Adopt a scheme of self-assessment of Directors	Complied with. The Bank has adopted a system of self-assessment, to be undertaken by each Director annually. Each member of the Board carried out a self-assessment on their own effectiveness and submitted with comments to the Company Secretary for the year 2015. Further, each Director carried out an assessment of 'fitness and propriety' to serve as a Director.

No.	Rule	Degree of Compliance
3 (2)	The Board's Composition	
3 (2) (i)	The Board shall comprise not less than 7 and not more than 13 Directors	Complied with. There were 8 Directors on the Board as at 31 December 2015.
3 (2) (ii)	The total period of service of a Director other than a Director who holds the position of CEO, does not exceed nine years	Complied with. Based on the dates of appointment of the Directors, the service of any Director does not exceed 9 years.
3 (2) (iii)	The number of Executive Directors does not exceed one-third of the number of Directors of the Board	Complied with. The Board consists of eight Directors of which two are Executive Directors and others are Non-Executive Directors.
3 (2) (iv)	The Board shall have at least three Independent Non-Executive Directors or one third of the total number of Directors, whichever is higher	Complied with. The Board consists of eight Directors of which four are Independent Non-Executive Directors. The names of the Independent Non-Executive Directors are as follows: 1. E M M Boyagoda 2. W K F De Silva (Ms.) 3. M O F Salieh (from 30 March 2015) 4. R A Ebell (from July 2015) 5. P D R Rodrigo (up to 14 July 2015)
3 (2) (v)	Alternate Director is appointed to represent an Independent Director	Not applicable No such situation has arisen.
3 (2) (vi)	The Bank shall have a process for appointing Independent Directors	Complied with. Appointment of Independent Directors is considered at the Board Meetings on the recommendation of the Board Nomination Committee.
3 (2) (vii)	Quorum of the Board Meetings includes more than 50% of the Directors and out of this quorum more than 50% should include Non-Executive Directors	Complied with. Six Non-Executive Directors out of eight.

Corporate Governance Contd.

No.	Rule	Degree of Compliance
3 (2) (viii)	The composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the annual Corporate Governance report	Complied with. This report serves the said requirement. The composition of the Board as at 31 December 2015 is as follows: 1. Louis R Page - Chairman/ NED 2. V R Page - Deputy Chairman/NED 3. E M M Boyagoda - Senior Director/INED 4. W K F De Silva - INED 5. M O F Salieh - INED 6. R A Ebell - INED 7. Prem Kumar - ED 8. P S Mathavan - ED Further, Directors profiles are given on page 18 to 19
3 (2) (ix)	The procedure for the appointment of new Directors to the Board	Complied with. Appointment of new Directors and re-election of Directors are considered at the Board Meetings on the basis of recommendations made by the Board Nomination Committee.
3 (2) (x)	All Directors appointed to fill a casual vacancy is subject to election by shareholders at the first General Meeting after their appointment	Complied with. All the Directors appointed to the Board subject to re-election by shareholders at the first Annual General Meeting after their appointment.
3 (2) (xi)	Proper procedure to be followed for resignation or removal of a Director	Complied with. Mr. P D Rodrigo retired on 14 July 2015, upon reaching age of retirement. Mr. G L H Premaratne resigned on 30 January 2015 upon completion of his contract as Managing Director and required procedures were followed. No removal of Directors took place during the year under review.

No.	Rule	Degree of Compliance
3 (2) (xii)	A process to identify whether a Director or an Employee of the Bank is appointed, elected or nominated as a Director of another bank	Complied with. None of the present Directors of the Bank act as a Director of another bank. Refer Directors profiles on page 18 to 19.
3 (3)	Criteria to assess the fitness and propriety of Directors	
3 (3) (i)	Age of a person who serves as Director does not exceed 70 years	Complied with. There are no Directors who are above 70 years of age.
3 (3) (ii)	Directors of the Bank shall not hold Directorships in more than 20 companies/ entities/ institutions inclusive of subsidiaries or associate companies of the Bank	Complied with. No Director holds Directorship in more than 20 companies/ entities/ institution inclusive of subsidiaries or associate companies of the Bank.
3 (4)	Management functions delegated by the Board	
3 (4) (i)	The Directors shall understand the delegation arrangements in place	Complied with. Delegation of authority approved by the Board of Directors.
3 (4) (ii)	Extent of delegation to be within appropriate limits	Complied with. The Board is empowered by the Articles of Association of the Bank, to delegate to an Executive Director any of the powers vested with the Board, upon such terms and conditions and with such restrictions as the Board may think fit.
3 (4) (iii)	The Board shall review the delegation processes in place on a periodic basis	Complied with. The delegation arrangements are in place and reviewed by the Board based on Business requirements.

Corporate Governance Contd.

No.	Rule	Degree of Compliance
3 (5)	The Chairman and CEO	
3 (5) (i)	The roles of Chairman and CEO shall be separate and not be performed by the same individual	Complied with. Roles of the Chairman and CEO are separate functions and not performed by the same individual.
3 (5) (ii)	The Chairman is a Non-Executive Director. In the case where the Chairman is not an Independent Director, the Board shall designate an Independent Director as the Senior Director with suitably documented terms of reference	Complied with. The Chairman is a Non-Executive Non-Independent Director. Therefore, the Board has appointed an Independent Director as the Senior Director.
3 (5) (iii)	Disclose relationships, if any, between the Chairman and the CEO and Board Members and the nature of any relationships including among members of the Board	Complied with. There is no relationship between the Chairman and CEO. The Board is aware that there is a family relationship including financial and business between the Chairman and the Deputy Chairman.
3 (5) (iv), (v), (vi), (vii) and (viii)	The role of Chairman to be in line with the duties and responsibilities set out in the Directive	Complied with. The Chairman directs the Board effectively. The Board's Annual Assessment process includes an area to measure the effectiveness of the Chairman. The Board Meeting schedule has been given at the beginning of the year and all key issues are discussed by the Board on a timely basis.
3 (5) (ix)	The Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever	Complied with. The Chairman does not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.
3 (5) (x)	The Chairman shall ensure effective communication with shareholders and that the views of shareholders are communicated to the Board	Complied with. Effective communication with shareholders is maintained at the Annual General Meeting.

No.	Rule	Degree of Compliance
3 (5) (xi)	The CEO to function as the apex executive-in charge of the day-to-day management of the Bank's operations and business	Complied with. The CEO functions as the apex executive in charge of the day-to-day management of the Bank's operations and business.
3 (6)	Board appointed committees	
3 (6) (i)	Each bank shall have at least four Board Committees	Complied with. The Board has appointed the following mandatory Board Sub- Committees. 1. Audit Committee 2. Nominations Committee 3. Human Resource and Remuneration Committee 4. Integrated Risk Management Committee In addition, the Board has appointed the following Sub-Committees too: 5. Strategic Planning Committee 6. Board Credit Committee
3 (6) (ii)	Audit Committee:	
	a) The Chairman of the Committee shall be an Independent Non-Executive Director (INED) and possesses qualifications and related experience b) all members of the Committee shall be Non-Executive Directors (NED)	Complied with. The Audit Committee consists of the following Directors. 1. R A Ebell - Chairman (from 15 July 2015)/ INED 2. E M M Boyagoda - INED 3. V R Page - NED The Chairman of the Committee is an Independent Non-Executive Director (INED) and all members of the committee are Non-Executive Directors. Former Chairman of the Committee, Mr. P D Rodrigo retired on 14 July 2015. Refer Audit Committee Report on page 68.

Corporate Governance Contd.

No.	Rule	Degree of Compliance
	c) Make recommendations on matters in connection with the External Auditor, Central Bank guidelines, the relevant accounting standards and the service period, audit fee and any resignation or dismissal of the Auditor	Complied with. The Committee has recommended re-appointment of the External Auditors, implementation of the Central Bank guidelines, the application of the relevant accounting standards and other statutory requirements.
	d) Review and monitor the External Auditors' on their independence, and objectivity and effectiveness of the audit processes	Complied with. The Audit Committee had discussed with the External Auditors about scope, nature of the audit, independence of the Auditors and conducted the audit in accordance with SLAuS. In addition the External Auditor submits a statement annually confirming their independence as required by Section 163 (3) of the Companies Act No. 7 of 2007 in connection with the external audit.
	e) Develop and implement a policy on the engagement of an External Auditor to provide non-audit services in accordance with relevant regulations	Complied with. The terms of reference of the committee has provision for the engagement of an External Auditor to provide non-audit services in accordance with relevant regulations.
	f) Discuss and finalise the nature and scope of the audit, with the External Auditors	Complied with. The Audit Committee has discussed and finalised the nature and scope of the audit, with the External Auditors in accordance with SLAuS before the audit commenced.

No.	Rule	Degree of Compliance
	g) Review the financial information of the Bank, in order to monitor the integrity of the financial statements of the Bank, its annual report, accounts and quarterly reports before submission to the Board	Complied with. Quarterly Financial Statement and year-end Financial Statements are circulated to the all members of the Audit Committee. A detailed discussion takes place at the committee meetings regarding such Financial Statements prior to publication. Further, the Audit Committee reviews Financial Statements for disclosures, major judgemental areas, any changes in accounting policies and practices, the going concern assumptions, compliance with relevant accounting standards and other legal requirements. In respect of the Audited Financial Statements, any significant adjustments arising from the audit.
	h) Discuss independently without presence of executive management with the External Auditors any issues with relation to the audit	Complied with. External Auditors discussed the audit progress and the issues note during audits with the Audit Committee. The Committee has met the External Auditors twice during the year and discussed the matters without the Executive Directors and Corporate Management.
	i) Review the External Auditors' management letter and the management's response thereto	Complied with. The Audit Committee has reviewed the management letter relating to 2014 and management responses thereto and follow-up report on management letter as well. Further, External Auditors made a presentation to the Committee on issues noted in the interim audit.

Corporate Governance Contd.

No.	Rule	Degree of Compliance
	j) Review the adequacy of the scope, functions and resources of the Internal Audit Department	Complied with. The Internal Audit scope, functions, resources availability has been reviewed and the Internal Audit Plan has been approved by the Audit Committee. The Audit Committee has received the internal audit reports and ensures that necessary action is taken. It provides its report to the Board. The Audit Committee has reviewed the performance of the Internal Audit Department and it is independent of other business units. The need to further strengthen the Internal Audit function with the expansion of banking operations has been recognised and relevant steps are being taken.
	k) Consider major findings of internal investigations and management's responses thereto	Complied with. Significant findings on investigations carried out by the Internal Auditors along with the responses of the management are tabled and discussed at Audit Committee Meetings.
	l) The Committee to have at least two meetings with the External Auditors without the Executive Directors being present	Complied with. Two meetings were held during the year.
	m) Terms of reference of the Committee	Complied with. Terms of reference applicable to the Audit Committee complies with the requirements.
	n) Regular committee meetings	Complied with. The Audit Committee met four times during the year. Refer 'Board Audit Committee Report' on page 68.

No.	Rule	Degree of Compliance
	o) The Board shall disclose details of the activities of the Audit Committee, number of Audit Committee Meetings held in the year, and details of attendance of each individual Director at such meetings.	Complied with. Refer 'Board Audit Committee Report' on page 68.
	p) The Secretary of the Committee may be the Company Secretary or the Head of the Internal Audit function	Complied with. The Head of Internal Audit functions as the Secretary to the Audit Committee and maintains detailed minutes of all meetings.
	q) Review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters	Complied with. The Bank has a Whistleblowing Policy, which has been reviewed and approved by the Audit Committee and the Board of Directors, facilitating confidence of the Employees to raise concerns about possible improprieties in financial reporting, internal control or other matters.
3 (6) (iii)	Human Resources and Remuneration Committee:	
	a) The Committee shall have a policy to determine the remuneration relating to Directors, CEO and Key Management Personnel of the Bank.	Complied with. The Bank has a formal process for annual performance evaluation for CEO and Corporate Management.
	b) The Committee shall set documented goals and targets for the Directors, CEO and the Key Management Personnel	Complied with. Goals and targets for CEO and Corporate Management have been set (Strategic Plan).
	c) The Committee shall evaluate the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives	Complied with. The Committee has reviewed the evaluations of the performance of the CEO and Corporate Management and determined their benefits.
	d) The CEO shall be present at meetings of the committee, except when matters relating to the CEO are being discussed	Complied with. Refer 'Human Resource and Remuneration Committee Report' on page 65.

Corporate Governance Contd.

No.	Rule	Degree of Compliance
3 (6) (iv)	Nomination Committee:	
	a) Implement a procedure to select/appoint new Directors, CEO and Key Management Personnel b) Consider and recommend (or not recommend) the re-election of current Directors	Complied with. The Board Nomination Committee ensures that all Directors are fit and proper persons to hold office as specified in the Directions.
	c) Set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the Key Management Personnel, by review of job descriptions	Complied with. Qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the Corporate Management.
	d) Ensure the Directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in the Statutes	Complied with. Declarations and affidavits have been obtained by the Company Secretary and all appointments have been approved fit and proper by CBSL.
	e) Consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel	Complied with. There is a formal succession plan policy in place for the retiring Directors and Corporate Management Personnel.
	f) The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors	Complied with. Composition of the Committee is as follows 1. M O F Salieh – (Chairman/ INED) 2. W K F de Silva (Ms.) – (INED) 3. V R Page – (NED) The CEO attends meetings on invitation.

No.	Rule	Degree of Compliance
3 (6) (v)	Integrated Risk Management Committee (IRMC):	
	a) The Committee shall consist of at least three Non-Executive Directors, CEO and Key Management Personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee	Complied with. Composition of the Committee is as follows 1. E M M Boyagoda – (Chairman/ INED) 2. M O F Salieh – (INED) 3. R A Ebell – (INED) 4. Prem Kumar – (ED) 5. P S Mathavan – (ED) AGM Risk of the Bank is the Secretary of the Committee while Corporate Management personnel participate by invitation.
	b) Assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a bank basis and group basis.	Complied with. Key Risk Indicators for credit, liability, interest rates and operational risks are monitored and discussed at different Corporate Management Committee meetings, such as ALCO and Management Credit Committee. Any exceptions or significant risk exposures are referred to BIRMC for discussion and necessary corrective actions, if any. BIRMC met four times during the year and attended on all risk indicators including financial and non-financial operational risk, NPL ratios, high risk sectors for advances and counter party risk exposures.
	c) Review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset-Liability Committee	Complied with. Adequacy and effectiveness on all management level risk related committees such as Credit Committee and ALCO reviewed by the BIRMC annually.
	d) Take prompt corrective action to mitigate the effects of specific risks in case such risks are at levels beyond the prudent levels decided by the committee on the basis of the Bank's policies and regulatory and supervisory requirements	Complied with. Risk Profile of the Bank was reviewed by the BIRMC on a quarterly basis.

No.	Rule	Degree of Compliance
	e) Meet at least quarterly to assess all aspects of risk management including updated business continuity plans	Complied with. The BIRMC had four meetings during the year.
	f) Take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions	Complied with. The Committee would refer such matters, if any, to the Human Resource Department for necessary action.
	g) Submit a risk assessment report within a week of each meeting to the Board	Not complied with.
	h) Establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated Compliance Officer selected from Key Management Personnel shall carry out the compliance function and report to the committee periodically	Complied with. The Compliance Function of the Bank is in place to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies are available in all areas of business operations of the Bank.
3 (7)	Related party transactions	
3 (7) (i) and (ii)	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person	Complied with. The self-declarations and affidavits of the Board of Directors are collected and monitored by the Company Secretary. This process is been strengthened by introducing a formal process by which the Company Secretary circulates details of the related entities to the Finance Department and the Credit Committee. Transactions carried out with related parties as defined by LKAS 24 on 'Related Party Disclosures' in the normal course of business are disclosed in Note 46 to the Financial Statements on 'Related Party Disclosures' on page 136 to 141. This process is being further strengthened.

No.	Rule	Degree of Compliance
3 (7) (iii)	The Board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3 (7) (i) above, in a manner that would grant such parties 'more favourable treatment' than that accorded to other constituents of the Bank carrying on the same business	Complied with. No such situation had arisen. The Executive Credit Committee collects the information and makes recommendations to the Board level Sub-Committee. Detailed procedures are documented in the Related Party Policy manual.
3 (7) (iv)	A bank shall not grant any accommodation to any of its directors or to a close relation of such director unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation	Complied with. No such situation had arisen. The Executive Credit Committee collects the information and makes recommendations to the Board level Sub-Committee. Detailed procedures are documented in the Related Party Policy manual.
3 (7) (v)	Accommodation granted to persons or concerns of persons or close relations of persons, who subsequently are appointed as Directors of the Bank	Complied with. No such situation had arisen.
3 (7) (vi) and (vii)	A bank shall not grant any accommodation or 'more favourable treatment' relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest	Complied with. No such situation had arisen.
3 (8)	Disclosures	
3 (8) (i)	Financial reporting, statutory reporting and regulatory reporting	Complied with. Annual Audited Financial Statements and Interim Financial Statements of the Bank were prepared and published in the newspapers (in Sinhala, Tamil and English) in accordance with the formats prescribed by the Supervisory and Regulatory Authorities and applicable accounting standards.

Corporate Governance Contd.

No.	Rule	Degree of Compliance
3 (8) (ii)	The Board shall ensure that the following minimum disclosures are made in the Annual Report:	
	a) A statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures	Complied with. Disclosures on compliance with applicable accounting standards and regulatory requirements in preparation of the Annual Audited Financial Statements have been made in the statements of 'Directors Responsibility for Financial Reporting' and 'CEO's and CFO's Responsibility for Financial Reporting' on page 73 to 74 and 78.
	b) A report by the Board on the Bank's Internal Control Mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements	Complied with. Report by the Board on the effectiveness of the Bank's Internal Control Mechanism to ensure that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting is given in the 'Directors Statement of Internal Controls Over Financial Reporting' on page 75 to 76
	c) The external auditor's report on the effectiveness of the Internal Control Mechanism referred to in Direction 3 (8) (ii) (b) above	Complied with. The Bank has obtained an Assurance Report from the External Auditors on the effectiveness of the Internal Control Mechanism. Refer page 77.
	d) Details of Directors, including names, qualifications, age, experience fulfilling the requirements of the guidelines on fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank	Complied with. Profiles of Directors are given on page 18 to 19 Directors transactions with the Bank and their remunerations have been disclosed in the Note 46 to the Financial Statements on page 136.
	e) Total net accommodation as defined in 3 (7) (iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital	Complied with. Accommodation granted to the Related Parties is given in the Note 46 to the Financial Statements on page 136 to 141.

No.	Rule	Degree of Compliance
	f) The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the Bank with its Key Management Personnel	Complied with. The remuneration package for the Bank's Key Management Personnel and the transactions with the Bank's Key Management Personnel have been disclosed in Note 46 to the Financial Statements on page 136.
	g) External Auditors' report on compliance with Corporate Governance Directions	Complied with. The Factual Finding Report from the External Auditors' has been obtained to comply with the requirements of these Directions.
	h) A report setting out details of compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances	Complied with. Refer statement of 'Directors' Responsibility for Financial' Reporting" on page 73 to 74.
	i) A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision	Not Applicable There were no significant supervisory concerns on lapses in the Bank's risk management or non-compliance with this Direction that have been pointed out by the Director of Bank Supervision of CBSL and requested by the Monetary Board to be disclosed to the public.
3 (9)	Transitional and Other General Provisions	
3 (9) (i) – (iv)	Transitional and Other General Provisions	The Bank has complied with this requirement.

RISK MANAGEMENT

At Cargills Bank we believe that risk-taking is an inherent element of our business activities and, indeed, profits are in part, the reward for successful risk taking. On the other hand, excessive and poorly managed risk can lead to losses and thus endanger the safety of our depositors and our other creditors. Accordingly, we place significant emphasis on the adequacy of our risk management system. Risk at Cargills Bank refers to the possibility that the outcome of an action or event could bring adverse impacts to our capital, earnings or its viability. Such outcomes could either result in direct loss of earnings and erosion of capital or may result in imposition of constraints on our banks' ability to meet its business objectives. These constraints could hinder our capability to conduct our business or to take advantage of opportunities that would enhance our business. As such, we ensure that the risks we are taking are warranted. Risks are considered warranted when they are understandable, measurable, controllable and within our capacity to readily withstand adverse results. Sound risk management systems or processes enable us to take risks knowingly, reduce risks where appropriate and strive to prepare for a future, which by its nature cannot be predicted with absolute certainty.

In common with other financial institutions, the principal risks of Cargills Bank are:

- Credit risk including settlement risk in Treasury operations and international operations
- Interest rate risk in the banking book and in the available-for-sale book
- Exchange rate risk
- Liquidity risk
- Concentration risk
- Operational risk
- Legal and compliance risk
- Reputation risk
- Strategic risk

Risk Management is a discipline at the core of the Bank and encompasses all activities that affect its risk profile. We therefore attach considerable importance to the improvement of our ability to identify, measure, monitor and control the overall risks assumed.

Risk identification is to recognise and understand risks that may arise from both existing and new business initiatives and is a continuing process which is understood at both the transaction and portfolio levels. Risk Monitoring is carried out by having in place an effective management information systems to monitor risk levels and facilitate timely review of risk positions and exceptions. Risk Control is carried out by establishing and communicating risk limits through policies, standards and procedures that define responsibility and authority for the various risks assumed by the Bank and these limits serve as a means to control exposures to these risks. Further, for risk control we apply a range of mitigating tools in minimising exposure to various risks and have a process to authorise and document exceptions or changes to risk limits when warranted.

ACTIVE BOARD AND SENIOR MANAGEMENT OVERSIGHT

The Board of Directors is ultimately responsible for the level of risk taken by the Bank. Accordingly, they approve the overall business strategies and significant policies of the Company, including those related to managing and taking risks, and also ensure that Senior Management is fully capable of managing the activities that the Bank undertakes.

The Directors have a clear understanding of the types of risks to which the Bank is exposed to and receive reports that identify the size and significance of the risks in terms that are meaningful to them. In fulfilling this responsibility, Directors take steps to develop an appropriate understanding of the risks the Bank faces, through briefings from auditors and experts external to the institution. Using this knowledge and information, Directors provide clear guidance regarding the level of exposures acceptable to the Bank and have the responsibility to ensure that senior management implements the procedures and controls necessary to comply with adopted policies. Senior management is responsible for implementing strategies in a manner that limits risks associated with each strategy and that ensures compliance with laws, regulations and internal policies on both a long-term and day-to-day basis.

RISK MANAGEMENT FRAMEWORK

During the year under review the Bank set up the Board Integrated Risk Management Committee (BIRMC) to comply with regulations as well as to oversee the risk management on an enterprise wide basis. The Chief Risk Officer and the Risk Management function functionally reports to BIRMC to ensure that the risk management function is independent from those who take or accept risk on behalf of the Bank.

More specifically, the BIRMC which is the Board Sub-Committee, oversees the risk management function in line with the Board approved policies and strategies. BIRMC will develop the policy and operations for Bank wide risk management including credit risk, market risk, operational risk and liquidity risk. The Committee interacts with the Managing Director, the Credit Committee, Asset and Liability Management Committee (ALCO) on risk management related activities. In addition to the Independent Directors of the Board, the BIRMC will consist of the Managing Director and Deputy Managing Director/ CFO while the Chief Risk Officer acts as the secretary. The other members of the senior management are invitees to the meetings.

Cargills Banks' Integrated Risk Management Framework (IRMF) stipulates, in a broader aspect, the policies, guidelines and organisational structure for the management of overall risk exposures of the Bank in an integrated approach. Further, IRMF defines risk integration and the aggregation practices and approaches for different risk categories in an overall perspective.

Descriptive versions of policies, guidelines, strategies and practices for the management of different types of risk exposures, viz-a-viz, credit risk, market risk, operational risk, liquidity risk etc. are formulated in the respective frameworks.

The objectives of the IRMF are to;

A. Explicitly stipulate overall risk management objectives, risk tolerance levels, policies, guidelines and approaches for the management of its risk exposures.
B. Define responsibilities of different parties involved in the integrated risk management function.
C. Serve as a communiqué for the stakeholders with respect to the policies and practices for overall risk management. These stakeholders will include employees, shareholders and the regulator.
D. Ensure integration and aggregation of different risk exposures such as credit risk, market risk, operational risk, strategic risk etc. in an overall perspective.
E. Ensure compliance with regulatory guidelines issued by the CBSL in the area of risk management.

GOVERNANCE STRUCTURE FOR RISK MANAGEMENT OF CARGILLS BANK THREE LINES OF DEFENCE

First line of defence	Second line of defence	Third line of defence
Involvement by business lines, support services with accountability and responsibility of senior and middle management supported by internal controls, governance structure, processes and risk management.	Oversight by Board, BIRMC, MD, Senior Management Committees with independent risk monitoring and compliance	Oversight by the Board's Audit Committee with independent check and quality assurance
Strategy, Performance & Risk Management	**Policy, Monitoring and Oversight**	**Independent Assurance**
Corporate/ Consumer Banking	Board of Directors	Compliance
Branch Banking	Senior Management Committees	Internal Audit
Treasury	Managing Director	External Audit
Operations	Integrated Risk Management	
IT		
Finance		
Credit Administration		
HR		

Risk Management Contd.

INTEGRATED RISK MANAGEMENT DEPARTMENT (IRMD)

IRMD is vested with the responsibility of carrying out the overall risk management function of the Bank at strategic and operational levels. Currently IRMD consists of separate units, which are devised for, Credit Risk Management, ALM & Market Risk Management/ Treasury Middle Office and Operational Risk Management. With the expansion of business operations and its complexities separate units would be formalised for Risk Policy modeling and Risk Quantification. IRMD will be involved with product or business strategy development or entering into new business lines from the initial design stage through input to the task/process from a risk management perspective.

IRMD REPRESENTATION IN THE COMMITTEES

For the purpose of implementation of an IRMF and ensure independent view of the risk taking within the Bank, CRO represents its management functions in the BIRMC, Credit Committee, ALCO, Operational Risk Management Committee and IT Steering Committee.

RISKS AND THEIR MANAGEMENT

Strategic Risk

Board of Directors and Senior Management oversight is an integral part of our strategic risk management program. The Board of Directors retains the overall responsibility for strategic risk management of the Company. It is chiefly responsible for setting corporate strategy and reviewing management performance in implementing the Company's strategic plan. In turn, senior management ensures that there is an effective strategic risk management process by transforming the strategic direction given by the Board through policy.

Strategic risk arises from an institution's inability to implement appropriate business plans, strategies, decision making, resource allocation and its inability to adapt to changes in its business environment. We have implemented robust strategic risk mitigation measures and techniques to enhance the achievement of strategic objectives. These include engaging qualified board and senior management, formulation of strategic and operational plans, high quality of personnel and proper training, comprehensive risk management systems and adequate access to information.

Credit Risk

Credit risk is the likelihood that a customer or counter-party in a financial transaction/ instrument fails to meet the contractual obligations resulting in economic loss to the Company.

Credit Risk Management

The Board is responsible for approving credit risk strategy and significant policies relating to credit risk and its management which is based on the overall business strategy. The credit risk is managed on a portfolio basis by defining target market/ industry segments, exposure limits, types of advances, security requirements, risk based pricing, delegation of lending authority etc. The Board is responsible for approving the overall lending authority structure,and explicitly delegating credit sanctioning authority to the credit committee and senior management as well as setting credit limits with any one customer or within a single segment. Risk management function is responsible for agreeing and formalisation of lending policies/ guidelines and sing-off on any exceptions. The primary lending authority is assigned to the loan originating functions for specific transactions which conforms to pre-defined standardised lending criteria with the risk management function responsible for the sign-off for any exceptions from the lending standards or for transactions beyond a specific threshold.

The front office proposes new transactions, and the approving authority examines the risk and makes a granting/ rejection decision or might issue recommendations for altering the proposed transaction until it complies with risk standards. The Bank uses internal credit rating models or scorecards for Corporate/ SME and consumer lending. The rating factors include quantitative and qualitative criteria including credit enhancement features specific to the transaction. A Credit Administration function which is independent from the loan originating units is responsible for documentation and pre-commitment & pre-disbursement compliance with credit policy and sanctioning conditions of each separate transactions. Post sanction monitoring is done to ensure that the credit exposure remains within acceptable level of risks, timely recovery of interest and principal and there is no deterioration for security obtained.

Business Line	Amount Rs. '000	%
Consumer	854,696	12
Corporate	6,182,690	85
SME	142,506	2
Others	58,310	1
Grand Total	7,238,202	100

Product	Amount Rs. '000	%
Housing Loans	117,570	2
Import Loans	1,488,121	21
Packing Credit	68,010	1
Bills Receivables	3,766	–
Overdrafts	1,989,501	27
Personal Loans	509,530	7
Staff Loans	30,415	–
Money Market Loans	1,593,766	22
Term Loans	761,794	11
Vehicle Loans	7,320	–
Securities purchased under resale agreement	668,409	9
Grand Total	7,238,202	100

Asset Liability Management (ALM)

The goal of ALM is to provide measures of the exposure to mismatch risk, and to maintain it within bounds, while optimising the risk-return profile of the balance sheet. The ALCO which is the implementation arm of ALM comprises of the CEO and the senior management team.

Liquidity Risk

Liquidity is the ability to raise funds sufficient to finance lending opportunities and face deposit withdrawals at a reasonable cost in a reasonable time frame. Liquidity risk is the risk of not being able to raise liquidity or of raising liquidity at a high cost at short notice.

Liquidity Risk Management

Liquidity management is done through liquidity gaps including static and dynamic liquidity gaps which are completed by stress tests on liquidity, for assessing what would happen under an extreme crisis situation with liquidity shortage. We control liquidity risk by spreading over time the required amounts of funding and avoiding unexpected important needs for raising additional funds.

Liquidity management is aimed at target time profile of gaps after raising new resources, which complies with liquidity gap limits. Further, diversification of funding sources with different maturities enables better management of liquidity risks and its impact on the operations of the Bank. Currently the main funding sources of the Bank are the public deposits, bank borrowings and shareholder funds. To reduce dependence on equity and bank funding, fully-fledged deposit drive to broad base the funding sources is undertaken with more proactive asset and liability management to take advantage of market liquidity and interest rates for better liquidity management. ALCO would decide on the composition of the funding sources (type, tenure and interest rates) on the management of the funding side of the balance sheet.

Risk Management Contd.

Maturity Gap Analysis as at 31 December 2015 - Bank

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Total as at 31-Dec-15 Rs. '000	Total as at 31-Dec-14 Rs. '000
Interest earning assets							
Placements with Banks	2,018,773	–	–	–	–	2,018,773	1,718,737
Loans & receivables to Banks	1,000,172	–	–	–	–	1,000,172	503,425
Loans & receivables to other customers	5,581,831	673,951	274,591	334,615	341,387	7,206,375	2,230,418
Financial investments available-for-sale	251,820	895,065	451,312	–	–	1,598,197	1,028,143
Total interest earning assets	8,852,596	1,569,016	725,903	334,615	341,387	11,823,517	5,480,723
Non-interest earning assets							
Cash and cash equivalents	174,129	–	–	–	–	174,129	39,039
Balances with Central Bank	139,342	–	–	–	–	139,342	55,886
Financial investments available-for-sale	–	–	–	–	5,883	5,883	5,883
Investment in subsidiaries	–	–	–	–	459,200	459,200	459,200
Property, plant and equipment	–	–	–	242,350	–	242,350	252,354
Intangible assets	–	–	–	209,692	–	209,692	223,245
Deferred tax assets	–	–	–	–	120,815	120,815	116,195
Other assets	20,375	11,351	3,422	814	237,501	273,463	118,755
Total non-interest earning assets	333,846	11,351	3,422	452,856	823,399	1,624,874	1,270,557
Total assets	9,186,442	1,580,367	729,325	787,471	1,164,786	13,448,391	6,751,280
Interest bearing liabilities							
Due to banks	5,347	–	–	–	–	5,347	279,242
Due to other customers	2,479,767	1,279,623	100,500	8,075	2,235	3,870,200	1,265,615
Other borrowings	1,993,383	–	–	–	–	1,993,383	551,083
Total interest bearing liabilities	4,478,497	1,279,623	100,500	8,075	2,235	5,868,930	2,095,940
Non-interest bearing liabilities							
Other liabilities	2,717,118	17,514	1,467	117	–	2,736,216	107,507
Stated capital	–	–	–	–	5,592,350	5,592,350	4,968,850
Statutory reserves	–	–	–	–	–	–	–
Accumulated losses	–	–	–	–	(737,703)	(737,703)	(420,515)
Other Reserves	–	–	–	–	(11,402)	(11,402)	(502)
Total non-interest bearing liabilities	2,717,118	17,514	1,467	117	4,843,245	7,579,461	4,655,340
Total liabilities and equity	7,195,615	1,297,137	101,967	8,192	4,845,480	13,448,391	6,751,280
Maturity gap	1,990,827	1,283,230	627,358	779,279	(3,680,694)	–	–
Cumulative gap	1,990,827	2,274,057	2,901,415	3,680,694	–	–	–

Interest Rate Risk

Interest Rate Risk is the potential negative impact on the Net Interest Income and it refers to the vulnerability of an institution's financial condition to the movement in interest rates. Changes in interest rate affect earnings, value of assets, liabilities, off-balance sheet items and cash flow. Hence, the objective of interest rate risk management is to maintain earnings, improve the capability, ability to absorb potential loss and to ensure the adequacy of the compensation received for the risk taken and affect risk return trade-off. Management of interest rate risk aims at capturing the risks arising from the maturity and re-pricing mismatches and is measured both from the earnings and economic value perspective. Structural interest rate risk arises from customers wanting certainty in interest payments and therefore asks for long term fixed rate loans which are funded by short and long term floating rate borrowings through various sources. In such a situation, changes in the yield curve and also non-parallel shifts in the yield curve will impact the net interest income (NII) with high volatility thereby impacting the stability of earnings of the Company.

Interest Rate Risk Management

Interest rate risk is managed through interest rate gaps which measures the sensitivity of NII to a shift in the yield curve. We try to minimise the NII volatility by setting limits on interest rate Gaps and also being conscious of the tenure premiums in the market rates in pricing our lending products. Further more risk based pricing complements the interest rate risk management efforts.

Foreign Exchange Risk

Exchange rate risk is the risk that exchange rate changes can affect the value of an institution's assets and liabilities as well as its off-balance sheet items. Exchange rate risk can be direct where a financial institution takes or holds a position in foreign currency or indirect where a foreign exchange position taken by one of the financial institution's borrowers or by counterparties may affect their creditworthiness. Cargills Bank measures the foreign exchange exposure through the net open foreign exchange position and has set up limits for the net positions of the Bank.

Foreign Currency Exposures – 31 December 2015 – Bank

(Rs. '000)

Item	USD	GBP	JPY	EUR	Others	Total
Asset	525,361	38	1,955	15,563	110	543,027
On-Balance Sheet	506,249	38	1,955	15,563	110	523,915
Off-Balance Sheet	19,112	–	–	–	–	19,112
Liabilities	320,894	–	–	20,203	–	341,097
On-Balance Sheet	301,782	–	–	20,203	–	321,985
Off-Balance Sheet	19,112	–	–	–	–	19,112
Net Exposure Rupee Equivalent	204,467	38	1,955	(4,640)	110	201,930
Net Exposure FC Equivalent	1,420	–	1,636	(29)	–	–

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The key to management of operational risk lies in the Bank's ability to assess its process for vulnerability and establish controls as well as safeguards while providing for unanticipated worst-case scenarios. The Risk and Control Self-Assessment (RCSA) process was initiated during the year under review to identify the potential operational risks in each business or support function by the process owners and to improve the systems and procedures to mitigate potential operational risk incidents. We have in place adequate internal audit coverage to verify that operating policies and procedures have been implemented effectively. The Board (either directly or indirectly through its audit committee)ensures that the scope and frequency of the audit program is appropriate to the risk exposures. Internal Audit periodically validates that the Company's operational risk management framework is being implemented effectively across the Company. By implementing the Business Continuity Plan (BCP) including Disaster Recovery Plans will ensure that the critical operations of the Company will function with minimal disruptions thereby reducing operational risk incidences. Information Technology operational risks are primarily managed through the IT steering committee and the IT Systems Security policies which were adopted in the year under review.

Risk Management Contd.

Capital Adequacy and Management

With the expansion of business operations and the balance sheet of the Bank, the management of the adequacy of the capital to absorb potential losses has become important. While adopting the basic approaches of measuring capital adequacy of the Bank, the Bank would strive moving towards the advanced approaches as and when the scale and sophistication of operations warrant. The IRMD is in the process of identifying the gaps and the requirements in implementing ICAAP as prescribed by the Central Bank of Sri Lanka.

Capital Adequacy as at 31 December 2015 – Bank

Item	Amount (Rs. '000)
Eligible Core Capital (Tier 1)	4,283,138
Capital Base	4,076,156
Total risk-weighted Amount	8,995,341
Risk-Weighted Amount for Credit Risk	8,524,361
Risk-Weighted Amount for Market Risk	470,980
Risk-Weighted Amount for Operational Risk	12,560
Core Capital (Tier 1) Ratio, %	47.62
Total Capital Ratio, %	45.31

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

The Board Integrated Risk management Committee (BIRMC) comprised following Directors of the Bank at the end of the year.

1. E M M Boyagoda – Chairman – Independent Non-Executive Director
2. M O F Salieh – Member – Independent Non-Executive Director
3. R A Ebell – Member – Independent Non-Executive Director
4. Mr. Prem Kumar – Member – Managing Director/CEO
5. Mr. P S Madhavan – Member – Deputy Managing Director.

The Chief Risk Officer acts as the secretary to the committee while Key Management Personnel dealing with the management of credit, market and liquidity risks and operations participate as invitees to the meeting.

The Bank established the BIRMC during the year under review with the scope of review of the committee based on the guidelines defined by the Central Bank for Commercial Banks. The BIRMC met 4 times during the year ended 31 December and its deliberations and conclusions were reported to the Board of Directors.

In particular, risks flowing from the business plan and strategy, economic risks, credit, market, liquidity and interest rate mismatch risks and operational risks were reviewed by the committee. The establishment of risk management policies and its operational framework were undertaken with the oversight of the BIRMC.

The capitalisation is relatively high at 45.31% (Tier-I of 47.62%) despite the expansion of scale of operations of the Bank during the year under review.

On behalf of the BIRMC

Managala Boyagoda
Chairman of BIRMC

Colombo
26 February 2016

BOARD NOMINATION COMMITTEE REPORT

COMPOSITION OF THE COMMITTEE

The Board Nomination Committee is constituted with four (4) members from the Board of Directors including two (2) Non-Executive Independent Directors. The Chairman of the Committee is a Non-Executive Independent Director.

The Committee comprises of the following Directors of the Bank:

1. M O F Salieh
   Chairman - Independent - Non Executive Director
2. W K F De Silva (Ms)
   Member - Independent - Non Executive Director
3. V R Page
   Member - Non Executive Non Independent Director
4. Prem Kumar
   Member - Managing Director/CEO

Ms. S M Dunuwille, the Company Secretary of the Bank, functions as the Secretary of the Committee.

Profiles of the members of the Committee are given on page 18 to 19.

ROLE & RESPONSIBILITIES

In accordance with the Terms of Reference set by the Board, the Committee's key role and responsibilities are as follows:

a) Establish a procedure to select/ appoint new Directors, CEO and Key Management Personnel.

b) Consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.

c) Set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the Key Management Positions.

d) Ensure that Directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified and set out in the Banking Act and other relevant statutes, and the directions issued by the Central Bank of Sri Lanka from time to time.

e) Consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel.

AUTHORITY

The Committee is empowered by the Board to seek any information that it requires from any officer or employee of the Bank. In connection with its role and responsibilities the Committee is authorised by the Board to seek such independent advice, including legal and/ or other professional advice at the Bank's expense, as it considers necessary including requests for information from or commissioning investigations by external advisors.

FREQUENCY OF MEETINGS AND QUORUM

The Committee shall meet at least twice during the Financial Year or as and when deemed necessary.

The quorum for the meetings of the Committees is three (03) members, and shall include at least one (1) Independent, Non-Executive Director, who shall be the Chairperson.

PERFORMANCE

During the year the Committee has held three (3) meetings. The Committee considered and recommended the suitability of three retiring Directors, namely Mr. Louis R Page, Mr. V R Page and Mr. M O F Salieh, for re-election to the Board; established the Procedure for the Selection and Appointment of New Directors, CEO and Key Management Personnel; set the eligibility criteria for appointments to the posts of CEO and other Key Management Personnel and put in place an appropriate Succession Plan for Key Management Personnel.

On behalf of the Nomination Committee

M O F Salieh
Chairman of the Board Nomination Committee

Colombo
26 February 2016

BOARD HUMAN RESOURCES & REMUNERATION COMMITTEE REPORT

COMPOSITION OF THE COMMITTEE

The Board Human Resources & Remuneration Committee was comprised of the following Directors of the Bank.

1. V R Page – Chairman – Non Executive Director
2. M O F Salieh – Member – Independent – Non Executive Director
3. R A Ebell – Member – Independent – Non Executive Director
4. Prem Kumar – Member – Managing Director/CEO – Non Independent Director
5. P S Mathavan – Member – Deputy Managing Director/CFO Non Independent Director

Ms. S M Dunuwille, Company Secretary, functioned as Secretary of the Committee.

Profiles of the members of the Committee are given on page 18 to 19.

PURPOSE OF ESTABLISHING THE COMMITTEE

The purpose of the Committee is to assist the Board in the discharge of its responsibilities and oversight relative to:

- The Bank's Human Resources strategy and associated policies.
- The remuneration of Directors.
- The performance and remuneration of the Chief Executive and members of Key Management.
- The remuneration policy of the Bank.
- The succession plan of the Bank.

In performing this role, the Committee shall also:

a) Review and assess Human Resource & Remuneration Risk.

b) Review policies on Occupational Health & Safety, Code of Conduct & Ethics, Communication, Performance Evaluation and Employment (including the "Fit and Proper" assessment).

c) Periodically provide reports and findings to the Board of Directors.

FREQUENCY OF MEETINGS AND QUORUM

Committee meetings shall be held half-yearly or more frequently if required. The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed. The quorum required at a meeting shall be three (3) including, mandatorily, at least one Non-Executive Independent Director.

One meeting was held during the year. Attendance at this meeting was as follows:

V R Page
M O F Salieh
R A Ebell
Prem Kumar
P S Mathavan

On behalf of the Board Human Resources & Remuneration Committee.

V R Page
Chairman of the Board HR and Remuneration Committee

Colombo
26 February 2016

FINANCIAL REPORTS

AUDIT COMMITTEE REPORT

The Board Audit Committee (BAC) assists the Board in carrying out its responsibilities in relation to financial reporting, internal control and internal & external audit functions.

The BAC comprises the following members;

1. P D Rodrigo – *(Chairman, up to 14 July 2015)* – Independent Non-Executive Director
2. R A Ebell – *(Chairman, from 15 July 2015)* – Independent Non-Executive Director
3. V R Page – Member – *Non-Executive Director*
4. E M M Boyagoda – Member – *Independent Non-Executive Director*

Mr. V R S P Ranjith Amarasinghe, AGM, Internal Audit) served as Secretary of the Committee.

The Managing Director Mr. Prem Kumar and Deputy Managing Director Mr. P S Mathavan attended meetings by invitation to enhance BAC awareness of key issues and developments relevant to the Board Audit Committee in the performance of its role.

The Committee had three meetings with the External Auditors including two meetings without the presence of any officials of the Bank in order to ensure they have had unhindered access to all information, records and staff and have faced no pressure or influence in reporting their findings.

REGULATORY COMPLIANCE

The Roles and functions of the BAC are regulated by the Banking Act Direction No. 11 of 2007 and the mandatory Code of Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka.

QUALIFICATIONS

The present Chairman of the BAC, Mr. R A Ebell, is a Fellow of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Chartered Institute of Management Accountants (CIMA), UK, and has experience in diverse roles in finance and operations after qualifying as a Chartered Accountant in 1977. The other members of the BAC possess in depth experience in banking and in large business organisations at chief executive level.

DUTIES AND ROLE OF THE BOARD AUDIT COMMITTEE

The BAC has oversight responsibility for:

- The integrity of the annual and quarterly financial statements of the Bank, and the appropriateness of accounting policies adopted.
- The effectiveness of the Bank's systems of internal control over financial reporting.
- The performance of Internal Audit.
- Monitoring the independence and performance of the External Auditor and making recommendations on their reappointment and the fees payable to them.

During the year ended 31 December 2015 the principal activities of the BAC were as follows:

PERFORMANCE

Meetings of the Board Audit Committee

The committee had four (04) meetings during the year ended 31 December 2015. Attendance at these meetings was as follows:

P D Rodrigo	2/2 Meetings
R A Ebell	2/2 Meetings
V R Page	3/4 Meetings
E M MBoyagoda	4/4 Meetings

INTERNAL AUDIT

The BAC reviewed the scope, extent and effectiveness of the Bank's Internal Audit function. The BAC had regular interaction with the AGM Internal Audit who functions as its Secretary.

WHISTLE BLOWING POLICY

The BAC approved a draft Whistle Blowing Policy which was subsequently approved by the Board. This stipulates that whistle blowing submissions deemed worthy of consideration should be referred to the BAC for review and investigation.

EXTERNAL AUDITORS

The BAC monitored the independence of the External Auditors and the objectivity and effectiveness of the audit process and provided to the Board its recommendation on the reappointment of the auditors, KPMG. The BAC recommended the fees for audit and approved permitted non-audit services provided by KPMG.

The Committee received a declaration from KPMG as required by the Companies Act No. 7 of 2007, confirming that they do not have any relationship or interest in the Company, which may have a bearing on their independence. The Committee reviewed the external audit plan as well as the auditors' management letters and followed up on issues raised.

On behalf of the Audit Committee

Richard Ebell
Chairman of the Audit Committee

Colombo
26 February 2016

ANNUAL REPORT OF THE BOARD OF DIRECTORS' ON THE AFFAIRS OF THE BANK

Your Directors take pleasure in presenting this report to our stakeholders together with the Audited Financial statements for the year ended 31 December, 2015.

The details set out herein provide pertinent information as required by the Companies Act No. 7 of 2007 and according to the best accounting practices recommended by the Institute of Chartered Accountants of Sri Lanka and necessary disclosures in the best interest of stakeholders of the Bank.

GENERAL

Cargills Bank Limited is a public limited liability company and a Licensed Commercial Bank, that was incorporated in Sri Lanka on 3 November 2011 as "Cargills Agriculture and Commercial Bank Limited" under the Companies Act No. 7 of 2007 and approved as a Licensed Commercial Bank under the Banking Act No. 30 of 1988 on 21 January 2014.

The Report of the Board of Directors and the Financial Statements were approved by the Board of Directors on 26 February 2016.

PRINCIPAL ACTIVITIES

The Bank's principal business activities are Commercial Banking and related financial services.

PROFIT AND APPROPRIATIONS

The Bank's profit and appropriations were as follows;

	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Loss before taxation	(316,208)	(235,054)	(323,781)	(229,063)
Taxation	–	116,000	8,074	115,851
Loss for the year	(316,208)	(119,054)	(315,707)	(113,212)
Other comprehensive income	(11,880)	(502)	(11,793)	(502)
Accumulated loss brought forward	(420,515)	(301,461)	(424,694)	(301,461)
Transfer to reserve fund	–	–	(335)	–
Goodwill on changing shareholding	–	–	–	(8,649)
Transfer to available-for-sale reserve	10,900	502	10,900	502
Dividends paid	–	–	–	–
Non-controlling interest	–	–	(138)	(1,372)
Losses to be carried forward	(737,703)	(420,515)	(741,767)	(424,694)

FINANCIAL STATEMENTS

The Financial Statements of the Bank are given on page 80 to 142 of this Annual Report.

INCOME

The Bank's main income consists of Interest on Loans and Advances, interest on other interest earning assets and fee based income. The summarised income could be shown between the years as follows:

	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Interest income	531,928	343,436	686,298	409,717
Fees and commission income	47,251	12,317	49,954	13,549
Net gains / (losses) from trading	481	4,461	481	4,461
Net gains / (losses) from financial instruments at fair value through profit & loss	–	–	62	676
Net gains / (losses) from financial investments	3,625	2,074	3,625	2,074
Other income	21,193	653	30,023	4,302

Annual Report of the Board of Directors' on the Affairs of the Bank Contd.

SHAREHOLDERS' FUNDS AND RESERVES

The Bank's total reserves as at 31 December 2015 stood at a negative balance of Rs. 749.1 Mn. This comprises an accumulated loss of Rs. 737.7 Mn and available-for-sale reserve of Rs. 11.4 Mn. The movement in accumulated loss and available-for-sale reserve are shown in Notes 37 and 38 to the Financial Statements.

The Group's total reserves as at 31 December 2015 stood at a negative balance of Rs. 753.2 Mn. This comprises of an accumulated loss of Rs. 741.8 Mn and available-for-sale reserve of Rs. 11.4 Mn. The movement in accumulated loss and available-for-sale reserve are shown in Notes 37 and 38 to the Financial Statements.

AUDITORS' REPORT

The Auditors of the Bank are KPMG, Chartered Accountants. Their report on the Financial Statements is given on page 79. They come up for re-election at the Annual General Meeting, with the approval of the Audit Committee and the Board of Directors.

ACCOUNTING POLICIES

The accounting policies adopted in preparation of the Financial Statements are given on page 86 to 104.

DIRECTORS' INTEREST REGISTER

Under the Provisions of Section 192 of the Companies Act No. 7 of 2007, the Interest Register is maintained by the Bank. The Directors have made the necessary declarations which are recorded in the Interest register and are available for inspection in terms of the Act. The Directors dealings with the Bank during the accounting period is given in Note 46 to the Financial Statements.

DIRECTORS' REMUNERATION

Directors' remuneration and other benefits of the Directors are given in Note 46.1 and 46.2 to the Financial Statements.

DONATIONS

During the year under review the Board of Directors have not approved any donations.

DIRECTORATE

The names of the Directors of the Bank during the period 1 January 2015 to date are given below with changes that occurred in the composition of the Board during the period under review. The classification of Directors into Executive, Non-Executive and Non- Executive Independent Directors are given against the names as per the Central Bank mandatory rules on Corporate Governance under the Banking Act directions.

Name of the Director	Executive/ Non Executive Status	Independence/ Non-Independence Status
Louis R Page - Chairman	Non-Executive	Non - Independent
V R Page- Deputy Chairman	Non-Executive	Non - Independent
Prem Kumar- Managing Director/ CEO	Executive	Non - Independent (Appointed to the Board on 26 March 2016)
G L H Premaratne - Managing Director/ CEO	Executive	Non - Independent (Resigned from the Board on 30 January 2015)
E M M Boyagoda - Senior Director	Non-Executive	Independent (Appointed Senior Director on 14 July 2015)
P D Rodrigo - Senior Director	Non-Executive	Independent (Resigned from the Board on 14 July 2015)
M O F Salieh	Non-Executive	Independent
R A Ebell	Non-Executive	Independent (Appointed to the Board on 3 July 2015)

Mr. P D Rodrigo resigned with effect from 14 July 2015 on reaching 70 years of age in order to comply with statutory requirements.

In terms of Article No. 86 of the Articles of Association of the Bank, Mr. E M M Boyagoda and Ms. W K F De Silva retire by rotation and being eligible offer themselves for re-election, on a unanimous recommendation by the Board of Directors.

Mr. R A Ebell who retires in terms of Article 92 of the Articles of Association of the Bank, being eligible offers himself for reappointment.

DIRECTORS' INTEREST

Related party transactions of the Bank are disclosed in Note 46 to the Financial Statements on page 136 to 141 The Directors have no direct or indirect interest or proposed contract other than those disclosed.

The Directors have declared all material interest in contracts if any involving the Bank and have refrained from participating when decisions are taken.

AUDITORS

In accordance with the Companies Act No. 7 of 2007, a resolution for the re-appointment of M/s KPMG, Chartered Accountants, to the Bank is being proposed at the Annual General Meeting. Audit related fees payable to KPMG for the year under review amounted to Rs. 1.73 Mn.

STATED CAPITAL

The Stated Capital of the Bank is Rs. 5,592.35 Mn, the details are given in Note 36 to the Financial Statements.

INTERNAL CONTROLS

The Board of Directors have put in place an effective and comprehensive system of internal controls covering financial operations, compliance and risk management which are required to carry on the business of banking prudently and ensure as far as possible, accuracy and reliability of records.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of Financial Statements of the Bank to reflect a true and fair view of the state of its affairs. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards and Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Banking Act No. 30 of 1988 and amendments thereto and the mandatory Corporate Governance Code for Licensed Commercial Banks issued by the Central Bank of Sri Lanka.

CORPORATE GOVERNANCE FOR LICENSED COMMERCIAL BANKS IN SRI LANKA

The Bank has complied with the Central Bank Banking Act directions on Corporate Governance and a detailed statement is given on page 34 to 55.

CAPITAL EXPENDITURE

The Bank's expenditure on Property, Plant & Equipment at cost amounted to Rs. 56 Mn during 2015, details of which are given in Note 29.1. to the Financial Statements. Expenditure on Intangible Assets at cost amounted to Rs. 16.5 Mn during 2015, details of which are given in Note 30 to the Financial Statements.

The Group's expenditure on Property, Plant & Equipment at cost amounted to Rs. 57 Mn during 2015, details of which are given in Note 29.2 to the Financial Statements. Expenditure on Intangible Assets at cost amounted to Rs. 16.5 Mn during 2015, details of which are given in Note 30 to the Financial Statements.

STATUTORY PAYMENTS

The Directors are satisfied to the best of their knowledge and belief, that statutory payments to all authorities have been paid up to date, on a timely basis.

SHAREHOLDING

The number of registered shareholders of the Bank as at 31 December, 2015 was 69 (69 as at 31 December 2014). The schedule indicating the shareholders' analysis is on page 143, 'Investor Relations'.

REGISTER OF DIRECTORS & SECRETARIES

The Bank maintains a Register of Directors and Secretaries which contains the relevant information of the Board of Directors and the Company Secretary.

Annual Report of the Board of Directors' on the Affairs of the Bank Contd.

BOARD COMMITTEES

In keeping in line with the Corporate Governance rules, transparency and accountability, the Board has appointed the required Board Committees and the composition is given in the Governance report.

NEW BRANCHES

8 branches were opened during the year under review.

PROVISION FOR TAXATION

Total taxable profit was charged at 28% in accordance with income tax legislation. Deferred tax was calculated based on the Balance Sheet Liability Method in accordance with Sri Lanka Accounting Standards (LKAS/ SLFRS).

ANNUAL GENERAL MEETING

In complying with good governance practices, the Annual Report of the Bank is dispatched to shareholders as per the regulatory requirements after the end of the financial year and completion of the audit.

The Annual General Meeting will be held at the Cargills Bank Limited, Head office Building on 3 May 2016. The Notice of Meeting can be found on page 144.

GOING CONCERN

The Directors after making necessary inquiries and reviews including reviews of the Bank's ensuing year budget for capital expenditure requirements, future prospects and risk and cash flows have a reasonable expectation that the Bank has adequate resources to continue operations in the foreseeable future.

For and on behalf of the Board of Directors,

Louis R Page
Chairman

V R Page
Deputy Chairman

Prem Kumar
Managing Director/CEO

Ms. S M Dunuwille
Company Secretary

Colombo
26 February 2016

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The responsibility of the Directors in relation to the Financial Statements of the Cargills Bank Limited ('the Bank') and Consolidated Financial Statements of the Bank ('the Group') prepared in accordance with the Provisions of the Companies Act No. 7 of 2007 is set out in the following statements.

The responsibilities of the External Auditor in relation to the Financial Statements are set out in the Report of the Auditors given on page 79 of the Annual Report.

In terms of Sections 150 (1) and 151 (1) of the Companies Act No. 7 of 2007, the Directors of the Bank are responsible for ensuring that the Bank prepares its Financial Statements in a manner that gives a true and fair view of the state of affairs of the Bank and the Group as at the date of the Statement of Financial Position and the profit of the Bank and the Group for the financial year ended on the date of the Statement of Financial Position and place them before a General Meeting. The Financial Statements comprise the Statement of Financial Position as at 31 December 2015, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flow for the year then ended and notes thereto.

Accordingly, the Directors confirm that the Financial Statements of the Bank and the Group give a true and fair view of;

a) the financial position of the Bank and the Group as at 31 December 2015; and
b) the financial performance of the Bank and the Group for the financial year then ended.

The Financial Statements of the Bank and the Group have been certified by the Bank's Head of Financial Reporting, the person responsible for their preparation, as required by the Act. Financial Statements of the Bank and the Group have been signed by two Directors of the Bank on 26 February 2016 as required by the 150 (1) of the Companies Act.

Under 148 (1) of the Companies Act, it is the overall responsibility of the Directors to oversee and ensure the keeping of proper accounting records which correctly record and explain the Bank's transactions with reasonable accuracy at any time and to enable the Directors to prepare Financial Statements, in accordance with the said Act and also to enable the Financial Statements to be readily and properly audited.

The Directors in preparing these Financial Statements are required to ensure that;

I. The appropriate accounting policies have been selected and applied in a consistent manner while material departures, if any, have been disclosed and explained
II. Make judgments and estimates that are reasonable and prudent.
III. All applicable accounting standards have been followed.

The Directors are also required to ensure that the Bank has adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements. The Financial statements prepared and presented in the report are consistent with the underlying books of account and are in conformity with the requirements of Sri Lanka Accounting Standards, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act of No. 15 of 1995, Banking Act No. 30 of 1988 and amendments thereto.

The Directors have taken adequate measures with regard to inspect financial reporting systems through Audit Committee Meetings and granting approvals for the issuing of Interim Financial Statements. The Directors have also instituted effective and comprehensive systems of internal controls. This comprises internal checks, internal audit and the whole system of financial and other controls required to carry on the banking business in an orderly manner, while safeguarding assets, preventing and detecting frauds and other irregularities and securing as far as practicable the accuracy and reliability of the records. The results of such reviews carried out during the year ended 31 December 2015 are given on page 75 to 76 of the Annual Report, 'Directors' Statement on Internal Controls over Financial Reporting'.

Directors' Responsibility for Financial Reporting Contd.

The External Auditors' Assurance Report on the Bank's Internal Controls over Financial Reporting is given on page 77 of the Annual Report.

The Group's External Auditors, Messrs KPMG carried out reviews and sample checks on the system of internal controls as they considered appropriate and necessary for expressing their opinion on the Financial Statements and maintaining accounting records. They have examined the Financial Statements made available to them together with all financial records, related data and minutes of the Shareholders' and Directors' meetings and expressed their opinion which appears as reported by them on page 79 of this Annual Report.

The Directors are satisfied that all statutory payments in relation to all regulatory and statutory authorities which were due and payable by the Bank were paid or where relevant provided for.

The Directors of the Bank are of the view that they have discharged their responsibilities as set out in this statement.

By Order of the Board

Ms. S M Dunuwille
Company Secretary

Colombo
26 February 2016

DIRECTORS' STATEMENT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

In line with the Banking Act Direction No. 11. of 2007, section 3 (8) (ii) (b), the Board of Directors present this report on Internal Controls.

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at Cargills Bank Limited, ('the Bank'). In considering such adequacy and effectiveness, the Board recognises that the business of banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlighting any deviations from the limits and indicators which comprise the risk appetite of the Bank. In this light, the system of internal controls can only provide reasonable, but not absolute assurance, against material misstatement of financial information and records or against financial losses or fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls over financial reporting as and when there are changes to the business environment or regulatory guidelines. The process is regularly reviewed by the Board and is in accordance with the Guidance for Directors of Banks on the Directors' Statement on Internal Controls issued by the Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal controls over financial reporting taking into account principles for the assessment of Internal Controls System as given in that guidance.

The Board is of the view that the system of internal controls over financial reporting in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The Management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

Key Features of the Process Adopted in reviewing the design and effectiveness of the Internal Control System over Financial Reporting

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Various committees are established by the Board to assist the Board in ensuring the effectiveness of the Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- With commencement of banking operations in 2014, the management is in the process of updating the procedure manuals and completing documentation of key controls for selected key processes. These processes are expected to be completed during the next financial year.
- The Internal Audit Department of the Bank checks the compliance with policies and procedures and the effectiveness of the Internal Control Systems on an ongoing basis using samples and rotational procedures and highlights significant findings in respect of any non-compliance. Further, the Internal Audit Department evaluates the appropriateness & adequacy of procedures in place to ensure compliance with local and international laws and regulations, examines the reliability and integrity of financial and other operating information, examines the status of the Bank's economical and efficient use of resources, reports to management about asset utilisation and recommended changes in operations and financial activities. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual internal audit plan is reviewed and approved by the Board Audit Committee. Findings of the Internal Audit Department are submitted to the Board Audit Committee for review at their periodic meetings. During the year, Internal Audit had not tested Treasury function, System controls and impairment testing. The Board is in the process of strengthening the Internal Audit function and the areas mentioned herein will also be included in the Internal Audit scope for 2016.
- The Board Audit Committee of the Bank reviews internal control issues identified by the Internal Audit Department, the External Auditors, Regulatory Authorities and the Management: and evaluates the

Directors' Statement on Internal Controls over Financial Reporting Contd.

adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of the same. The minutes of the Board Audit Committee meetings are forwarded to the Board on a periodic basis. Further details of the activities undertaken by the Board Audit Committee of the Bank are set out in the Audit Committee Report on page 68.

- In assessing the internal control system over financial reporting, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. These in turn were observed and checked by the Internal Audit Department for suitability of design and effectiveness on an ongoing basis. This process will be further strengthened in 2016.
- The Bank adopted the New Sri Lanka Accounting Standards comprising LKAS and SLFRS in 2012. The processes and procedures initially applied to adopt the aforementioned Accounting Standards were further strengthened during the year 2014 when the Bank commenced banking operations. The Bank is in the process of updating relevant procedure manuals pertaining to these regulatory requirements. Continuous monitoring is in progress to ensure effective implementation of the required processes. The Bank recognises the need to introduce an automated financial reporting process in order to comply with the requirements of recognition, measurement, classification and disclosure of the financial instruments more effectively and efficiently.. The Board also has taken into consideration the requirements of the Accounting Standard SLFRS 9 on 'Financial Instruments' that has been issued (effective date 1 January 2018), as it is expected to have significant impact on the calculation of impairment of financial instruments on an expected credit loss basis compared to the incurred credit loss basis that is currently being applied under LKAS 39 on 'Financial Instruments – Recognition and Measurement'. An appropriate action plan will be developed to address these aspects within a reasonable time frame.
- The comments made by the External Auditors in connection with the internal control system over financial reporting in previous years were reviewed during the year and appropriate steps have been taken to rectify them. The recommendations made by the External Auditors in 2015 in connection with the internal control system over financial reporting will be dealt with in the future.

CONFIRMATION

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide a reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors, Messrs KPMG, have reviewed the above Directors' Statement on Internal Controls over Financial Reporting included in the Annual Report of the Bank for the year ended 31 December 2015 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal controls over financial reporting of the Bank.

The Assurance Report of the External Auditors in connection with Internal Controls over Financial Reporting is on page 77.

Prem Kumar
Managing Director/ CEO

Ms. S M Dunuwille
Company Secretary

Colombo
26 February 2016

INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF CARGILLS BANK LIMITED

KPMG
(Chartered Accountants)
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We were engaged by the Management of Cargills Bank Limited ('Company') to provide assurance on the accompanying Management's Statement on Internal Control ('Statement') for the year ended December 31, 2015 included in this report.

MANAGEMENT'S RESPONSIBILITY FOR THE STATEMENT ON INTERNAL CONTROL

Management is responsible for the preparation and presentation of the Statement in accordance with the 'Guidance for Directors of Bank on the Directors' Statement on Internal Control' issued in compliance with the section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

SCOPE OF THE ENGAGEMENT IN COMPLIANCE WITH SLSAE 3050

Our responsibility is to issue a report to the Management on the Statement based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Report for Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

SUMMARY OF WORK PERFORMED

Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for the Management and appropriately reflects the process the Management have adopted in reviewing the system of internal control in the Company.

To achieve this objective, appropriate evidence has been obtained by performing the following procedures:

a) Enquired from the Management to obtain an understanding of the process defined by the Management for their review of the design and effectiveness of internal control and compared their understanding to the accompanying Statement made by the Management.

b) Reviewed the documentation prepared by the Management to support the Statement made.

c) Related the Statement made by the Management to our knowledge of the Company obtained during the audit of the financial statements.

d) Reviewed the minutes of the meetings of the relevant Management Committees.

e) Attended meetings of the audit committee at which the annual report, which includes the Statement on Internal Control is considered and approval for submission to the Board of Directors.

f) Considered whether the Management's Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.

g) Obtained written representations from Management on matters material to the Statement on Internal Control where other sufficient appropriate audit evidence cannot reasonably be expected to exist.

SLSAE 3050 does not require us to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Company's risk and control procedures. SLSAE 3050 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

OUR CONCLUSION

Based on the procedures performed, nothing has come to our attention, which causes us to believe that the accompanying Statement is inconsistent with our understanding of the process the Management has adopted in the review of the design and effectiveness of internal control system over the financial reporting of the Company.

KPMG

Chartered Accountants
Colombo

26 February 2016

CEO'S AND CFO'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Financial Statements of the Cargills Bank Limited ("the Bank") and Consolidated Financial Statements for the year ended 31 December 2015 are prepared and presented in compliance with the requirements of the following:

- Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka,
- Companies Act No. 7 of 2007
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995
- Banking Act No. 30 of 1988 and amendments thereto and the Directions, Determinations, and Guidelines issued by the Central Bank of Sri Lanka (CBSL)
- Code of best practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and Securities and Exchange Commission

The Accounting Policies used in the preparation of the Financial Statements are appropriate and are consistently applied by the Group.

There are no material departures from the prescribed Accounting Standards in their adoption. Comparative information has been reclassified wherever necessary to comply with the current presentation.

The significant accounting policies and estimates that involved a high degree of judgment and complexity were discussed with the Audit Committee and External Auditors. The Board of Directors and the Management of the Group accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgments relating to the Financial Statements were made on a prudent and reasonable basis; in order that the Financial Statements reflect in a true and fair manner, the form and substance of transactions and that the Group's state of affairs is reasonably presented. To ensure this, the Group has taken proper and sufficient care in installing a system of internal controls and accounting records, for safeguarding assets and with a view to preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. Our Internal Audit Department has conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Bank were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting. Further the Board assessed the effectiveness of the Bank's internal controls over financial reporting during the year ended 31 December 2015, as required by the Banking Act Direction No. 11 of 2007, result of which is given on page 75 to 76 in the Annual Report, 'Directors' Statement on Internal Controls over Financial Reporting'. 'External Auditors' Assurance Report on the Bank's Internal Controls over Financial Reporting' is given on page 77 of the Annual Report.

The Financial Statements of the Group were audited by Messrs KPMG, Chartered Accountants, the independent External Auditors. Their report is given on page 79 of the Annual Report. The Audit Committee of the Bank meets periodically with the Internal Audit team and the independent External Auditor to review their audit plans, assess the manner in which these auditors are performing their responsibilities and to discuss their reports on internal controls and financial reporting issues. To ensure complete independence, the External Auditor and the Internal Auditor have full and free access to the members of the Audit Committee to discuss any matter of substance. The Audit Committee approves the audit and non-audit services provided by External Auditors, Messrs KPMG, in order to ensure that the provision of such services does not impair independence of the External Auditors and does not contravene the guidelines issued by CBSL on permitted non-audit services.

We confirm to the best of our knowledge that have been satisfied;

- prudential requirements and there are no material litigations that are pending against the Group other than those disclosed in the Note 49 to the Financial Statements.
- all contributions, levies and taxes paid on behalf of and in respect of the employees of the Group as at the Statement of Financial Position date have been paid or where relevant provided for.

Prem Kumar
Managing Director / CEO

P S Mathavan
Deputy Managing Director / CFO

Colombo
26 February 2016

INDEPENDENT AUDITORS' REPORT

KPMG
(Chartered Accountants)
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TO THE SHAREHOLDERS OF CARGILLS BANK LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Cargills Bank Limited, ('the Company') and the consolidated financial statements of the Company and its subsidiary ('the Group'), which comprise the statement of financial position as at December 31, 2015, and the income statement, statement of profit or loss and other comprehensive income, statement of changes in equity and, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information set out on page 80 to 142 of the annual report.

Board's Responsibility for the Financial Statements

The Board of Directors ('Board') is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2015, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by section 163 (2) of the Companies Act No. 7 of 2007, we state the following:

a) The basis of opinion and scope and limitations of the audit are as stated above.

b) In our opinion:

- we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company,
- the financial statements of the Company give a true and fair view of its financial position as at December 31, 2015, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
- the financial statements of the Company, and the Group comply with the requirements of sections 151 and 153 of the Companies Act No. 7 of 2007.

KPMG

CHARTERED ACCOUNTANTS

Colombo
26 February 2016

INCOME STATEMENT

For the year ended 31 December	Note	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Bank Change %	Group 2015 Rs. '000	Group 2014 Rs. '000	Group Change %
Gross income		604,478	362,941	67	770,443	434,779	77
Interest income		531,928	343,436	55	686,298	409,717	68
Interest expenses		(207,059)	(30,875)	(571)	(269,249)	(63,302)	(325)
Net interest income	7	324,869	312,561	4	417,049	346,415	20
Fees and commission income		47,251	12,317	284	49,954	13,549	269
Fees and commission expenses		(10,671)	(1,201)	(789)	(11,249)	(1,320)	(752)
Net fees and commission income	8	36,580	11,116	229	38,705	12,229	217
Net gains / (losses) from trading	9	481	4,461	(89)	481	4,461	(89)
Net gains / (losses) from financial instruments at fair value through profit or loss	10	–	–	–	62	676	(91)
Net gains / (losses) from financial investments	11	3,625	2,074	75	3,625	2,074	75
Other income	12	21,193	653	3,145	30,023	4,302	598
Total operating income		386,748	330,865	17	489,945	370,157	32
Impairment for loans and other losses	13	(357)	(16,764)	98	(24,491)	(15,920)	(54)
Net operating income		386,391	314,101	23	465,454	354,237	31
Less: Expenses							
Personnel expenses	14	267,280	197,549	(35)	307,977	212,639	(45)
Other expenses	15	435,319	349,319	(25)	477,875	366,875	(30)
Operating loss before Value Added Tax (VAT)		(316,208)	(232,767)	(36)	(320,398)	(225,277)	(42)
Less: Value Added Tax (VAT) on financial services		–	2,287	100	3,383	3,786	11
Loss before tax		(316,208)	(235,054)	(35)	(323,781)	(229,063)	(41)
Less: Income tax expenses	16	–	(116,000)	(100)	(8,074)	(115,851)	(93)
Loss for the year		(316,208)	(119,054)	(166)	(315,707)	(113,212)	(179)
Attributable to:							
Equity holders of the Bank		(316,208)	(119,054)	(166)	(315,825)	(114,584)	(176)
Non-controlling interest		–	–	–	118	1,372	(91)
Loss for the year		(316,208)	(119,054)	(166)	(315,707)	(113,212)	(179)
Basic loss per share (Rs.)	17	(0.72)	(0.27)	(167)	(0.72)	(0.26)	(177)

The notes to the Financial Statements appearing on page 86 to 142 form an integral part of these Financial Statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Bank			Group		
For the year ended 31 December	Note	2015 Rs. '000	2014 Rs. '000	Change %	2015 Rs. '000	2014 Rs. '000	Change %
Loss for the year		(316,208)	(119,054)	(166)	(315,707)	(113,212)	(179)
Other comprehensive income, net of tax							
Items that will never be reclassified to profit or loss							
Net actuarial gains / (losses) on defined benefit plans	35.1	(1,361)	–	(100)	(1,240)	–	(100)
Deferred tax asset on net actuarial gain/losses on defined benefit plans	16.5	381	–	100	347	–	100
		(980)	–	(100)	(893)	–	(100)
Items that are or may be reclassified to profit or loss							
Net gains / (losses) on re-measuring available for sale financial assets - Sri Lanka government securities		(15,139)	(697)	(2,072)	(15,139)	(697)	(2,072)
Deferred tax asset on available-for-sale reserve	16.5	4,239	195	2,074	4,239	195	2,074
		(10,900)	(502)	(2,071)	(10,900)	(502)	(2,071)
Other comprehensive income for the year, net of tax		(11,880)	(502)	(2,267)	(11,793)	(502)	(2,249)
Total comprehensive income for the year		(328,088)	(119,556)	(174)	(327,500)	(113,714)	(188)
Attributable to:							
Equity holders of the Bank		(328,088)	(119,556)	(174)	(327,638)	(115,086)	(185)
Non controlling interest		–	–	–	138	1,372	(90)
Total comprehensive income for the year		(328,088)	(119,556)	(174)	(327,500)	(113,714)	(188)

The notes to the Financial Statements appearing on page 86 to 142 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Bank Change %	Group 2015 Rs. '000	Group 2014 Rs. '000	Group Change %
ASSETS							
Cash and cash equivalents	20	174,129	39,039	346	196,157	61,239	220
Balances with Central Bank of Sri Lanka	21	139,342	55,886	149	139,342	55,886	149
Placements with Banks	22	2,018,773	1,718,737	17	2,018,773	1,718,737	17
Other financial instruments held for trading	23	–	–	–	2,300	4,199	(45)
Loans & receivables to Banks	24	1,000,172	503,425	99	1,022,172	511,425	100
Loans & receivables to other customers	25	7,206,375	2,230,418	223	8,084,912	3,085,835	162
Financial investments available-for-sale	26	1,604,080	1,034,026	55	1,604,426	1,034,372	55
Financial investments held to maturity	27	–	–	–	40,036	25,415	58
Investment in subsidiary	28	459,200	459,200	–	–	–	–
Property, plant and equipment	29	242,350	252,354	(4)	296,324	309,492	(4)
Intangible assets	30	209,692	223,245	(6)	420,760	434,841	(3)
Deferred tax assets	16.5	120,815	116,195	4	124,834	116,195	7
Other assets	31	273,463	118,755	130	303,248	145,393	109
Total assets		13,448,391	6,751,280	99	14,253,284	7,503,029	90
LIABILITIES							
Due to banks	32	5,347	279,242	(98)	6,507	279,242	(98)
Due to other customers	33	3,870,200	1,265,615	206	4,587,188	1,919,132	139
Other borrowings	34	1,993,383	551,083	262	1,993,383	551,083	262
Deferred tax liabilities	16.6	–	–	–	–	5,028	(100)
Other liabilities	35	2,736,216	107,507	2,445	2,748,955	127,293	2,060
Total liabilities		8,605,146	2,203,447	291	9,336,033	2,881,778	224
EQUITY							
Stated capital	36	5,592,350	4,968,850	13	5,592,350	4,968,850	13
Statutory reserves		–	–	–	335	–	100
Accumulated losses	37	(737,703)	(420,515)	(75)	(741,767)	(424,694)	(75)
Other Reserves	38	(11,402)	(502)	(2,171)	(11,402)	(502)	(2,171)
Total equity attributable to equity holders of the Bank		4,843,245	4,547,833	6	4,839,516	4,543,654	7
Non-controlling interest		–	–	–	77,735	77,597	–
Total equity		4,843,245	4,547,833	6	4,917,251	4,621,251	6
Total equity and liabilities		13,448,391	6,751,280	99	14,253,284	7,503,029	90
Contingent liabilities & commitments	39	5,807,041	2,634,621	120	5,807,041	2,634,621	120
Net asset value per share (Rs.)	40	10.03	10.34	(3)	10.02	10.33	(3)

The notes to the Financial Statements appearing on page 86 to 142 form an integral part of these Financial Statements.

Certification

These Financial Statements have been prepared with in compliance with requirements of the Companies Act No. 7 of 2007.

A R M I Sanjeewanie
Head of Financial Reporting

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.
Approved and signed for and on behalf of the Board.

P S Mathavan
Deputy Managing Director / Chief Financial Officer

Prem Kumar
Managing Director / Chief Executive Officer

26 February 2016
Colombo

STATEMENT OF CHANGES IN EQUITY

	Stated Capital Rs. '000	Statutory Reserves Rs. '000	Accumulated Losses Rs. '000	Other Reserves (Available-for-Sale Reserve) Rs. '000	Total Rs. '000
Bank					
Balance as at 1 January 2014	4,968,850	–	(301,461)	–	4,667,389
Total comprehensive income for the year 2014					
Loss for the year	–	–	(119,054)	–	(119,054)
Other comprehensive income, net of tax	–	–	–	(502)	(502)
Total comprehensive income for the year 2014	–	–	(119,054)	(502)	(119,556)
Balance as at 31 December 2014	4,968,850	–	(420,515)	(502)	4,547,833
Balance as at 1 January 2015	4,968,850	–	(420,515)	(502)	4,547,833
Total comprehensive income for the year 2015					
Loss for the year	–	–	(316,208)	–	(316,208)
Other comprehensive income, net of tax	–	–	(980)	(10,900)	(11,880)
Total comprehensive income for the year 2015	–	–	(317,188)	(10,900)	(328,088)
Transactions with owners of the Bank					
Contributions and distributions					
Issue of shares	623,500	–	–	–	623,500
Total transactions with equity owners	623,500	–	–	–	623,500
Balance as at 31 December 2015	**5,592,350**	**–**	**(737,703)**	**(11,402)**	**4,843,245**

The notes to the Financial Statements appearing on page 86 to 142 form an integral part of these Financial Statements.

Statement of Changes in Equity Contd.

	Note	Stated Capital Rs. '000	Statutory Reserves Rs. '000	Accumulated Losses Rs. '000	Other Reserves (Available-for-Sale Reserve) Rs. '000	Attributable to Owners of the Bank Rs. '000	Non-Controlling Interest Rs. '000	Total Rs. '000
Group								
Balance as at 1 January 2014		4,968,850	–	(301,461)	–	4,667,389	–	4,667,389
Total comprehensive income for the year 2014								
Loss for the year		–	–	(114,584)	–	(114,584)	1,372	(113,212)
Other comprehensive income, net of tax		–	–	–	(502)	(502)	–	(502)
Total comprehensive income for the year 2014		–	–	(114,584)	(502)	(115,086)	1,372	(113,714)
Transactions with owners of the Bank								
Contributions and distributions								
Non-controlling interest on acquisition		–	–	–	–	–	86,317	86,317
Acquisition of non controlling interest		–	–	–	–	–	(10,092)	(10,092)
Goodwill on change in shareholding	28	–	–	(8,649)	–	(8,649)	–	(8,649)
Total transactions with equity owners		–	–	(8,649)	–	(8,649)	76,225	67,576
Balance as at 31 December 2014		4,968,850	–	(424,694)	(502)	4,543,654	77,597	4,621,251
Balance as at 1 January 2015		4,968,850	–	(424,694)	(502)	4,543,654	77,597	4,621,251
Total comprehensive income for the year 2015								
Loss for the year		–	–	(315,825)	–	(315,825)	118	(315,707)
Other comprehensive income, net of tax		–	–	(913)	(10,900)	(11,813)	20	(11,793)
Total comprehensive income for the year 2015		–	–	(316,738)	(10,900)	(327,638)	138	(327,500)
Transactions with owners of the Bank								
Contributions and distributions								
Issue of shares		623,500	–	–	–	–	–	–
Transfers to statutory reserve		–	335	(335)	–	–	–	–
Total transactions with equity owners		623,500	335	(335)	–	–	–	–
Balance as at 31 December 2015		5,592,350	335	(741,767)	(11,402)	4,839,516	77,735	4,917,251

Note:
The freehold land and building of the subsidiary was revalued on acquisition date (5 August 2014) and revaluation reserve attributable to group had been netted-off against investment cost. Accordingly no revaluation reserve is carried under reserves.

The notes to the Financial Statements appearing on page 86 to 142 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December	Note	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000
Cash flows from operating activities					
Loss before tax		(316,208)	(235,054)	(323,781)	(229,063)
Adjustments for:					
Non-cash items included in loss before tax	41	135,151	126,812	164,904	128,348
Change in operating assets	42	(6,471,782)	(5,580,128)	(6,535,292)	(5,559,107)
Change in operating liabilities	43	4,954,373	1,581,032	5,010,530	1,672,447
(Gains)/ losses on sale of property, plant & equipment	12	51	–	(6)	–
Charges fees on acquisition of subsidiary		–	3,045	–	3,045
Dividend income	12	(268)	(79)	(356)	(93)
Benefits paid on defined benefit plans		(440)	–	(440)	–
Income taxes paid		–	–	–	–
Net cash used in operating activities		(1,699,123)	(4,104,372)	(1,684,441)	(3,984,423)
Cash flows from investing activities					
Net purchase of property, plant and equipment	29	(55,978)	(53,516)	(56,782)	(54,206)
Proceeds from sale and maturity of financial investments		–	–	(14,621)	63,814
Net purchase of intangible assets	30	(30,877)	(36,551)	(30,394)	(36,551)
Net cash flow from acquisition of investment in subsidiary	28	–	(462,245)	–	(462,245)
Dividends received	12	268	79	356	93
Net cash used in investing activities		(86,587)	(552,233)	(101,441)	(489,095)
Cash flows from financing activities					
Net proceeds from the issue of ordinary share capital		478,500	–	478,500	–
Change in other borrowing during the year		1,442,300	(450,701)	1,442,300	(658,808)
Net cash (used in)/ generated from financing activities		1,920,800	(450,701)	1,920,800	(658,808)
Net increase/ (decrease) in cash & cash equivalents		135,090	(5,107,306)	134,918	(5,132,326)
Cash and cash equivalents at the beginning of the year		39,039	5,146,345	61,239	5,193,565
Cash and cash equivalents at the end of the year	20	174,129	39,039	196,157	61,239

The notes to the Financial Statements appearing on page 86 to 142 form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

1.1 Domicile and Legal Form

Cargills Bank Limited, ('the Bank') is a Public Limited Company incorporated on 3 November 2011 and domiciled in Sri Lanka under the Companies Act No. 7 of 2007 for the purpose of carry out banking activities in Sri Lanka. It is a licensed commercial bank registered under the Banking Act No. 30 of 1988 and amendments thereto. The registered office of the Bank is located at No. 696, Galle Road, Colombo 03.

The Bank does not have an identifiable Parent of its own.

1.2 Consolidated Financial Statements

The Consolidated Financial Statements as at and for the year ended 31 December 2015, comprise the Bank (Parent Company) and its Subsidiary Colombo Trust Finance PLC, formally known as Capital Alliance Finance PLC (together referred to as the 'Group' and individually as 'Group entities').

The Company acquired its subsidiary Colombo Trust Finance PLC formally known as Capital Alliance Finance PLC on 5 August 2014 and the Group structure was established on that date.

1.3 Principal Activities and Nature of Operations

On 21 January 2014, in terms of Section 5 of the Banking Act No. 30 of 1988 (as amended from time to time), the Bank has been issued with a commercial banking license by the Central Bank of Sri Lanka (CBSL) to carry on domestic banking business and off-shore banking business.

The principal activities of subsidiary are acceptance of Deposits, granting Lease Facilities, Hire Purchase, Margin Trading, Mortgage Loans, Demand Loans and other credit facilities.

1.4 Number of Employees

The total number of employees of the Bank as at 31 December 2015 was 266 (2014 – 141). The total number of employees of the Group was 311 (2014 – 188).

2. BASIS OF REPARATION

2.1 Statement of Compliance

The Consolidated Financial Statements of the Group and the separate Financial Statements of the Bank, have been prepared and presented in accordance with the Sri Lanka Accounting Standards (LKAS/SLFRS) laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 7 of 2007 and the Banking Act No. 30 of 1988 and amendments thereto.

The formats used in the preparation of the Financial Statements and the Disclosures made therein also comply with the specified format prescribed by CBSL for the preparation, presentation and publication of Annual Audited Financial Statements of Licensed Commercial Banks.

These financial statements include the statement of financial position, income statement, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows together with accounting policies and notes to the Financial Statements.

2.2 Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of these Financial Statements as per the provisions of the Companies Act No. 7 of 2007 and the Sri Lanka Accounting Standards.

The Board of Directors acknowledges their responsibility for Financial Statements as set out in the 'Annual Report of the Board of Directors on the Affairs of the Bank', 'Directors Responsibility for Financial Reporting' and the certification on the 'Statement of Financial Position' on page 73 to 74 and 82 respectively.

2.3 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Group and the Bank for the year ended 31 December 2015 were approved and authorised for issue by the Board of Directors on 26 February 2016.

2.4 Basis of Measurement

The Financial Statements of the Group and the Bank have been prepared on the historical cost basis except for the following material items in the Statement of Financial Position:

Items Measurement

Item	Measurement Basis
Held for Trading Financial Instruments	Fair Value
Available for Sale Financial Instruments	Fair Value
Freehold Land	At Valuation
Defined benefit liability	At Present Value based on actuarial valuation

2.5 Functional and Presentation Currency
Items included in the Financial Statements of the Group and the Bank are measured using the currency of the primary economic environment in which the Bank operates (the Functional Currency). These Financial Statements are presented in Sri Lankan Rupees, the Group's Functional and Presentation Currency.

2.6 Comparative Information
Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period for all amounts reported in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter-period comparability. The presentation and classification of the Financial Statements of the previous year is amended, where relevant for better presentation and to be comparable with those of the current year.

The comparative information presented for the Group is only for 5 months as the Group structure was established on 5 August 2014.

2.7 Presentation of Financial Statements
The assets and liabilities of the Bank/Group presented in its Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern.

No adjustments have been made for inflationary factors affecting the Financial Statements.

Financial assets and financial liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the Income Statement unless required or permitted by an Accounting Standard or interpretation and as specifically disclosed in the Accounting Policies of the Bank.

2.8 Rounding
The amount in the Financial Statements have been rounded off to the nearest Rupees thousands, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard LKAS 01 on 'Presentation of Financial Statements'.

2.9 Materiality and Aggregation
Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard-LKAS 1 on 'Presentation of Financial Statements'

2.10 Significant Accounting Judgments, Estimates and Assumptions
The preparation of the Financial Statements of the Bank inconformity with Sri Lanka Financial Reporting Standards (SLFRSs) requires management to make judgments, estimates and assumptions that affect the application of Accounting Policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2015 is set out below in relation to the impairment of financial instruments and in the following notes in relation to other areas.

2.10.1 Going Concern
The management has made an assessment of its ability to continue as a going concern and is satisfied that it has the sources to continue in business for the foreseeable future.

Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

2.10.2 Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

2.10.3 Impairment Losses on Loans and Advances

The Group reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the Profit or Loss. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found to be impaired have been provided for. All individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident.

The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan to collateral ratios, etc.) and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

The impairment loss on loans and advances as disclosed in Note 25.

2.10.4 Impairment of Available-for-sale Investments

The Group records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

2.10.5 Impairment Losses on Other Assets

The Group assesses whether there are any indicators of impairment for an asset or a cash-generating unit at each Reporting date or more frequently, if events or changes in circumstances necessitate to do so. This requires the estimation of the 'value in use' of such individual assets or the cash-generating units. Estimating value in use requires management to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Group to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

2.10.6 Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

2.10.7 Current Taxation

The Bank and its subsidiary is subject to income taxes and other taxes including VAT on financial services. Significant judgment was required to determine the total provision for current, deferred and other taxes and the taxable profit for the purpose of imposition of taxes. The Group recognised assets and liabilities for current, deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the profit or loss.

2.10.8 Defined Benefit plan

The cost of the defined benefit plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, Salary Increment Rate, Age of Retirement and Mortality Rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

2.10.9 Useful life-time of Property, Plant and Equipment

The Bank reviews the residual values, useful lives and methods of depreciation of assets as at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

2.10.10 Commitments and Contingencies

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be readily measured as defined in the Sri Lanka Accounting Standard – LKAS 37 on 'Provisions, Contingent Liabilities and Contingent Assets'.

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote.

Operating lease commitments of the Bank (as a lessor and as a lessee) and pending legal claims against the Bank too form part of the commitments of the Bank.

2.11 Events after the Reporting Date

Events after the Reporting Date are those events, favorable and unfavorable, that occur between the Reporting date and the date when the Financial Statements are authorised for issue.

In this regard, all material and important events that occurred after the reporting period are considered and appropriate disclosures are made where necessary.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of Consolidation

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements of the Group, unless otherwise indicated.

The Group's Financial Statements comprise consolidation of the Financial Statements of the Bank, its Subsidiary in terms of the Sri Lanka Accounting Standard – SLFRS 10 on 'Consolidated and Separate Financial Statements'.

3.1.1 Business Combinations

Business combinations are accounted for using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

3.1.2 Subsidiaries

Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

The Financial Statements of the Bank's Subsidiary is prepared for the same reporting year, using consistent accounting policies.

There are no significant restrictions on the ability of Subsidiary to transfer funds to the Parent (the Bank) in the form of cash dividend or repayment of loans and advances.

The summarised financial information of the subsidiary is included in Note 28.

3.1.3 Loss of Control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

3.1.4 Non-controlling interests ('NCI')

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

3.1.5 Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Foreign Currency Transactions and Balances

Foreign currency transactions are translated into the Functional Currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the dates of the transactions. In this regard,the Group's practice is to use the middle rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the Reporting date are retranslated to the Functional Currency at the middle exchange rate of the Functional Currency Ruling at the Reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the Functional Currency at the beginning of the year adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the Reporting date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the Functional Currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or qualifying cash flow hedges, which are recognised in Other Comprehensive Income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

ASSETS, LIABILITIES AND BASES OF THEIR VALUATION

3.3 Financial instruments

3.3.1 Initial Recognition, Classification and Subsequent Measurement

3.3.1.1 Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

3.3.1.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss per the Sri Lanka Accounting Standard - LKAS 39 on 'Financial Instruments Recognition & Measurement'.

3.3.1.2.1 Day 1' profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value ('Day 1' profit or loss) in 'Net operating income'. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

3.3.1.3 Classification and Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

3.3.1.3.1 Financial assets or financial liabilities held-for-trading

Financial assets or financial liabilities held-for-trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in 'Net operating income'. Interest and dividend income or expense is recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established. Included in this classification are equities.

3.3.1.3.2 Financial assets and financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities classified in this category are those that have been designated by management on initial recognition. Management designates an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.

The assets and liabilities are part of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial assets and liabilities designated at fair value through profit or loss. Interest is earned or incurred is accrued in 'Interest Income' or 'Interest expense', respectively, using the effective interest rate (EIR), while dividend income is Recorded in 'Other operating income' when the right to the payment has been established.

The Bank has not designated any financial assets and liabilities upon initial recognition as at fair value through profit or loss.

3.3.1.3.3 Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest and similar income' in the income statement. The losses arising from impairment of such investments are recognised in the income statement line 'Impairment for loans and other losses'. If the Bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances permitted in the Sri Lanka Accounting Standard LKAS 39 on 'Financial Instruments: Recognition & Measurement'), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

Included in this classification is Government securities -Treasury Bills & Treasury Bonds.

3.3.1.3.4 Loans and advances to banks and other customers (Loans and Receivables)

'Loans and advances to customers' include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

Those that the Group intends to sell immediately or in the near term and those that the Group upon initial recognition designates as at fair value through profit or loss.

Those that the Bank, upon initial recognition, designates as available-for-sale.

Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, amounts 'Loans and advances to customers' are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest income' in the comprehensive income. The losses arising from impairment are recognised in the comprehensive income in 'Impairment expenses for loans and advances and other losses'.

Included in this classification are Leases, Hire Purchase, Margin Trading Receivable & Other Loans and Advances.

3.3.1.3.4.1 Securities Purchased Under Resale Agreements (Reverse Repos)

When the Group purchases a financial asset and simultaneously enters into an agreement to resale the asset (or a similar asset) at a fixed price on a future date (Reverse Repo), the arrangement is accounted for as a financial asset in the Statement of Financial Position reflecting the transaction's economic substance as a loan granted by the Group. Subsequent to initial recognition, these securities issued are measured at their amortised cost using the EIR method with the corresponding interest receivable being recognised as interest income in profit or loss.

3.3.1.3.4.2 Leases

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

3.3.1.3.4.2.1 Operating Leases - Group as a lessor

Leases where the Company does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Contingent rents are recognised as revenue in the period in which they are earned.

3.3.1.3.4.2.2 Finance Leases – Group as a lessor

Assets leased to customers whom transfer substantially all the risks and rewards associated with ownership Other than legal title, are classified as 'Finance Leases'. Amounts receivable under finance leases are included under 'Loans and Advances' in the Statement of Financial Position after deduction of initial rentals received, unearned lease income and the accumulated impairment losses. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as unearned finance income, which is allocated to accounting periods reflect a constant periodic rate of return.

3.3.1.3.4.3 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, placements with banks and loans at call and at short notice that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

3.3.1.3.4.4 Balances With Central Banks

The Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain a statutory reserve equal to 6% on all deposit liabilities denominated in Sri Lankan Rupees. Balances with Central Banks are carried at amortised cost in the Statement of Financial Position.

3.3.1.3.5 Available-for-sale financial investments

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. The Bank has not designated any loans or receivables as available-for-sale. After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

3.3.1.3.6 Financial liabilities at amortised cost

Financial instruments issued by the Bank, that are not designated at fair value through profit or loss, are classified as liabilities under 'Deposits from customers and Other borrowings', where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the EIR. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

Unrealised gains and losses are recognised directly in equity in the 'Available-for-sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement in 'Other operating income'. Where the Bank holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Dividends earned whilst holding available-for-sale financial investments are recognised in the income statement as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the income statement in 'Impairment losses on financial investments' and removed from the 'Available-for-sale reserve'.

3.3.1.3.6.1 Deposits and Borrowings

Deposits and borrowings are the Group's sources of debt funding.

3.3.1.3.6.2 Due to Banks and Other Financial Institutions

These represents refinance borrowings, called money borrowings, credit balances in Nostro Accounts and borrowings from financial institutions. Subsequent to initial recognition deposits are measured at their amortised cost using the EIR method. Interest paid/payable on these borrowings is recognised in profit or loss.

3.3.1.3.6.3 Due to Customers

These include non-interest-bearing deposits, savings deposits, term deposits, deposits payable at call and certificates of deposit. Subsequent to initial recognition deposits are measured at their amortised cost using the EIR method, except where the Group designates liabilities at fair value through profit or loss. Interest paid/payable on these deposits is recognised in profit or loss.

3.3.1.3.6.4 Securities Sold Under Repurchase Agreements (Repos)

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (Repo), the arrangement is accounted for as a financial liability, and the underlying asset continues to be recognised in the Group's Financial Statements as the Group retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated Statement of Financial Position as an asset with a corresponding obligation to return it as a liability under 'Securities sold under repurchase agreements', reflecting the transaction's economic substance as a loan to the Group.

Subsequent to initial recognition, these securities sold are measured at their amortised cost using the EIR method with the corresponding interest payable is recognised as interest expense in profit or loss.

3.3.2 Determination of fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

Fair Value Measurement Hierarchy

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1

Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

A market is regarded as active, if quoted prices are readily and regularly available and represent actual and regularly occurs market transactions on an arm's length basis.

Level 2

Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3

Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 19.

3.3.3 Reclassification of Financial Assets & Liabilities

The Group reclassifies non-derivative financial assets out of the 'held-for-trading' category and into the 'available-for-sale', 'loans and receivables', or 'held to maturity' categories as permitted by the Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement'. Further, in certain circumstances, the Group is permitted to reclassify financial instruments out of the 'available-for-sale' category and into the 'loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset with a fixed maturity reclassified out of the 'available-for-sale' category, any previous gain or loss on that asset that has been recognised in Equity is amortised to profit or loss over the remaining life of the asset using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. In the case of a financial asset that does not have a fixed maturity, the gain or loss is recognised in the profit or loss when such financial asset is sold or disposed of. If the financial asset is subsequently determined to be impaired, then the amount recorded in Equity is recycled to profit or loss.

The Group may reclassify a non-derivative trading asset out of the 'held-for-trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified and if the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of the Management and is determined on an instrument-by-instrument basis.

The Group does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition. Further, the Group does not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated as at fair value through profit or loss.

3.3.4 Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is considered as an objective evidence of impairment. In general, the Group considers a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may be appropriate.

3.3.4.1 Impairment of Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as loans and advances to customers as well as held-to-maturity investments), the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial as sets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest Income'.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Income Statement'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from fore closure less costs for obtaining and selling the collateral, whether or not fore closure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's credit risk characteristics such as asset type, industry, geographical location, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Details of impairment losses on financial assets carried at amortised cost and an analysis of the impairment provision on loans and advances by class are given in Note 25.

3.3.4.2 Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost.

However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future profit income is based on the reduced carrying amount and is accrued using the rate of return used to discount the future cash flows for the purpose of measuring the impairment loss.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from equity and recognised in the income statement.

Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised in other comprehensive income.

3.3.4.3 Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

3.3.4.4 Collateral valuation

The Group seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as Independent Valuers, Audited Financial Statements.

3.3.5 Derecognition of financial assets and financial liabilities

3.3.5.1 Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
- The Bank has transferred substantially all the risks and rewards of the asset, or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

3.3.5.2 Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

3.3.6 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in statement of financial position.

3.4 Property, Plant and Equipment

The Group applies the requirements of the Sri Lanka Accounting Standard – LKAS 16 on 'Property, Plant & Equipment' in accounting for its owned assets (including buildings under operating leases where the Bank is the lessee) which are held for and used in the provision of services, for rental to others or for administrative purposes and are expected to be used for more than one year.

3.4.1 Basis of Recognition
Property, Plant & Equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Group and cost of the asset can be reliably measured.

3.4.2 Basis of Measurement
An item of Property, Plant & Equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs (excluding the costs of day-to-day servicing). The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software which is integral to the functionality of the related equipment is capitalised as part of Computer Equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

3.4.2.1 Cost Model
The Group applies the Cost Model to all Property, Plant & Equipment except for freehold land which is recorded at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

3.4.2.2 Revaluation Model
The Group applies the Revaluation Model for the entire class of freehold land for measurement after initial recognition. Such properties are carried at revalued amounts, being their fair value at the date of revaluation, less any accumulated impairment losses charged subsequent to the date of valuation. Freehold land of the Group is revalued every three years or more frequently if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ from the fair values at the Reporting date.

On revaluation of an asset, any increase in the carrying amount is recognised in Other Comprehensive Income and presented in Revaluation Reserve in Equity or used to reverse a previous loss on revaluation of the same asset, which was charged to the Income Statement. In this circumstance, the increase is recognised as income only to the extent of the previous write down in value. Any decrease in the carrying amount is recognised as an expense in the Income Statement or charged in Other Comprehensive Income and presented in Revaluation Reserve in equity only to the extent of any credit balance existing in the Revaluation Reserve in respect of that asset. Any balance remaining in the Revaluation Reserve in respect of an asset, is transferred directly to Retained Earnings on retirement or disposal of the asset.

3.4.3 Subsequent Cost
The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

3.4.4 Derecognition
An item of Property, Plant & Equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset), is recognised in 'Other Income/ Expenses' in profit or loss in the year the asset is derecognised.

When replacement costs are recognised in the carrying amount of an item of Property, Plant & Equipment, the remaining carrying amount of the replaced part is derecognised as required by the Sri Lanka Accounting Standard – LKAS 16 on' Property, Plant & Equipment'.

3.4.5 Capital Work-in-Progress
These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. These are stated in the Statement of Financial Position at cost.

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3.4.6 Depreciation
Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

The estimated useful lives are as follows:

Description	Bank	Subsidiary
Furniture & Fittings	5 years	5 years
Office Equipment	5 years	5 years
Computer Hardware	4 years	4 years
Motor Vehicle	4 years	4 years
Machinery	5 years	5 years
Improvements to Leasehold Buildings	8-15 years	-
Building	-	25 years

Depreciation is provided proportionately from the date of purchase up to the date of disposal of Property, Plant and Equipment.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

3.5 Intangible Assets
The Group's intangible assets include the value of acquired goodwill and computer software.

3.5.1 Basis of Recognition
An Intangible Asset is recognised, if it is probable future economic benefits that are attributable to the asset that will flow to the entity and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard - LKAS 38 on 'Intangible Assets'.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, these assets are stated in the Statement of Financial Position at cost, less accumulated amortisation and accumulated impairment losses, if any.

3.5.2 Subsequent Expenditure
Expenditure incurred on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

3.5.3 Goodwill
Goodwill that arises on the acquisition of Subsidiaries is presented with intangible assets (Refer Note 5.1.1 on page 285). Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

3.5.4 Amortisation
Intangible Assets are amortised on a straight line basis over a period of 4-8 years in the profit or loss from the date when the asset is available for use, over the best estimate of its useful economic life.

3.5.5 Computer Software
Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Computer software costs incurred and licensed for use by the Bank, which are not integrally related to associate hardware, and can be clearly identified, reliably measured and it is probable that they will lead to future economic benefits are included in the statement of financial position under the category

Intangible Assets and carried at cost less accumulated amortisation and accumulated impairment losses if any.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development.

The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

3.5.6 Derecognition of Intangible Assets

Intangible assets are derecognised on disposal or when no future economic benefits are expected from their use. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceed and the carrying amount of the asset and are recognised in profit or loss.

3.6 Impairment of non-financial assets

The Bank/Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement

3.7 Employee Benefits

3.7.1 Defined Contribution Plans- Employees' Provident Fund & Employees' Trust Fund

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that is due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in accordance with the respective statutes and regulations. The Bank contributes 12% and 3% of gross emoluments of employees to the Employees' Provident Fund and Employees' Trust Fund, respectively.

3.7.2 Defined Benefit Plan- Gratuity

Based on the Sri Lanka Accounting Standard LKAS19- Employee Benefits, the Company has adopted the actuarial valuation method for employee benefit liability an actuarial valuation is carried out every year to ascertain the full liability. A separate fund is not maintained for this purpose.

The principal assumptions, which have the most significant effects on the valuation, are the rate of discount, rate of increase in salary, rate of turnover at the selected ages, rate of disability, death benefits and expenses.

The liability is measured on an actuarial basis using the projected unit credit method, adjusted for unrecognised actuarial gains and losses. The defined benefit plan liability is discounted using rates equivalent to the market yields at the date of statement of financial position that are denominated in the currency in which benefits will be paid, and that have a maturity approximating to the terms of the related pension liability.

The Bank/Group recognises all actuarial gains and losses arising from the defined benefit plan in other comprehensive income (OCI) and all other expenses related to defined benefit plans are recognise as personnel expenses in the Income Statement.

3.7.3 Short-Term Employee Benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.8 Other Liabilities

Other Liabilities include interest, fees and expenses and other provisions. These liabilities are recorded at amounts expected to be payable at the reporting date.

3.9 Provisions

A provision is recognised in the Statement of Financial Position when the Bank has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the provision can be measured reliably in accordance with the Sri Lanka Accounting Standard - LKAS 37 on 'Provisions,Contingent Liabilities and Contingent Assets'. The amount recognised is the best estimate of the consideration required to settle the present obligation at the Reporting date, taking into account the risks and uncertainties surrounding the obligation at that date.

3.10 Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Financial guarantees and commitments to provide a loan at a below-market interest rate are included within other liabilities.

3.11 Contingent Liabilities and Commitments

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be readily measured as defined in the Sri Lanka Accounting Standard - LKAS 37 on 'Provisions, Contingent Liabilities and Contingent Assets'.

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote.

Operating lease commitments of the Group (as a lessor and as a lessee) form part of commitments and pending legal claims against the Group form part of contingencies.

3.12 Stated Capital and Reserves

3.12.1 Debt Vs Equity

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Distributions thereon are recognised as interest or dividend depending on the debt or equity classification.

3.12.2 Share Issue Costs
Incremental costs that are directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

3.12.3 Reserves
Several statutory and voluntary reserves are maintained by the Group in order to meet various legal and operational requirements.

3.13 Earnings Per Share
Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period.

RECOGNITION OF INCOME AND EXPENSES
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

3.14 Interest and Similar Income and Expense
For all financial instruments measured at amortised cost interest bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate,to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest and similar income'. However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an Impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.15 Fee and Commission Income
The Bank/Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- Fee income earned from services that are provided over a certain period of time
- Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

3.16 Net Trading Income
Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

3.17 Dividend Income
Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in net trading income, net income from other financial instruments at fair value through profit or loss or other revenue based on the underlying classification of the equity investment.

3.18 Lease Income
In terms of the provisions of the Sri Lanka Accounting Standard - LKAS 17 on 'Leases', the recognition of finance income on leasing is accounted, based on a pattern reflecting a constant periodic rate of return on capital outstanding.

The excess of aggregate lease rentals receivable over the cost of the leased assets constitutes the total unearned finance income at the commencement of a lease. The unearned finance income included in the lease rentals receivable is recognised in profit or loss over the term of the lease commencing from the month in which the lease is executed using EIR.

3.19 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.

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 expense on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

3.20 Rental Income and Expense

Rental income and expense are recognised in the profit or loss on an accrual basis.

3.21 Borrowing Costs

As per the Sri Lanka Accounting Standard – LKAS 23 on 'Borrowing Costs', the Group/ Bank capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognised in the profit or loss in the period in which they occur.

3.22 Expenditure Recognition

Expenditure is recognised in the financial statements as they are incurred and recognised on an accrual basis.

All expenditure incurred in the running of the business and in maintaining the Property, Plant & Equipment in a state of efficiency has been charged to the profit or loss.

3.23 Income Tax Expenses

Income tax expenses comprises current and deferred tax. Income tax is recognised in the Income Statement except to the extent it relates to items recognised directly in equity or OCI, in which case it is recognied in equity or OCI.

3.23.1 Current Taxation

Current tax' comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Accordingly, provision for taxation is made on the basis of the accounting profit for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto, at the rates specified.

3.23.2 Deferred Taxation

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Group has not rebutted this presumption.

Additional taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised. These amounts are generally recognised in profit or loss because they generally relate to income arising from transactions that were originally recognised in profit or loss.

3.24 Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from April 01, 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

3.25 Value Added Tax on Financial Services

The base for the computation of Value Added Tax on Financial Services is the accounting profit before emoluments paid to employees and income tax, which is adjusted for the depreciation computed on prescribed rates.

3.26 Economic Service Charge (ESC)

As per the provisions of the Finance Act No. 11 of 2004, and amendments thereto, the ESC was introduced with effect from April 01, 2004. Currently, the ESC is payable at 0.25% on 'Exempt Turnover' and is deductible from the income tax payments. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the five subsequent years.

3.27 Nation Building Tax on Financial Services (NBT)

With effect from January 01, 2014, NBT of 2% was introduced on supply of financial services via an amendment to the NBT Act No. 9 of 2009.

4. STATEMENT OF CASH FLOW

The Cash Flow Statement has been prepared using the 'Indirect Method' of preparing Cash Flows in accordance with the LKAS - 7- 'Cash Flow Statements.' Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

5. OPERATING SEGMENTS

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Corporate Management Team headed by the Managing Director/ Chief Executive Officer (being the chief operating decision-maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

In accordance with the Sri Lankan Accounting Standard SLFRS 8- 'Segmental Reporting', segmental information is presented in respect of the Company based on company management and internal reporting structure.

The Company's segmental reporting is based on the following operating segments.

- Banking
- Leasing and Hire Purchase
- Treasury and Investments
- Unallocated

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss of respective segment.

6. NEW ACCOUNTING STANDARDS

6.1 New Accounting Standards Issued but not Effective as at Reporting Date

A number of new standards and amendments to standards which have been issued but not yet effective as at the Reporting date have not been applied in preparing these consolidated Financial Statements. Accordingly, these Accounting Standards have not been applied in preparing these financial statements.

Notes to the Financial Statements Contd.

New or amended standards	Summary of the requirements	Possible impact on consolidated financial statements
SLFS 9 Financial Instruments	SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 include srevised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39. Effective date of IFRS 9 has been deferred till January 1, 2018.	The Bank/Group is assessing the potential impact on its consolidated financial statements resulting from the application of SLFRS 9. Given the nature of the Bank/Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements. In particular,calculation of impairment of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances.
SLRS 15 Revenue from Contracts with Customers	SLFRS 15 establishes a comprehensive frame work for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue and LKAS 11 Construction Contracts. SLFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018.	The Bank/Group is assessing the potential impact on its consolidated financial statements resulting from the application of SLFRS 15.

The following new accounting standards are not expected to have an impact of the Bank/Group's financial statements.

Agriculture: Bearer Plants (Amendments to LKAS 16 and LKAS 41) – Effective date January 1, 2016.
Regulatory Deferral Assets (SLFRS 14) – Effective date January 1, 2016.

For the year ended 31 December	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000

7. NET INTEREST INCOME

Interest income				
Cash & cash equivalents	–	118,847	–	118,847
Placements with other banks	62,166	55,954	62,166	55,954
Loans & receivable to banks	28,866	83,066	31,742	84,602
Loans & receivables to other customers	340,289	47,224	489,283	110,871
Financial investments available-for-sale	100,607	38,345	100,607	38,345
Other interest income	–	–	2,500	1,098
Total interest income	531,928	343,436	686,298	409,717
Interest expenses				
Due to banks	1,984	1,347	2,245	1,347
Due to other customers	145,658	18,504	207,587	45,996
Other borrowings	59,417	11,024	59,417	15,959
Total interest expenses	207,059	30,875	269,249	63,302
Net interest income	324,869	312,561	417,049	346,415

7.1 NET INTEREST INCOME FROM SRI LANKA GOVERNMENT SECURITIES

Interest income	129,473	121,411	132,349	122,509
Less : Interest expenses	59,417	2,162	59,417	2,162
Sub total	70,056	119,249	72,932	120,347

The Inland Revenue Act No. 10 of 2006 and the amendment thereto, provide that a company which derives net interest income from the secondary market transactions on Government Securities (on or after April 1, 2002) would be entitled to a notional tax credit (being one-ninth of the net interest income), provided such interest income forms part of statutory income of the Company for that year of assessment.

Accordingly, net interest income earned by the Bank and the Group from the secondary market transactions in Government Securities for the year, has been grossed up in these financial statements and the resulting notional tax credit amounted to Rs. 7.01 Mn (2014 – Rs. 11.92 Mn) for Bank and Rs. 7.29 Mn (2014 – Rs. 12.03 Mn) for Group.

For the year ended 31 December	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000

8. NET FEES AND COMMISSION INCOME

Fees and commission income (Note 8.1)	47,251	12,317	49,954	13,549
Less: Fees and commission expenses (Note 8.2)	10,671	1,201	11,249	1,320
Net fees and commission income	36,580	11,116	38,705	12,229

Notes to the Financial Statements Contd.

For the year ended 31 December	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000
8.1 Fees and commission income				
Loans & advances	3,698	582	4,916	1,343
Debit cards	454	74	454	74
Trade & remittances	22,230	6,193	22,230	6,193
Guarantees	12,929	2,562	12,929	2,562
Deposits	3,169	2,024	3,169	2,024
Other financial services	4,771	882	6,256	1,353
Total commission income	47,251	12,317	49,954	13,549
8.2 Fees and commission expenses				
Other financial services	10,671	1,201	11,249	1,320
Total fee & commission expenses	10,671	1,201	11,249	1,320

9. NET GAINS / (LOSSES) FROM TRADING

	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000
Foreign exchange				
From banks and other customers	481	4,461	481	4,461
Total	481	4,461	481	4,461

10. NET GAINS / (LOSSES) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000
Financial assets at fair value through profit or loss	–	–	62	676
Total	–	–	62	676

11. NET GAINS / (LOSSES) FROM FINANCIAL INVESTMENTS

	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000
Government securities				
Treasury bills and bonds	3,625	2,074	3,625	2,074
Total	3,625	2,074	3,625	2,074

For the year ended 31 December	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000
12. OTHER INCOME				
Gains/(losses) on sale of Property, Plant and Equipment	(51)	–	6	–
Gains/(losses) on revaluation of foreign exchange	20,345	11	20,345	11
Reversal of impairment charges and loans written-off	–	–	1,376	92
Dividends received	268	79	356	93
Rental & other income	631	563	7,940	4,106
Total	21,193	653	30,023	4,302
13. IMPAIRMENT FOR LOANS AND OTHER LOSSES				
Loans & receivables to other customers				
Charge to the income statement on individual impairment (Refer Note 25.2)	9,209	–	25,740	7,388
Charge to the income statement on collective impairment (Refer Note 25.2)	11,476	11,110	19,079	2,878
Charge/ (Reversal) – Property, plant and equipment (Refer Note 29)	(20,328)	5,654	(20,328)	5,654
Total	357	16,764	24,491	15,920
14. PERSONNEL EXPENSES				
Salary and bonus (Refer Note 14.1)	225,913	169,864	258,211	181,787
Contributions to defined contribution plans	23,809	21,264	28,257	23,025
Contributions to defined benefit plans (Refer Note 35.1)	4,105	4,466	5,653	4,709
Contributions to defined benefit plans transferred to/ (from) related companies	1,609	(1,388)	1,609	(1,388)
Others	11,844	3,343	14,247	4,506
Total	267,280	197,549	307,977	212,639

14.1 Salary and bonus and contributions to defined benefit plans/ contribution plans, reported above include the amounts paid and contributed on behalf of Executive Directors.

For the year ended 31 December	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000
15. OTHER EXPENSES				
Directors' emoluments (Refer Note 15.1)	11,010	9,845	12,220	10,595
Auditors' remunerations	1,725	2,100	2,105	2,288
Audit related fee and expenses	1,725	1,900	2,105	2,088
Non-audit fee and expenses	–	200	–	200
Professional and legal expenses	15,812	10,641	19,945	11,913
Depreciation of property, plant and equipment (Refer Note 29)	86,259	75,190	88,836	76,791
Amortisation of intangible assets (Refer Note 30.1)	44,430	30,392	45,924	30,928
Transaction cost of acquisition of subsidiary (Refer Note 28.4)	–	3,045	–	3,045
Office administration and establishment expenses	276,083	218,106	308,845	231,315
Total	435,319	349,319	477,875	366,875

15.1 Directors' emoluments represent the fees paid to Non-Executive Directors.

Notes to the Financial Statements Contd.

For the year ended 31 December	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000
16. INCOME TAX EXPENSES				
Current taxation on profits for the year	-	-	1,007	845
Origination/ (reversal) of temporary difference (Note 16.4)	-	(116,000)	(9,081)	(116,696)
	-	(116,000)	(8,074)	(115,851)
16.1 A reconciliation of tax expense				
Accounting loss before tax from operations	(316,208)	(235,054)	(323,781)	(229,063)
Tax effect at the statutory income tax rate	(88,538)	(65,815)	(90,658)	(64,112)
Tax effect of exempt income	(6,567)	(180)	(6,590)	(456)
Tax effect of non-deductible expenses	46,015	38,804	61,769	42,476
Tax effect of deductible expenses	(46,345)	(43,483)	(57,670)	(48,142)
Taxable profit/ (loss) on disposal of lease/fixed assets	-	-	(2,644)	867
Tax losses utilised during the year	-	-	-	(672)
(Over) / under provision in respect of prior years	-	-	-	-
Deferred tax expense/ (reversal)	-	(116,000)	(9,081)	(116,696)
Tax losses for which deferred tax asset was not recognised	95,435	70,674	96,800	70,884
Income tax expenses related in the income statement the effective income tax rate	-	(116,000)	(8,074)	(115,851)

16.2 In terms of provision of Inland Revenue Act No.10 of 2006 and amendments thereto, the Bank is liable for income tax at 28%. There is no tax liability for the current financial year due to the operating losses incurred during the year 2015.

For the year ended 31 December	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000
16.3 Tax losses/ credits carried forward				
Tax losses brought forward	976,062	264,456	1,010,943	264,456
Tax losses on acquisition of subsidiary	-	-	-	36,533
Acquisition of subsidiary	-	459,200	-	459,200
Tax losses utilised during the year	-	-	-	(2,401)
Tax losses arise during the year	340,842	252,406	340,842	253,155
Tax losses/ credits available for utilisation	1,316,904	976,062	1,351,785	1,010,943
16.4 Deferred tax expenses				
Deferred tax asset recognised during the year	11,523	131,779	33,318	131,779
Deferred tax liability originated during the year	(11,523)	(15,779)	(24,237)	(15,083)
	-	116,000	9,081	116,696
Deferred Taxation				
Deferred tax assets (Refer Note 16.5)	120,815	116,195	124,834	116,195
Deferred tax liabilities (Refer Note 16.6)	-	-	-	5,028

For the year ended 31 December	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000
16.5 Deferred tax asset				
Opening balance	145,976	14,002	145,976	14,002
Originated during the year-recognised in profit or loss	11,523	131,779	33,318	131,779
Originated during the year-recognised in other comprehensive income	4,620	195	4,586	195
Closing balance	162,119	145,976	183,880	145,976
Set off against deferred tax liability	(41,304)	(29,781)	(59,046)	(29,781)
Balance deferred tax asset	120,815	116,195	124,834	116,195
16.6 Deferred tax liability				
Opening balance	(29,781)	(14,002)	(34,809)	(14,002)
On acquisition of subsidiary	–	–	–	(5,724)
Originated during the year – recognised in profit or loss	(11,523)	(15,779)	(24,237)	(15,083)
Closing balance	(41,304)	(29,781)	(59,046)	(34,809)
Set off against deferred tax asset	41,304	29,781	59,046	29,781
Balance deferred tax liability	–	–	–	(5,028)

Reconciliation of deferred tax assets/liabilities

	Bank 2015 Temporary difference	Bank 2015 Tax effect	Bank 2014 Temporary difference	Bank 2014 Tax effect	Group 2015 Temporary difference	Group 2015 Tax effect	Group 2014 Temporary difference	Group 2014 Tax effect
Deferred tax assets								
Employee benefits	9,492	2,658	4,466	1,250	13,247	3,709	4,466	1,250
Unrealised loss on available-for-sale portfolio	15,836	4,434	697	195	15,836	4,434	697	195
Net actuarial gains/(losses) on defined benefit plans	1,361	381	–	–	1,240	347	–	–
Carried forward tax losses	552,307	154,646	516,181	144,531	584,395	163,631	516,181	144,531
Disallowed bad debts provision (Leasing)	–	–	–	–	27,550	7,714	–	–
Disallowed bad debts provision (Hire purchase)	–	–	–	–	14,446	4,045	–	–
	578,996	162,119	521,344	145,976	656,714	183,880	521,344	145,976
Deferred tax liabilities								
Property plant & equipment	147,513	41,304	106,361	29,781	167,899	47,012	132,406	37,074
Finance leases	–	–	–	–	42,980	12,034	59,496	16,659
Current period tax loss on leasing business	–	–	–	–	–	–	(8,134)	(2,278)
Current period tax loss on hire purchase & others	–	–	–	–	–	–	(22,240)	(6,227)
Carried forward disallowed bad debt provision	–	–	–	–	–	–	(34,881)	(9,767)
Employee benefits	–	–	–	–	–	–	(2,328)	(652)
	147,513	41,304	106,361	29,781	210,879	59,046	124,319	34,809

The total temporary differences arising from tax losses and tax credits amounted to Rs. 1,344 Mn. resulting in a deferred tax asset of Rs. 376 Mn. as at 31 December 2015. Based on the 5 years forecast prepared by the management and internal assessment carried out by the Board of Directors, the recognition of deferred tax asset has been limited to Rs. 162 Mn. The unrecognised deferred tax assets as at 31 December 2015 was Rs. 214 Mn.

For the year ended 31 December	Bank 2015	Bank 2014	Group 2015	Group 2014
17. BASIC LOSS PER SHARE				
Amount used as the numerator				
Loss for the year (Rs. '000)	(316,208)	(119,054)	(315,825)	(114,584)
Amount used as the denominator				
Weighted average number of ordinary shares in issue during the year	440,117,808	440,000,000	440,117,808	440,000,000
Basic loss per share (Rs.)	(0.72)	(0.27)	(0.72)	(0.26)

18. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

18.1 (a) Bank - As at 31 December 2015

	Note	Held for Trading Rs. '000	Held to Maturity Rs. '000	Loans and Receivables Rs. '000	Available for Sale Rs. '000	Other Amortised Cost Rs. '000	Total Rs. '000
Financial assets							
Cash and cash equivalents	20	–	–	174,129	–	–	174,129
Balance with Central Bank	21	–	–	139,342	–	–	139,342
Placements with banks	22	–	–	2,018,773	–	–	2,018,773
Loans & receivable to banks	24	–	–	1,000,172	–	–	1,000,172
Loans & receivable to other customers	25	–	–	7,206,375	–	–	7,206,375
Financial investments available-for-sale	26	–	–	–	1,604,080	–	1,604,080
Total financial assets		–	–	10,538,791	1,604,080	–	12,142,871
Financial liabilities							
Due to banks	32	–	–	–	–	5,347	5,347
Due to other customers	33	–	–	–	–	3,870,200	3,870,200
Other borrowings	34	–	–	–	–	1,993,383	1,993,383
Total financial liabilities		–	–	–	–	5,868,930	5,868,930

18.1 (b) Bank - As at 31 December 2014

	Note	Held for Trading Rs. '000	Held to Maturity Rs. '000	Loans and Receivables Rs. '000	Available for Sale Rs. '000	Other Amortised Cost Rs. '000	Total Rs. '000
Financial assets							
Cash and cash equivalents	20	–	–	39,039	–	–	39,039
Balance with Central Bank	21	–	–	55,886	–	–	55,886
Placements with banks	22	–	–	1,718,737	–	–	1,718,737
Loans & receivables to banks	24	–	–	503,425	–	–	503,425
Loans & receivables to other customers	25	–	–	2,230,418	–	–	2,230,418
Financial investments available-for-sale	26	–	–	–	1,034,026	–	1,034,026
Total financial assets		–	–	4,547,505	1,034,026	–	5,581,531
Financial liabilities							
Due to banks	32	–	–	–	–	279,242	279,242
Due to other customers	33	–	–	–	–	1,265,615	1,265,615
Other borrowings	34	–	–	–	–	551,083	551,083
Total financial liabilities		–	–	–	–	2,095,940	2,095,940

18.2 (a) Group - As at 31 December 2015

	Note	Held for Trading Rs. '000	Held to Maturity Rs. '000	Loans and Receivables Rs. '000	Available for Sale Rs. '000	Other Amortised Cost Rs. '000	Total Rs. '000
Financial assets							
Cash and cash equivalents	20	–	–	196,157	–	–	196,157
Balance with Central Bank	21	–	–	139,342	–	–	139,342
Placements with banks	22	–	–	2,018,773	–	–	2,018,773
Other financial instruments held for trading	23	2,300	–	–	–	–	2,300
Loans & receivables to banks	24	–	–	1,022,172	–	–	1,022,172
Loans & receivables to other customers	25	–	–	8,084,912	–	–	8,084,912
Financial investments available-for-sale	26	–	–	–	1,604,426	–	1,604,426
Financial investments held to maturity	27	–	40,036	–	–	–	40,036
Total financial assets		2,300	40,036	11,461,356	1,604,426	–	13,108,118
Financial liabilities							
Due to banks	32	–	–	–	–	6,507	6,507
Due to other customers	33	–	–	–	–	4,587,188	4,587,188
Other borrowings	34	–	–	–	–	1,993,383	1,993,383
Total financial liabilities		–	–	–	–	6,587,078	6,587,078

18.2 (b) Group - As at 31 December 2014

	Note	Held for Trading Rs. '000	Held to Maturity Rs. '000	Loans and Receivables Rs. '000	Available for Sale Rs. '000	Other Amortised Cost Rs. '000	Total Rs. '000
Financial assets							
Cash and cash equivalents	20	–	–	61,239	–	–	61,239
Balance with Central Bank	21	–	–	55,886	–	–	55,886
Placements with banks	22	–	–	1,718,737	–	–	1,718,737
Other financial instruments held for trading	23	4,199	–	–	–	–	4,199
Loans & receivables to banks	24	–	–	511,425	–	–	511,425
Loans & receivables to other customers	25	–	–	3,085,835	–	–	3,085,835
Financial investments available-for-sale	26	–	–	–	1,034,372	–	1,034,372
Financial investment held to maturity	27	–	25,415	–	–	–	25,415
Total financial assets		4,199	25,415	5,433,122	1,034,372	–	6,497,108
Financial liabilities							
Due to banks	32	–	–	–	–	279,242	279,242
Due to other customers	33	–	–	–	–	1,919,132	1,919,132
Other borrowings	34	–	–	–	–	551,083	551,083
Total financial liabilities		–	–	–	–	2,749,457	2,749,457

19. FAIR VALUES OF FINANCIAL INSTRUMENTS

19.1 Financial instruments measured at fair value - fair value hierarchy

The amounts are based on the values recognised in the Statement of Financial Position.

		Bank				Group			
	Note	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
As at 31 December 2015									
Assets									
Other financial instruments –									
Held-for-trading		–	–	–	–	2,300	–	–	2,300
'Financial investments –									
Available-for-sale(*)		1,598,197	–	5,883	1,604,080	1,598,197	–	6,229	1,604,426
Total assets at fair value		1,598,197	–	5,883	1,604,080	1,600,497	–	6,229	1,606,726

19.1 Financial instruments measured at fair value - fair value hierarchy Contd.

	Note	Bank				Group			
		Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
As at 31 December 2014									
Assets									
Other financial instruments -									
Held-for-trading		-	-	-	-	4,199	-	-	4,199
'Financial investments -									
Available-for-sale(*)		1,028,143	-	5,883	1,034,026	1,028,143	-	6,229	1,034,372
Total assets at fair value		1,028,143	-	5,883	1,034,026	1,032,342	-	6,229	1,038,571
Liabilities									
Derivative financial instruments		-	-	-	-	-	-	-	-
Total liabilities at fair value		-	-	-	-	-	-	-	-

(*) Value of unquoted shares of Rs. 6.2 Mn in Group, Rs. 5.8 Mn in Bank as at end of the year 2015 (Rs. 6.2 Mn in Group and Rs. 5.8 Mn in Bank as at end 2014) categorised under financial investments available-for-sale, whose fair value cannot be reliably measured is stated at cost in the Statement of Financial Position as permitted by the Sri Lanka Accounting Standards - LKAS 39 on "Financial Instruments: Recognition and Measurement".

19.2 Fair value of financial instruments not carried at fair value

Financial instruments not carried at fair value are disclosed under the category of held to maturity, loans and receivables and other amortised cost category in note 18.1 and 18.2. The carrying amounts of these financial instruments are a reasonable approximation of fair values, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near as at the reporting date.

As at 31 December	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000
20. CASH AND CASH EQUIVALENTS				
Cash in hand				
Coins and notes held in local currency	170,712	38,229	170,837	38,246
Coins and notes held in foreign currency	3,417	810	3,417	810
Balances with banks	-	-	21,903	22,183
Total	174,129	39,039	196,157	61,239

As at 31 December	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000

21. BALANCES WITH CENTRAL BANK OF SRI LANKA

Statutory balances with Central Bank of Sri Lanka	139,342	55,886	139,342	55,886
Total	139,342	55,886	139,342	55,886

21.1 As required by the provisions of Section 93 of the Monetary Law Act, a cash balance is maintained with CBSL. As at 31 December 2015, the minimum cash reserve requirement was 6% of the rupee deposit liabilities.

As at 31 December	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000

22. PLACEMENTS WITH BANKS

Placements – within Sri Lanka	1,708,645	1,614,862	1,708,645	1,614,862
Placements – outside Sri Lanka	310,128	103,875	310,128	103,875
Total	2,018,773	1,718,737	2,018,773	1,718,737

23. OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING

Equity shares-quoted	–	–	2,300	4,199
Total	–	–	2,300	4,199

23.1 Equity shares-quoted

As at 31 December	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 No. of Shares	Group 2015 Market Value Rs. '000	Group 2015 Cost Rs. '000	Group 2014 No. of Shares	Group 2014 Market Value Rs. '000	Group 2014 Cost Rs. '000
ACL Cables PLC	–	–	5,800	701	552	5,800	443	552
Balangoda Plantations PLC	–	–	22,000	387	1,471	22,000	583	1,471
Ceylon Hotel Copra.	–	–	4,500	114	177	4,500	104	177
Keells Hotels- JKH	–	–	32,584	502	598	32,584	554	598
Hotel Services cey. (Kingsbury PLC)	–	–	15,000	263	437	15,000	270	437
Sunshine Holdings PLC	–	–	–	–	–	31,000	1,674	1,682
Tokyo Cements Company (Lanka) PLC	–	–	6,798	333	325	8,800	571	420
				2,300	3,560		4,199	5,337
Mark to market losses					(1,260)			(1,138)
Market value of equity shares					2,300			4,199

As at 31 December	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000

24. LOANS & RECEIVABLE TO BANKS

Gross loans & receivables	1,000,172	503,425	1,022,172	511,425
Less : Provision for impairment	–	–	–	–
Net loans and receivables	1,000,172	503,425	1,022,172	511,425

24.1 Analysis

24.1 (a) By product

Loans and advances				
Securities purchased under resale agreements	1,000,172	503,425	1,022,172	511,425
Total	1,000,172	503,425	1,022,172	511,425

24.1 (b) By currency

Sri Lankan Rupee	1,000,172	503,425	1,022,172	511,425
Total	1,000,172	503,425	1,022,172	511,425

25. LOANS & RECEIVABLES TO OTHER CUSTOMERS

Gross loans & receivables	7,238,202	2,241,528	8,211,851	3,166,635
Less: Provision for individual impairment (Note 25.2)	9,209	–	90,603	59,998
Provision for collective impairment (Note 25.2)	22,618	11,110	36,336	20,802
Net loans and receivables	7,206,375	2,230,418	8,084,912	3,085,835

25.1 Analysis

25.1 (a) By product

Overdrafts	1,989,501	1,595,653	1,862,917	1,542,415
Trade finance	1,556,131	470,889	1,556,131	470,889
Lease receivables (Note 25.3)	–	–	320,841	226,093
Hire purchase (Note 25.4)	–	–	167,999	292,366
Housing loans	117,570	906	117,570	906
Personal loans	509,530	13,437	509,530	13,437
Staff loans	30,415	–	30,415	–
Term loans	761,794	160,643	761,794	160,643
Money market loans	1,593,766	–	1,740,695	138,324
Vehicle loans	7,320	–	7,320	–
Bills of exchange	3,766	–	72,953	29,138
Margin trading	–	–	194,141	72,639
Securities purchased under resale agreements	668,409	–	698,917	38,425
Others	–	–	170,628	181,360
Total gross loans & advances	7,238,202	2,241,528	8,211,851	3,166,635

	Bank		Group	
As at 31 December	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
25.1 (b) By currency				
Sri Lankan Rupee	7,057,232	2,241,528	8,030,881	3,166,635
United States Dollar	180,970	–	180,970	–
Sub total	7,238,202	2,241,528	8,211,851	3,166,635
25.1 (c) By industry				
Agriculture & fishing	230,780	38,061	390,675	119,502
Manufacturing	1,202,420	26,674	1,444,779	233,495
Tourism	54,058	35,158	54,058	35,158
Transport	24,198	–	51,051	62,237
Construction	778,383	512,199	778,383	512,199
Traders	1,761,794	874,747	1,761,794	874,747
New economy	42,368	–	42,368	–
Financial & business services	1,707,437	53,238	1,611,361	38,425
Other services	447,824	450,869	527,510	516,281
Other customers	988,940	250,582	1,549,872	774,591
Sub total	7,238,202	2,241,528	8,211,851	3,166,635
25.2 Movement in provision for individual and collective impairment during the year				
Movement in provision for individual impairment				
Opening balance	–	–	59,998	–
On acquisition of subsidiary	–	–	–	63,347
Charge to the income statement	9,209	–	25,740	7,388
Write – off against provision	–	–	4,865	(10,737)
Closing balance	9,209	–	90,603	59,998
Movement in provision for collective impairment				
Opening balance	11,110	–	20,802	–
On acquisition of subsidiary	–	–	–	17,924
Charge to the income statement	11,476	11,110	19,079	2,878
Exchange rate variance on foreign currency provisions	32	–	32	–
Other movements	–	–	(3,577)	–
Closing balance	22,618	11,110	36,336	20,802

As at 31 December	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000

25.3 Lease receivables

The table below provides an analysis of lease receivables,

25.3 (a) Gross lease receivables

	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000
Within one year	–	–	164,961	128,549
From one to five years	–	–	233,859	154,647
Over five years	–	–	2,954	6,841
	–	–	401,774	290,037
Less : Unearned lease income	–	–	80,933	63,944
Net Lease Receivables	–	–	320,841	226,093
Less : Provision for individual impairment	–	–	37,338	29,945
Provision for collective impairment	–	–	4,179	2,114
	–	–	279,324	194,034

25.3 (b) Net lease receivable

	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000
Within one year	–	–	129,382	100,109
From one to five years	–	–	188,675	119,761
Over five years	–	–	2,784	6,223
	–	–	320,841	226,093

25.4 Hire purchase receivables

The table below provides an analysis of hire purchase receivables,

25.4 (a) Gross hire purchase receivables

	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000
Within one year	–	–	114,671	166,590
From one to five years	–	–	85,453	212,036
Over five years	–	–	–	–
	–	–	200,124	378,626
Less : Unearned hire purchase income	–	–	32,125	86,260
Net hire purchase receivables	–	–	167,999	292,366
Less : Provision for individual impairment	–	–	33,554	22,617
Provision for collective impairment	–	–	3,317	3,329
	–	–	131,128	266,420

25.4 (b) Net hire purchase receivables

	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000
Within one year	–	–	95,642	124,548
From one to five years	–	–	72,357	167,818
Over five years	–	–	–	–
	–	–	167,999	292,366

As at 31 December	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000

26. FINANCIAL INVESTMENTS-AVAILABLE-FOR-SALE

	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000
Government securities (Refer Note 26.1)	1,598,197	1,028,143	1,598,197	1,028,143
Equity securities				
Unquoted shares (Refer Note 26.2)	5,883	5,883	6,229	6,229
Total	1,604,080	1,034,026	1,604,426	1,034,372

26.1 Government securities

	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000
Treasury bills	1,146,725	820,324	1,146,725	820,324
Treasury bonds	451,472	207,819	451,472	207,819
Total	1,598,197	1,028,143	1,598,197	1,028,143

26.2 Unquoted shares

	Bank				Group			
	2015		2014		2015		2014	
	No. of Shares	Amount Rs. '000	No. of Shares	Amount	No. of Shares	Amount	No. of Shares	Amount
Lanka Clear (Pvt) Ltd.	50,000	3,500	50,000	3,500	50,000	3,500	50,000	3,500
Credit Information Bureau of Sri Lanka	300	2,383	300	2,383	400	2,729	400	2,729
		5,883		5,883		6,229		6,229

As at 31 December	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000

27. FINANCIAL INVESTMENTS HELD TO MATURITY

	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000
Government securities				
Treasury bills	–	–	38,144	23,549
Treasury bonds	–	–	1,892	1,866
Total	–	–	40,036	25,415

28. INVESTMENT IN SUBSIDIARY

	Bank					Group	
As at 31 December		2015			2014	2015	2014
	No. of Shares '000	Holding %	Cost Rs. '000	No. of Shares '000	Cost Rs. '000	Cost Rs. '000	Cost Rs. '000
28.1 Quoted							
Colombo Trust Finance PLC	29,660	76.51	459,200	29,660	459,200	–	–
Total			459,200		459,200	–	–

28.2 Acquisition of subsidiary

On 5 August 2014, the Company acquired 73.40% of Colombo Trust Finance PLC (formerly known as Capital Alliance Finance PLC) by acquiring 28,450,958 Ordinary Shares at price ranging from Rs. 15.40 to Rs. 15.50 per share.

Subsequently, with the mandatory offer (which was closed on 19 September 2014) and further acquisitions, the share holding was increased to 76.51% as at 31 December 2014 and this position remained unchange as at 31 December 2015.

28.3 Consideration transferred

	Rs. '000
Cost of acquisition (Refer Note 28.5.1 and 28.5.2)	459,200
Transaction cost on share purchase	3,045
Total Cost of Investment	462,245

28.4 The Bank incurred Rs. 3.04 Mn on transaction cost on acquisition and these costs have been included under Other Expenses in 2014.

28.5 Identifiable assets acquired and liabilities assumed.

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

	Rs. '000
Cash and cash equivalents	47,220
Investments	162,859
Loans and receivables	808,884
Property plant & equipment	67,906
Other assets	33,106
Deposits	(566,188)
Borrowings	(208,107)
Deferred tax liabilities	(5,724)
Other liabilities	(15,456)
Total identifiable net assets acquired	324,500

28.5.1 Goodwill

Initial Investment made on 5 August 2014	440,459
Net assets acquired on 5 August 2014 (73.4%)	(238,183)
Good will on acquisition	202,276

Goodwill arising on initial acquisition have been recognised as an asset. Refer Note 30 – Intangible assets.

28.5.2 Goodwill arising from further investment

	Rs. '000
Additional investment up to 31 December 2014	18,741
Acquisition of non-controlling interest	(10,092)
Goodwill arising on additional investment	**8,649**

Goodwill arising on initial acquisition of Rs. 202.2 Mn is reported in note 30, intangible assets. Goodwill arising on additional investment has been accounted for as equity transaction and recognised directly in equity, as control was already established with initial acquisition.

Market value of the quoted subsidiary investment as at 31 December 2015, as quoted by the Colombo Stock Exchange amounted to Rs. 427.1 Mn (2014 - Rs. 459.7 Mn).

28.2 Non-controlling interests

The following subsidiary has material non-controlling interest

Name	Principal Place of Business	Operating Segment	Ownership Interests Held by NCI (%)
Colombo Trust Finance PLC	Sri Lanka	Finance	23.49

The following is the summarised financial information of the Colombo Trust Finance PLC, amended for fair value adjustments on acquisition and differences in the Group's accounting policies. The information provided below is before inter-company eliminations of inter-company in the Group.

	For the year ended 31 December 2015 Rs. '000	For the five months ended 31 December 2014 Rs. '000
Net operating income	79,063	40,136
Profit	501	5,842
Profit attributable to non-controlling interests	118	1,372
Other comprehensive income	87	-
Total comprehensive income	**588**	**5,842**
Total comprehensive income attributable to non-controlling interests	**138**	**1,372**
Cash flows from operating activities	13,441	17,909
Cash flows from investing activities	(13,613)	317,133
Cash flows from financing activities	-	(390,643)
Net decrease in cash and cash equivalents	**(172)**	**(55,601)**

As at 31 December	2015 Rs. '000	2014 Rs. '000
Total assets	1,188,401	1,060,420
Liabilities	857,471	730,077
Net assets	330,930	330,343
Net assets attributable to non-controlling interests	77,735	77,597

No dividend had been paid to non-controlling interest during the year

29. PROPERTY, PLANT AND EQUIPMENT

29.1 Bank

	Freehold Land Rs. '000	Freehold Buildings Rs. '000	Leasehold Buildings Rs. '000	Computer Hardware Rs. '000	Office Equipment, Furniture & Fittings Rs. '000	Motor Vehicles Rs. '000	Machinery Rs. '000	Work in Progress Rs. '000	Total 2015 Rs. '000	Total 2014 Rs. '000
Cost										
Balance as at 1 January	–	–	128,131	162,199	77,887	26,550	48,898	–	443,665	390,149
Additions during the year	–	–	3,431	26,486	17,833	2,498	740	4,990	55,978	53,516
Disposals during the year	–	–	–	–	(106)	–	–	–	(106)	–
Transfers/ Adjustments	–	–	–	–	–	–	–	–	–	–
Balance as at 31 December	–	–	131,562	188,685	95,614	29,048	49,638	4,990	499,537	443,665
Accumulated Depreciation										
Balance as at 1 January	–	–	13,131	79,457	23,766	17,400	16,061	–	149,815	74,625
Charge for the year	–	–	8,902	43,814	16,997	6,742	9,804	–	86,259	75,190
Disposals during the year	–	–	–	–	(55)	–	–	–	(55)	–
Transfers/ Adjustments	–	–	–	–	–	–	–	–	–	–
Balance as at 31 December	–	–	22,033	123,271	40,708	24,142	25,865	–	236,019	149,815
Less: Impairment (Note 29.1.1)										
Balance as at 1 January	–	–	34,758	–	6,738	–	–	–	41,496	35,842
Net charge/(write back) to income statement	–	–	(17,066)	–	(3,262)	–	–	–	(20,328)	5,654
Balance as at 31 December	–	–	17,692	–	3,476	–	–	–	21,168	41,496
Net Book Value										
31 December 2015	–	–	91,837	65,414	51,430	4,906	23,773	4,990	242,350	
31 December 2014	–	–	80,242	82,742	47,383	9,150	32,837	–		252,354

29.1.1 Impairment charges made in the prior years include the cost of improvements made to leasehold building & electrical fittings at branches that were not expected to commence commercial operations in the foreseeable future.

29.1.2 As the Bank has commenced operations at branches referred to in Note 29.1.1, the amounts charged as impairment to profit or loss in the previous periods have been written back. Total impairment charged in prior years was Rs. 41.4 Mn, from which Rs. 20.3 Mn was written back in 2015 and balance of Rs. 21.1 Mn remain unchanged.

Notes to the Financial Statements Contd.

29.2 Group

	Freehold Land Rs. '000	Freehold Buildings Rs. '000	Leasehold Buildings Rs. '000	Computer Hardware Rs. '000	Office Equipment, Furniture & Fittings Rs. '000	Motor Vehicles Rs. '000	Machinery Rs. '000	Work in Progress Rs. '000	Total 2015 Rs. '000	Total 2014 Rs. '000
Cost/ Valuation										
Balance as at 1 January	22,500	21,188	128,131	171,289	91,744	32,551	49,545	–	516,948	390,149
Acquisition of subsidiary	–	–	–	–	–	–	–	–	–	72,593
Additions during the year	–	–	3,431	26,954	18,348	2,498	740	4,990	56,961	54,206
Disposals during the year	–	–	–	–	(655)	(147)	–	–	(802)	–
Transfers/ Adjustments	–	–	–	(2,775)	–	–	–	–	(2,775)	–
Balance as at 31 December	22,500	21,188	131,562	195,468	109,437	34,902	50,285	4,990	570,332	516,948
Accumulated Depreciation										
Balance as at 1 January	–	2,999	13,131	84,221	27,932	21,122	16,555	–	165,960	74,625
Acquisition of subsidiary	–	–	–	–	–	–	–	–	–	14,543
Charge for the year	–	516	8,902	44,882	17,863	6,830	9,843	–	88,836	76,791
Disposals during the year	–	–	–	–	(498)	(131)	–	–	(629)	–
Transfers/ Adjustments	–	–	–	(1,327)	–	–	–	–	(1,327)	–
Balance as at 31 December	–	3,515	22,033	127,776	45,297	27,821	26,398	–	252,840	165,960
Less: Impairment (Note 29.1.1)										
Balance as at 1 January	–	–	34,758	–	6,738	–	–	–	41,496	35,842
Charge/(Write back) to income statement	–	–	(17,066)	–	(3,262)	–	–	–	(20,328)	5,654
	–	–	–	–	–	–	–	–	–	–
Balance as at 31 December	–	–	17,692	–	3,476	–	–	–	21,168	41,496
Net Book Value										
31 December 2015	22,500	17,673	91,837	67,692	60,664	7,081	23,887	4,990	296,324	
31 December 2014	22,500	18,189	115,000	87,068	63,812	11,429	32,990	–		309,492

29.2.1 Information on freehold land and buildings of the Group-Extents and Locations

Location and Address	Extent (Perches)	Buildings (Square Feet)
Colombo Trust Finance PLC, Kandy Branch No. 21, Kumara Veediya, Kandy	4.75	3,040

29.2.2 Title restriction on Property, Plant and Equipment

There were no restrictions existed on the title of the Property, Plant and Equipment of the Group/ Bank as at the reporting date

29.2.3 Property, Plant and Equipment pledged as security for liabilities

There were no items of Property, Plant and Equipment pledged as securities for liabilities of the Group/ Bank as at the reporting date

29.2.4 Fully depreciated Property, Plant and Equipment

There were no fully depreciated Property, Plant and Equipment as at the reporting date

As at 31 December	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000

30. INTANGIBLE ASSETS

As at 31 December	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000
Computer software (Refer Note 30.1 and 30.2)	209,692	223,245	218,484	232,565
Goodwill (Refer Note 30.3)	–	–	202,276	202,276
Total	209,692	223,245	420,760	434,841

30.1 Computer software

	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000
Cost				
Opening balance	253,461	32,947	263,747	32,947
Acquisition of subsidiary	–	–	–	10,286
Additions during the year	16,510	36,551	16,510	36,551
Transfers/ adjustments	7,098	183,963	9,321	183,963
Closing balance	277,069	253,461	289,578	263,747
Accumulated amortisation				
Opening balance	38,124	7,732	39,089	7,732
Acquisition of subsidiary	–	–	–	429
Charge for the year	44,430	30,392	45,924	30,928
Disposals during the year	–	–	–	–
Transfers/ adjustments	–	–	1,258	–
Closing balance	82,554	38,124	86,271	39,089
Net Book Value	194,515	215,337	203,307	224,658

30.2 Software under development

	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000
Cost				
Opening balance	7,908	191,871	7,908	191,870
Additions during the year	14,367	–	14,367	–
Disposals during the year	–	–	–	–
Transfers/ adjustments	(7,098)	(183,963)	(7,098)	(183,963)
Closing balance	15,177	7,908	15,177	7,907
Total carrying value (Note 30.1 and 30.2)	209,692	223,245	218,484	232,565

30.3 This represents the goodwill arisen on acquisition of subsidiary during the year 2014. (Refer Note 28).

Notes to the Financial Statements Contd.

As at 31 December	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000
31. OTHER ASSETS				
Income receivable	269	680	269	680
Deposits and prepayments	42,822	41,168	51,249	48,744
Tax recoverable	84,744	75,594	93,845	87,138
Other accounts (Refer Note 31.1)	145,628	1,313	157,885	8,831
Total	273,463	118,755	303,248	145,393

31.1 Other accounts includes amount receivable on share application amounting to Rs. 145 Mn (2014 – Nil) which was realised subsequent to the year end.

As at 31 December	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000
32. DUE TO BANKS				
Borrowings				
Local currency borrowings	–	–	1,160	–
Foreign currency borrowings	5,347	279,242	5,347	279,242
Total	5,347	279,242	6,507	279,242
33. DUE TO OTHER CUSTOMERS				
Local currency deposits	3,555,801	1,232,208	4,272,789	1,885,725
Foreign currency deposits	314,399	33,407	314,399	33,407
Total	3,870,200	1,265,615	4,587,188	1,919,132
33.1 Analysis of due to customers				
33.1 (a) By product				
Current account deposits	324,497	216,209	324,497	216,209
Savings deposits	474,645	146,715	474,645	146,715
Time deposits	2,677,017	681,902	3,394,005	1,335,419
Certificate of deposits	380,108	220,789	380,108	220,789
Margin deposits	13,933	–	13,933	–
Total	3,870,200	1,265,615	4,587,188	1,919,132
33.1 (b) By currency				
Sri Lanka Rupees	3,555,801	1,232,208	4,272,789	1,885,725
United States Dollars	294,196	33,407	294,196	33,407
Euro	20,203	–	20,203	–
Total	3,870,200	1,265,615	4,587,188	1,919,132

As at 31 December	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000
34. OTHER BORROWINGS				
Securities sold under repurchase (repo) agreements	1,993,383	551,083	1,993,383	551,083
Total	1,993,383	551,083	1,993,383	551,083
35. OTHER LIABILITIES				
Accrued expenditure	80,040	65,497	83,523	72,291
Proceeds from unalloted shares (Refer Note 36.1)	2,552,000	–	2,552,000	–
Provision for gratuity payable (Refer Note 35.1)	9,492	4,466	13,247	6,794
Other payables	94,684	37,544	100,185	48,208
Total	2,736,216	107,507	2,748,955	127,293
35.1 Provision for gratuity payable				
At the beginning of the year	4,466	–	6,794	–
Acquisition of subsidiary	–	–	–	2,085
Current service cost	3,680	4,466	5,228	4,709
Interest cost	425	–	425	–
Benefits paid	(440)	–	(440)	–
Actuarial (gains)/ losses	1,361	–	1,240	–
At the end of the year	9,492	4,466	13,247	6,794
35.1 (a) Amount recognised in the income statement,				
Current service cost	3,680	4,466	5,228	4,709
Interest cost	425	–	425	–
	4,105	4,466	5,653	4,709
35.1 (b) Amount recognised in other comprehensive income,				
Actuarial loss	1,361	–	1,240	–
35.1 (c) Details of actuarial assumptions are as follows,				
Discount rate per annum	10.0%	9.5%	9.5% – 10%	9.5% – 10%
Future salary increases	7%	7%	7% – 10%	7% – 10%
Retirement age (years)	60 Years	55 or 60 Years	55 or 60 Years	55 or 60 Years

An actuarial valuation of the retirement benefit obligation was carried out as at 31 December 2015 by Mr. M Poobalanathan, AIA a firm of professional actuaries. The valuation method used by the actuaries to value the fund is the 'Project Unit Credit Method (PUC)', the method recommended by the Sri Lanka Accounting Standard LKAS 19 on 'Employee Benefits'.

The liability is not externally funded.

35.1 (d) Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below,

As at 31 December 2015	Sensitivity effect on defined benefit obligation Rs. '000
1% increase in discount rate	(428)
1% decrease in discount rate	490
1% increase in salary escalation rate	446
1% decrease in salary escalation rate	(395)

As at 31 December	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000
36. STATED CAPITAL				
Opening balance	4,968,850	4,968,850	4,968,850	4,968,850
Issue of ordinary shares	623,500	–	623,500	–
Closing balance	5,592,350	4,968,850	5,592,350	4,968,850
36.1 Movement in number of ordinary shares				
Opening balance	440,000,000	440,000,000	440,000,000	440,000,000
Issue of ordinary shares	43,000,000	-	43,000,000	-
Closing balance	483,000,000	440,000,000	483,000,000	440,000,000

The Bank offered rights issue during the year to its shareholders. At the close of the offer on 3 December 2015, a total of Rs. 3.2 Bn had been paid by shareholders, including Rs. 2.6 Bn paid by the promoters (Cargills (Ceylon) PLC and CT Holdings PLC) which is not allocated at the year end.

As at 31 December	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000
37. ACCUMULATED LOSSES				
Opening balance	(420,515)	(301,461)	(424,694)	(301,461)
Total comprehensive income				
Loss for the year	(316,208)	(119,054)	(315,825)	(114,584)
Other comprehensive income	(980)	–	(913)	–
Goodwill arising on subsequent acquisition of subsidiary (Note 28.5.2)	–	–	–	(8,649)
Transfer to other reserves	–	–	(335)	-
Closing balance	(737,703)	(420,515)	(741,767)	(424,694)

As at 31 December	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000

38. OTHER RESERVES

38.1 Available for sale reserve

Opening balance	(502)	–	(502)	–
Other comprehensive income for the year	(10,900)	(502)	(10,900)	(502)
Closing balance	(11,402)	(502)	(11,402)	(502)

39. CONTINGENT LIABILITIES & COMMITMENTS

39.1 Contingent liabilities

Guarantees	1,076,133	846,145	1,076,133	846,145
Documentary credits	632,479	281,994	632,479	281,994
Bills for collection	252,412	207,703	252,412	207,704
Total contingent liabilities	1,961,024	1,335,842	1,961,024	1,335,843

39.2 Commitments

39.2.1 Direct and indirect advances

Undrawn commitments	3,782,565	1,283,914	3,782,565	1,283,914
Undrawn commitments – indirect advances	–	–	–	
	3,782,565	1,283,914	3,782,565	1,283,914

39.2.2 Capital commitments

39.2.2 (a) Capital expenditure commitments in relation to Property, Plant & Equipment

Approved and contracted for	12,561	840	12,561	840
Approved but not contracted for	–	–	–	–
	12,561	840	12,561	840

39.2.2 (b) Capital expenditure commitments in relation to Intangible Assets

Approved and contracted for	50,891	14,025	50,891	14,025
Approved but not contracted for	–	–	–	–
	50,891	14,025	50,891	14,025
Total capital commitments	63,452	14,865	63,452	14,865
Total commitments	3,846,017	1,298,779	3,846,017	1,298,779
Total commitments and contingencies	5,807,041	2,634,621	5,807,041	2,634,621

Notes to the Financial Statements Contd.

	Bank		Group	
As at 31 December	2015	2014	2015	2014

40. NET ASSET VALUE PER SHARE

Amount used as the numerator				
Shareholders' funds (Rs. '000)	4,843,245	4,547,833	4,839,516	4,543,654
Amount used as the denominator				
Total no. of shares	483,000,000	440,000,000	483,000,000	440,000,000
Net assets value per ordinary share (Rs.)	10.03	10.34	10.02	10.33

	Bank		Group	
As at 31 December	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000

41. NON-CASH ITEMS INCLUDED IN LOSS BEFORE TAX

Depreciation of Property, Plant & Equipment	86,259	75,190	88,836	76,791
Amortisation of Intangible Assets	44,430	30,392	45,924	30,928
Impairment losses on loans and advances	20,685	11,110	44,819	10,266
Impairment losses on Property, Plant & Equipment	(20,328)	5,654	(20,328)	5,654
Charge for defined benefit plans	4,105	4,466	5,653	4,709
	135,151	126,812	164,904	128,348

42. CHANGE IN OPERATING ASSETS

Change in balances with Central banks	83,456	55,886	83,456	55,886
Change in placements with banks	300,036	1,718,736	300,036	1,718,736
Change in other financial assets held-for-trading	–	–	(1,899)	676
Change in loans and receivables to banks	496,747	503,425	510,747	388,426
Change in loans and receivables to other customers	4,996,642	2,241,528	5,043,896	2,340,454
Change in financial investments available-for-sale	585,193	1,034,724	585,193	1,034,724
Change in deposits & pre-payments	1,654	(841)	2,505	(1,914)
Change in other assets	8,054	26,670	11,358	22,119
	6,471,782	5,580,128	6,535,292	5,559,107

43. CHANGE IN OPERATING LIABILITIES

Change in deposits from banks, customers and debt securities issued	2,330,690	1,540,231	2,395,321	1,627,559
Change in accruals and deferred income	14,543	27,076	11,232	29,479
Change in other liabilities	2,609,140	13,725	2,603,977	15,409
	4,954,373	1,581,032	5,010,530	1,672,447

44. OPERATING SEGMENTS

The Group has the following strategic divisions which are reportable segments. These divisions offer different business products and services and are managed separately based on the group's management and internal reporting structure.

The following table presents the income, profit and asset and liability information on the Group's business segments.

	Banking		Leasing & Hire purchase		Treasury/ Investments		Unallocated		Total	
For the year ended 31 December	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Net interest income	194,761	37,247	55,211	16,972	129,373	289,804	37,704	2,392	417,049	346,415
Foreign exchange profit	(6,912)	792	–	–	29,467	3,669	(1,729)	–	20,826	4,461
Net fees and commission income	38,673	11,627	848	761	(842)	(511)	26	352	38,705	12,229
Other income	(51)	11	5,553	3,716	3,774	2,765	4,089	560	13,365	7,052
Operating income by segment	226,471	49,677	61,612	21,449	161,772	295,727	40,090	3,304	489,945	370,157
Credit loss expenses	(23,599)	(11,110)	(14,501)	2,644	–	–	(6,719)	(1,800)	(44,819)	(10,266)
Net operating income	202,872	38,567	47,111	24,093	161,772	295,727	33,371	1,504	445,126	359,891
Operating expenses	(115,169)	(22,008)	(16,046)	(14,239)	(16,980)	(11,936)	617,329	(536,985)	(765,524)	(585,168)
Operating profit by segment	87,703	16,559	31,065	9,854	144,792	283,791	583,958	(535,481)	(320,398)	(225,277)
VAT on financial services	–	–	–	–	–	–	(3,383)	(3,786)	(3,383)	(3,786)
Segment profit before tax	87,703	16,559	31,065	9,854	144,792	283,791	587,341	(539,267)	(323,781)	(229,063)
Income tax expense									(8,074)	(115,851)
Non-controlling interest									118	1,372
Net profit for the year, attributable to equity holders of the parent									(315,825)	(114,584)
Other information										
Segment assets	4,090,163	2,507,184	408,212	460,453	2,399,003	3,400,635	7,355,906	1,134,757	14,253,284	7,503,029
Segment liabilities	3,972,244	1,278,796	296,365	318,138	2,067,493	883,160	2,999,931	401,684	9,336,033	2,881,778

45. FINANCIAL RISK MANAGEMENT

45.1 Introduction

The changing nature of today's business environment is increasing both the scope and potential impact of the risks banks face in day-to-day operations. Managing risks therefore constantly requires innovation and constitutes an integral part in the role of banking operations and also in the areas of strategic decisions of Cargills Bank. The Bank and the Group Company have established mechanisms, which ensure the ongoing assessment of relevant risk types on an individual basis and of the overall risk position of the Bank.

Formulated and advanced under the Integrated Risk Management Direction (2011) of the CBSL, Cargills Bank's risk management framework is focused on supporting the day to day business activities of the Bank by building and strengthening its risk management processes at all levels of the Bank.

The Bank has identified credit, market and operational as its main risk areas. The Bank also monitors liquidity risk on a regular basis.

Notes to the Financial Statements Contd.

45.2 Credit risk

Credit risk can be defined as the risk of a potential loss to the Bank when a borrower or counterparty is either unable or unwilling to meet its financial obligations.

Cargills Bank's Credit Policy approved by the Bank's Board of Directors plays a central and strategic role in managing daily business activities. The policy defines the principles encompassing client selection, due diligence, early alert reporting, acceptable levels of concentration risk and portfolio monitoring, in line with the Bank's risk appetite and regulatory guidelines.

45.2.1 Credit quality analysis

45.2.1 (a) Bank

	Loans and Advances to Other Customers		Loans and Advances to Banks	
As at 31 December	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Maximum exposure to credit risk				
Carrying amount	7,238,202	2,241,528	1,000,172	503,425
Amount committed/ guaranteed	–	–	–	–
At amortised cost				
Current	7,145,878	2,241,528	1,000,172	503,425
Special mentioned	28,933	–	–	–
Substandard	63,314	–	–	–
Doubtful	77	–	–	–
Loss	–	–	–	–
Total gross amount	7,238,202	2,241,528	1,000,172	503,425
Allowance for impairment (Individual and collective)	(31,827)	(11,110)	–	–
Net carrying amount	7,206,375	2,230,418	1,000,172	503,425

45.2.1 (b) Group

	Loans and Advances to Other Customers		Loans and Advances to Banks	
As at 31 December	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Maximum exposure to credit risk				
Carrying amount	8,211,851	3,166,635	1,022,172	511,425
Amount committed/ guaranteed	–	–	–	–
At amortised cost				
Current	7,957,000	2,994,838	1,022,172	511,425
Special mentioned	80,334	–	–	–
Substandard	75,551	69,849	–	–
Doubtful	6,744	6,033	–	–
Loss	92,222	95,915	–	–
Total gross amount	8,211,851	3,166,635	1,022,172	511,425
Allowance for impairment (Individual and collective)	(126,939)	(80,800)	–	–
Net carrying amount	8,084,912	3,085,835	1,022,172	511,425

45.3 Liquidity risk and fund management

Liquidity risk arises when the Bank can not maintain or generate sufficient funds to meet its payment obligations as they fall due or can only do so at a material loss. This can arise when counterparties who provide funding to the Bank withdraw or do not roll over a line of funding or as a result of a general disruption in financial markets which lead to normal liquid assets becoming illiquid.

The Bank understands the importance of a vigorous liquidity risk management policy and constantly monitors the liquidity position of the Bank in line with the regulatory guidelines.

45.3.1 Statutory liquid assets ratio

As per the regulations by the Bank Supervision Department of CBSL the Bank has to maintain minimum liquid assets, not less than 20% of the average of the month end total deposit liabilities of the twelve months of the preceding financial year.

As at 31 December 2015 the Bank maintained Statutory Liquid Asset ratio at 93.27 (31 December 2014–237.10%).

Break up of liquid assets

As at 31 December	2015 Rs. '000	2014 Rs. '000
Cash	114,738	38,750
Money at call in Sri Lanka	2,884,306	1,183,534
Treasury Bills and Securities issued or guaranteed by the government of Sri Lanka	370,809	1,402,539
Balances with banks abroad	56,519	65,333
Treasury Bonds	–	190,715
Total	3,426,372	2,880,871

45.3.2 Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarises the maturity profile of the undiscounted cash flows of the Company's financial assets and liability-ties as at 31 December 2015.

45.3.2 (a) Bank

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Total as at 31-Dec-15 Rs. '000	Total as at 31-Dec-14 Rs. '000
Interest earning assets							
Placements with Banks	2,018,773	-	-	-	-	2,018,773	1,718,737
Loans & receivables to Banks	1,000,172	-	-	-	-	1,000,172	503,425
Loans & receivables to other customers	5,581,831	673,951	274,591	334,615	341,387	7,206,375	2,230,418
Financial investments available-for-sale	251,820	895,065	451,312	-	-	1,598,197	1,028,143
Total interest earning assets	8,852,596	1,569,016	725,903	334,615	341,387	11,823,517	5,480,723
Non-interest earning assets							
Cash and cash equivalents	174,129	-	-	-	-	174,129	39,039
Balances With Central Bank	139,342	-	-	-	-	139,342	55,886
Financial investments available-for-sale	-	-	-	-	5,883	5,883	5,883
Investment in subsidiaries	-	-	-	-	459,200	459,200	459,200
Property, plant and equipment	-	-	-	242,350	-	242,350	252,354
Intangible assets	-	-	-	209,692	-	209,692	223,245
Deferred tax assets	-	-	-	-	120,815	120,815	116,195
Other assets	20,375	11,351	3,422	814	237,501	273,463	118,755
Total non-interest earning assets	333,846	11,351	3,422	452,856	823,399	1,624,874	1,270,557
Total assets	9,186,442	1,580,367	729,325	787,471	1,164,786	13,448,391	6,751,280
Interest bearing liabilities							
Due to banks	5,347	-	-	-	-	5,347	279,242
Due to other customers	2,479,767	1,279,623	100,500	8,075	2,235	3,870,200	1,265,615
Other borrowings	1,993,383	-	-	-	-	1,993,383	551,083
Total interest bearing liabilities	4,478,497	1,279,623	100,500	8,075	2,235	5,868,930	2,095,940
Non-interest bearing liabilities							
Other liabilities	2,717,118	17,514	1,467	117	-	2,736,216	107,507
Stated capital	-	-	-	-	5,592,350	5,592,350	4,968,850
Statutory reserves	-	-	-	-	-	-	-
Accumulated losses	-	-	-	-	(737,703)	(737,703)	(420,515)
Other Reserves	-	-	-	-	(11,402)	(11,402)	(502)
Total non-interest bearing liabilities	2,717,118	17,514	1,467	117	4,843,245	7,579,461	4,655,340
Total liabilities and equity	7,195,615	1,297,137	101,967	8,192	4,845,480	13,448,391	6,751,280

45.3.2 (b) Group

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Total as at 31-Dec-15 Rs. '000	Total as at 31-Dec-14 Rs. '000
Interest earning assets							
Cash and cash equivalents	-	-	-	-	-	-	22,200
Placements with Banks	2,018,773	-	-	-	-	2,018,773	1,718,737
Other financial instruments held for trading	-	-	-	-	-	-	4,199
Loans & receivables to Banks	1,022,172	-	-	-	-	1,022,172	511,425
Loans & receivables to other customers	6,005,922	840,085	480,977	414,063	343,865	8,084,912	3,085,835
Financial investments available-for-sale	251,820	895,065	451,312	-	-	1,598,197	1,028,143
Financial investments held to maturity	8,285	29,949	-	1,802	-	40,036	25,415
Total interest earning assets	9,306,972	1,765,099	932,289	415,865	343,865	12,764,090	6,395,954
Non-interest earning assets							
Cash and cash equivalents	196,157	-	-	-	-	196,157	39,039
Balances With Central Bank	139,342	-	-	-	-	139,342	55,886
Other financial instruments held for trading	2,300	-	-	-	-	2,300	-
Financial investments available-for-sale	346	-	-	-	5,883	6,229	6,229
Property, plant and equipment	-	-	-	242,350	53,974	296,324	309,492
Intangible assets	-	-	-	209,692	211,068	420,760	434,841
Deferred tax assets	-	-	-	4,019	120,815	124,834	116,195
Other assets	28,929	21,392	8,156	7,271	237,500	303,248	145,393
Total non-interest earning assets	367,074	21,392	8,156	463,332	629,240	1,489,194	1,107,075
Total assets	9,674,046	1,786,491	940,445	879,197	973,105	14,253,284	7,503,029
Interest bearing liabilities							
Due to banks	6,507	-	-	-	-	6,507	279,242
Due to other customers	2,981,483	1,449,908	137,312	16,250	2,235	4,587,188	1,919,132
Other borrowings	1,993,383	-	-	-	-	1,993,383	551,083
Total interest bearing liabilities	4,981,373	1,449,908	137,312	16,250	2,235	6,587,078	2,749,457
Non-interest bearing liabilities							
Deferred tax liabilities	-	-	-	-	-	-	5,028
Other liabilities	2,721,817	20,062	2,476	4,600	-	2,748,955	127,293
Stated capital	-	-	-	-	5,592,350	5,592,350	4,968,850
Statutory reserves	-	-	-	-	335	335	
Accumulated losses	-	-	-	-	(741,767)	(741,767)	(424,694)
Other Reserves	-	-	-	-	(11,402)	(11,402)	(502)
Non controlling interest	-	-	-	-	77,735	77,735	77,597
Total non-interest bearing liabilities	2,721,817	20,062	2,476	4,600	4,917,251	7,666,206	4,753,572
Total liabilities and equity	7,703,190	1,469,970	139,788	20,850	4,919,486	14,253,284	7,503,029

Notes to the Financial Statements Contd.

45.4 Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads will affect the Bank's income or the value of its holdings of financial instruments. The main objective of the Cargills Bank's market risk management is to manage and control market risk exposures within acceptable levels in order to ensure the Bank's solvency while maximising the returns.

Since Cargills Bank started its operations one and half years back the relative exposures lies at a very low level. However, The Bank regularly assesses its assets and liability profile in terms of interest rate and other risks and depending on this assessment, necessary realignments in the assets and liability structure are undertaken.

45.4.1 Exposure to Market risk

Financial investments -available-for-sale	Bank		Group	
As at 31 December	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Treasury Bills	1,146,725	820,324	1,146,725	820,324
Treasury Bonds	451,472	207,819	451,472	207,819
Total	1,598,197	1,028,143	1,598,197	1,028,143
Financial investments -held for trading				
Equity shares	-	-	2,300	4,199
Total	-	-	2,300	4,199
Financial investments -held to maturity				
Treasury Bills	-	-	38,144	23,549
Treasury Bonds	-	-	1,892	1,866
Total	-	-	40,036	25,415

45.4.2 Exposure to interest rate risk

	Bank 2015	Bank 2014	Group 2015	Group 2014
Savings deposits	474,645	146,715	474,645	146,715
Time deposits	2,677,017	681,902	3,394,005	1,335,419
Certificate of deposits	380,108	220,789	380,108	220,789
Total	3,531,770	1,049,406	4,248,758	1,702,923

45.4.3 Exposure to currency risk

	Bank	
As at 31 December	2015 Amount	2014 Amount
Foreign exchange position – USD	1,419,612	326,247
Foreign exchange position – AUD	950	310
Foreign exchange position – CNY	450	150
Foreign exchange position – EUR	29,484	81,272
Foreign exchange position – SAR	–	500
Foreign exchange position – SGD	–	581
Foreign exchange position – GBP	180	530
Foreign exchange position – JPY	1,635,500	–

45.5 Operational risk

Operational Risk is the risk of losses incurring due to human errors, inadequate or failed internal processes or systems or external events including legal risk. Legal risk arises when the Bank's business is not conducted in accordance with applicable laws.

The Bank has a process of continuous internal audit and an external audit utilising the services of KPMG, Chartered Accountants and also working in combination with business unit managers, the Bank has developed tools to assist in identifying, measuring, monitoring and reporting operational risk on a continuous basis.

46. RELATED PARTY DISCLOSURES

The Bank and Group carry out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as Related Parties as per the Sri Lanka Accounting Standard – LKAS 24 'Related Party Disclosures', except for the transactions that the Key Management Personnel (KMPs) have availed under schemes uniformly applicable to all staff at concessionary rates.

46.1 Transactions with Key Management Personnel (KMP)

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank directly or indirectly.

Accordingly the Company's KMP include the Board of Directors (including Executive and Non-Executive Directors).

For the year ended 31 December	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000
(a) Compensation of Directors				
Directors emoluments	11,010	9,845	12,220	10,595
Short term employee benefits	69,271	58,326	70,481	59,076
Post employee benefits	715	703	715	703
	80,996	68,874	83,416	70,374

The remuneration paid to KMP are disclosed under Notes 14 and 15.
In addition to the salaries, company also provides non cash benefits to Key Management Personnel.

(b) Directors' shareholdings

As at 31 December	Bank 2015 Rs. '000	Bank 2014 Rs. '000
Number of shares	1,100,000	10,189,000
Shareholding %	0.23%	2.32%

46.2 Transactions, arrangements and agreements involving KMPs, and their CFMs

Close Family Members (CFM) of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the Bank. They include KMP's domestic partner and children, children of the KMP's domestic partner and dependents of the KMP or the KMP's domestic partner.

CFM of KMPs are identified as related parties of the Bank/ Group.

Accommodation Granted / Deposits	Interest Paid Rs. '000	Fees Charged Rs. '000	Balance outstanding 31-Dec-2015 Rs. '000	Balance outstanding 31-Dec-2014 Rs. '000
Deposits	56	–	32,184	8,099

46.3 Transactions with subsidiary

	Accommodation Granted / Deposits	Current Limit Rs. '000	Interest charged Rs. '000	Fees charged Rs. '000	Balance outstanding 31-Dec-2015 Rs. '000	Balance outstanding 31-Dec-2014 Rs. '000
Colombo Trust Finance PLC	Loans & Advances	200,000	10,026	44	126,584	53,238

Net accommodation as a percentage of the Bank's regulatory capital was 3%.

46.4 (a) Transactions with related companies-Bank

The Bank carries out transactions with parties who are defined as related parties in Sri Lanka Accounting Standard – LKAS – 24 "Related Party Disclosures", the details of which are reported below.

Company Name	Relationship	Accommodation Granted / Deposits	Current Limit Rs. '000	Interest Paid Rs. '000	Interest Charged Rs. '000	Fees Charged Rs. '000	Balance/ Outstanding 31-Dec-2015 Rs. '000	Balance/ Outstanding 31-Dec-2014 Rs. '000
C T Holdings PLC	Significant shareholder	Loans & advances	–	–	1	–	–	–
		Deposits	–	–	–	–	4,195	99
		Proceeds from unallocated shares	–	–	–	–	1,276,000	
C T Properties Ltd	Subsidiary of significant shareholder	Loans & advances	–	–	6	–	–	–
		Deposits	–	–	–	10	2,024	–
C T Land Development PLC	Subsidiary of significant shareholder	Deposits	–	–	–	–	10	–
C T Real Estate (Pvt) Ltd	Subsidiary of significant shareholder	Deposits	–	–	–	5	4,761	–
CT CLSA Securities (Pvt) Ltd- Client Account	Subsidiary of significant shareholder	Deposits	–	–	–	–	99	99
Cargills (Ceylon) PLC	Significant shareholder	Loans & advances	–	–	15	–	–	–
		Deposits	–	–	–	24	34,848	1,262
		Proceed from unallocated share	–	–	–	–	1,276,000	–
Kotmale Holdings PLC	Subsidiary of significant shareholder	Deposits	–	–	–	24	9,083	987
		Securities sold under repurchase agreements	–	869	–	–	117,013	–
Cargills Foods Company (Pvt) Ltd	Subsidiary of significant shareholder	Loans & advances	167,000	–	1,201	–	–	–
		Off-balance sheet accommodations	63,292	–	–	–	39,448	–
		Deposits	–	9,129	–	66	269,792	15
Cargills Quality Foods Ltd	Subsidiary of significant shareholder	Loans & advances	–	–	1	–	–	–
		Off-balance sheet accommodations	42,102	–	–	–	37,094	–
		Deposits	–	–	–	24	2,409	3,963

46.4 (a) Transactions with related companies-Bank (contd.)

Company Name	Relationship	Accommodation Granted / Deposits	Current Limit Rs. '000	Interest Paid Rs. '000	Interest Charged Rs. '000	Fees Charged Rs. '000	Balance/ Outstanding 31-Dec-2015 Rs. '000	Balance/ Outstanding 31-Dec-2014 Rs. '000
Cargills Agrifoods Ltd	Subsidiary of significant shareholder	Loans & advances	25,352	-	3	-	-	-
		Off-balance sheet accommodations		-	-	278	25,332	-
		Deposits	-	255	-	22	35,470	2,406
Cargills Food Processors (Pvt) Ltd	Subsidiary of significant shareholder	Deposits	-	-	-	101	2,430	19,775
Cargills Food Services (Pvt) Ltd	Subsidiary of significant shareholder	Loans & advances	-	-	2	-	-	-
		Deposits	-	-	-	24	34	1,804
Cargills Quality Dairies (Pvt) Ltd	Subsidiary of significant shareholder	Loans & advances	111,747	-	8	-	-	-
		Off-balance sheet accommodations		-	-	-	109,428	-
		Deposits		978	-	22	116,909	1,436
Millers Ltd	Subsidiary of significant shareholder	Loans & advances	56,200	-	-	-	-	-
		Off-balance sheet accommodations	-	-	-	-	680	-
		Deposits	-	812	-	66	65,888	1,338
Kotmale Dairy Products (Pvt) Ltd	Subsidiary of significant shareholder	Deposits	-	-	-	26	699	-
		Securities sold under repurchase agreements	-	1,790	-	-	626,000	-
CPC Lanka Ltd.	Subsidiary of significant shareholder	Deposits	-	-	-	24	4,460	-
Cargills Distributors (Pvt) Ltd	Subsidiary of significant shareholder	Deposits	-	-	-	48	72	-
Cargills Quality Confectionery (Pvt) Ltd	Subsidiary of significant shareholder	Off-balance sheet accommodations	5,000	-	-	54	5,000	-
		Deposits	-	74	-	24	5,956	-
Cargills Ceylon PLC Employees Provident Fund Association	Provident fund of significant shareholder	Securities sold under repurchase agreements	-	8,539	-	-	942,000	-
Wealth Trust Securities (Pvt) Ltd	Related through KMP	Securities sold under repurchase agreements	-	200	-	-	-	-
		Securities purchased under resale agreements	-	-	891	-	56,000	-

Net accommodation as a percentage of the Bank's regulatory capital was (51%).

46.4 (b) Transactions with related companies-Group

The Group carries out transactions with parties who are defined as related parties in Sri Lanka Accounting Standard – LKAS – 24 "Related Party Disclosures", the details of which are reported below.

Company Name	Relationship	Accommodation Granted / Deposits	Current Limit Rs. '000	Interest Paid Rs. '000	Interest Charged Rs. '000	Fees Charged Rs. '000	Balance outstanding 31-Dec-2015 Rs. '000	Balance outstanding 31-Dec-2014 Rs. '000
C T Holdings PLC	Significant shareholder	Loans & advances	–	–	1	–	–	–
		Deposits	–	–	–	–	4,195	99
		Proceeds from unallocated shares	–	–	–	–	1,276,000	–
C T Properties Ltd	Subsidiary of significant shareholder	Loans & advances	–	–	6	–	–	–
		Deposits	–	–	–	10	2,024	–
C T Land Development PLC	Subsidiary of significant shareholder	Deposits	–	–	–	–	10	–
C T Real Estate (Pvt) Ltd	Subsidiary of significant shareholder	Deposits	–	–	–	5	4,761	–
CT CLSA Securities (Pvt) Ltd – Client Account	Subsidiary of significant shareholder	Deposits	–	–	–	–	99	99
Cargills (Ceylon) PLC	Significant shareholder	Loans & advances	–	–	15	–	–	–
		Deposits	–	11,298	–	24	139,848	1,262
		Proceeds from unallocated shares	–	–	–	–	1,276,000	–
Kotmale Holdings PLC	Subsidiary of significant shareholder	Deposits	–	–	–	24	9,083	987
		Securities sold under repurchase agreements	–	869	–	–	117,013	–
Cargills Foods Company (Pvt) Ltd	Subsidiary of significant shareholder	Loans & advances	167,000	–	1,201	–	–	–
		Off-balance sheet accommodations	63,292	–	–	–	39,448	–
		Deposits	–	9,129	–	66	269,792	15
Cargills Quality Foods Ltd	Subsidiary of significant shareholder	Loans & advances	–	–	1	–	–	3,963
		Off-balance sheet accommodations	42,102	–	–	–	37,094	–
		Deposits	–	–	–	24	2,049	3,963
Cargills Agrifoods Ltd	Subsidiary of significant shareholder	Loans & advances	25,352	–	3	–	–	–
		Off-balance sheet accommodations		–	–	278	25,332	–
		Deposits	–	255	–	22	35,470	2,406
Cargills Food Processors (Pvt) Ltd	Subsidiary of significant shareholder	Deposits	–	–	–	101	2,430	19,775

Notes to the Financial Statements Contd.

46.4 (b) Transactions with related companies-Group (contd.)

Company Name	Relationship	Accommodation Granted / Deposits	Current Limit Rs. '000	Interest Paid Rs. '000	Interest Charged Rs. '000	Fees Charged Rs. '000	Balance outstanding 31-Dec-2015 Rs. '000	Balance outstanding 31-Dec-2014 Rs. '000
Cargills Food Services (Pvt) Ltd	Subsidiary of significant shareholder	Loans & advances	-	-	2	-	-	-
		Deposits	-	-	-	24	34	1,804
Cargills Quality Dairies (Pvt) Ltd	Subsidiary of significant shareholder	Loans & advances	111,747	-	8	-	-	-
		Off-balance sheet accommodations		-	-	-	109,428	-
		Deposits	-	978	-	22	116,909	1,436
Millers Ltd	Subsidiary of significant shareholder	Loans & advances	56,200	-	-	-	-	-
		Off-balance sheet accommodations	-	-	-	-	680	-
		Deposits		812	-	66	65,888	1,338
Kotmale Dairy Products (Pvt) Ltd	Subsidiary of significant shareholder	Deposits	-	-	-	26	699	-
		Securities sold under repurchase agreements	-	1,790	-	-	626,000	-
C P C Lanka Ltd	Subsidiary of significant shareholder	Deposits	-	-	-	24	4,460	-
Cargills Distributors (Pvt) Ltd	Subsidiary of significant shareholder	Deposits	-	-	-	48	72	-
Cargills Quality Confectionery (Pvt) Ltd	Subsidiary of significant shareholder	Off-balance sheet accommodations	5,000	-	-	54	5,000	-
		Deposits	-	74	-	24	5,956	-
Cargills Ceylon PLC Employees Provident Fund Association	Provident fund of significant shareholder	Securities sold under repurchase agreements	-	8,539	-	-	942,000	-
Wealth Trust Securities (Pvt) Ltd	Related through KMP	Securities sold under repurchase agreements	-	200	-	-	-	-
		Securities purchased under resale agreements	-	-	891	-	56,000	-
Two Thirty Interactive	Related through KMP	Deposits	-	100	-	-	1,179	1,173
Capital Alliance Limited	Related through KMP	Treasury Bill Purchases & Repo	-	-	1,462	-	68,007	60,524
Capital Alliance Securities Limited	Related through KMP	Margin Trading	-	-	15,284	-	194,139	72,639

46.5 Directors' interest

In addition to the related party transactions disclosed in note 46.4 (a), the Bank carries out transactions in the ordinary course of business on an arm's length basis with entities where the chairman or a Director of the Bank is the Chairman or a Director of such entities.

The results of such transactions at the reporting date is given below:

Company Name	Relationship	Accommodation Granted / Deposits	Current Limit Rs. '000	Interest Paid Rs. '000	Interest Charged Rs. '000	Fees Charged Rs. '000	Balance outstanding 31-Dec-2015 Rs. '000	Balance outstanding 31-Dec-2014 Rs. '000
Sierra Construction Ltd.	Common Directors	Loans & advances	600,000	-	14,717	-	179,572	181,898
		Off-balance sheet accommodations		-	-	2,666	387,910	-

47. OPERATING LEASE COMMITMENTS

47.1 Operating lease commitments (payables)

The Group has leased a number of office premises under operating leases. These leases have an average life of between ten to fifteen years. Lease agreements include clauses to enable upward revision of the rental payments on a periodic basis to reflect market conditions. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as follows:

As at 31 December	Bank 2015 Rs. '000	Bank 2014 Rs. '000	Group 2015 Rs. '000	Group 2014 Rs. '000
Less than one year	60,783	58,683	60,783	58,683
Between one and five years	280,380	267,099	280,380	267,099
More than five years	308,499	380,975	308,499	380,975
Total	649,662	706,757	649,662	706,757

Notes to the Financial Statements Contd.

48. EVENTS AFTER THE REPORTING DATE

No circumstances have arisen since the reporting date which would require adjustment to or disclosure in the financial statements except for the following:

Minimum Capital Requirement

The circular dated 23 December 2014, on "Enhancement of Minimum Capital Requirement of Banks" issued under Section 19 (3) of the Banking Act, requires all licensed commercial banks incorporated or established within Sri Lanka to increase their capital to Rs. 10 Bn commencing 1 January 2016. The main promoters of the Bank are in agreement to further invest in the Bank to meet the minimum capital requirement and the approval from CBSL is pending as at the signing date of this report.

Repurchase agreement with Entrust Securities PLC (ES)

The Bank had entered into repo borrowing transactions with ES. The carrying value of borrowings amounted to Rs. 286.92 Mn at 31 December 2015, and the market value of securities pledged to ES as collateral was Rs. 344.54 Mn at that date. ES failed to return the securities when the borrowings matured in 2016. These borrowings have been rolled forward at the request of NSB who have been appointed by the CBSL to manage ES.

No provision has been made in the financial statements in respect of the potential exposure of Rs. 57.62 Mn as at year-end, due to insufficient clarity on the status of ES- specifically on CBSL actions to address issues with ES.

49. LITIGATION AND CLAIMS

There were no pending litigation of a material nature against the Bank.

50. COMPARATIVE INFORMATION

The previous year's figures have been re-classified where necessary to conform to current year's presentation.

51. DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Board of Directors is responsible for the preparation and presentation of these Financial Statements in accordance with SLAS laid down by the Institute of Chartered Accountants of Sri Lanka.

INVESTOR RELATIONS

CARGILLS BANK LIMITED (ORDINARY SHARES)

Top 22 Shareholders

As at 31 December	2015		2014	
Shareholder Name	No. of shares holding	Ratio	No. of shares holding	Ratio
1. Cargills (Ceylon) PLC	88,000,000	18.22%	88,000,000	20.00%
2. CT Holdings PLC	88,000,000	18.22%	88,000,000	20.00%
3. Monetary Board of Sri Lanka – On behalf of EPF	44,000,000	9.11%	44,000,000	10.00%
4. Mulitex Investment Limited	30,800,000	6.38%	30,800,000	7.00%
5. MJF Foundation Investments (Pvt) Ltd	28,000,000	5.80%	28,000,000	6.36%
6. Asian Alliance Insurance PLC – Life Fund	22,600,000	4.68%	4,000,000	0.91%
7. MAS Capital (Private) Limited	22,000,000	4.55%	11,000,000	2.50%
8. Rosewood (Pvt) Ltd	16,000,000	3.31%	8,000,000	1.82%
9. Phoenix Ventures Limited	13,200,000	2.73%	13,200,000	3.00%
10. Aindri Holdings Pte Ltd	11,000,000	2.28%	11,000,000	2.50%
11. A I A Holdings Lanka (Pvt) Ltd	11,000,000	2.28%	11,000,000	2.50%
12. Softlogic Holdings PLC	10,000,000	2.07%	10,000,000	2.27%
13. Gardiya Lokuge Harris Premaratne	9,089,000	1.88%	9,089,000	2.07%
14. Merrill Joseph Fernando	7,800,000	1.61%	7,800,000	1.77%
15. Softlogic Finance PLC	7,400,000	1.53%	4,000,000	0.91%
16. Rajah Mahinda Nanayakkara	4,400,000	0.91%	4,400,000	1.00%
17. Lalan Rubber Holdings (Pvt) Ltd	4,400,000	0.91%	4,400,000	1.00%
18. Periyasamipillai Bharathakumar	4,400,000	0.91%	4,400,000	1.00%
19. Periyasamipillai Murugananthan	4,400,000	0.91%	4,400,000	1.00%
20. Periyasamipillai Anantharajah	4,400,000	0.91%	4,400,000	1.00%
21. Periyasamipillai Thevarajah	4,400,000	0.91%	4,400,000	1.00%
22. Periyasamipillai Bharathamanickkam	4,400,000	0.91%	4,400,000	1.00%
	439,689,000	91.02%	398,689,000	90.61%
Total No. of Shares Issued	483,000,000	100.00%	440,000,000	100.00%
Composition of Shareholders				
Shares held by Directors	1,100,000	0.23%	10,189,000	2.32%
Shares held by Other Related Parties	178,200,000	36.89%	190,200,000	43.23%
Shares held by Group Staff Members	14,660,000	3.04%	14,960,000	3.40%
Shares held by Institutions	230,040,000	47.63%	175,040,000	39.78%
Balance held by Public	59,000,000	12.22%	49,611,000	11.28%
Total	483,000,000	100.00%	440,000,000	100.00%
Shares held by Resident	432,389,000	89.52%	393,389,000	89.41%
Shares held by Non- Resident	50,611,000	10.48%	46,611,000	10.59%
Total	483,000,000	100.00%	440,000,000	100.00%

Movement in number of shares represented by the Stated Capital

Year	Details	No. of Shares	Stated capital Rs.
2011	Share issue	2	20
2013	Share issue	439,999,998	4,968,849,980
2015	Right issue	–	623,500,000
Total		440,000,000	5,592,350,000
2015	Right issue – unallocated shares	176,000,000	2,552,000,000

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Fourth Annual General Meeting of Cargills Bank Limited will be held on 3 May 2016 at 2.30 p.m. at Cargills Bank Limited, 4th floor, No. 696, Galle Road, Colombo 03.

for the following purposes ;

1) To consider and adopt the statement of accounts for the year ended 31 December 2015 with report of the Auditors thereon.
2) To re-elect the following Directors
    a) Mr. E M M Boyagoda who retires by rotation in terms of Article 86 of the Articles of Association of the Company being eligible offers himself for re-appointment.
    b) Ms. W K F De Silva who retires by rotation in terms of Article 86 of the Articles of Association of the Company being eligible offers herself for re-appointment.
3) To re-elect Mr. R A Ebell who retires in terms of Article 92 of the Articles of Association of the Company being eligible offers himself for re-appointment.
4) To authorise the Directors to determine the remuneration of the Auditors Messrs. KPMG who are deemed re-appointed as Auditors at the Annual General Meeting of the Company in terms of Section 158 of the Companies Act No. 7 of 2007.

By Order of the Board

Sarojini Dunuwille
Company Secretary

26 February 2016

Notes:
1) A member is entitled to appoint a proxy to attend and vote at the meeting in his or her stead and the proxy need not be a member of the Company.
2) A form of proxy is enclosed for this purpose.
3) The instrument appointing a proxy must be completed and deposited at the registered office of the Company not less than 48 hours before the time fixed for the meeting.

NOTES

NOTES

FORM OF PROXY

I/We.. of

....

being a Member/Members of ....

hereby appoint ....

of ....

whom failing .... of

.... or failing him/her.

The Chairman of the Meeting as my/our Proxy to represent me/us and to vote for on my/our behalf at the Fourth Annual General Meeting of the Company to be held on 3 May 2016 and at any adjournment thereof and at every Poll which may be taken in consequent thereof in the manner indicated below.

Resolution Number	1	2		3	4
		(a)	(b)		
For					
Against					

.... Date

.... Signature of member(s)

NOTES:

(a) Strike out whichever is not desired.

(b) Instructions as to completion of the Form of Proxy are set out in the reverse hereof.

(c) A Proxy holder need not be a Member of the Company.

(d) Please indicate with an "X" in the cage provided how your Proxy holder should vote. If no indication is given, or if there is, in the view of the proxy holder, any doubt (by reason of the manner in which the instructions contained in the Proxy have been completed) as to the way in which the Proxy holder should vote, the Proxy holder in his/her discretion may vote as he/she thinks fit.

Form of Proxy Contd.

INSTRUCTIONS AS TO COMPLETION OF THE PROXY FORM

1. To be valid, the completed Form of Proxy should be deposited at the Registered Office of the Company at No. 696, Galle Road, Colombo 3, not less than 48 hours before the time appointed for the holding of the Meeting.
2. In perfecting the form, please ensure that all details are legible. If you wish to appoint a person other than the Chairman as your Proxy, please fill in your full name and address, the name and address of the Proxy holder and sign in the space provided and fill in the date of signature.
3. The instrument appointing a Proxy shall, in the case of an individual, be signed by the appointer or by his Attorney and in the case of a Corporation must be executed under its Common Seal or in such other manner prescribed by its Articles of Association or other constitutional documents.
4. If the Proxy Form is signed by an Attorney, the relevant Power of Attorney or a notarially certified copy thereof, should also accompany the completed Form of Proxy, if it has not already been registered with the Company.
5. In the case of joint holders, only one need sign. The votes of the senior holder who tenders a vote will alone be counted.

CORPORATE INFORMATION

NAME OF THE COMPANY
Cargills Bank Limited

LEGAL FORM
A public limited liability incorporated in Sri Lanka on 3 November 2011 under the Companies Act No. 07 of 2007.

A licensed Commercial Bank under the Banking Act No. 30 of 1988.

REGISTRATION NUMBER
PB 4847

ACCOUNTING YEAR-END
December 31

HEAD OFFICE & REGISTERED OFFICE
No. 696, Galle Road, Colombo 03.

TELEPHONE
011-76 40 000

FACSIMILE
011-76 40 606

SWIFT CODE
CGRBLKLX

E-MAIL
info@cargillsbank.com

WEB PAGE
www.cargillsbank.com

TAX PAYER IDENTIFICATION NUMBER (TIN)
134 048 476

SUBSIDIARY COMPANIES
Name of the Company
Colombo Trust Finance PLC
Holding : 76.51%

Nature of Business
Finance Company

AUDITORS
KPMG
Chartered Accountants,
No. 31 A, Sir Mohammed Macan Markar Mw,
Colombo 03.

LAWYERS
Julius & Creasy
No. 41, Janadhipathi Mawatha,
Colombo 01.

COMPLIANCE OFFICER
R M P Rathnayake

COMPANY SECRETARY
S M Dunuwille (Ms.)

BOARD OF DIRECTORS
Louis R Page - Chairman
V R Page - Deputy Chairman
Prem Kumar - Managing Director
P S Mathavan - Deputy Managing Director/ Chief Financial Officer
E M M Boyagoda- Senior Director
W K F De Silva (Ms.)
M O F Salieh
R A Ebell

BOARD SUB-COMMITTEES
Board Human Resources & Remuneration Committee
V R Page - Chairman
M O F Salieh
R A Ebell
Prem Kumar - Managing Director
P S Mathavan - Deputy Managing Director/ Chief Financial Officer
S M Dunuwille (Ms.) - Secretary

Board Integrated Risk Management Committee
E M M Boyagoda- Chairman
M O F Salieh
R A Ebell
Prem Kumar - Managing Director
P S Mathavan - Deputy Managing Director/ Chief Financial Officer
Udana Fernando - Secretary

Board Nomination Committee
M O F Saleih - Chairman
V R Page
Prem Kumar - Managing Director
W K F De Silva (Ms.)
S M Dunuwille (Ms.) - Secretary

Board Audit Committee
R A Ebell -Chairman
V R Page
E M M Boyagoda
R Amarasinghe - Secretary

Board Credit Committee
V R Page - Chairman
E M M Boyagoda
M O F Salieh
Prem Kumar - Managing Director
P S Mathavan - Deputy Managing Director/ Chief Financial Officer
P Rajanathan - Secretary

Board Strategic Planning Committee
V R Page - Chairman
Prem Kumar - Managing Director
P S Mathavan - Deputy Managing Director/ Chief Financial Officer
E M M Boyagoda- Senior Director
M O F Salieh
R A Ebell
S M Dunuwille (Ms.) - Secretary

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CargillsBank
Banking on the Human Spirit

Cargills Bank Limited
No. 696, Galle Road, Colombo 03.