CargillsBank
Banking on the Human Spirit

Visionary **Banking**

Cargills Bank Limited Annual Report 2016

SINCE 1844

Visionary **Banking**

We have a vision for banking in Sri Lanka. Where banks are places for families and individuals who believe in true convenience. Where making your financial dreams come true doesn't involve spending long hours and where all your requirements are as accessible as the items in your grocery list. Banking that merges the convenience of a supermarket with the service of professionals, with the backing of promoters that had more than a 150 years of experience. We call that visionary.

Contents

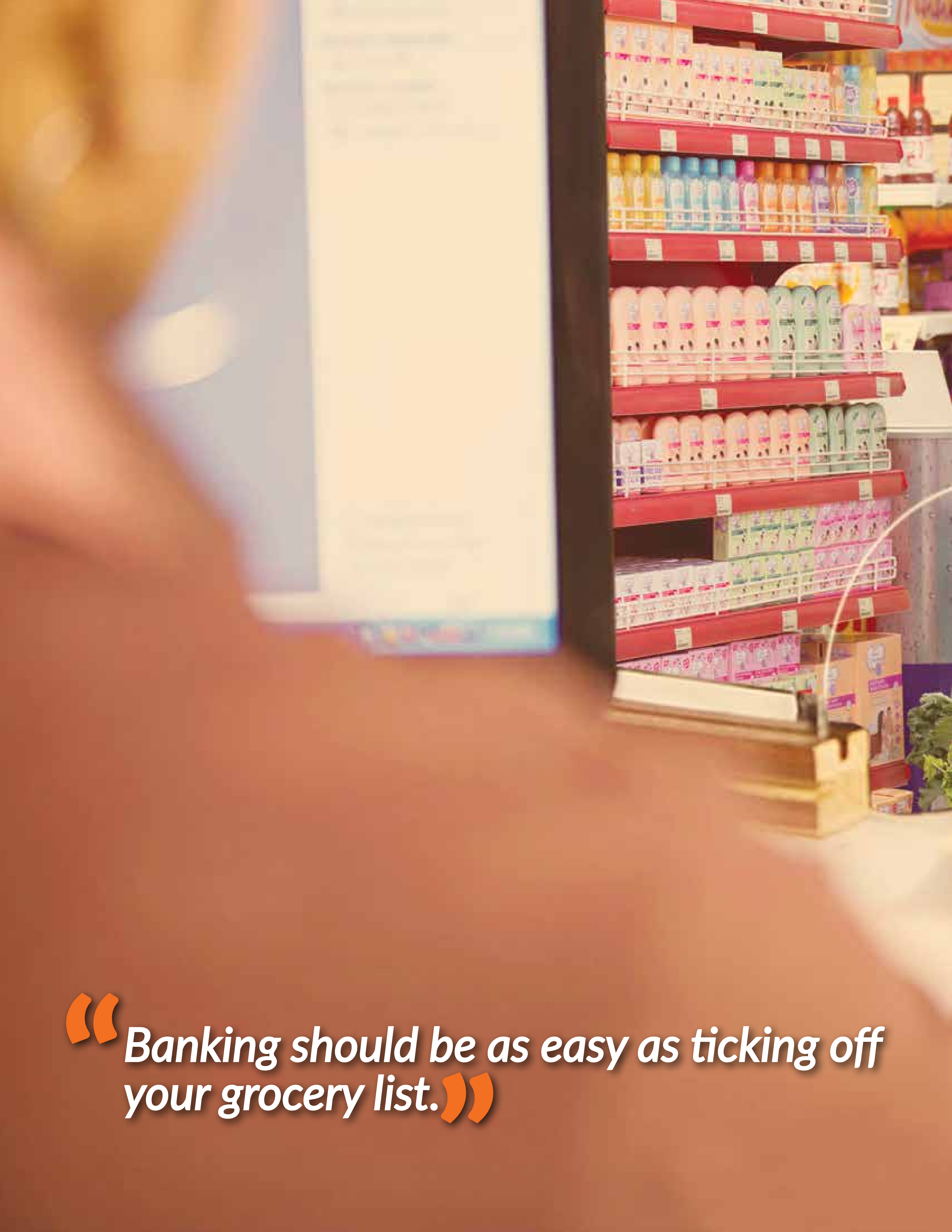
Our Vision

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

Our 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.

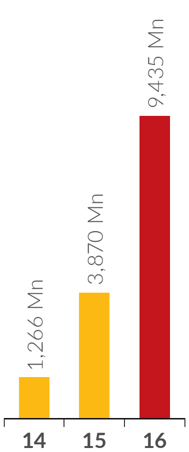

"Banking should be as easy as ticking off your grocery list."

Our Numbers at a Glance

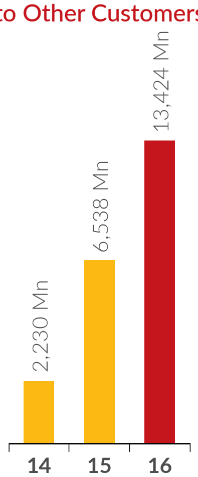
Financial Highlight

	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Bank Change %	Group 2016 Rs. '000	Group 2015 Rs. '000	Group Change %
Operating Results						
Gross income	1,701,713	604,478	182	1,853,272	770,443	141
Total operating income	1,090,755	386,748	182	1,194,681	489,945	144
Loss before tax	(56,270)	(316,208)	82	(43,014)	(323,781)	87
Taxation	(68,337)	-	(100)	(70,483)	(8,074)	(773)
Profit / (loss) after tax	12,067	(316,208)	104	27,469	(315,707)	109
Assets and liabilities						
Customer deposits	9,435,089	3,870,200	144	9,729,111	4,587,188	112
Loans and receivables to other customers	13,424,038	6,537,966	105	14,313,169	7,385,995	94
Total assets	20,989,298	13,448,391	56	21,416,906	14,253,284	50
Total liabilities	10,336,119	8,605,146	20	10,674,122	9,336,033	14
Shareholders' funds	10,653,179	4,843,245	120	10,653,479	4,839,516	120
Key Indicators						
Earnings / (loss) per share	0.02	(0.72)	102	0.04	(0.72)	105
Net assets value per share	12.06	10.03	20	12.06	10.02	20
Interest margin %	6.47	3.22	101	6.75	3.86	76
Return on assets (before tax) %	(0.34)	(3.13)	(7)	(0.25)	(2.98)	92
NPL ratio %	0.94	1.31	(28)	1.50	2.40	(38)
Return on equity %	0.15	(5.01)	103	0.34	(6.67)	105
Liquid assets ratio %	55.98	93.27	(40)	52.50	80.61	(35)
Capital adequacy						
Tier 1 %	51.93	47.74	9	51.80	41.52	19
Tier 1 & 2 %	50.81	45.32	12	52.19	41.86	19

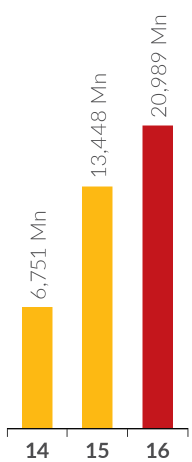
Total Deposits



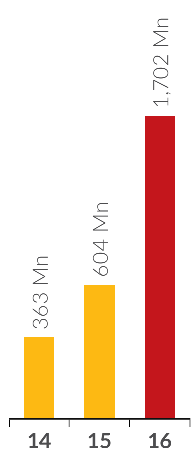
Loans & Receivables to Other Customers



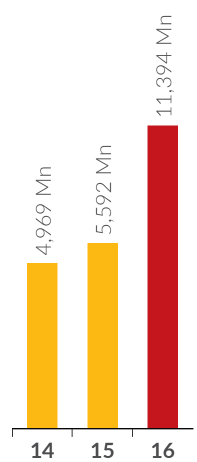
Total Assets



Gross Income



Shareholder's Funds



Total Deposits in Rs. Mn

9,435

Total Advances in Rs. Mn

13,424

Gross Income Growth

182%

Total Assets in Rs. Mn

20,989

Capital Adequacy Ratio

51%

Liquid Asset Ratio

56%

ATMs

16

Total No of Employees

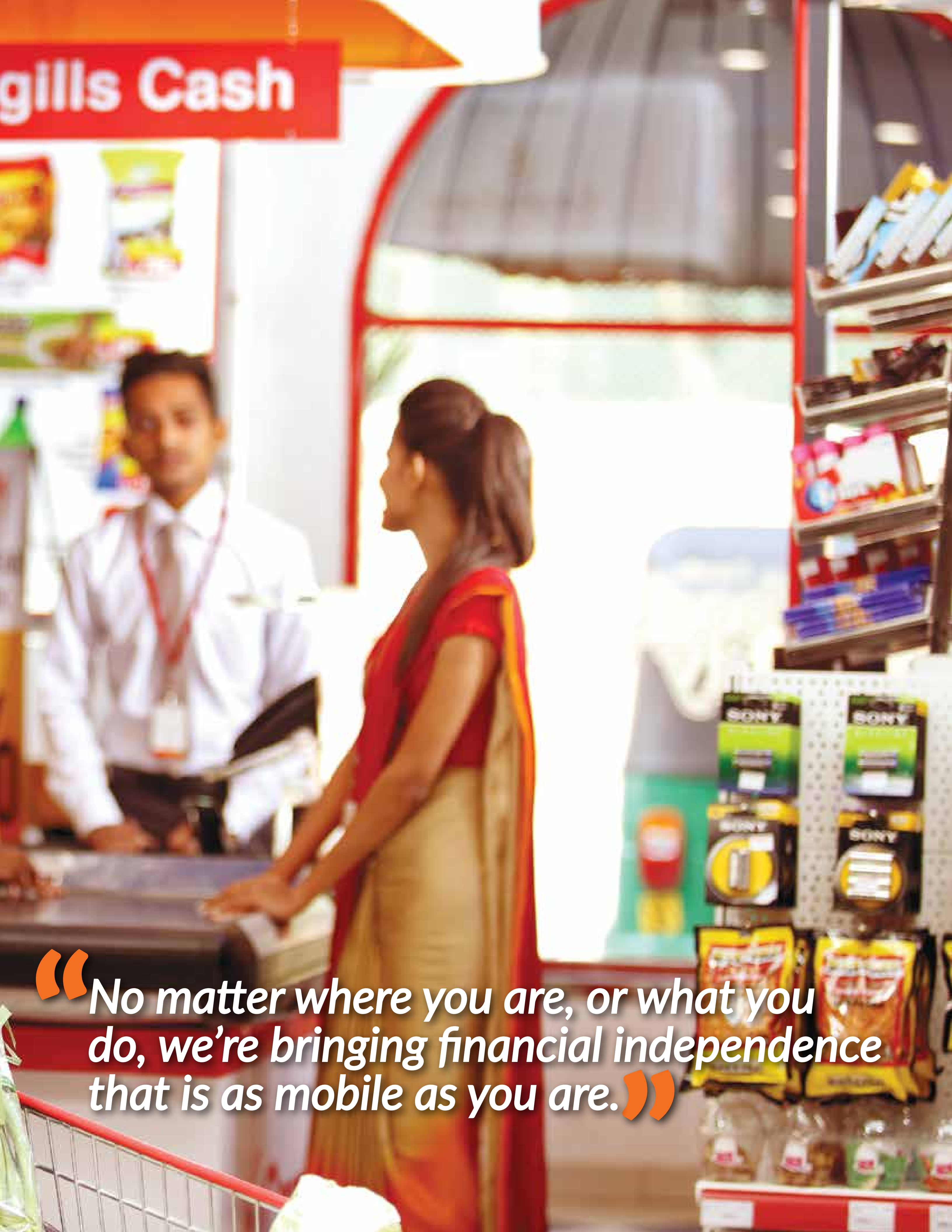
430

No of Branches

15

Access Points

310



"No matter where you are, or what you do, we're bringing financial independence that is as mobile as you are."

Chairman's Review

Dear Stakeholder,

It has been a landmark year with notable achievements across many aspects of the Bank's core business segments. Having previously laid the foundation for growth, the year in review witnessed Cargills Bank extending its reach to touch the lives of many more Sri Lankans from all walks of life. In this regard, I am sure that our shareholders will be pleased to learn that Cargills Bank has already begun to build and consolidate upon its unique position in the Sri Lankan banking industry. From the farms and fields of rural Sri Lanka to vibrant new startups and SMEs in urban centers across the island to the boardrooms of some of the country's most prominent corporations, we are confident Cargills Bank is gradually blossoming into an important institution within the Sri Lankan economy.

The macro environment

As was seen across the Asian region, the Sri Lankan economy grew at a slightly slower pace during the year with inflation recording marginal fluctuations before stabilizing towards the end of the year. Monetary conditions were held tight during the year, while exchange rates across the board moved largely in favour of a strengthening Dollar, contributing to an increase in the prices of imports.

Adverse weather conditions prevalent during the year also significantly impacted communities around the island with floods in the second quarter of the year in particular creating serious hardships for Sri Lankans in urban and rural areas alike. The negative impacts of these adverse weather conditions were also felt strongly in the agriculture sector and even more so in the country's plantations sector. Lower yields caused by these conditions acted as another significant constraint on GDP growth during the year.

Despite this, the period in review also bore witness to several encouraging developments with regard to key regulatory reforms aimed at supporting a wider program of fiscal discipline, and similar reforms aimed at the streamlining of taxation policy with a view to boosting overall tax collection and Government revenue, in addition to the liberalization of trade policy.

Notable headway was also made towards the establishment of large scale infrastructure development projects while substantial partnerships for further Foreign Direct Investment were also secured during the year. Similarly, the Government was also able to secure lines of credit at concessionary rates from the International Monetary Fund (IMF) through its continuing efforts to impose fiscal and monetary discipline. Such efforts are beginning to yield positive results, particularly in terms of supporting overall macroeconomic stability and promoting more inclusive growth over the medium to long term.

Important advances were also made across key sectors of the Sri Lankan economy during the year in review, particularly in relation to the services sector with financial services, insurance, telecommunications, education and wholesale and retail trade accounting for the majority of growth.

A further notable development during 2016 was a sharp resurgence in expatriate worker remittances into the island. During the year, remittances reached some of its highest levels in recent years, rapidly surpassing its performance in the previous year. In this regard, inward worker remittances continues to play a vital role in fueling the Sri Lankan economy. The Bank continues to view this as an opportunity, to utilize such funds to promote the

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development of small and medium enterprises (SMEs), particularly in the rural economy, thereby ensuring that when these migrant workers do return home, they will return to an environment that will empower them, their families and their communities to develop and maintain their livelihoods and become economically independent and prosperous.

Meanwhile, the Tourism sector continued to record positive results during the year in review, generating substantial turnover and serving as a vital source of foreign currency into the Sri Lankan economy. The impact of tourism on the Sri Lankan economy is another important aspect to consider, given the significant indirect benefits that it has on small businesses.

Similarly, the country's Information Technology (IT), Business Process Outsourcing (BPO) and Knowledge Process Outsourcing (KPO) industries show tremendous potential for growth over the medium-long term and while this industry's current contribution remains at lower levels to the country's traditional contributors to GDP, the year in review nevertheless witnessed several Sri Lankan IT firms making notable advances in international markets through the development of niche products. The Bank anticipates that this sector will continue to grow at an exponentially rapid pace over the coming years, generating substantial growth and providing more productive and lucrative employment to thousands of Sri Lankans.

Performance of the Bank

It was against this mixed backdrop that the Bank was able to achieve a highly commendable performance which will be elaborated on in greater detail in subsequent chapters of this, the third annual report of Cargills Bank.

At the outset however it bears mentioning that the Bank was able to secure a major infusion of capital which was channeled towards Bank's Tier I capital. This vital capital infusion helped place Cargills Bank on a firm and steady footing to face the coming year with confidence and we would like to once again register our gratitude to our shareholders. This capital infusion stands as further proof of the immense trust and confidence that our shareholders have placed in Cargills Bank and its visionary goal of uplifting and empowering people and communities from all walks of life and to bank on our Sri Lankan spirit.

Technology continues to serve as a vital enabling force for the Bank and during the year in review, Cargills Bank was able to deliver improved convenience for its clients through a continuous refinement of its internet and mobile banking platform and it is anticipated that the cutting-edge technology-enabled services will be a key differentiator for Cargills Bank over the medium to long term.

From an operational perspective, the Bank continued to enjoy rapid growth across all of its major sectors which helped substantially reverse preliminary losses accumulated in the establishment of the Bank over the last three years. Improvements to the Bank's revenue streams supported substantial reductions in operating losses leading to progressive improvements to the Bank's bottom line over the second half of 2016. Reductions in operating losses together with the impact of deferred taxes enabled the Bank to also cross another notable milestone during the year, by recording our first profits since the Bank was first established. Particularly in the context of its very recent entry into a highly competitive

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industry, the ability of Cargills Bank to have already achieved quarterly profitability must be commended and we believe that such developments bode well for the outlook of Cargills Bank over the coming year.

It is equally important to note that growth in profitability was a result of positive performances across all sectors spanning the Bank's corporate, retail banking with similar progress being reported across the Bank's SME and agri and dairy lending portfolios as well. Our shareholders will also be pleased to learn that all of the Bank's key performance indicators (KPIs) recorded positive improvements including substantial gains in interest income and income derived from fees and commissions. Similarly, the Bank also reported substantial improvements to its operating profits while Non-Performing Loans (NPLs) were maintained within strict limits through a strategy of careful monitoring coupled with comprehensive advisory services and a prudent approach to asset quality management.

From an operational standpoint, the Bank was able to expand its presence during the year, particularly through the addition of Cargills Bank kiosks at several Cargills Food City outlets in major urban centers across the island. This too was an important step which will continue in the coming year.

Outlook

Volatility on the global stage is anticipated to create risks, throughout the year as international markets readjust to a new political and economic landscape in the wake Brexit and the victory of Donald Trump in the US Presidential elections. While these results will almost certainly result in continuing uncertainty around the Western and Middle-East regions, Asia continues to display remarkable resilient growth and this is a factor which has not escaped the attention of policy makers, corporates, entrepreneurs and investors alike. Western trade policy is now shifting to place significant emphasis on the establishment of vibrant trade links with Asian economic powerhouses, particularly in India where an ongoing series of reforms aimed at establishing a more liberal and investment friendly environment is already having positive impacts on growth and it is expected that the Sri Lankan economy too will be able to benefit from increased international trade and investment activity flowing into the region.

Where in the past, Sri Lanka was able to benefit immensely from historic drops in the prices of crude oil, international commodity markets are expected to rebound in the coming year which could generate further inflationary pressure in both the international and domestic economy. Meanwhile, adverse weather conditions and extreme weather events are also expected to increase in frequency, which could have similar implications for Sri Lanka's agriculture and plantation sectors. At the start of the new year, the country is already bracing for a period of intense drought, particularly in cultivation areas, which is likely to further reduce the contribution of these sectors to national GDP while placing affected communities across the island into positions of extreme hardship. While we anticipate stiff challenges in the context of Sri Lanka's macroeconomic position over the coming year, we are encouraged by the many positive signs for growth that are emerging in the domestic economy. Consequently, we anticipate that growth will proceed at an increasingly faster pace, particularly over the second half of 2017.

> "The drought facing the country's agriculture sector represents an opportunity for the Bank to support lending directed toward productivity improvements as well as research and development aimed at improving the efficiency of irrigation systems and to sponsor initiatives aimed at supporting communities around the island to endure and adapt to such conditions."

At Cargills Bank however, we believe that every challenge also presents new opportunities to succeed and so we believe that increasing oil prices can be used as further incentive to switch over to sustainable, clean and renewable energy. While the duration for return on investment on such projects is still the primary dissuading factor for investors, the benefits over the long-term are undeniable while constantly falling prices for renewables is making alternative sources an increasingly more attractive option. This is another area which Cargills Bank is very focused on and we will continue to seek out opportunities to join with local and international partners in support of renewable energy projects in the coming year.

Similarly, the drought facing the country's agriculture sector represents an opportunity for the Bank to support lending directed toward productivity improvements as well as research and development aimed at improving the efficiency of irrigation systems and to sponsor initiatives aimed at supporting communities around the island to endure and adapt to such conditions.

From a policy perspective, the Government's reform program is beginning to gain traction with the Sri Lankan economy already showing initial signs of improvement across some important macroeconomic indicators. The country's foreign reserve position pose serious concerns and could create potential downside risks in the event of a worsening external sector performance. However remittances, foreign direct investment, foreign lending, tourism and the ever increasing presence of Sri Lankan companies entering the international market place are all mitigating factors which we will serve the Country well over the years to come.

Education reform is another crucial factor that will determine medium to long term growth of Sri Lanka and it is therefore imperative that the Government is able to consolidate its reform agenda in this sector as well.

This combined with a more business-friendly environment that is conducive to the facilitation of international investment will be pivotal to the continued development of the Sri Lankan economy. The stated reform agenda of the Government in this regard is to be commended and encouraged.

Acknowledgements

The exceptional performance of Cargills Bank would not have been possible without the tireless efforts of our dedicated and growing team of employees and I wish to express my sincere appreciation and gratitude for their unwavering commitment toward setting the Bank along its first bold steps on our journey to a unique and rewarding position in Sri Lanka's banking industry.

We also wish to acknowledge the invaluable support extended to the Bank at every turn from our shareholders and from the Cargills Group as a whole. Their support has enabled Cargills Bank to adopt a much stronger position in the local market, which will hold the Bank in good stead as we continue our expansion in the coming year.

I also wish to express my sincere thanks to the Board of Directors of Cargills Bank Limited who have stayed committed to getting this bank off the ground while remaining committed to creating real value for the widest group of stakeholders and staying true to our embedded values of ethical and accountable business practices of the highest standards.

Backed by the Cargills Group, and powered by a dynamic and visionary team, Cargills Bank approaches the new financial year cautiously optimistic with an eye for the challenging opportunities ahead. We anticipate a strong performance from the Bank over 2017 that will build on our solid foundation while providing immense value to our shareholders and all of our stakeholders.

Louis R Page
Chairman

1 March 2017
Colombo

CEO's Review

Dear Stakeholder

It is my distinct pleasure to report that at the completion of its second full year of operations, Cargills Bank Limited has achieved sound growth across all key performance indicators. Backed by the trusted reputation and unwavering support of the Cargills Group, our Bank now stands poised to capture a larger proportion of domestic market share, leveraging on synergistic opportunities generated by the Cargills Group.

In addition to nurturing strategic relationships, your Bank also worked to aggressively enhance its service offering and capacity across all customer touch points. This was accomplished through the addition of new branches augmented into the extensive Cargills Food City chain of retail supermarkets and digitally, through internet and mobile banking platforms.

Capacity expansion across all core business segments led to balanced growth across segments - spanning corporate and retail banking, trade financing and housing loans while a substantial Rs. 5.8 billion capital infusion enabled further consolidation of the Banks's reserve position. In this regard we are pleased to note that the majority of these funds were sourced directly from shareholders, who once again demonstrated their firm confidence in the shared vision of Cargills Bank to serve as a catalyst for growth in the Sri Lankan economy over the medium-long term.

Financial performance

Our potential continues to be reflected in the improving performance of Cargills Bank's core business segments as demonstrated through our key performance indicators. A substantial improvement was seen on the Bank's topline performance with Net Interest Income surging by 193% Year-on-Year (YoY) up to Rs. 0.95 billion while net fee and commission based income rose by 117% YoY to Rs. 79.2 million. Similarly, the Bank's other sources of income rose by 129% YoY up to Rs. 58 million and in this regard we are proud to note that the Bank's total operating income also recorded sharp improvements during the year, rising from Rs. 386.7 million in 2015 up to Rs. 1.1 billion by the end of the period in review; indicating a healthy growth potential in the near term.

The Bank's payments to the Government in respect of Value Added Taxes (VAT) on financial services increased sharply during the year, standing at Rs. 43 million at the end of the year in review.

Improvements to the Bank's revenue streams enabled Cargills Bank to considerably trim its loss before tax by 82% YoY down to Rs. 56 million. Meanwhile, the impact of tax deferrals enabled Cargills Bank to post a profit of Rs. 12.1 million by the end of 2016, as compared with the previous year's loss of Rs. 316.2 million. The Bank also posted earnings per share of Rs. 0.02, reversing the 2015's loss per share of Rs. 0.72.

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193%

Increase in Net Interest Income

27%

CASA mix

Improvements in the Bank's overall financial position were supported by substantial growth across the Bank's core lending portfolios. Trade Financing expanded to Rs. 2.26 billion, as compared with a previous Rs. 1.56 billion while the Bank's Housing loan portfolio recorded a similar increase from Rs. 117.6 million up to Rs. 428.4 million. Meanwhile, the Bank also extended personal loans to a value of Rs. 1.7 billion in 2016, against Rs. 509.5 million in the previous year while overdraft facilities expanded to Rs. 2.95 billion, as compared with Rs. 1.99 billion in 2015.

Majority of lending was directed towards financial and business services at Rs. 2.85 billion in 2016, up sharply from a previous Rs. 1.04 billion. This was followed by the manufacturing sector which secured Rs. 2.64 billion in lending during the period in review, expanding from a previous Rs. 1.2 billion. Similarly, lending to the agriculture and fisheries sector expanded to Rs. 271.9 million, over Rs. 230.8 million, followed by the Tourism sector, which expanded up to Rs. 195.1 million during the year in review, against Rs. 54.1 million in 2015. Meanwhile lending toward the Construction sector nearly doubled from Rs. 778.4 million up to Rs. 1.5 billion in 2016.

During this time, the Bank maintained its strict policy towards developing the credit quality through a process of stringent assessments prior to lending and continuous monitoring of lending commitments subsequently. This policy, combined with a deeply personalized service has enabled Cargills Bank to maintain non-performing loans (NPLs) within extremely low levels, particularly as compared with industry averages during the same period. Consequently, the Bank's non-performing loan ratio, which stood at 0.94% at the end of the period in review .

Meanwhile, the sizeable infusion of shareholder funds secured by Cargills Bank during the year supported the Bank to greatly bolster its reserve position, enabling the Bank to increase its Statutory Liquid Asset ratio up to 55.98%, well above the regulator stipulated limits.

Operating environment

It was a subdued year for growth in both the Sri Lankan and global economy. While GDP growth remained constrained at around 4%, provisional figures anticipate a marginal uptick in activity towards the end of the year in review, led primarily by an expanding services sector and followed by the industrial sector, which in turn was buoyed by a booming construction sector and growth in manufacturing activities.

Following a period of low inflation, both in Sri Lanka and across the globe in 2015, partially as a result of sharp dips in international commodity markets. Inflation rates recorded progressive increases during the first half of the year. Rates stabilized at mid-single digit levels by the end of the first half of 2016 ending the year at a rate of 4.1%.

CEO's Review continued.

From a monetary perspective, a tighter monetary policy resulted in a gradual increase in interest rates during the year. The value of the Sri Lankan rupee also saw a dip to historic lows against the US dollar. While these factors did contribute toward the build-up of inflationary pressure, the impact of a weaker currency on the cost of imports remained relatively contained during the year.

In an effort to tackle this rise in inflationary pressure, the Central Bank raised both its standing deposit facility rate and standing lending facility rates twice during 2016.

A reforms-oriented agenda remained high on the list of priorities for the State throughout the year as efforts to curb public spending and boost Government revenue began to take hold. Positive signs for the Sri Lankan society and its economy moving forward. Following the rate increases, growth in credit to the private sector from commercial banks decelerated to 27.3 percent YoY in August, down from 28.5 percent a month previously.

As noted by our Chairman, Sri Lanka's external debt remains a concern moving into the new year and in this regard, the Government's move to secure international funding assistance from the International Monetary Fund (IMF) through an Extended Fund Facility valued at US$ 1.5 billion over a three-year period will provide vital support to the country's reserve position. As part of the program, the Government has committed itself towards a programme of fiscal consolidation, revenue mobilization, public financial management reform, state enterprise reform, a transition to flexible inflation targeting and reforms to the trade and investment regime all of which is anticipated to serve the wider economy well and attract a significantly larger foreign direct investment component into the country in the years to come.

Strategy and outlook

Having accomplished our preliminary objective of placing Cargills Bank on a firm footing to compete in the Sri Lankan market, we are now confident in the Bank's growth prospects. Equipped with new products and services, including our most recent innovation in the form of Cargills Cash, a breakthrough product to facilitate quick and easy digital payments of groceries and bills by augmenting supermarket payment counters into simple, convenient and versatile banking counters.

Similarly, the Bank will also work to build on the momentum built up across its activities in the SME sector, while widening its corporate, trade and consumer lending portfolios to support its expansion drive. Meanwhile, lending to the agriculture, fisheries and dairy sectors continue to be an important priority for Cargills Bank, particularly given the opportunities to establish further synergies between the Bank and other companies in the Cargills Group. This sector continues to serve as one of the largest providers of income and employment for Sri Lankans across the island and as such, it still holds immense potential as an engine to drive prosperity across the island. While the agriculture sector in particular faces serious challenges in the coming years,

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partly as result of fundamental changes to the composition of Sri Lanka's economy but also arising out of the adverse weather conditions, it remains imperative that Sri Lankans work together to devise new ways of improving productivity and shielding the sector from worst impacts of climate change in the years to come. In doing so, we are confident that new opportunities for economic growth will be created and as with its efforts in the corporate, retail and SME sectors, Cargills Bank also intends to play an important and catalytic role in the agriculture, fisheries and dairy sector moving forward.

In that context, we are pleased to note that the outlook for Cargills Bank in terms of its financial performance for the coming year is very positive with 2017 potentially serving as another milestone in the Bank's continuing progress. Given that the Bank was able to generate momentum during the year, incrementally improving its performance from quarter to quarter and coming very close to achieving break-even operating profits in final quarter of the year, it is currently anticipated that the Bank will be able to achieve profitability within the first two quarters of 2017, and gain even further momentum by the end of the year.

Hence, it is an exciting time for the Bank. Having successfully completed the difficult task of creating an entirely new player in the banking industry and over the past year, having established energetic relationships across all sectors of the Sri Lankan economy, Cargills Bank has now entered an unprecedented phase in its own growth and in that of the Sri Lankan economy. As the Bank continues its growth in scale and in terms of the quantum of its contributions to clients and stakeholders, we plan to aggressively capture new market share and leverage disruptive innovation in order to rapidly ascend to hold our own unique positioning in the Sri Lankan banking industry.

While the distribution network of Cargills Bank is currently in its infancy, we are encouraged to note the substantial influx of business into the Bank despite its present capacity limitations, a sign which bodes well for the outlook of the Bank over the medium-long term. Moving forward, the Bank aims to expand its presence through a dedicated branch network that will also be augmented into the ubiquitous Cargills Food City chain of supermarkets, leading to an unmatched competitive advantage and shaping a new paradigm in customer convenience. Complemented by an extensive and sophisticated mobile and online banking presence, Cargills Bank is scaling up for its oncoming role as a focal point for growth in the Sri Lankan economy.

Cargills Bank recognizes the fact that technology will be intrinsic to our goal of 'Banking on the Human Spirit'. Backed by extensive support, resources, and expertise of Cargills Group, we at Cargills Bank are fully committed towards achieving this goal.

> "The Bank was able to generate momentum during the year, incrementally improving its performance from quarter to quarter and coming very close to achieving break-even operating profits in final quarter of the year."

CEO's Review continued.

Acknowledgements

It is with a sense of gratitude that our Bank prepares to face the coming financial year. We have achieved a great deal in a very short space of time and this could not have been possible without the unwavering support and loyalty of our small but growing customer base. The trust and confidence that they have reposed in Cargills Bank is what inspires our team to continue forward and we aim to match their faith in our organization with an outstanding performance, superior service delivery and unmatched commitment.

In this regard, I wish to also express my heartfelt thanks to our team at Cargills Bank for their dedicated work in driving this Bank's growth momentum while extending invaluable support at critical times to ensure that all our targets were met. If we are able to maintain and further develop on such performances, I have no doubt that the Bank will be able to achieve its goals in short order. We have also worked to establish and maintain a cordial and professional relationship with all regulatory agencies including the Central Bank of Sri Lanka and we wish to express our gratitude to them for their invaluable guidance in ensuring that Cargills Bank achieves total compliance with the stipulated legal and regulatory framework.

Similarly, our Chairman and Board of Directors who continue to mentor us providing advice, encouragement and guidance form a formidable and decisive leadership for the Bank. On behalf of the rest of our team, I place on record our sincere gratitude to them and it is with a great sense of optimism and confidence that we invite all our stakeholders to come together and share in our vision for Cargills Bank and for the nation as a whole.

Prabhu Mathavan
Managing Director/ CEO

1 March 2017
Colombo

Board of Directors

Louis R 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.

Ranjit Page

Joint Deputy Chairman
(Non - Executive Director)

Ranjit Page possesses over 30 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 is the Managing Director of C T Holdings PLC and Deputy Chairman of Cargills (Ceylon) PLC, and also serves on the Boards of several other companies.

Rajendra Theagarajah

Joint Deputy Chairman
(Non-Executive Director from 1 December 2016)

Mr Rajendra Theagarajah 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 counts over 33 years in banking both locally and overseas.

He currently serves as the Vice Chairman of the Ceylon Chamber of Commerce is a past Chairman of the Chartered Institute of Management Accountants (UK) Sri Lanka Governing Board. He is currently a co-opted member in the CIMA UK's Global Council and also serves as an independent non-executive Director of Carson Cumberbatch PLC.

Prabhu Mathavan

Managing Director
(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 24 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. He is also a Director of Lanka Clear (Private) Limited.

Board of Directors continued.

Mangala Boyagoda
Senior Director
(Non-Executive Independent Director)

Mangala Boyagoda is a Senior Banker, possessing over 36 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).

Kamalini De Silva (Ms.)
(Non - Executive Independent Director till 31 December 2016)
Company Secretary (Executive Director from 1 January 2017)

Ms. De Silva is an Attorney-at-Law and she was the former Secretary to the Ministry of Justice, Sri Lanka.

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.

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 40 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 Softlogic Holdings PLC and RIL Property Ltd, and chairs their Audit Committees. He has previously served in the same capacity on Boards of other listed and regulated entities.

Faizal Salieh

Non - Executive Independent Director

Faizal 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.

Faizal 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.


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"We understand that your time is precious, that's why we bring you our unique brand of convenience banking through digital means."

Management Discussion and Analysis

Having officially commenced operations in June 2014, Cargills Bank Limited has achieved substantial progress in the subsequent two years. During 2016, the Bank improved its growth, establishing new branches and launching new products and services to revolutionize the customer experience. The Bank's deployment across the island continues at a swift pace positioning it for even greater improvements in top and bottom line performance in 2017.

This report provides further insight into and analysis of the domestic and international operating environments, in addition to elaborating in greater detail on the financial, and operational highlights for the year.

Global Perspective

Despite widespread geopolitical risk, global economic growth hovered around 2.3%, driven in part by increased activity in the final quarter of the year, but nevertheless falling short of the 2.6% growth rate prevailing at the end of 2016.

Major reversals in policy were witnessed across developed markets, most notably in the form of a Brexit vote in the United Kingdom that could see the United Kingdom exit the European Union. Such an exit could trigger massive volatility in European markets as policy-makers work to re-formulate regulations under the new order. It remains unclear at the time of this report as to the details of the exit and when or if it will be finalized and how British trade, immigration, and diplomatic policy will change as a result of the exit. Similarly the stability of the European Union may also be threatened despite encouraging signs of recovery displayed across key macroeconomic indicators as a result of rising industrial production and a multi-year low in unemployment rates.

With negotiations for a 'hard' Brexit continuing well into the new year, and major elections scheduled to take place in Germany, France and many other linchpin nations, the forecast for the European Union and the United Kingdom appears extremely uncertain, with volatility anticipated to continue till at least the second half of 2017. Nevertheless, economic growth in the Eurozone is anticipated to benefit from improved labour conditions, fueling an anticipated 1.7% expansion according to current forecasts.

The election of President Donald Trump has created similar uncertain conditions in the United States as a rapid flurry of activity at the commencement of his term has resulted in several major shifts in diplomatic, economic, environmental, regulatory and immigration policies. Nevertheless, current expectations are leaning towards a policy of fiscal stimulus which would serve to re-energize the economy after growth rates fell from a peak of 3.5% at the end of the third quarter of 2016 (3Q16) down to 1.9% at the end of the year. Construction and major infrastructure projects are anticipated to drive a new wave of growth across the US economy. However given the uncertainty currently surrounding US international trade policy, the implications of this growth for the rest of the globe cannot be accurately predicted. More clarity could be anticipated by the second quarter of 2017.

> "The Bank continued to receive firm support extended by the promoter Cargills Group which helped to comply with the regulatory capital requirement of Rs. 10 billion, improving the Bank's reserves and placing the Bank on a strong footing for the coming year"

Global inflation continued an upward trend during 2016, rising to 3.7% by December and averaging 3.4% for the year. During this time commodity prices including the price of crude oil rose, rebounding from a low of US$ 40 per barrel to cross US$ 50 per barrel following the announcement of an OPEC cut in production. While such developments might have limited positive implications for Sri Lanka's export sector, they may trigger the build-up of further global inflationary pressure.

Sri Lankan Economy

Enduring another year of challenging conditions, the Sri Lanka's n economic growth was primarily driven by the country's services and industrial sectors. Service sector growth was led by the financial services segment, followed by insurance, telecommunications, education and wholesale and retail trade.

Notably, the country's tourism sector achieved significant milestones, recording an impressive 14% Year-on-Year (YoY) growth during the year to reach an all-time high of arrivals in excess of 2 million visitors in 2016. Sri Lanka continues to draw international attention as a tourist hotspot and it is anticipated that the sector will benefit from rapid growth in the coming year, providing improved opportunities for employment across the island, while also bringing in valuable foreign exchange.

Industrial sector growth was led by high rates of activity in the country's construction sector which enjoyed a resurgence, driven by pent up demand for residential and commercial space in closer proximity to urban centers and equally substantial demand for capacity in the tourism sector. Similar performances were also witnessed across the country's manufacturing, mining and quarrying activities.

Meanwhile the country's agriculture sector contracted by 2.5% as a result of adverse weather conditions prevailing throughout the year, particularly during the second quarter. In comparison, the agriculture sector grew by 8.1% during the corresponding period of 2015, indicating both the severity of weather conditions experienced during the year, and also illustrating the impact of long standing systemic issues facing the sector, and the country's plantation economy in particular.

Adverse weather conditions also gave rise to serious hardship for communities across the island as a result of severe flooding and landslides which increased in frequency moving into 2Q16 and the country is now expected to endure a similarly intense period of drought in the opening months of 2017. The Bank remains cognizant of the relationship that such extreme weather events hold in respect to the growing international concern around climate change and its impact on society.

The inflation rate began to increase during the year, following a period of historic lows enjoyed in Sri Lanka and across the globe particularly due to the previously stated low price of crude oil. Inflation rose from 2% in 2015 recording notable spikes across the first half of the year before stabilizing in the mid-single digits by the end of 2H16 and finally ending the year at 4.1%. The impact of these marginal increases to commodity prices was however amplified at a domestic level through the weakening of the Sri Lankan rupee against the dollar, falling from Rs. 145 down to Rs. 150.

A stronger dollar combined with increased Government spending and the partial repayment of maturing bond and coupons arising out of previous sovereign bond issues generated pressure on the country's balance of payments position. However this pressure was subsequently eased when the Government reached an agreement with the International Monetary Fund (IMF) which came into effect in June 2016.

Under the terms of the Extended Fund Facility (EFF), Sri Lanka would be entitled to a provision of US$ 1.5 billion over a three year period. The loan was advanced with certain conditions requiring the Government to adhere to strict commitments regarding fiscal consolidation, revenue mobilisation, public financial management reform, state enterprise reform, a transition to flexible inflation targeting and reforms to the trade and investment regime. The second tranche of the EFF funding was subsequently released in November 2016, amounting to a disbursement of US$ 162.6 million. While the country has made significant progress towards achieving key criteria specified under the IMF reform agenda, the continued burden of loan repayments combined with subdued external sector conditions may create appreciable downside risks for the country's balance of payments position.

Nevertheless, provisional figures indicate that Sri Lanka's primary budget deficit fell to Rs. 84 billion at the end of 2016, performing better than the IMF's stipulated target of Rs. 97 billion, while tax revenues also recorded notable improvements, rising from Rs. 1.36 trillion up to Rs. 1.46 trillion.

The country's external sector recorded marginal deterioration through the year, with cumulative export earnings for the first ten months of 2016 dropping 2.6% YoY to US$ 8.62 billion reflecting lower proceeds from Agricultural exports, such as tea and spices. Notably however, earnings from textiles and garments which account for about 48% of total exports, increased during the first ten months of 2016 due to higher exports to traditional and non-traditional markets, an encouraging sign for the sector. Worker remittances also continued to play a vital role for the Sri Lankan economy. Provisional figures for the year indicate that expatriate remittances into the country increased sharply, reaching US$ 7.24 billion as compared with US$ 6.98 billion in 2015 and the previous record of US$ 7.02 billion in 2014.

In an effort to tackle this rise in inflationary pressure, the Central Bank raised both its standing deposit facility rate and standing lending facility rate by 50 basis points each, to 7 percent and 8.5 percent, respectively during the month of July amounting to the second rate hike for the year, the first being an increase to the lending rate from 7.5% up to 8% in February of 2016. Following the rate increases, growth in credit to the private sector from commercial banks decelerated to 27.3 percent YoY in August, down from 28.5 percent a month previously.

As the Government's reform agenda begins to yield results, Sri Lanka's economy is projected to undergo a partial resurgence in 2017 with GDP growth anticipated at a rate of around 5% before increasing to 5.1% in 2018.

Financial Performance

As noted in previous sections of this report, Cargills Bank Limited was able to secure notable improvements across top and bottom line performance driven by an expansion in the scope of its operations and resultant increases in new business. Net Interest Income increased by 193% YoY to reach Rs. 0.95 billion. Similarly, the Bank's Net Fee and Commission income rose by 117% YoY to Rs. 79.2 million while other sources of income recorded a 129% YoY improvement to reach Rs. 58 million at the close of the year.

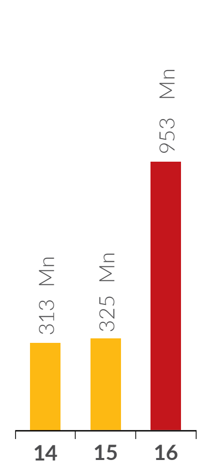
As a result of these top line improvements, the Bank's Total Operating Income recorded substantial increases, expanding from a previous Rs. 386.7 million in 2015 up to Rs. 1.1 billion by the end of the period in review. This growth was supported by significant increases in activity across all the Bank's core segments and a continued consolidation of relationships within its corporate portfolio, complemented by synergies the Cargills Group.

Trade Financing expanded to Rs. 2.26 billion, as compared with a previous Rs. 1.56 billion while the Bank's Housing loan portfolio recorded a similar increase from Rs. 117.6 million up to Rs. 428.4 million. The Bank was able to extend vital services to its customers which ranged from top tier corporates to dynamic players in the SME sector, helping to facilitate transactions with countries like Canada, the United States of America, China, and across the European Union. The range of the Bank's international reach was also expanded through the establishment of firm relationships with correspondent banks in multiple major economies across the globe.

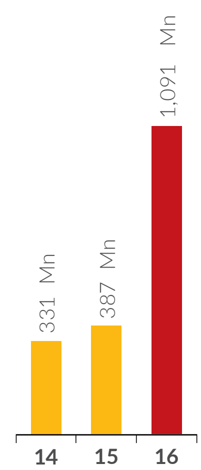
Meanwhile, the Bank's retail portfolio also recorded notable growth, supported both by the expansion of the Cargills Bank's physical network as well as a parallel expansion of its ATM network. The Bank extended personal loans to a value of Rs. 1.7 billion in 2016, against Rs. 509.5 million in the previous year while overdraft facilities expanded to Rs. 2.95 billion, as compared with Rs. 1.99 billion in 2015.

A majority of lending was directed towards financial and business services at Rs. 2.85 billion in 2016, up sharply from a previous Rs. 1.04 billion. This was followed by the manufacturing sector which secured Rs. 2.64 billion in lending during the period in review, expanding from a previous Rs. 1.2 billion. Similarly,

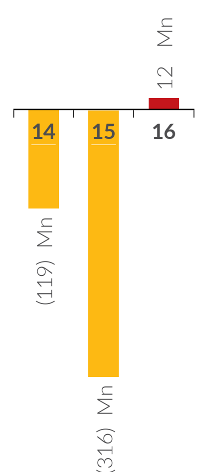
Net Interest Income



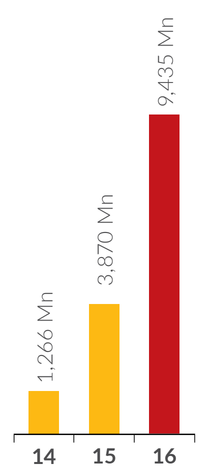
Total Operating Income



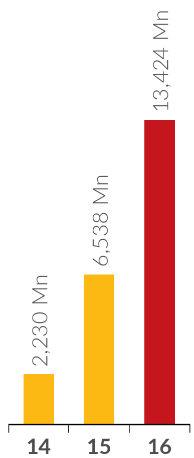
Profit / (Loss) After Tax



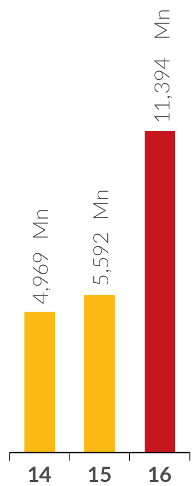
Customer Deposits



Loans & Receivables to Other Customers



Shareholder's Funds



"Cargills Bank Limited was able to secure notable improvements across top and bottom line performance driven by an expansion in the scope of its operations and resultant increases in new business."

lending to the agriculture and fisheries sector expanded to Rs. 271.9 million, over a previous Rs. 230.8 million. In that context, the Bank continues to strengthen its presence in the agriculture sector, parallel to growth across its other core operations. During the latter part of 2016 Cargills Bank worked with over 2,800 farmers aligned with our goal of improving access to finance and providing the sector with the capital it requires to further develop its scale of operations.

Lending to the Tourism sector increased to Rs. 195.1 million, against Rs. 54.1 million in 2015. Meanwhile lending toward the Construction sector nearly doubled from Rs. 778.4 million up to Rs. 1.5 billion in 2016.

The Bank's Treasury portfolio also recorded a commendable performance during the year with bond trading yielding positive results for the Bank. This income was further complemented by the commencement of foreign exchange trading, which together with bond trading, was able to substantially contribute towards bottom line performance despite volatile market conditions prevalent throughout the year.

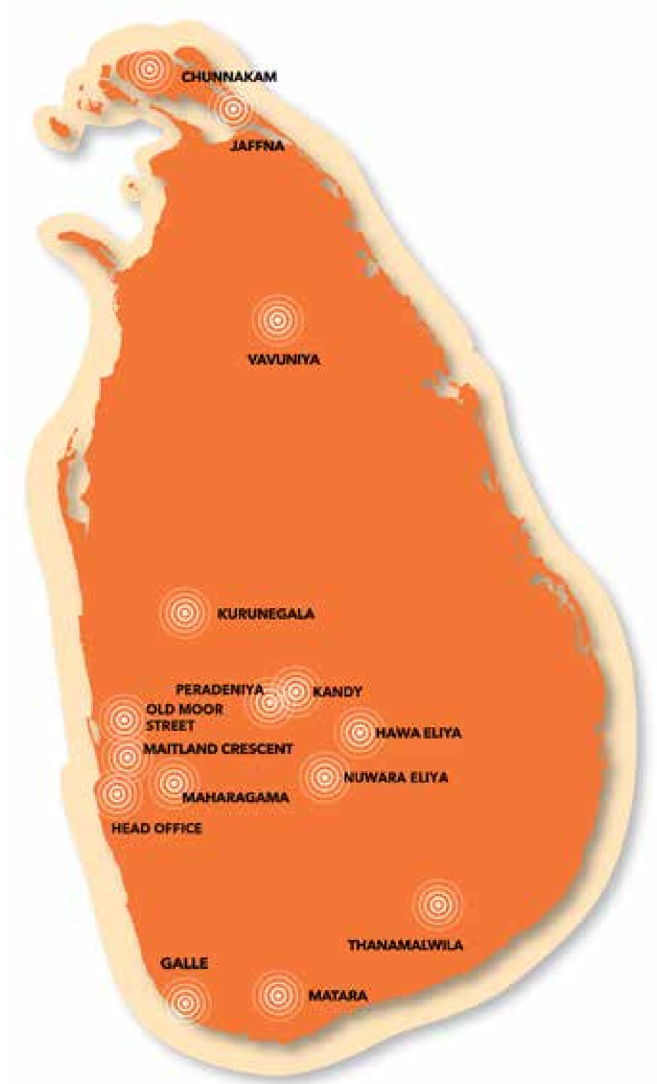
Current deposits increased from Rs. 324.5 million up to Rs. 1.36 billion while savings deposits expanded from Rs. 474.6 million up to Rs. 1.2 billion and time deposits doubled from Rs. 3.06 billion up to Rs. 6.84 billion during the period in review. Consequently, the CASA mix which stood at 27% at the end of the period in review.

The Bank continued to receive firm support extended by the promoter Cargills Group which helped to comply with the regulatory capital requirement of Rs. 10 billion, improving the Bank's reserves and placing the Bank on a strong footing for the coming year. Consequently, the Bank's stated capital as at 31st December 2016 stood at Rs. 11.4 billion, representing a 104% YoY improvement.

As per the regulations by the Bank Supervision Department of Central Bank of Sri Lanka the Bank has to maintain minimum liquid assets ratio of 20% of its total liabilities, less liabilities to the Central Bank, to the shareholders and it's liabilities on repurchase agreements. In compliance with these standards, the Bank maintained a Statutory Liquid Asset ratio at 55.98% during the period in review.

The Bank's payments to the Government in respect of Value Added Taxes (VAT) on financial services increased sharply during the year, standing at Rs. 43 million at the end of the year in review.

Improvements to the Bank's revenue streams enabled Cargills Bank to trim its loss before tax by 82% YoY down to Rs. 56 million. Meanwhile, the impact of tax deferrals enabled Cargills Bank to post a profit of Rs. 12.1 million by the end of 2016, as compared with the previous year's loss of Rs. 316.2 million. The Bank also posted earnings per share of Rs. 0.02, reversing the 2015's loss per share of Rs. 0.72.



Operational highlights

The Bank recorded several important operational achievements during its second full year of operations. Since its inception, Cargills Bank was established in a manner that would ensure its competitiveness across multiple aspects of the banking industry, from corporate, retail, SME lending to trade finance and treasury operations. This commendable performance across business segments has enabled the Bank to approach near breakeven level with a substantial portion of business attributed to the latter part of 2016 during which period it completed its first ever securitization. As noted by our Chairman and CEO, this growth is projected to continue into the coming year, supporting the Bank to achieve quarterly profits commencing from first quarter of 2017.

The Bank opened 4 new branches, one each in Kandy, Peradeniya, Nuwera Eliya, and Galle. Notably, all these branches were set up inside Cargills Food City outlets thus taking the total branch count of Cargills Bank up to 15, and expanding its presence to now cover the Northern, Southern, Western and Central Provinces.

Parallel to the expansion of its physical branch network, the Bank was also able to widen its service offering through the addition of innovative products including Cargills Cash, a unique product that leverages the synergy between Cargills Bank and the Cargills Food City chain of supermarkets to create an unmatched customer experience. Further measures were also implemented to refine the Bank's online and mobile banking

Ceremonial opening of Nuwara Eliya branch by Additional District Secretary, Mrs. U. Amarasekara

> "The Bank was able to widen its service offering through the addition of innovative products including Cargills Cash, a unique product that leverages the synergy between Cargills Bank and the Cargills Food City"

Ceremonial opening of Kandy branch by Dr. N. Gunawardena, Director - International Research Center, University of Peradeniya

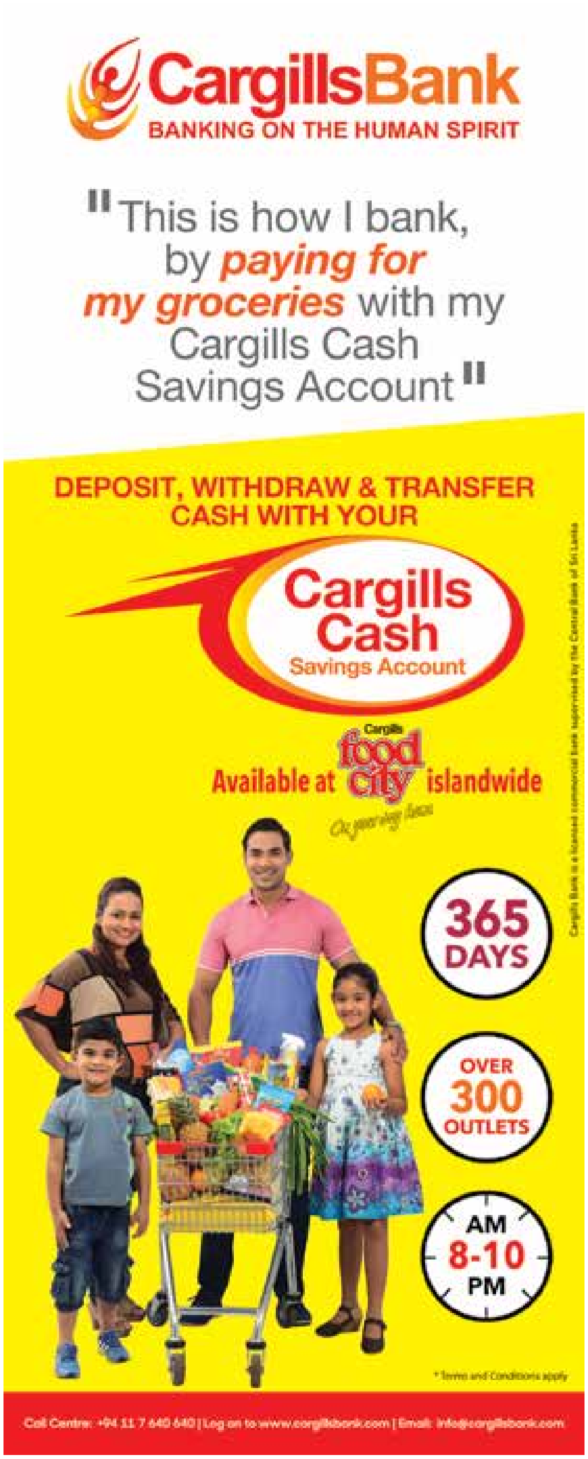
platforms to provide an enriched user experience. The increase in customer touch points throughout the year is part of a wider strategy to create convenient customer-centric experiences, and the Bank remains fully committed towards this strategy in the coming year.

Marketing

Similar steps were also taken to increase the Bank's visibility among Sri Lankan consumers via a strategic marketing campaign that built on the momentum generated by the previous year's initiatives. 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, with a particular focus on social media and digital marketing; keeping in mind the cost effective nature and potential reach of the format.

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. These efforts yielded results as the Bank continued to build and consolidate on its brand recognition. Marketing campaigns were also carried out during

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



the year across electronic, print and social media and these efforts will continue at a similar pace into the new year. With the launch of new products and services that are set to transform customer experienced a greater emphasis would be placed on digital marketing drives over electronic media, and to that end, the Bank worked to revamp its website and social media presence in 2016 and is poised to leverage its improved presence to generate a greater public following and a wider customer base.

Human Resources

Our Bank's motto of 'Banking on the Human Spirit' extends not only to our customers and shareholders, but also covers our team of employees as well. Cargills Bank continues to invest substantial resources towards acquiring, retaining and developing the best talent in the market. During the year in review, the Bank was able to fill all key positions, empowering the organization to take decisive measures to capture market share and expand the reach of the Bank moving into the new year.

Cargills Bank staff day out - 2016

During this time, the Bank also continued its targeted recruitment drive in order to match the growing scale of its operations and to meet the needs of a growing network presence with staff headcount growing from 266 employees in 2015, up to 430 employees by the end of 2016.

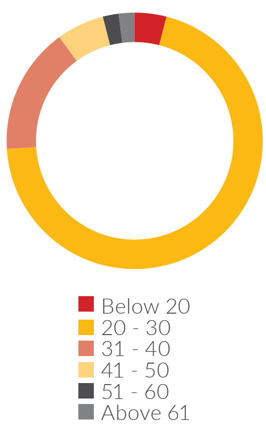
Training and development of employees at all levels of the organization was also maintained as a key priority for the Bank in 2016. During the period in review, the Bank conducted multiple external and internal training sessions aimed at further strengthening core skills and competencies while also developing more holistic 'soft' skills

Formation of Cargills Bank Toastmaster's Club

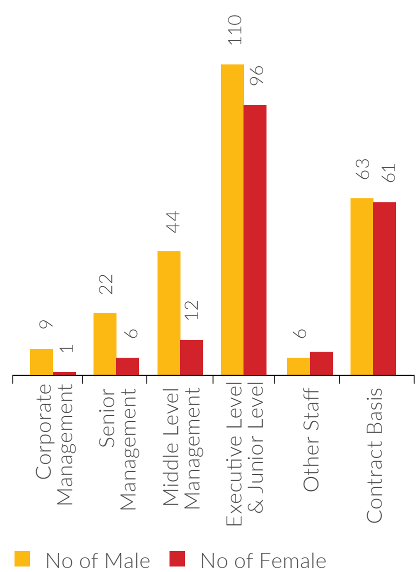
> The Bank continued its targeted recruitment drive in order to match the growing scale of its operations and to meet the needs of a growing network presence

aimed at enhancing the Bank's overall service offering. Such initiatives were further complemented by other voluntary programmes such as the formation of the Bank's own Toastmaster's Club and the participation of the Bank in several other industry level events and forums.

Age Analysis of the Staff



Staff Composition



Corporate Social Responsibility

Cargills Bank also achieved another notable milestone in its journey to Bank on the Human Spirit in the form of its very first set of CSR initiatives focused on improving standards of education for students residing in underserved communities under the banner of its KIDS HELP Programme.

Newly constructed assembly hall at Maha Mankadawala Maha Vidyalaya, Elayapattuwa in Anuradhapura district

During the year in review, the Bank's employees teamed up with students, parents, and teachers at Maha Mankadawala Maha Vidyalaya, Elayapattuwa in Anuradhapura district to construct a new assembly hall for the school. Additionally, the Bank also provided school packs to all 223 students at the school, providing new school bags and all required stationary in order to support their studies.

KIDS HELP programme in the Jaffna district

Under the KIDS HELP programme, another initiative was also launched on an even larger scale in the Jaffna district covering the Jaffna Kulamangal Roman Catholic School, the Kethpeli Government mixed school and the Murusavil and Melapuloli Sivaprakasan College at Point Pedro. The Bank was able to donate school bags, shoes, stationery items, sports goods to over 600 students.

Moving forward, Cargills Bank remains deeply committed towards the continuous empowerment of underserved communities across the island. Parallel to the Bank's own expansion, Cargills Bank will also seek out new opportunities to engage with communities in order to carefully ascertain their needs and thereafter carry out strategic interventions aimed at improving general social and economic conditions, living standards and access to opportunities for such communities. Over the long term, the Bank aims to organically develop a structured, multi-pronged CSR programme capable of generating meaningful, empowerment-focused outcomes that improve the lives of Sri Lanka's most vulnerable citizens.

Risk and Compliance

Cargills Bank continues to place utmost importance towards total compliance with all regulatory and legal requirements in order to ensure the stability of its financial and operational framework while constantly monitoring its lending to maintain its exposure within strict parameters. During the year under review, the Bank was able to further consolidate its Risk Management strategy through several important initiatives. New policies were adopted to improve transparency across the Bank's reporting protocols and processes.

> "Cargills Bank continues to place utmost importance towards total compliance with all regulatory and legal requirements in order to ensure the stability of its financial and operational framework"

Similarly, the Bank channeled extensive resources into focused training for staff specifically on the subjects of risk, compliance and related procedures. Meanwhile the Bank's Management level committees were also made more robust during the year. Such strategic measures were further complemented by improvements to the Bank's back-end processes in order to ensure greater accuracy, reliability and security of its administrative information, thereby strengthening the Bank's overall standards of risk management.

Outlook

At the end of another eventful year, Cargills Bank stands poised for significant growth in the coming year. Having expanded the scope of its operations during the year in review, the Bank's capacity to attract and manage larger volumes of business has been greatly improved.

Meanwhile, the augmentation of the Bank into the Cargills Food City network over the coming year will substantially expand the Bank's customer touch points, and it is anticipated that the Sri Lankan consumer will quickly embrace the truly unique positioning of Cargills Bank and the immense benefit that such a customer-centric Bank can have for Sri Lankans from all walks of life.

While the Bank posted a loss in the previous year, the momentum built up over the final half of 2016 is anticipated to carry the Bank into profitability by the first quarter of 2017, allowing accumulated losses to be cleared soon thereafter.

"Cargills Bank stands poised for significant growth in the coming year. Having expanded the scope of its operations during the year in review, the Bank's capacity to attract and manage larger volumes of business has been greatly improved."


"Checking your bank balance is as easy as swiping your phone; no more hassle."

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
6. Strategic Planning Committee

In 2016, 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 2016 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. 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. Board approved the Business plan 2016-2018.

No.	Rule	Degree of Compliance
	b) Approve the overall business strategy of the Bank including Risk Policy and Risk Management procedures and mechanisms	Complied with The overall business strategy for 2016-2018 was approved by the Board. 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.
	d) Policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers	Complied with. The Board approved Communication Policy is available.
	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.

No.	Rule	Degree of Compliance
	f) Identify and designate Key Management Personnel	Complied with. Based on -"Related Party Disclosures" which states that the Key Management (KMP) Personnel are those having authority and responsibility for planning, directing and controlling the activities of the entity. The Board of Directors have been identified as KMP of the Bank for financial reporting purpose as per LKAS 24. Board approval has been obtained for the KMPs list. For Corporate Governance reporting the Bank has defined the Board of Directors and selected officials of the Bank as KMPs.
	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/ Terms of Reference have been developed for Board approval to define the areas of authorities and key responsibilities for the Board of Directors. The Job Description for CEO has been developed for Board Approval. The Job Description of KMPs is being reviewed for Board approval.
	h) Ensure appropriate over sight of the affairs of the Bank by Key Management Personnel	Complied with. Oversight by the Board over the Corporate Management takes place at Board Meetings and through Board appointed Sub Committees.

No.	Rule	Degree of Compliance
	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 2016.
	j) Ensure an appropriate succession plan for Key Management Personnel	Partially Complied with. A succession plan has been developed for Board approval and was 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 monitors progress made towards achieving corporate objectives at Board Meetings.
	l) Understand the regulatory environment and maintain relationship with regulators.	Complied with. The Board collectively and the Directors individually recognise their duty to comply with laws and regulations applicable to the Bank. The Bank maintains a cordial relationship with the Regulator.
	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 regulatory requirements. The Audit Committee received a declaration from Messrs 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.

Corporate Governance continued.

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). The Role of the CEO is to manage the day-to-day running of the Bank. The Board has delegated this responsibility to the CEO. The CEO leads the Corporate Management Team in making and executing operational decisions.
3 (1) (iii)	The Board shall meet regularly	Complied with. The Board usually meets at monthly intervals or more frequently when needed. 12 Board Meetings were held for 2016.
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.

No.	Rule	Degree of Compliance
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 required number of meetings held during 2016. No Director has been absent from three consecutive regular Board meeting during 2016.
3 (1) (vii)	Appoint a Company Secretary and set our clear responsibilities and ensure the secretariat services to the Board and shareholders are carried out in line with statues ad applicable regulations.	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.
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 detail 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.

No.	Rule	Degree of Compliance
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 Central Bank of Sri Lanka Bank Supervision Department 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 by way of a specialized Related Party Transaction Policy.
3 (1) (xiii)	Formal schedule of matters to ensure the direction and control of the Bank.	Partially Complied with. The Bank has developed the Terms of Reference of the Board of Directors for Board approval. 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 included a process for same in the Boards Terms of References.
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 2016.
3 (1) (xvi)	Publish Corporate Governance report	Complied with. This report serves the said requirement.

No.	Rule	Degree of Compliance
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 2016. Further, each Director carried out an assessment of 'fitness and propriety' to serve as a Director, in line with the Central Bank Requirement.
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 2016.
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. The Period of Service of all Directors are within 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. As at 31 December 2016, the Board consists of eight Directors of which one is an Executive Director. All other Directors are Non-Executives.
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. As at 31 December 2016, the Board consists of eight Directors of which 4 are Independent Non-Executive Directors. The names of the Independent Non-Executive Directors are as follows: 1. Mangala Boyagoda 2. Kamalini De Silva (Ms.) 3. Faizal Salieh 4. Richard Ebell

No.	Rule	Degree of Compliance
3 (2) (v)	Alternate Director is appointed to represent an Independent Director to satisfy the required criteria.	Not Applicable No alternate directors were appointed for the Year 2016.
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. All Board meetings held during 2016 were duly constituted with more than 50% of them being Non-Executive Directors.
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 2016 is as follows: 1. Louis R Page - Chairman/ NED 2. Ranjit Page - Deputy Chairman/NED 3. R.Theagarajah - Deputy Chairman/NED (from 1 Dec 2016) 4. Mangala Boyagoda - Senior Director/INED 5. Kamalini De Silva - INED 6. Faizal Salieh - INED 7. Richard Ebell - INED 8. Prabhu Mathavan - ED 9.Prem Kumar - ED (until 31 March 2016) Further, Directors profiles are given on pages 019 to 021.
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.

No.	Rule	Degree of Compliance
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. Prem Kumar resigned from his post with effect from 31.3.2016 upon completion of his contract. No removal of Directors took place during the year under review.
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 pages 019 to 021. Employees are required to obtain approval of the management for any external appointments.
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.

No.	Rule	Degree of Compliance
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. The Board takes ultimate responsibility for the activities of the Bank.
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. The delegation process is detailed in the Banks Articles of Association. The Terms of Reference once approved will have a separate provision to cover this.
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	Partially Complied with. The Chairman is a Non-Executive Non-Independent Director. Therefore, the Board has appointed an Independent Director as the Senior Director. The terms of reference of the Senior Independent director is to be presented for board approval.

No.	Rule	Degree of Compliance
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. Due to same Senior Non-executive Independent director has been appointed.
3 (5) (iv), (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) (v)	Formal Agenda is approved by the Chairman prior to circulation by the Secretary	Partially Complied with. Approval of the Chairman is obtained verbally on the Agenda prior to circulation. The Managing Director approves the agenda and it is circulated by the Company Secretary.
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. A Board approved Communication Policy in available.

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. Board Audit Committee 2. Board Nominations Committee 3. Board Human Resource and Remuneration Committee 4. Board Integrated Risk Management Committee In addition, the Board has appointed the following Sub-Committees too: 5. Strategic Planning Committee 6. Board Credit Committee Each committee has a Secretary to arrange the meeting and maintain minutes.
3 (6) (ii)	Audit Committee (BAC)	
	a) The Chairman of the Committee shall be an Independent Non-Executive Director (INED) and possesses qualifications and related experience	Complied with. The Audit Committee consists of the following Directors. 1. Richard Ebell - Chairman INED 2. Mangala Boyagoda - INED 3. Ranjit Page - NED The Chairman of the BAC, Mr. 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 has experience in various roles in finance and operations since qualifying as a Chartered Accountant in 1977.

No.	Rule	Degree of Compliance
	b) All members of the Committee shall be Non- Executive Directors (NED)	Complied with The Chairman of the Committee is an Independent Non-Executive Director (INED) and the two other members of the committee (one of whom is also Independent), are Non-Executive Directors.
	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, application of the relevant accounting standards and compliance with 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 the scope and nature of the audit, independence of the Auditors and the conduct of the audit in accordance with SLAS. 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.
	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. A policy on non-audit related services was developed and approved by the Board. Compliance with the policy is monitored by the Board Audit Committee.
	f) Discuss and finalise the nature and scope of the audit, with the External Auditors	Complied with The audit plan was discussed during the presentations made by the external auditor.

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 members of the Audit Committee. Discussions take place at committee meetings regarding such Financial Statements prior to a recommendation being made to the Board for their adoption. The Audit Committee reviews Financial Statements for disclosures, major judgemental areas, changes in accounting policies and practices, validity of the going concern assumption, compliance with relevant accounting standards and other legal requirements, and in respect of the Audited Financial Statements, any significant adjustments arising from 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 audit progress and the issues noted during audits with the Audit Committee three time during the year. The Committee has met the External Auditors during the year without the presence of executive 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 2015 and management responses thereto and also the follow-up thereafter.

No.	Rule	Degree of Compliance
	j)	Complied with.
	1. Review the adequacy of the scope, functions and resources of the Internal Audit Department	The Internal Audit scope, functions, resources availability has been reviewed and the Internal Audit Plan has been approved by the Audit Committee.
	2. Review the Internal Audit program and results of the Internal Audit Process.	The Audit Committee has received the internal audit reports and directs that necessary action be taken. The Audit Committee has reviewed the progress of the work carried out by the Internal Audit Department and ensured its independence from other business units.
	3. Review the appraisal and performance of Head of Audit and Senior staff in Internal Audit.	Not Complied for the year 2015. The appraisal for 2016 is in progress.
	4. Recommend any appointment or Termination of Head of Audit and Senior IA Staff	Complied with. Appointment of the Head of Internal Audit was approved by the Committee.
	5. Committee is apprised of resignation of senior staff in Internal Audit department	Complied with.
	Internal Audit is independent of the function it Audits	Complied with.
	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	Partially Complied with. One meeting was held during the year.
	m) Terms of Reference of the Committee	Complied with. Audit Committee charter was reviewed and approved.

No.	Rule	Degree of Compliance
	n) Regular committee meetings	Complied with. The Audit Committee met eight times during the year. Refer 'Audit Committee Report' on page 072.
	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 'Audit Committee Report' on page 072. The Board was briefed with regard to the items discussed at the Audit Committee meetings.
	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 modified during the year in keeping with observations made by the Central Bank and approved by the Audit Committee and the Board of Directors. This allows employees to raise concerns in confidence about possible improprieties in financial reporting, internal control or other matters.
3 (6) (iii)	Human Resources and Remuneration Committee (HRRC)	
	a) The Committee shall have a policy to determine the remuneration relating to Directors, CEO and Key Management Personnel of the Bank.	Partially Complied with. The Bank has a formal process for annual performance evaluation for CEO and Corporate Management. A Remuneration policy for all employees (excluding CEO and KMP) has been developed for Board approval.
	b) The Committee shall set documented goals and targets for the Directors, CEO and the Key Management Personnel	Partially Complied with. Goals and targets for some Corporate Management are currently being developed and under review.

No.	Rule	Degree of Compliance
	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 performance of the CEO for 2016, and the CEO has evaluated the performance of Corporate Management, who have completed 12 months evaluation period. The committee has 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. The Terms of Reference details that the CEO should not be present.
3 (6) (iv)	Nomination Committee (BNC)	
	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 BNC approved the procedure for selection and appointment of new Directors. The BNC recommended the Re-election of the current Directors.
	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	Partially Complied with. This is carried out by the Nomination Committee taking into consideration the qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the Corporate Management. The job description for certain KMPs are currently under review.
	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	Partially Complied with. Declarations and affidavits have been obtained by the Company Secretary and all appointments have been approved fit and proper by CBSL. One KMP's affidavit document is pending approval and review.

No.	Rule	Degree of Compliance
	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	Partially Complied with. There is a formal succession plan policy in place for the Corporate Management Personnel, Awaiting Board approval. No Retiring Directors at present.
	f) The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors	Complied with. The committee is chaired by an Independent Director. Composition of the Committee as at 31 December 2016 is as follows 1. Faizal Salieh - (Chairman/ INED) 2. Kamalini De Silva (Ms.) - (INED) 3. Ranjit Page - (NED) The CEO attends meetings on invitation.
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 as at 31 December 2016 is as follows 1. Mangala Boyagoda - (Chairman/ INED) 2. Faizal Salieh - (INED) 3. Richard Ebell - (INED) 5. Prabhu Mathavan - (ED) 6. Chief Risk Officer AGM Risk of the Bank is the Secretary of the Committee while Corporate Management personnel participate by invitation.

No.	Rule	Degree of Compliance
	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.	Partially 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. Any exceptions or significant risk exposures and KPIs are presented to BIRMC for discussion and necessary corrective actions, if any, on quarterly basis. 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. Risk Management of the subsidiary company is currently not carried out at a group level, but assessed at subsidiary level. Steps are being taken to assess risks at the Group level from 2017.
	c) Review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset-Liability Committee	Partially Complied with. Adequacy and effectiveness on all management level risk related committees such as ALCO and ERMC have commenced. The Executive Credit Committee is being developed.
	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	Partially Complied with. Risk Profile of the Bank was reviewed by the BIRMC on a quarterly basis. Some Risk indicators have already been developed and management is in the process of developing the remaining risk indicators.
	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.

No.	Rule	Degree of Compliance
	f) Take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions	Complied with. The Terms of References has special provisions to cover this.
	g) Submit a risk assessment report within a week of each meeting to the Board	Partially complied with. Four BIRMC meetings were held in 2016. Risk assessment reports for BIRMC meetings held in March and June were submitted to Board.
	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 47 to the Financial Statements on 'Related Party Disclosures' on page 154. This process is being further strengthened, by having a specialized Related Party Policy.
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.

No.	Rule	Degree of Compliance
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 Board Executive Credit Committee collects the information and makes recommendations to the Board. Detailed procedures will be 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. Accommodation granted was only under "Staff Benefit Scheme" of the Bank.
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.
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 079 and 084.

<table>
<tr><th>No.</th><th>Rule</th><th>Degree of Compliance</th></tr>
<tr><td></td><td>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</td><td>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 080.</td></tr>
<tr><td></td><td>c) The external auditor's report on the effectiveness of the Internal Control Mechanism referred to in Direction 3 (8) (ii) (b) above</td><td>Complied with.

The Bank has obtained an Assurance Report from the External Auditors on the effectiveness of the Internal Control Mechanism. Refer page 083.</td></tr>
<tr><td></td><td>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</td><td>Complied with.

Profiles of Directors are given on page 019 to 021 Directors transactions with the Bank and their remunerations have been disclosed in the Note 47 to the Financial Statements on page 154.</td></tr>
<tr><td></td><td>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</td><td>Complied with.

The net accommodation granted and the net accommodation granted as a percentage of the Bank's regulatory capital is as follows:

<table>
<tr><th rowspan="2">Category of Related Party</th><th colspan="2">31 December 2016</th></tr>
<tr><th>Rs. '000</th><th>% of the Regulatory Capital</th></tr>
<tr><td>KMPs and CFMs</td><td>15,855</td><td>0.16</td></tr>
<tr><td>Subsidiary</td><td>464,015</td><td>4.74</td></tr>
<tr><td>Total net accommodation</td><td>479,870</td><td>4.90</td></tr>
<tr><td>Regulatory capital</td><td>9,787,362</td><td></td></tr>
</table>
</td></tr>
</table>

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 as defined by LKAS 24 have been disclosed in Note 47 to the Financial Statements on page 154 . Further, in addition to the above total deposits made and accommodation obtained as at 31 December 2016 by the other Key Management Personnel (select members of corporate management) amounted to Rs. 185 Mn and Rs. 21 Mn respectively.
	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 079
	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 to be disclosed to the Public	Not Applicable.
3 (9)	**Transitional and Other General Provisions**	
3 (9) (i) - (iv)	Transitional and Other General Provisions	Complied with. The Bank has complied with this requirement.

Risk Management

Management of risk is crucial for the success of any institution; as such it is fundamental to our strategy. Hence the Bank has established a risk appetite framework which is an expression of the degree of risk the Bank is willing to take in order to achieve a target return. 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.

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. Our Bank set up a dedicated Risk Management unit during 2014 and expanded the scope of its activities and coverage during the year under review to include the following risks that we are exposed to.

- Credit Risk covering the entire spectrum
- Interest rate risk
- Exchange Rate
- Liquidity Risk
- Operational Risk
- Compliance Risk
- Strategic Risk
- Legal Risk
- Reputation Risk

Risk identification is to recognise and understand risks that may arise from both existing and new business initiatives and is an ongoing process which is understood at both the transaction and portfolio levels. As the risk appetite is expressed and monitored in terms of qualitative and quantitative measures, proactively identifying the said is the key to managing the risks and minimizes any losses that may arise during our normal course of business transactions.

Risk Monitoring is carried out by having in place robust and 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.

Role of Board and Board sub committees

The Board of Directors bears the ultimate responsibility for oversight of risk management of the Bank and evaluates the effectiveness same on a regular basis. The Board is assisted in its duties by the Board Integrated Risk Management Committee (BIRMC). The directors are regularly briefed on the regulatory changes and other important developments relating to the financial sector by the auditors and external experts. The senior management is given clear guidelines by the Board of Directors on the parameters under which they should manage the risks. Hence, the strategies and business plans are based to fall in line with the predetermined risk appetite. The Senior Management is also guided by the laws, regulations and other directives in managing the areas of responsibilities assigned to them.

Risk Management Framework

BIRMC which was formed in 2015, met four times during the year under review to discuss matters coming under its purview. The committee consists of four independent / non-executive members together with the managing director and members of the corporate / senior management are also invited to attend these meetings to make presentations and clarifications sought by the committee. IRM guidelines issued by the regulator forms the basis of the deliberations covering all the core areas of risk management.

The BIRMC, a Board Sub Committee oversees the risk management function of the Bank and is also responsible to develop all the risk related policies covering credit, market, operational and liquidity.

Objectives of the Integrated Risk Management Framework (IRMF)

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 communication 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 – Three lines of defense

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; Branch Banking; Treasury	Board of Directors	Compliance
Operations; IT; Finance	Board Committees	Internal Audit
Credit Administration; HR	Integrated Risk Management	External Audit

Risk Management Tools

In order to identify, measure and evaluate the risks that we are exposed to, Bank mainly relies on policies / limits together with the relevant stress tests.

Stress tests are done at individual risk level and also at entity level to estimate the potential adverse impact on our earnings, liquidity and capital due to changing market conditions and risk factors.

Integrated Risk Management Division (IRMD)

IRMD is assigned 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 formalized 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. For the purpose of implementation of an IRMF and ensure independent view of the risk taking within the Bank, CRO represents IRMD at the BIRMC, Credit Committee, ALCO, Executive Risk Management Committee and IT Steering Committee.

Risk Management continued.

Credit Risk (Corporate/SME/Consumer)	Operational Risk	Market Risk
• Independent risk scrutiny of facility applications over a certain threshold. • Credit monitoring (post). • Custodian for customer internal risk ratings.	• Identification, assessment, measurement & monitoring operational risk and introducing mitigation effects. • Minimize frequency of operational losses / events.	• Treasury Middle Office independent reviewing of positions and limits.

2016 – KEY ACHIEVEMENTS

Strengthening of Existing Risk Management Policy Frame Work

- Integrated Risk Management Framework
- Operational Risk Management Policy
- Stress Testing Framework

Improving the Operational Risk Management Structure

- Business Operational Risk Managers (BORMs) were appointed to key business / support units of the Bank

Strengthening Risk & Compliance Culture across the Bank

- Developing Risk Policies, Procedure Manuals

2017 - Our Priorities

- Developing dash boards to regularly monitor credit, operational and market risks.
- Credit exposures over a certain threshold to be closely monitored for signs of stress.
- Link internally developed internal risk rating models to assist in decision making.
- Further strengthening of Capital Base.
- Work towards BASEL III compliance.
- Focused evaluation of risk relating to new products prior to launch.
- Frequent reviews of high risk accounts by risk managers to ensure adequate assessment of the health of the business.
- Further strengthening risk and compliance culture across Bank.
- Continuing to develop our risk talent across Integrated Risk Management Department.

Strategic Risk

Board of Directors and Senior Management oversight is an integral part of our strategic risk management program. The Board of Directors maintains the overall responsibility for strategic risk management of the Bank. It is chiefly responsible for setting corporate strategy and reviewing management performance in implementing the Bank'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.

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 inability of a borrower or a counterparty to meet the financial obligations to the Bank or lender. Our Bank is very conscious of having a well-diversified portfolio in order to minimize the risks on high concentration to a particular sector or client.

Discretionary lending limits and the credit policy are reviewed at least annually or at regular intervals to meet the changing needs of the risk environment under which we operate. Individual credit facility applications beyond a certain threshold are routed through an independent risk signatory with no revenue targets. Hence, the front office which proposes transactions are analyzed in depth by the risk management division and the required observations are made and, if necessary altering the proposal in consultation with the business unit to ensure it is in line with the predetermined risk appetite of the Bank.

Bank uses the internally developed scoring models to rate the corporate, SME facilities whilst we are in the process of updating the existing scorecard covering the consumer segment. The rating factors include quantitative and qualitative issues and are reviewed at least annually.

Lack of long-term borrowing instruments is the main reason for maturity mismatch in the asset book. However, this is managed by the stable and growing deposit base.

The credit administration division which is independent from the business unit originating the facility applications is responsible for documentation, disbursement and compliance with the sanctioned conditions.

Business Line	Amount Rs. '000	%
Consumer	2,789,410	21
Corporate	8,753,107	65
SME	1,697,236	12
Others	321,423	2
Grand Total	13,561,176	100

Product	Amount Rs. '000	%
Agri Loans	71,027	1
Housing Loans	428,407	3
Import Loans	2,259,860	17
Bills Receivables	15,225	0
Overdrafts	2,953,568	21
Personal Loans	1,702,903	13
Money Market Loans	2,666,309	20
Staff Loans	134,581	1
Term Loans	3,289,172	24
Vehicle Loans	40,124	0
Grand Total	13,561,176	100

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. To achieve these goals Operational Risk unit has established following risk reporting structure across the Bank.

A. 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.

B. Key Risk Indicators (KRIs) are an important tool within the Cargills Bank and are used to enhance the monitoring and mitigation of risks and facilitate risk reporting.

C. Operational Loss and Event reporting. As per the Basel committee guidelines Cargills Bank has initiated Loss and event data gathering under seven recommended headings.

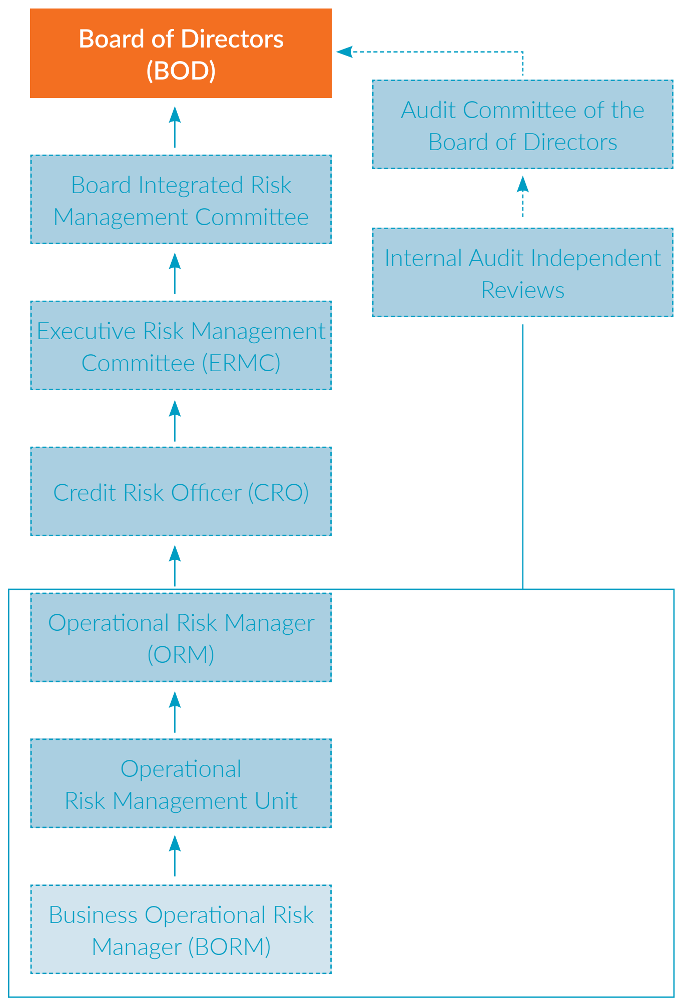
To support the above reporting structure Bank has appointed Business Operational Risk Managers (BORM) department wise who will be working as a link between Operational Risk Unit and the respective departments.

We have in place adequate operational risk coverage to verify that operating policies and procedures have been implemented effectively. Executive Risk Management Committee (ERMC) reviews the risk findings and support with immediate responses for resolution while the Board either directly or indirectly through its Board Integrated Risk Management Committee (BIRMC) ensures that the scope of the management of operational risk is achieved. Internal Audit periodically validates that the Bank's operational risk management framework is being implemented effectively across the Bank. By implementing the Business Continuity Plan (BCP) together with the Disaster Recovery Plans will ensure that the critical operations of the Bank will function with minimal disruptions thereby reducing the number of operational risk events. Information Technology operational risks are primarily managed through the IT steering committee and the IT systems security policies which were adopted during the year under review.

Operational Risk Governance Structure

Operational risk is intrinsic to the banking business and the extent of risk it is exposed to depends on a number of factors including size, sophistication and level of automation, nature and complexity of activities undertaken etc. Accordingly, a structure is in place for management of operational risks in the Bank.

The organizational chart for operational risk management is presented below.



Market Risk

Market Risk is the possibility of loss in, on and off balance sheet positions arising from changes in the value of financial instruments due to the changes in market variables such as exchange rates, interest rates, equity prices and commodity prices.

A detailed Board approved Treasury Policy is in place to reflect regulatory requirements. The Middle Office monitors the asset and liability position under the supervision of ALCO.

Cargills Bank Treasury division does not actively offer derivative products and trading on own account is also limited. This minimizes the market risk exposure and the exchange risk exposure is controlled to a great extent by the position limits.

Key priority to the Bank during the year is to further improve our infrastructure to ascertain repricing gap analysis and duration analysis to ensure availability of adequate liquidity at all times. Bank is committed to further improve the management of risks in terms of skills, systems and capacity building during 2017.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Interest rate risk results from the differences in the way interest rate changes affect the values of assets, liabilities, and off balance sheet instruments.

As interest rates and yield curves change over time, theoretically the Bank may be exposed to a loss in earnings and capital due to the re-pricing structure of all on-and off-balance sheet items. Movements in interest rates can affect the Bank's earnings by changing its Net Interest Income (NII).Changes in interest rates also affect the economic value of the Bank's assets, liabilities and off-balance sheet items. An effective risk management process that maintains interest rate risk within prudent levels is essential not only to safety and soundness but also to the Bank's profitability.

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. Furthermore risk based pricing complements the interest rate risk management efforts.

Foreign Exchange Risk

The foreign exchange (FX) risk arises due to the volatility of exchange rates on open foreign exchange positions.

Foreign exchange risk is managed through approved limits by the Board of Directors & in line with the CBSL requirements. Limits include Net Open Position, Trading Limits, and Dealer Limits, Counter party Limits & Gap Limits. Bank has been prudent in managing the FX risk throughout year under review. Furthermore Bank has been able to manage its open positions (NOP) within the limit permitted by CBSL.

Foreign Currency Exposures

31 December 2016 - Bank (Rs. '000)

Item	USD	GBP	JPY	SGD	EUR	Others	Total
Asset	**1,722,774**	**79,594**	**2,621**	**11,198**	**56,904**	**188**	**1,873,279**
On-Balance Sheet	1,284,445	79,594	56	11,198	33,095	188	1,408,576
Off-Balance Sheet	438,329	-	2,565	-	23,809	-	464,703
Liabilities	**1,562,313**	**79,646**	**435**	**-**	**55,906**	**-**	**1,698,300**
On-Balance Sheet	1,010,128	79,646	435	-	32,240	-	1,122,449
Off-Balance Sheet	552,185	-	-	-	23,666	-	575,851
Net Exposure Rupee Equivalent	160,461	(52)	2,186	11,198	998	188	174,979
Net Exposure FC Equivalent	1,070	-	1,708	108	6	-	-

Liquidity Risk

Liquidity risk is defined as the risk that the Bank will encounter in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. It is the policy of the Bank to ensure that adequate liquidity is maintained in all currencies to meet its obligations.

Liquidity risk is mainly managed through Stock approach & Floor approaches. Under stock approach liquidity is measured in terms of key ratios which portray the liquidity stored in the balance sheet. This is performed through cash flow management, maintenance of liquidity ratios such as Statutory Reserve Ratio, Statutory Liquid Asset Ratio, Liquidity Coverage Ratio and Advances / Deposit Ratio. Whereas, underfloor approach Banks should prepare a statement of Maturities of Assets and Liabilities placing all cash inflows and outflows in the time bands according to the residual time to maturity.

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 effect 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 dependency on equity and bank funding, full-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.

Cargills Bank, controls liquidity risk by spreading over time the required amounts of funding and avoiding unexpected important needs for raising additional funds.

Maturity Gap Analysis as at 31 December 2016 – 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-16 Rs. '000	Total as at 31-Dec-15 Rs. '000
Interest earning assets							
Cash and cash equivalents	272,009	-	-	-	-	272,009	-
Placements with Banks	1,947,793	-	-	-	-	1,947,793	1,679,244
Securities purchased under resale agreements	1,350,759	-	-	-	-	1,350,759	1,668,581
Loans & receivables to Banks	-	119,452	38,915	-	-	158,367	-
Loans & receivables to other customers	7,777,516	1,687,537	2,007,085	1,220,648	731,252	13,424,038	6,537,966
Financial investments available for sale	150,711	832,014	332,526	248,588	-	1,563,839	1,598,197
Total interest earning assets	11,498,788	2,639,003	2,378,526	1,469,236	731,252	18,716,805	11,483,988
Non-interest earning assets							
Cash and cash equivalents	346,111	-	-	-	-	346,111	174,129
Balances With Central Bank	417,161	-	-	-	-	417,161	139,342
Placements with Banks	170,669	-	-	-	-	170,669	339,529
Financial investments available for sale	-	-	-	-	5,883	5,883	5,883
Investment in subsidiaries	-	-	-	-	566,917	566,917	459,200
Property, plant and equipment	-	-	-	-	213,253	213,253	242,350
Intangible assets	-	-	-	-	166,728	166,728	194,515
Deferred tax assets	-	-	-	-	200,360	200,360	120,815
Other assets	133,265	12,090	3,645	867	35,544	185,411	288,640
Total non-interest earning assets	1,067,206	12,090	3,645	867	1,188,685	2,272,493	1,966,355
Total assets	**12,565,994**	**2,651,093**	**2,382,171**	**1,470,103**	**1,919,937**	**20,989,298**	**13,448,391**

	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-16 Rs. '000	Total as at 31-Dec-15 Rs. '000
Interest bearing liabilities							
Due to banks	270,012	6,180	6,341	-	-	282,533	5,347
Due to other customers	7,111,976	2,279,324	17,893	19,873	6,023	9,435,089	3,870,200
Securities sold under repurchase agreements	340,702	-	-	-	-	340,702	1,993,383
Total interest bearing liabilities	7,722,690	2,285,504	24,234	19,873	6,023	10,058,324	5,868,930
Non-interest bearing liabilities							
Derivative financial instruments	2,915	-	-	-	-	2,915	-
Other liabilities	274,880	-	-	-	-	274,880	2,736,216
Stated capital	-	-	-	-	11,394,421	11,394,421	5,592,350
Statutory reserve	-	-	-	-	603	603	-
Accumulated losses	-	-	-	-	(725,747)	(725,747)	(737,703)
Other Reserves	-	-	-	-	(16,098)	(16,098)	(11,402)
Total non-interest bearing liabilities	277,795	-	-	-	10,653,179	10,930,974	7,579,461
Total liabilities and equity	**8,000,485**	**2,285,504**	**24,234**	**19,873**	**10,659,202**	**20,989,298**	**13,448,391**

Capital Adequacy

Capital adequacy is a measure of a Bank's ability to withstand the risks associated with its activities. Capital Adequacy Ratio (CAR) is measured on the basis of credit, market and operational risks under Basel II.

At present, the credit, operational and market risks are being calculated based on the Standardized approach, Basic Indicator approach and Standardized Measurement approach respectively. Our Bank will move towards advanced approach when the scale of operations and the availability of data support the implementation of the same.

The Bank is looking into system and data needs together with capacity building to implement ICAAP as instructed by the regulator.

Capital Adequacy as at 31 December 2016 - Bank

(Rs. '000)

Item	Amount
Core Capital (Tier 1)	10,669,277
Eligible Core Capital (Eligible Tier 1)	10,018,730
Total Capital Base	9,802,653
Total Risk-Weighted Amount	19,294,422
Risk-Weighted Amount for Credit Risk	18,278,662
Risk-Weighted Amount for Market Risk	477,550
Risk-Weighted Amount for Operational Risk	538,210
Core Capital (Tier 1) Ratio, %	51.93
Total Capital Ratio, %	50.81

Board Integrated Risk Management Committee Report

The Board Integrated Risk Management Committee (BIRMC) comprises six members of which four members are Non Executive Directors.

1. Rajendra Theagarajah - Chairman w.e.f. 1 January 2017
   (Non Independent - Non Executive Director)
2. Mangala Boyagoda - Member (Chairman of the committee till 31 December 2016 / Independent - Non Executive Director)
3. Faizal Salieh - Member
   (Independent - Non Executive Director)
4. Richard Ebell
   (Independent - Non Executive Director)
5. Prabhu Mathavan - Member
   (Ececutive Director)
6. Chief Risk Officer - Member

Profiles of the members of the Committee are given on pages from 019 to 021.

Ms. Summaiya Macan Markar acts as the Secretary (w.e.f. 1 January 2017, formally Mr. Udana Fernando) to the committee, whist key management personnel as invitees to the meeting. Terms of Reference and the scope of review of the committee based on the guidelines of Central Bank of Sri Lanka.

The BIRMC met four times during the year and the discussions and conclusions reached of the meetings are recorded in the minutes and circulated to the Board of Directors for information and advice.

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.

Core Capital Tier 1 Ratio remains high at 51.93% and is well above the industry averages and the regulatory requirements.

On behalf of BIRMC

Rajendra Theagarajah
Chairman of BIRMC

Colombo
1 March 2017

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. Mangala Boyagoda - Chairman w.e.f 1 January 2017 (Independent - Non Executive Director)
2. Faizal Salieh - Member (Chairman of the Committee till 31 December 2016 / Independent - Non Executive Director)
3. Ranjit Page - Member (Non Executive - Non Independent Director)
4. Rajendra Theagarajah - Member w.e.f 1 January 2017 (Non Executive - Non Independent Director)
5. Kamalini De Silva (Ms.) - Member till 31 December 2016 (as Independent - Non Executive Director)

Ms. S M Dunuwille, functioned as the secretary of the committee till 31 December 2016. Ms. Kamalini De Silva appointed as the Secretary of the Committee from 1 January 2017.

Profiles of the members of the Committee are given on pages 019 to 021.

Role & Responsibilities

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

- Establish a procedure to select / appoint new directors, CEO and Key Management Personnel.
- 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.
- 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.
- 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.
- 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 authorized by the Board to take 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 Committee 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 four (4) meetings. The Committee considered and recommended the suitability of three retiring directors, Mr. Mangala Boyagoda, Kamalini De Silva (Ms.) and Mr. Richard Ebell for re-election to the Board of Directors.

The Committee considered the suitability of identified candidates for the posts of Head of Internal Audit, Head of Compliance, Chief Operating Officer and AGM (Risk) and recommended to the Board the respective appointments. It also considered and recommended the List of Key Management Personnel for Board approval.

The Terms of Reference of the Board Nomination Committee was amended to ensure compliance with the Central Bank's directions.

Mangala Boyagoda
Chairman - Board Nomination Committee

Colombo
1 March 2017

Board Human Resources & Remuneration Committee Report

Composition of the Committee

The Board Human Resources & Remuneration Committee comprised the following Directors of the Bank at the end of the year.

1. Rajendra Theagarajah - Chairman w.e.f. 1 January 2017 (Non Independent - Non Executive Director)
2. Ranjit Page - Member (Chairman till 31 December 2016 / Non Independent - Non Executive Director)
3. Faizal Salieh - Member (Independent - Non Executive Director)
4. Richard Ebell - Member till 31 December 2016 (Independent - Non Executive Director)

Ms. Sarojini Dunuwille, functioned as the Secretary of the committee till 31 December 2016. Ms. Kamalini De Silva appointed as the Secretary of the committee from 1 January 2017.

Profiles of the members of the Committee are given on pages 019 to 021.

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 Company'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:

- Review and assess Human Resources & Remuneration Risk
- Review policies on Occupational Health & Safety, Code of Conduct & Ethics, Communication, Performance Evaluation and Employment (including the "Fit and Proper" assessment)
- 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:

Ranjit Page
Faizal Salieh
Richard Ebell
Prabhu Mathavan

The Committee considered and reviewed The Human Resource Policy Manual, Job Description of Key Management Positions and the Employees Hand Book

On behalf of the Board Human Resources & Remuneration Committee.

Rajendra Theagarajah
Chairman - Board HR and Remuneration Committee

Colombo
1 March 2017

Financial Reports





Audit Committee Report

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

The BAC comprises:

1. Richard Ebell - Chairman (Independent - Non Executive Director)
2. Ranjit Page - Member (Non Independent - Non Executive Director)
3. Mangala Boyagoda - Member (Independent - Non Executive Director)

Mr. V R S P Amarasinghe, AGM, Internal Audit, served as Secretary of the Committee up to his retirement on September, 2016 and Mr. Chandima Samarasinghe, Head of Internal Audit, served as Secretary from 01 October, 2016.

Mr. Prabhu Mathavan (Managing Director) and Ms. Imesha Sanjeewanie (Head of Finance) attended meetings by invitation to assist BAC awareness of key issues and developments relevant to the Board Audit Committee.

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 Chairman of the BAC, 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 has experience in various roles in finance and operations since qualifying as a Chartered Accountant in 1977. The other members of the BAC have in-depth experience in banking and in large business organizations 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 controls including internal controls 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 2016 the principal activities of the BAC were as follows:

Meetings of the Board Audit Committee

The Committee met eight (08) times during the year ended 31 December 2016. Attendance at these meetings were:

Richard Ebell	8/8 Meetings
Ranjit Page	6/8 Meetings
Mangala Boyagoda	8/8 Meetings

CHARTER OF THE COMMITTEE

The BAC proposed modifications to its Charter during the year, considering observations made by the regulator and the revised Charter was adopted by the Board.

FINANCIAL REPORTING

The Committee reviewed with management, the Bank's quarterly and annual financial statements prior to recommending their adoption, as part of its responsibility to oversee the integrity of the Bank's financial reporting process and the financial statements produced. In discharging this responsibility, the Committee considered the effectiveness of the Bank's internal controls over financial reporting with the assistance of the External Auditor and the Internal Audit Department, as required by the Banking Act Direction No 11 of 2007, Corporate Governance for Licensed Commercial Banks in Sri Lanka.

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 and subsequently with the Head of Internal Audit who replaced him.

Major findings of audits and internal investigations were considered by the BAC and appropriate recommendations were made, whose implementation was followed up with management.

WHISTLE BLOWING POLICY

The BAC proposed modification of the Whistle Blowing Policy in response to observations made by the regulator and the revised policy was approved by the Board.

EXTERNAL AUDIT

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, Messrs KPMG. The BAC recommended the fees for audit services and reviewed the fees applicable on non-audit services provided by KPMG. In respect of the latter, the BAC ensured these services were not prohibited services and their provision did not impair the auditors' independence and objectivity.

The Committee had two meetings with the external auditors and one meeting without the presence of any representative of Bank management to ensure they had unhindered access to information, records and staff and experienced no pressure or influence in reporting their findings.

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.

EVALUATION OF THE COMMITTEE

An independent evaluation of the effectiveness of the Committee is planned for the first quarter of 2017.

On behalf of the Audit Committee

Richard Ebell
Chairman of Audit Committee

Colombo
1 March 2017

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, 2016.

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 1 March 2017.

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	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Loss before taxation	(56,270)	(316,208)	(43,014)	(323,781)
Taxation	68,337	-	70,483	8,074
Profit / (Loss) for the year	12,067	(316,208)	27,469	(315,707)
Other comprehensive income	(4,204)	(11,880)	(3,595)	(11,793)
Accumulated loss brought forward	(737,703)	(420,515)	(741,767)	(424,694)
Transfer to reserve fund	(603)	-	(603)	(335)
Movement due to change in shareholding	-	-	(9,609)	-
Expense on right issue	-	-	(798)	-
Transfer to available-for-sale reserve	4,696	10,900	4,696	10,900
Dividends paid	-	-	-	-
Non-controlling interest	-	-	(1,575)	(138)
Losses to be carried forward	(725,747)	(737,703)	(725,782)	(741,767)

FINANCIAL STATEMENTS

The Financial Statements of the Bank are given on page 086 to 161 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	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Interest income	1,540,488	531,928	1,683,313	686,298
Fees and commission income	103,183	47,251	104,120	49,954
Net gains / (losses) from trading	(1,361)	481	(1,361)	481
Net gains / (losses) from Financial Instruments at fair value through profit & loss	-	-	(246)	62
Net gains / (losses) from Financial Investments	12,534	3,625	12,534	3,625
Other income	46,869	21,193	54,912	30,023

SHAREHOLDERS' FUNDS AND RESERVES

The Bank's total reserves as at 31 December 2016 stood at a negative balance of Rs. 741.2 Mn. This comprises an accumulated loss of Rs. 725.7 Mn, statutory reserve of 0.6 Mn and negative available-for-sale reserve of Rs. 16.1 Mn. The movement in accumulated loss and available-for-sale reserve are shown in Notes 38 and 39 to the Financial Statements.

The Group's total reserves as at 31 December 2016 stood at a negative balance of Rs. 740.9 Mn. This comprises of an accumulated loss of Rs. 725.8 Mn, statutory reserve of 0.9 Mn and negative available-for-sale reserve of Rs. 16.1 Mn. The movement in accumulated loss and available-for-sale reserve are shown in Notes 38 and 39 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 085. 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 pages 093 to 114.

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 47 to the Financial Statements.

DIRECTORS' REMUNERATION

Directors' remuneration and other benefits of the Directors are given in Note 47.1 and 47.2 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 2016 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
Ranjit Page - Joint Deputy Chairman	Non Executive	Non Independent
Rajendra Theagarajah - Joint Deputy Chairman	Non Executive	Non Independent Appointed to the Board on 1 December 2016
Prabhu Mathavan - Managing Director / CEO	Executive	Non Independent
Prem Kumar - Managing Director / CEO	Executive	Non Independent (Resigned from the Board on 31 March 2016)
Mangala Boyagoda - Senior Director	Non Executive	Independent
Faizal Salieh	Non Executive	Independent
Richard Ebell	Non Executive	Independent
Kamalini De Silva (Ms.) – Company Secretary	Executive	Non Independent (Appointed as the Company Secretary on 1 January 2017. Previously she served as an Independent - Non Executive Director)

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

Mr. Prem Kumar resigned with effect from 31 March 2016 on the completion of the contract.

In terms of Article No. 86 of the Articles of Association of the Bank, Mr. Louis R Page and Mr. Ranjit Page retire by rotation and being eligible offer themselves for re-election, on a unanimous recommendation by the Board of Directors.

Mr. Rajendra Theagarajah 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 47 to the Financial Statements on page 154 to 160. In addition, transactions with entities where the Director of the Bank hold directorates are disclosed on page 78. 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. 3.18 Mn.

STATED CAPITAL

The Stated Capital of the Bank is Rs. 11,394.42 Mn, the details are given in Note 37 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. Further, these financial statements also comply with the requirements of 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 provided on page 036 to 059.

CAPITAL EXPENDITURE

The Bank's expenditure on Property, Plant & Equipment at cost amounted to Rs. 57.82 Mn during 2016, details of which are given in Note 29.1 to the Financial Statements. Expenditure on Intangible Assets at cost amounted to Rs. 22.38 Mn during 2016, details of which are given in Note 30.1 to the Financial Statements.

The Group's expenditure on Property, Plant & Equipment at cost amounted to Rs. 58.32 Mn during 2016, details of which are given in Note 29.2 to the Financial Statements. Expenditure on Intangible Assets at cost amounted to Rs. 23.68 Mn during 2016, details of which are given in Note 30.1 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, 2016 was 69 (69 as at 31 December 2015). The schedule indicating the shareholders' analysis is on pages 162 to 163, '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.

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

4 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 5 May 2017. The Notice of Meeting can be found on page 164 .

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

Ranjit Page
Joint Deputy Chairman

Prabhu Mathavan
Managing Director / CEO

Kamalini De Silva (Ms.)
Company Secretary

Colombo
1 March 2017

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 arm's length basis with entities where the Chairman or 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-2016 Rs. '000	Balance outstanding 31-Dec-2015 Rs. '000
Sierra Construction Ltd.	Common Directors	Loans & advances	250,000	-	7,950	-	-	179,572
		Off-Balance Sheet Accommodations	450,000	-	-	-	379,510	387,910
		Deposits	-	-	-	1	29	-
Wealth Trust Securities (Pvt) Ltd	Related through KMP	Deposits	-	2	-	1	99	-
		Securities purchased under resale agreements	-	-	-	-	-	56,000
Ceylinco Insurance General Pvt Ltd	Related through KMP	Deposits	-	1,104	-	-	-	-

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 pages 086 to 161 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 2016, Statements of Profit or Loss or Other Comprehensive Income, Income Statement, Changes in Equity and 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 2016; 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 1 March 2017 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 2016 are given on page 080 to 082 of the Annual Report, 'Directors' Statement on Internal Controls over Financial Reporting'.

The External Auditors' Assurance Report on the Bank's Internal Controls over Financial Reporting is given on page 083 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 085 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

Kamalini De Silva (Ms.)
Company Secretary

Colombo
1 March 2017

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 increase in banking operations from this year, the management is in the process of updating the procedure manuals and completing documentation of key controls for selected key processes. The bank is in the process of updating the internal control matrix to reflect the current banking operations, with the assistance of an external consultant. Therefore, the testing carried out by the Internal Audit Department during the year were not fully aligned with the Internal Control matrix. These processes are expected to be completed by first quarter of the next financial year. Accordingly, the Internal Audit scope will be fully aligned with the updated internal control matrix.
- 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 applicable 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 utilization and

recommend changes in operations and financial activities where necessary. 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. Most of the key departments and some branches were audited during the year and observations reported to the Audit Committee. However, during the year, Internal Audit had not tested the computation of loan impairment process and sub processes under financial reporting process. IS audit was out sourced to an external consultant with specific focus and did not cover all business units. The areas mentioned herein will be included in the Internal Audit scope for 2017.

- 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 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 072.
- In assessing the internal control system over financial reporting, identified officers of the Bank collated procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. These have been reviewed by the Internal Audit Department during the course of audit undertaken in 2016. This process will be further strengthened in 2017.

  The Board is in the process of strengthening the Compliance Department which has taken initiatives to implement a robust compliance process to address and monitor compliance with regulatory requirements.
- 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 computation of impairment losses from Loans and Advances has not been automated yet. Considering the complexity and level of estimation involved in this process, the Board recognises the need to introduce an automated process in order to comply with the requirements of recognition, measurement, classification and disclosure of the financial instruments more effectively and efficiently. The Board is evaluating the options available for automation, while taking into consideration the new parameter requirements which will become applicable with the adoption of Accounting Standard SLFRS 9 on 'Financial Instruments' from with effective date being 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 high level assessment of potential impact on transition to SLFRS 9 has been completed with the assistance of an external consultant. The next phase being the implementation phase will commence from end March 2017.
- 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 are being taken to rectify them. The recommendations made by the External Auditors in 2016 in connection with the internal control system over financial reporting will be dealt with in the future.

Directors' Statement On Internal Controls Over Financial Reporting continued.

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 2016 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 083.

Prabhu Mathavan
Managing Director/ CEO

Kamalini De Silva (Ms.)
Company Secretary

Colombo
1 March 2017

Independent Assurance Report

KPMG
(Chartered Accountants)
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TO THE BOARD OF DIRECTORS OF CARGILLS BANK LIMITED

We were engaged by the Board of Directors of Cargills Bank Limited ("Bank") to provide assurance on the Directors' Statement on Internal Control ("Statement") included in the annual report for the year ended 31 December 2016.

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 Banks 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 Board 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 directors and appropriately reflects the process the directors have adopted in reviewing the system of internal control for the Bank.

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

(a) Enquired the directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the Statement made by the directors in the annual report.

(b) Reviewed the documentation prepared by the directors to support their Statement made.

(c) Related the Statement made by the directors to our knowledge of the Bank obtained during the audit of the financial statements.

(d) Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.

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

(f) Considered whether the Directors' 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 directors 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 Bank'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 that causes us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors have adopted in the review of the design and effectiveness of internal control system over the financial reporting of the Bank.

KPMG

Chartered Accountants
Colombo
1 March 2017

CEO's and CFO's Responsibility for Financial Reporting

The Financial Statements of Cargills Bank Limited ("the Bank") and Consolidated Financial Statements for the year ended 31 December 2016 are prepared and presented in compliance with the following requirements:

- 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.

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 2016, as required by the Banking Act Direction No. 11 of 2007, result of which is given on page 080 to 082 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 083 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 085 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 perform 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 prudential requirements have been satisfied and there are no material litigations that are pending against the Group other than those disclosed in the Note 51 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.

Prabhu Mathavan
Managing Director / CEO

Imesha Sanjeewanie
Head of Finance

Colombo
1 March 2017

Independent Auditors' Report

KPMG
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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 ("Group"), which comprise the statement of financial position as at 31 December 2016, and the income statement, statements of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information set out on pages 086 to 161 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 31 December 2016, 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, 2016, 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
1 March 2017

Income Statement

For the year ended 31 December	Note	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Bank Change %	Group 2016 Rs. '000	Group 2015 Rs. '000	Group Change %
Gross income		1,701,713	604,478	182	1,853,272	770,443	141
Interest income		1,540,488	531,928	190	1,683,313	686,298	145
Less: Interest expenses		586,998	207,059	183	634,348	269,249	136
Net interest income	7	953,490	324,869	193	1,048,965	417,049	152
Fees and commission income		103,183	47,251	118	104,120	49,954	108
Less: Fees and commission expenses		23,960	10,671	125	24,243	11,249	116
Net fees and commission income	8	79,223	36,580	117	79,877	38,705	106
Net gains / (losses) from trading	9	(1,361)	481	(383)	(1,361)	481	(383)
Net gains / (losses) from financial instruments at fair value through profit or loss	10	-	-	-	(246)	62	(497)
Net gains from financial investments	11	12,534	3,625	246	12,534	3,625	246
Other income	12	46,869	21,193	121	54,912	30,023	83
Total operating income		1,090,755	386,748	182	1,194,681	489,945	144
Less: Impairment for loans and other losses	13	115,622	357	32,287	113,676	24,491	364
Net operating income		975,133	386,391	152	1,081,005	465,454	132
Less: Expenses							
Personnel expenses	14	410,757	270,158	52	450,165	310,855	45
Other expenses	15	577,644	432,441	34	626,091	474,997	32
Operating loss before Value Added Tax (VAT)		(13,268)	(316,208)	96	4,749	(320,398)	101
Less: Value Added Tax (VAT) on financial services		43,002	-	-	47,763	3,383	1,312
Loss before tax		(56,270)	(316,208)	82	(43,014)	(323,781)	87
Less: Income tax expenses	16	(68,337)	-	-	(70,483)	(8,074)	(773)
Profit / (loss) for the year		12,067	(316,208)	104	27,469	(315,707)	109
Attributable to:							
Equity holders of the Bank		12,067	(316,208)	104	26,014	(315,825)	108
Non-controlling interest		-	-	-	1,455	118	1,133
Profit / (loss) for the year		12,067	(316,208)	104	27,469	(315,707)	109
Basic earnings / (loss) per share (Rs.)	17	0.02	(0.72)	102	0.04	(0.72)	105

The notes to the Financial Statements appearing on pages 093 to 161 form an integral part of these Financial Statements.

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December	Note	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Bank Change %	Group 2016 Rs. '000	Group 2015 Rs. '000	Group Change %
Profit / (loss) for the year		12,067	(316,208)	104	27,469	(315,707)	109
Other comprehensive income, net of tax							
Items that will never be reclassified to profit or loss							
Net actuarial gains/ (losses) on defined benefit plans	36	683	(1,361)	150	1,529	(1,240)	223
Deferred tax asset/ (liability) on net actuarial gains/ (losses) on defined benefit plans	31	(191)	381	(150)	(428)	347	(223)
		492	(980)	150	1,101	(893)	223
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		(6,522)	(15,139)	57	(6,522)	(15,139)	57
Deferred tax asset on available for sale reserve	31	1,826	4,239	(57)	1,826	4,239	(57)
		(4,696)	(10,900)	57	(4,696)	(10,900)	57
Other comprehensive income for the year, net of tax		(4,204)	(11,880)	65	(3,595)	(11,793)	70
Total comprehensive income for the year		7,863	(328,088)	102	23,874	(327,500)	107
Attributable to:							
Equity holders of the Bank		7,863	(328,088)	102	22,299	(327,638)	107
Non controlling interest		-	-	-	1,575	138	1,041
Total comprehensive income for the year		7,863	(328,088)	102	23,874	(327,500)	107

The notes to the Financial Statements appearing on pages 093 to 161 form an integral part of these Financial Statements.

Statement of Financial Position

As at 31 December	Note	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Bank Change %	Group 2016 Rs. '000	Group 2015 Rs. '000	Group Change %
ASSETS							
Cash and cash equivalents	20	618,120	174,129	255	356,183	196,157	82
Balances with Central Bank of Sri Lanka	21	417,161	139,342	199	417,161	139,342	199
Placements with Banks	22	2,118,462	2,018,773	5	2,118,462	2,018,773	5
Securities purchased under resale agreements		1,350,759	1,668,581	(19)	1,389,397	1,721,089	(19)
Other financial instruments held for trading	23	-	-	-	1,345	2,300	(42)
Loans & receivables to Banks	24	158,367	-	100	158,367	-	100
Loans & receivables to other customers	25	13,424,038	6,537,966	105	14,313,169	7,385,995	94
Financial investments available-for-sale	26	1,569,722	1,604,080	(2)	1,570,068	1,604,426	(2)
Financial investments held to maturity	27	-	-	-	42,402	40,036	6
Investment in subsidiary	28	566,917	459,200	23	-	-	-
Property, plant and equipment	29	213,253	242,350	(12)	261,727	296,324	(12)
Intangible assets	30	166,728	194,515	(14)	377,516	405,584	(7)
Deferred tax assets	31	200,360	120,815	66	210,337	124,834	68
Other assets	32	185,411	288,640	(36)	200,772	318,424	(37)
Total assets		20,989,298	13,448,391	56	21,416,906	14,253,284	50
LIABILITIES							
Due to banks	33	282,533	5,347	5,184	305,314	6,507	4,592
Derivative financial instruments	34	2,915	-	100	2,915	-	100
Due to other customers	35	9,435,089	3,870,200	144	9,729,111	4,587,188	112
Securities sold under repurchase agreements		340,702	1,993,383	(83)	340,702	1,993,383	(83)
Other liabilities	36	274,880	2,736,216	(90)	296,080	2,748,955	(89)
Total liabilities		10,336,119	8,605,146	20	10,674,122	9,336,033	14

As at 31 December	Note	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Bank Change %	Group 2016 Rs. '000	Group 2015 Rs. '000	Group Change %
EQUITY							
Stated capital	37	11,394,421	5,592,350	104	11,394,421	5,592,350	104
Statutory reserves	39.1	603	-	100	938	335	180
Accumulated losses	38	(725,747)	(737,703)	2	(725,782)	(741,767)	2
Other Reserves	39.2	(16,098)	(11,402)	(41)	(16,098)	(11,402)	(41)
Total equity attributable to equity holders of the Bank		10,653,179	4,843,245	120	10,653,479	4,839,516	120
Non controlling interest		-	-	-	89,305	77,735	15
Total equity		10,653,179	4,843,245	120	10,742,784	4,917,251	118
Total equity and liabilities		20,989,298	13,448,391	56	21,416,906	14,253,284	50
Contingent liabilities & commitments	40	10,619,325	5,807,041	83	10,619,325	5,807,041	83
Net asset value per share (Rs.)	41	12.06	10.03	20	12.06	10.02	20

The notes to the Financial Statements appearing on pages 093 to 161 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.

Imesha Sanjeewanie
Head of Finance

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.

Prabhu Mathavan
Managing Director / Chief Executive Officer

Mangala Boyagoda
Senior Director

1 March 2017
Colombo

Statement of Changes in Equity

BANK

	Stated Capital Rs. '000	Statutory Reserves Rs. '000	Accumulated Losses Rs. '000	Other Reserves (Available for Sale Reserve) Rs. '000	Total Rs. '000
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**
Balance as at 1 January 2016	5,592,350	-	(737,703)	(11,402)	4,843,245
Total comprehensive income for the year 2016					
Profit for the year	-	-	12,067	-	12,067
Other comprehensive income, net of tax	-	-	492	(4,696)	(4,204)
Total comprehensive income for the year 2016	-	-	12,559	(4,696)	7,863
Transactions with owners of the Bank					
Contributions and distributions					
Issue of shares	5,802,071	-	-	-	5,802,071
Transfer to statutory reserve	-	603	(603)	-	-
Total transactions with equity owners	5,802,071	603	(603)	-	5,802,071
Balance as at 31 December 2016	**11,394,421**	**603**	**(725,747)**	**(16,098)**	**10,653,179**

GROUP

	Stated Capital Rs. '000	Statutory Reserves Rs. '000	Accum-ulated Losses Rs. '000	Other Reserves (Available for Sale Reserve) Rs. '000	Attributable to Owners of the Company Rs. '000	Non Controlling Interest Rs. '000	Total Rs. '000
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	-	-	-	623,500	-	623,500
Transfer to statutory reserve	-	335	(335)	-	-	-	-
Total transactions with equity owners	623,500	335	(335)	-	623,500	-	623,500
Balance as at 31 December 2015	**5,592,350**	**335**	**(741,767)**	**(11,402)**	**4,839,516**	**77,735**	**4,917,251**
Balance as at 1 January 2016	5,592,350	335	(741,767)	(11,402)	4,839,516	77,735	4,917,251
Total comprehensive income for the year 2016							
Profit for the year	-	-	26,014	-	26,014	1,455	27,469
Other comprehensive income, net of tax	-	-	981	(4,696)	(3,715)	120	(3,595)
Total comprehensive income for the year 2016	-	-	26,995	(4,696)	22,299	1,575	23,874
Transactions with owners of the Bank							
Contributions and distributions							
Issue of shares	5,802,071	-	-	-	5,802,071	-	5,802,071
Transfer to statutory reserve	-	603	(603)	-	-	-	-
Movement due to change in shareholding	-	-	(9,609)	-	(9,609)	10,190	581
Expense on right issue	-	-	(798)	-	(798)	(195)	(993)
Total transactions with equity owners	5,802,071	603	(11,010)	-	5,791,664	9,995	5,801,659
Balance as at 31 December 2016	**11,394,421**	**938**	**(725,782)**	**(16,098)**	**10,653,479**	**89,305**	**10,742,784**

Statement of Cash Flows

For the year ended 31 December	Note	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Group 2016 Rs. '000	Group 2015 Rs. '000
Cash flows from operating activities					
Loss before tax		(56,270)	(316,208)	(43,014)	(323,781)
Adjustments for:					
Non-cash items included in loss before tax	42	260,291	135,151	266,617	164,904
Change in operating assets	43	(7,237,698)	(6,479,051)	(7,259,656)	(6,542,561)
Change in operating liabilities	44	5,933,427	2,402,373	5,540,208	2,458,530
Gains / (losses) on sale of property, plant & equipment and other assets		-	51	(13)	(6)
Dividend income	12	(295)	(268)	(382)	(356)
Benefits paid on defined benefit plans		(2,222)	(440)	(2,222)	(440)
Net cash used in operating activities		(1,102,767)	(4,258,392)	(1,498,462)	(4,243,710)
Cash flows from investing activities					
Net purchase of property, plant and equipment	29	(57,825)	(55,978)	(57,744)	(56,782)
Purchase of financial investments		-	-	(2,366)	(14,621)
Net purchase of intangible assets	30	(22,385)	(23,608)	(23,762)	(23,125)
Investment in subsidiary right issue	28	(115,717)	-	-	-
Dividends received	12	295	268	382	356
Net cash used in investing activities		(195,632)	(79,318)	(83,490)	(94,172)
Cash flows from financing activities					
Net proceeds from the issue of ordinary share capital		3,395,071	3,030,500	3,395,652	3,030,500
Expenses on right issue		-	-	(993)	-
Change in securities sold under repurchase agreements		(1,652,681)	1,442,300	(1,652,681)	1,442,300
Net cash generated from financing activities		1,742,390	4,472,800	1,741,978	4,472,800
Net increase in cash & cash equivalents		443,991	135,090	160,026	134,918
Cash and cash equivalents at the beginning of the year		174,129	39,039	196,157	61,239
Cash and cash equivalents at the end of the year	20	618,120	174,129	356,183	196,157

The annexed notes to the Financial Statements 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 3.

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 2016, 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 and Ownership by the Bank in its Subsidiaries

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.

Entity	Principle Business Activities	Ownership as at 31 Dec 2016	Ownership as at 31 Dec 2015
Bank	To carry on domestic banking business and off-shore banking business.	N/A	N/A
Subsidiary Colombo Trust Finance PLC	Acceptance of Deposits, granting Lease Facilities, Hire Purchase, Margin Trading, Mortgage Loans, Demand Loans and other credit facilities	80.34%	76.51%

1.4 Number of Employees

The total number of employees of the Bank as at 31 December 2016 was 430 (2015 – 266). The total number of employees of the Group was 471 (2015 – 311).

2. BASIS OF ACCOUNTING

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. These Financial Statements, except for information on Statement of Cash Flows have been prepared following the accrual basis of accounting.

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.

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 pages 074 to 077, 079 and 088 to 089 respectively.

Notes to the Financial Statements continued.

These financial Statements include the following components,

- an Income statement and a Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Group and the Bank for the year under review. Refer pages 086 to 087.
- a Statement of Financial Position providing the information on the financial position of the Group and the Bank as at the year-end. Refer pages 088 to 089.
- a Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Group and the Bank. Refer pages 090 to 091.
- a Statement of Cash Flows providing the information to the users, on the ability of the Group and the Bank to generate cash and cash equivalents and the needs of entities to utilise those cash flows. Refer pages 092.
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information. Refer pages 093 to 161.

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 2016 were approved and authorised for issue by the Board of Directors on 1 March 2017.

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.

Each entity in the Group determines its own functional currency and items included in the Financial Statements of these entities are measured using that Functional Currency. There was no change in the Group's Presentation and Functional Currency during the year under review.

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.

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.

2.8 Offsetting

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.

2.9 Rounding

The amounts 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 1 on 'Presentation of Financial Statements'.

2.10 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'

2.11 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 2016 is set out below in relation to the impairment of financial instruments and in the following notes in relation to other areas.

A. Judgement

2.11.1 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.

2.11.2 Determination of Control over Investees

Management applies its judgement to determine whether the control indicators set out in Note 3.1.2 *(Subsidiaries)* indicate that the Group controls the investees.

B. Assumptions and Estimation uncertainties

2.11.3 Financial Assets and Liabilities Classification

The Significant Accounting Policies of the Group provide scope for assets and liabilities to be classified at inception into different accounting categories in certain circumstances.

- In classifying financial assets or liabilities at 'Fair value through profit or loss', the Group has determined that it has met the criteria for this designation set out in Note 3.3.1.3.2 on pages 098 and 099.
- In classifying financial assets as 'Held to maturity', the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by Note 3.3.1.3.4 on page 099.

2.11.4 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.

The Bank measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements set out in Note 3.3.2 on page 101.

2.11.5 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.

Notes to the Financial Statements continued.

The individual component of the total provision for impairment applies to financial assets evaluated individually for impairment and is based on Management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, Management makes judgements about a borrower's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable.

A collective component of the total provision is established for:

- groups of homogeneous loans and advances that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired

The collective provision for groups of homogeneous loans is established using statistical methods (such as, net flow rate methodology, risk migration analysis) or, a formula approach based on historical loss rate experience, using the statistical analysis of historical data on delinquency to estimate the amount of loss.

In assessing the need for collective loss allowance, Management considers factors such as credit quality (for example, loan to collateral ratio, level of restructured performing loans) portfolio size, concentrations and economic factors.

The accuracy of the provision depends on the model assumptions and parameters used in determining the collective provision.

The impairment loss on loans and advances as disclosed in Note 25.2 page 126.

2.11.6 Impairment of Financial Investments - Available-for-sale

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.

2.11.7 Impairment Losses on Non Financial 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 valuation requires the Group to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

2.11.8 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.

2.11.9 Current Taxation

The Bank and its subsidiary are 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.

2.11.10 Defined Benefit Obligation

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.

2.11.11 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.

2.11.12 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.

2.12 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 - GENERAL

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.

The Bank's financial year ends on 31 December and subsidiary's financial year ends on 31 March. The Financial

Statements of the Bank's subsidiary are prepared using the consistent accounting policies.

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

Group classifies financial assets into one of the following categories:

- Financial Assets at fair value through profit or loss, and within this category as;
  - held for trading; or
  - designated at fair value through profit or loss.
- Loans and receivables;
- Held-to-maturity;
- Available-for-sale; and

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 Derivatives recorded at fair value through profit or loss.

There were no Derivative Financial Assets at the reporting date.

3.3.1.3.4 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.

3.3.1.3.5 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.

3.3.1.3.5.1 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.

3.3.1.3.5.2 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.

3.3.1.3.5.2.1 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.

3.3.1.3.5.2.2 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.

3.3.1.3.5.3 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.

3.3.1.3.5.4 Balances with Central Bank

The Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain a statutory reserve equal to 7.5% on all deposit liabilities denominated in Sri Lankan Rupees. Balances with Central Banks are carried at amortised cost in the Statement of Financial Position.

3.3.1.3.6 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.

Classification and Subsequent Measurement of Financial Liabilities

Group classifies financial liabilities into one of the following categories:

- Financial liabilities at fair value through profit or loss, and within this category as;
  - Held-for-trading; or
  - Designated at fair value through profit or loss.
- Financial liabilities at amortised cost

The subsequent measurement of financial liabilities depends on their classification.

3.3.1.3.7 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held-for- trading and financial liabilities designated upon initial recognition as at fair value through profit or loss

3.3.1.3.7.1 Financial liabilities held-for-trading

Details of derivative financial liabilities are given in Note 34 on page 136.

3.3.1.3.7.2 Financial liabilities designated at fair value through profit or loss

Financial liabilities designated 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 paid/ payable is accrued in 'Interest Expense', using the EIR.

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

3.3.1.3.8 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'.

3.3.1.3.8.1 Deposits and borrowings

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

3.3.1.3.8.2 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.

3.3.1.3.8.3 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.

3.3.1.3.8.4 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 Impairment of 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.

Notes to the Financial Statements continued.

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.

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.

Notes to the Financial Statements continued.

The estimated useful lives are as follows:

Description	Bank	Subsidiary
Furniture & Fittings	5 years	8 years
Office Equipment	5 years	12.5 years
Computer Hardware	4 years	4 years
Motor Vehicle	4 years	4 years
Machinery	5 years	4 years
Improvements to Leasehold Buildings	8-15 years	-
Building	-	25 years

No depreciation is charged on freehold land.

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.

3.4.7 Borrowing Costs
As per the Sri Lanka Accounting Standard - LKAS 23 on 'Borrowing costs', the Group 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.

3.5 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 30 on page 133). 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.

Intangible Assets with Indefinite Useful Lives

Intangible assets with indefinite useful lives are not amortised but are tested for impairment annually either individually or at the CGU level as appropriate, when circumstances indicate that the carrying value is impaired. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

The Group does not have intangible assets with indefinite useful lives.

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.

3.7.4 Other Long-Term Employee Benefits

The Group's net obligation in respect of long term employee benefits other than pension plans is the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate used as the yield at the Reporting date was the current market rate that has been extrapolated to reflect long-term rate of discount based on market rates of interest on short term corporate/ government bonds and anticipated long term rate of inflation. The calculation is performed using the Projected Unit Credit Method. Any actuarial gains and losses are recognised in profit or loss in the period in which they arise.

The Group does not have any other long term employee benefit plans.

3.7.5 Terminal Benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be wholly settled within 12 months of the Reporting date, then they are discounted.

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 Restructuring

Provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

The Group does not have any provision for restructuring as at the Reporting date.

3.13 Onerous Contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

The Group does not have any onerous contracts as at the Reporting date.

3.14 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.

3.12 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.

3.14 Fiduciary Assets

The Bank provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in these Financial Statements as they do not belong to the Bank.

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.

3.15 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.

3.16 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.

3.17 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.

3.18 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.

3.19 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.

3.20 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.

3.21 Rental Income and Expense

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

3.22 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.

3.23 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.

3.24 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.

3.24.1 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.

3.24.2 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.

3.25 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 1, 2013 and is payable to the National

Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

3.26 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.

3.27 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 1, 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.

3.28 Nation Building Tax on Financial Services (NBT)

With effect from January 1, 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 ISSUED BUT NOT YET EFFECTIVE

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, the following Accounting Standards have not been applied in preparing these Financial Statements and the Group plans to apply these standards on the respective effective dates.

Accounting Standard	Summary of the Requirements	Possible Impact on Consolidated Financial Statements
SLFRS 9 – 'Financial Instruments'	SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 - Financial Instruments: Recognition and Measurement. SLFRS 9 contains three principal classification categories for financial assets – ie measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) . The existing LKAS 39 categories of Held to maturity, Loans and receivables and Available for sale are removed. SLFRS 9 replaces the "incurred loss" model in LKAS 39 with an "expected credit loss" model. The new model applies to financial assets that are not measured at FVTPL. The model uses a dual measurement approach , under which the loss allowance is measured as either: • 12 month expected credit loss ; or • Lifetime expected credit losses The measurement basis will generally depend on whether there has been a significant increase in credit risk since initial recognition. A simplified approach is available for trade receivables, contract assets and lease receivables, allowing or requiring the recognition of lifetime expected credit losses at all times. Special rules apply to assets that are credit impaired at initial recognition. The new standard carried guidance on new general hedge accounting requirements. SLFRS 9 introduces new presentation requirements and extensive new disclosure requirements. Effective date of SLFRS 9 is 1 January 2018.	The Group/Bank, has completed the initial high level assessment of the potential impact on its Consolidated Financial Statements resulting from the application of SLFRS 9 with the assistance of an external consultant. The next phase being the implementation phase will commence from end March 2017. During this phase the Group will; • Implement a business model approach and solely payment of principal and interest criteria to ensure that financial assets are classified into the appropriate categories. • Build a model with appropriate methodologies and controls to ensure that judgement exercised to assess recoverability of loans and make robust estimates of expected credit losses and point at which there is significant increase in credit risk. • Judgement will need to be applied to ensure that the measurement of expected credit losses reflects reasonable and supportable information. • Given the nature of the Group/Bank'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 model is expected to result in an increase in the overall level of impairment allowances.

Notes to the Financial Statements continued.

Accounting Standard	Summary of the Requirements	Possible Impact on Consolidated Financial Statements
SLFRS 15 – 'Revenue from Contracts with Customers'	SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. New qualitative and quantitative disclosure requirements aim to enable financial statements users to understand the nature, amount, timing and uncertainty of revenue and cashflows arising from contracts with customers. Entities will apply five step model to determine when to recognize revenue and at what amount. The model specified that revenue is recognized when or as am entity transfers control of goods and services to a customer at the amount to which the entity expects to be entitled . Depending on whether certain criteria are met, revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 on 'Revenue' and LKAS 11 on 'Construction Contracts' and IFRIC 13 on 'Customer Loyalty Programmes'. SLFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.	The Group/Bank does not expect significant impact on its Financial Statements resulting from the application of SLFRS 15.
SLFRS 16 – 'Leases'	SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between on-balance sheet finance leases and off – balance sheet operating leases. Instead there will be a single on balance sheet accounting model that is similar to current finance lease accounting. SLFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019.	The Group/Bank is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 16.

For the year ended 31 December	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Group 2016 Rs. '000	Group 2015 Rs. '000

7. NET INTEREST INCOME

Interest income (Note 7.1)	1,540,488	531,928	1,683,313	686,298
Less: Interest expenses (Note 7.2)	586,998	207,059	634,348	269,249
Net interest income	953,490	324,869	1,048,965	417,049

7.1 Interest income

Cash & cash equivalents	13,311	-	-	-
Placements with other banks	209,278	62,166	209,278	62,166
Loans & receivable to banks	38,986	28,866	43,503	31,742
Loans & receivables to other customers	1,134,882	340,289	1,283,262	489,283
Financial investments available for sale	144,031	100,607	144,031	100,607
Other interest income	-	-	3,239	2,500
Total interest income	1,540,488	531,928	1,683,313	686,298

7.2 Interest expenses

Due to banks	10,140	1,984	13,179	2,245
Due to other customers	531,031	145,658	575,342	207,587
Other borrowings	45,827	59,417	45,827	59,417
Total interest expenses	586,998	207,059	634,348	269,249

7.3 Net interest income from Sri Lanka Government Securities

Interest income	176,851	129,473	181,368	132,349
Less : Interest expenses	45,827	59,417	45,827	59,417
Sub total	131,024	70,056	135,541	72,932

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. 13.1 Mn (2015-Rs. 7.01 Mn) for Bank and Rs. 13.56 Mn (2015-Rs. 7.29 Mn) for Group.

For the year ended 31 December	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Group 2016 Rs. '000	Group 2015 Rs. '000

8. NET FEES AND COMMISSION INCOME

Fees and commission income (Note 8.1)	103,183	47,251	104,120	49,954
Less: Fees and commission expenses (Note 8.2)	23,960	10,671	24,243	11,249
Net fees and commission income	79,223	36,580	79,877	38,705

Notes to the Financial Statements continued.

For the year ended 31 December	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Group 2016 Rs. '000	Group 2015 Rs. '000
8.1 Fees and commission income				
Loans & advances	22,214	3,698	23,171	4,916
Debit cards	2,165	454	2,165	454
Trade & remittances	35,991	22,230	35,991	22,230
Guarantees	20,607	12,929	20,607	12,929
Deposits	8,644	3,169	8,644	3,169
Other financial services	13,562	4,771	13,542	6,256
Total commission income	103,183	47,251	104,120	49,954
8.2 Fees and commission expenses				
Debit cards	121	-	121	-
Other financial services	23,839	10,671	24,122	11,249
Total fee & commission expenses	23,960	10,671	24,243	11,249

9. NET GAINS / (LOSSES) FROM TRADING

Foreign exchange				
From bank and other customers	(1,361)	481	(1,361)	481
Total	(1,361)	481	(1,361)	481

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

Equity shares	-	-	(246)	62
Total	-	-	(246)	62

11. NET GAINS FROM FINANCIAL INVESTMENTS

Financial investments - available for sale				
Net capital gains from treasury bills	2,196	870	2,196	870
Net capital gains from treasury bonds	10,338	2,755	10,338	2,755
Total	12,534	3,625	12,534	3,625

For the year ended 31 December	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Group 2016 Rs. '000	Group 2015 Rs. '000
12. OTHER INCOME				
Gain / (Loss) on sale of property, plant and equipment	-	(51)	13	6
Gains on revaluation of foreign exchange	45,867	20,345	45,867	20,345
Reversal of impairment charges and loans written-off	-	-	195	1,376
Dividends received	295	268	382	356
Rental and other income	707	631	8,455	7,940
Total	46,869	21,193	54,912	30,023

13. IMPAIRMENT FOR LOANS & OTHER LOSSES

	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Group 2016 Rs. '000	Group 2015 Rs. '000
Loans & receivable to other customers				
Charge to the income statement on individual impairment (Refer Note 25.2)	59,740	9,209	71,528	25,740
Charge to the income statement on collective impairment (Refer Note 25.2)	45,516	11,476	39,782	19,079
Direct write-offs	15	-	15	-
Financial investments available-for-sale (Refer Note 26.2)	4,809	-	4,809	-
Investment in subsidiary (Refer Note 28.2)	8,000	-	-	-
Property, plant and equipment (Refer Note 29.1)	(3,908)	(20,328)	(3,908)	(20,328)
Write-off other assets	1,450	-	1,450	-
Total	115,622	357	113,676	24,491

14. PERSONNEL EXPENSES

	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Group 2016 Rs. '000	Group 2015 Rs. '000
Salary and bonus (Refer Note 14.1)	333,461	225,913	363,851	258,211
Contributions to defined contribution plans	42,098	23,809	46,651	28,257
Contributions to defined benefit plans	5,132	4,105	6,314	5,653
Others	30,066	16,331	33,349	18,734
Total	410,757	270,158	450,165	310,855

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 Director.

Notes to the Financial Statements continued.

For the year ended 31 December	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Group 2016 Rs. '000	Group 2015 Rs. '000

15. OTHER EXPENSES

Directors' emoluments (Refer note 15.1)	12,692	11,010	15,177	12,220
Auditors' remunerations	4,985	1,725	6,458	2,735
Audit fee and expenses	1,200	700	1,685	1,140
Audit related fee and expenses	1,985	1,025	2,973	1,595
Non-audit fee and expenses	1,800	-	1,800	-
Professional and legal expenses	6,246	15,812	7,019	19,315
Depreciation of property, plant and equipment (Refer note 29)	90,830	86,259	96,262	88,836
Amortisation of intangible assets (Refer note 30)	50,172	44,430	51,830	45,924
Office administration and establishment expenses	412,719	273,205	449,345	305,967
	577,644	432,441	626,091	474,997

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

16. INCOME TAX EXPENSES

Current taxation on profits for the year	9,573	-	13,622	1,007
Origination / (reversal) of temporary difference (Note 16.5)	(77,910)	-	(84,105)	(9,081)
	(68,337)	-	(70,483)	(8,074)

16.1 Reconciliation of the accounting profit to income tax expense

A reconciliation between taxable income and the accounting profit multiplied by the statutory tax rate is given below:

For the year ended 31 December	Bank 2016 Rs. '000	%	Bank 2015 Rs. '000	%	Group 2016 Rs. '000	%	Group 2015 Rs. '000	%
Accounting loss before tax from operations	(56,270)	100	(316,208)	100	(43,014)	100	(323,781)	100
Tax effect at the statutory income tax rate	(15,756)	28	(88,538)	28	(12,044)	28	(90,658)	28
Tax effect of exempt income	(1,839)	3	(6,567)	2	(4,170)	10	(6,590)	2
Tax effect of non-deductible expenses	74,332	(132)	46,015	(15)	98,656	(229)	61,769	(19)
Tax effect of deductible expenses	(42,009)	75	(46,345)	15	(65,964)	153	(57,670)	18
Taxable profit/ (loss) on disposal of lease/fixed assets	-	-	-	-	1,249	(3)	(2,644)	1
Tax losses utilized during the year	(5,155)	9	-	-	(5,155)	12	-	-
Deferred tax expense/ (reversal)	(77,910)	138	-	-	(84,105)	196	(9,081)	3
Tax losses for which deferred tax asset was not recognized	-	-	95,435	(30)	1,050	(2)	96,800	(30)
Income tax expense reported in the Income Statement at the effective income tax rate	(68,337)		-		(70,483)		(8,074)	

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%.

	Bank		Group	
For the year ended 31 December	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
16.3 Tax expenses recognized in Other Comprehensive Income				
Deferred tax on net actuarial gains/ (losses) on defined benefit plans	(191)	381	(428)	347
Deferred tax on available for sale reserve	1,826	4,239	1,826	4,239
	1,635	4,620	1,398	4,586
16.4 Tax losses / credits carried forward				
Tax losses brought forward	1,316,904	976,062	1,351,785	1,010,943
Tax losses utilized during the year	(18,411)	-	(18,411)	-
Tax losses arise during the year	-	340,842	5,444	340,842
Tax losses/ credits available for utilization	1,298,493	1,316,904	1,338,818	1,351,785
16.5 Deferred tax expenses				
Deferred tax asset recognized during the year (Refer Note 31)	80,789	11,523	83,461	15,887
Deferred tax liability originated during the year (Refer Note 31)	(2,879)	(11,523)	644	(6,806)
	77,910	-	84,105	9,081

17. BASIC EARNINGS / LOSS PER SHARE

Amount used as the numerator				
Profit / (loss) for the year (Rs. '000)	12,067	(316,208)	26,014	(315,825)
Amount used as the denominator				
Weighted average number of ordinary shares in issue during the year (Refer Note 17.1)	709,307,633	440,117,808	709,307,633	440,117,808
Basic earnings / (loss) per share (Rs.)	0.02	(0.72)	0.04	(0.72)

17.1 Weighted average number of ordinary shares

Issued ordinary shares at 1 January	483,000,000	440,000,000	483,000,000	440,000,000
Effect on right issue - 31 December	-	117,808	-	117,808
Effect on right issue - 10 May	113,315,068	-	113,315,068	-
Effect on right issue - 30 June	112,992,564	-	112,992,564	-
Weighted average number of ordinary shares as at 31 December	709,307,633	440,117,808	709,307,633	440,117,808

	Note	Held for Trading Rs. '000	Held to Maturity Rs. '000	Loans and Receivables Rs. '000	Available for Sale Rs. '000	Other Amortized Cost Rs. '000	Total Rs. '000

18. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

18.1

18.1.1 Bank - 2016

	Note	Held for Trading Rs. '000	Held to Maturity Rs. '000	Loans and Receivables Rs. '000	Available for Sale Rs. '000	Other Amortized Cost Rs. '000	Total Rs. '000
Financial assets							
Cash and cash equivalents	20	-	-	618,120	-	-	618,120
Balance with Central Bank of Sri Lanka	21	-	-	417,161	-	-	417,161
Placements with banks	22	-	-	2,118,462	-	-	2,118,462
Securities purchased under resale agreements		-	-	1,350,759	-	-	1,350,759
Loans & receivable to banks	24	-	-	158,367	-	-	158,367
Loans & receivable to other customers	25	-	-	13,424,038	-	-	13,424,038
Financial investments available for sale	26	-	-	-	1,569,722	-	1,569,722
Other assets	32	-	-	31,226	-	-	31,226
Total financial assets		**-**	**-**	**18,118,133**	**1,569,722**	**-**	**19,687,855**
Financial liabilities							
Due to banks	33	-	-	-	-	282,533	282,533
Derivative financial instruments	34	2,915	-	-	-	-	2,915
Due to other customers	35	-	-	-	-	9,435,089	9,435,089
Securities sold under repurchase agreements		-	-	-	-	340,702	340,702
Other liabilities	36	-	-	-	-	106,391	106,391
Total financial liabilities		**2,915**	**-**	**-**	**-**	**10,164,715**	**10,167,630**

18.1.2 Bank - 2015

	Note	Held for Trading Rs. '000	Held to Maturity Rs. '000	Loans and Receivables Rs. '000	Available for Sale Rs. '000	Other Amortized Cost Rs. '000	Total Rs. '000
Financial assets							
Cash and cash equivalents	20	-	-	174,129	-	-	174,129
Balance with Central Bank of Sri Lanka	21	-	-	139,342	-	-	139,342
Placements with banks	22	-	-	2,018,773	-	-	2,018,773
Securities purchased under resale agreements		-	-	1,668,581	-	-	1,668,581
Loans & receivable to other customers	25	-	-	6,537,966	-	-	6,537,966
Financial investments available for sale	26	-	-	-	1,604,080	-	1,604,080
Other assets	32	-	-	151,320	-	-	151,320
Total financial assets		**-**	**-**	**10,690,111**	**1,604,080**	**-**	**12,294,191**
Financial liabilities							
Due to banks	33	-	-	-	-	5,347	5,347
Due to other customers	35	-	-	-	-	3,870,200	3,870,200
Securities sold under repurchase agreements		-	-	-	-	1,993,383	1,993,383
Other liabilities	36	-	-	-	-	2,628,663	2,628,663
Total financial liabilities		**-**	**-**	**-**	**-**	**8,497,593**	**8,497,593**

	Note	Held for Trading Rs. '000	Held to Maturity Rs. '000	Loans and Receivables Rs. '000	Available for Sale Rs. '000	Other Amortized Cost Rs. '000	Total Rs. '000
18.2							
18.2.1 Group - 2016							
Financial assets							
Cash and cash equivalents	20	-	-	356,183	-	-	356,183
Balance with Central Bank of Sri Lanka	21	-	-	417,161	-	-	417,161
Placements with banks	22	-	-	2,118,462	-	-	2,118,462
Securities purchased under resale agreements		-	-	1,389,397	-	-	1,389,397
Other financial instruments held for trading	23	1,345	-	-	-	-	1,345
Loans & receivable to banks	24	-	-	158,367	-	-	158,367
Loans & receivable to other customers	25	-	-	14,313,169	-	-	14,313,169
Financial investments available for sale	26	-	-	-	1,570,068	-	1,570,068
Financial investments held to maturity	27	-	42,402	-	-	-	42,402
Other assets	32	-	-	36,076	-	-	36,076
Total financial assets		**1,345**	**42,402**	**18,788,815**	**1,570,068**	**-**	**20,402,630**
Financial liabilities							
Due to banks	33	-	-	-	-	305,314	305,314
Derivative financial instruments	34	2,915	-	-	-	-	2,915
Due to other customers	35	-	-	-	-	9,729,111	9,729,111
Securities sold under repurchase agreements		-	-	-	-	340,702	340,702
Other liabilities	36	-	-	-	-	110,560	110,560
Total financial liabilities		**2,915**	**-**	**-**	**-**	**10,485,687**	**10,488,602**
18.2.2 Group - 2015							
Financial assets							
Cash and cash equivalents	20	-	-	196,157	-	-	196,157
Balance with Central Bank Sri Lanka	21	-	-	139,342	-	-	139,342
Placements with banks	22	-	-	2,018,773	-	-	2,018,773
Securities purchased under resale agreements		-	-	1,721,089	-	-	1,721,089
Other financial instruments held for trading	23	2,300	-	-	-	-	2,300
Loans & receivable to other customers	25	-	-	7,385,995	-	-	7,385,995
Financial investments available for sale	26	-	-	-	1,604,426	-	1,604,426
Financial investments held to maturity	27	-	40,036	-	-	-	40,036
Other assets	32	-	-	151,320	-	-	151,320
Total financial assets		**2,300**	**40,036**	**11,612,676**	**1,604,426**	**-**	**13,259,438**
Financial liabilities							
Due to banks	33	-	-	-	-	6,507	6,507
Due to other customers	35	-	-	-	-	4,587,189	4,587,189
Securities sold under repurchase agreements		-	-	-	-	1,993,383	1,993,383
Other liabilities	36	-	-	-	-	2,628,880	2,628,880
Total financial liabilities		**-**	**-**	**-**	**-**	**9,215,959**	**9,215,959**

Notes to the Financial Statements continued.

19. FAIR VALUES OF FINANCIAL INSTRUMENTS

19.1 Financial instruments measured at fair value - fair value hierarchy

The amounts are based on the values recognized 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 2016									
Assets									
Other financial instruments - Held-for-trading	23	-	-	-	-	1,345	-	-	1,345
Financial investments - Available-for-sale*	26	1,563,839	-	5,883	1,569,722	1,563,839	-	6,229	1,570,068
Total assets at fair value		1,563,839	-	5,883	1,569,722	1,565,184	-	6,229	1,571,413
Liabilities									
Derivative financial instruments	34	-	2,915	-	2,915	-	2,915	-	2,915
Total liabilities at fair value		-	2,915	-	2,915	-	2,915	-	2,915
As at 31 December 2015									
Assets									
Other financial instruments - Held-for-trading	23	-	-	-	-	2,300	-	-	2,300
Financial investments - Available-for-sale	26	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
Liabilities									
Derivative financial instruments	34	-	-	-	-	-	-	-	-
Total liabilities at fair value		-	-	-	-	-	-	-	-

19.2 Valuation Techniques and Inputs in Measuring Fair Values

Table below provides information on the valuation techniques and inputs used in measuring the fair values of Derivative financial assets and liabilities in the Level 2 of the fair value hierarchy as given in Note 19.1 above

Type of Financial Instruments	Fair Value as at 31-Dec-16 Rs. '000	Valuation Technique	Significant Valuation inputs
Derivative Financial Liabilities	2,915	Adjusted Forward Rate Approach. This approach considers the present value of projected forward exchange rate as at the Reporting date as the fair value. The said forward rate is projected based on the spot exchange rate and the forward premium/discount calculated using extrapolated interest rates of the currency pairs under consideration. In computing the present value, interest rate differential between two currencies under consideration is used as the discount rate.	Spot exchange rate

19.3 Fair value of financial instruments not carried at fair value

For financial assets and liabilities with short term maturities or with short term re-pricing intervals, it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings deposits which do not have a specific maturity.

The following table sets out the fair values of financial assets and liabilities not measured at fair value and related fair value hierarchy:

	Note	Bank				Group			
		Level 1	Level 2	Level 3	Carrying Amount	Level 1	Level 2	Level 3	Carrying Amount
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at 31 December 2016									
Assets									
Cash and cash equivalents	20	-	618,120	-	618,120	-	356,183	-	356,183
Balance with Central Bank of Sri Lanka	21	-	417,161	-	417,161	-	417,161	-	417,161
Placements with banks	22	-	2,118,462	-	2,118,462	-	2,118,462	-	2,118,462
Securities purchased under resale agreements		-	1,350,759	-	1,350,759	-	1,389,397	-	1,389,397
Loans & receivable to banks	24	-	158,367	-	158,367	-	158,367	-	158,367
Loans & receivable to other customers	25	-	-	13,424,038	13,424,038	-	-	14,313,169	14,313,169
Financial investments held to maturity	27	-	-	-	-	-	42,402	-	42,402
Other assets	32	-	-	31,226	31,226	-	-	36,076	36,076
Total financial assets not at fair value		-	4,662,869	13,455,264	18,118,133	-	4,481,972	14,349,245	18,831,217
Liabilities									
Due to banks	33	-	282,533	-	282,533	-	305,314	-	305,314
Due to other customers	35	-	-	9,435,089	9,435,089	-	-	9,729,111	9,729,111
Securities sold under repurchase agreements		-	340,702	-	340,702	-	340,702	-	340,702
Other liabilities	36	-	-	106,391	106,391	-	-	110,560	110,560
Total financial liabilities not at fair value		-	623,235	9,541,480	10,164,715	-	646,016	9,839,671	10,485,687
As at 31 December 2015									
Assets									
Cash and cash equivalents	20	-	174,129	-	174,129	-	196,157	-	196,157
Balance with Central Bank of Sri Lanka	21	-	139,342	-	139,342	-	139,342	-	139,342
Placements with banks	22	-	2,018,773	-	2,018,773	-	2,018,773	-	2,018,773
Securities purchased under resale agreements		-	1,668,581	-	1,668,581	-	1,721,089	-	1,721,089
Loans & receivable to other customers	25	-	-	6,537,966	6,537,966	-	7,385,995	-	7,385,995
Financial investments held to maturity	27	-	-	-	-	-	40,036	-	40,036
Other assets	32	-	-	151,320	151,320	-	-	151,320	151,320
Total financial assets not at fair value		-	11,501,392	151,320	10,690,111	-	11,501,392	151,320	11,652,712
Liabilities									
Due to banks	33	-	5,347	-	5,347	-	6,507	-	6,507
Due to other customers	35	-	-	3,870,200	3,870,200	-	-	4,587,189	4,587,189
Securities sold under repurchase agreements		-	1,993,383	-	1,993,383	-	1,993,383	-	1,993,383
Other liabilities	36	-	-	2,628,663	2,628,663	-	-	2,628,880	2,628,880
Total financial liabilities not at fair value		-	1,998,730	6,498,863	8,497,593	-	1,999,890	7,216,069	9,215,959

As at 31 December	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Group 2016 Rs. '000	Group 2015 Rs. '000
20. CASH AND CASH EQUIVALENTS				
Cash in hand				
Coins and notes held in local currency	329,163	170,712	329,265	170,837
Coins and notes held in foreign currency	16,948	3,417	16,948	3,417
Balances with banks	-	-	9,970	21,903
Money at call and short notice	272,009	-	-	-
Total	618,120	174,129	356,183	196,157

21. BALANCES WITH CENTRAL BANK OF SRI LANKA

Central Bank of Sri Lanka	417,161	139,342	417,161	139,342
Total	417,161	139,342	417,161	139,342

21.1 As required by the provisions of Section 93 of the Monetary Law Act, a cash balance is maintained with the Central Bank of Sri Lanka. As at 31 December 2016, the minimum cash reserve requirement was 7.5% of the rupee deposit liabilities.

22. PLACEMENTS WITH BANKS

Placements - within Sri Lanka	1,977,752	1,708,645	1,977,752	1,708,645
Placements - outside Sri Lanka	140,710	310,128	140,710	310,128
Total	2,118,462	2,018,773	2,118,462	2,018,773

23. OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING

Equity shares-quoted	-	-	1,345	2,300
Total	-	-	1,345	2,300

As at 31 December	Group 2016 No. of Shares	Group 2016 Market Value/ Carrying Value Rs. '000	Group 2016 Cost Rs. '000	Group 2015 No. of Shares	Group 2015 Market Value/ Carrying Value Rs. '000	Group 2015 Cost Rs. '000
23.1 Equity shares-quoted						
ACL Cables PLC	-	-	-	5,800	701	552
Balangoda Plantations PLC	22,000	268	1,471	22,000	387	1,471
Ceylon Hotel Copra.	4,500	91	178	4,500	114	177
Keells Hotels- JKH	32,584	355	598	32,584	502	598
Hotel Services cey. (Kingsbury PLC)	15,000	228	437	15,000	263	437
Tokyo Cements Company (Lanka) PLC	6,798	403	324	6,798	333	324
		1,345	3,008		2,300	3,560
Less: Mark to market losses			1,663			1,260
			1,345			2,300

As at 31 December	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Group 2016 Rs. '000	Group 2015 Rs. '000

24. LOANS & RECEIVABLE TO BANKS

Gross loans & receivables	158,367	-	158,367	-
Less : Provision for impairment	-	-	-	-
Net loans and receivables	158,367	-	158,367	-

24.1 Analysis

24.1.1 By product

Loans and advances				
Short-term loans	158,367	-	158,367	-
Total	158,367	-	158,367	-

24.1.2 By currency

Sri Lankan Rupee	158,367	-	158,367	-
Total	158,367	-	158,367	-

25. LOANS & RECEIVABLE TO OTHER CUSTOMERS

Gross loans & receivables	13,561,176	6,569,793	14,551,473	7,512,934
Less: Provision for individual impairment (Note 25.2)	68,949	9,209	162,131	90,603
Less: Provision for collective impairment (Note 25.2)	68,189	22,618	76,173	36,336
Net loans and receivables	13,424,038	6,537,966	14,313,169	7,385,995

25.1 Analysis

25.1.1 By product

Loans and advances				
Overdrafts	2,953,568	1,989,501	2,761,584	1,862,917
Trade finance	2,259,860	1,556,131	2,259,860	1,556,131
Lease receivables (Note 25.3)	-	-	347,225	320,841
Hire purchase (Note 25.4)	-	-	103,949	167,999
Housing loans	428,407	117,570	428,407	117,570
Personal loans	1,702,903	509,530	1,702,903	509,530
Staff loans	134,581	30,415	134,581	30,415
Term loans	3,289,172	761,794	3,289,172	761,794
Agriculture loans	71,027	-	71,027	-
Money market loans	2,666,309	1,593,766	2,830,309	1,740,695
Vehicle loans	40,124	7,320	40,124	7,320
Bills of exchange	15,225	3,766	155,541	72,953
Margin trading	-	-	187,423	194,141
Others	-	-	239,368	170,628
Total gross loans & receivables	13,561,176	6,569,793	14,551,473	7,512,934

25.1.2 By currency

Sri Lankan Rupee	13,285,306	6,388,823	14,275,603	7,331,964
United States Dollar	275,870	180,970	275,870	180,970
Total gross loans & receivables	13,561,176	6,569,793	14,551,473	7,512,934

Notes to the Financial Statements continued.

As at 31 December	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Group 2016 Rs. '000	Group 2015 Rs. '000
25.1.3 By industry				
Agriculture & fishing	271,885	230,780	525,367	390,675
Manufacturing	2,640,471	1,202,420	2,994,249	1,444,779
Tourism	195,139	54,058	195,139	54,058
Transport	73,535	24,198	101,402	51,051
Construction	1,465,378	778,383	1,465,378	778,383
Traders	2,443,750	1,761,794	2,443,750	1,761,794
New economy	88,334	42,368	88,334	42,368
Financial & business services	2,848,082	1,039,028	2,656,098	912,444
Infrastructure	25,232	-	25,232	-
Other services	1,162,325	447,824	1,211,988	527,510
Other customers	2,347,045	988,940	2,844,536	1,549,872
Total gross loans and receivables	13,561,176	6,569,793	14,551,473	7,512,934

25.2 Movement in provision for individual and collective impairment during the year

	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Group 2016 Rs. '000	Group 2015 Rs. '000
Movement in provision for individual impairment				
Opening balance	9,209	-	90,603	59,998
Charge to the income statement	59,740	9,209	71,528	25,740
Write - off against provision	-	-	-	4,865
Closing balance	68,949	9,209	162,131	90,603
Movement in provision for collective impairment				
Opening balance	22,618	11,110	36,336	20,802
Charge to the income statement	45,516	11,476	39,782	19,079
Exchange rate variance on foreign currency provisions	55	32	55	32
Other movements	-	-	-	(3,577)
Closing balance	68,189	22,618	76,173	36,336

25.3 Lease receivables

The table below provides an analysis of lease receivables,

	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Group 2016 Rs. '000	Group 2015 Rs. '000
25.3.1 Gross lease receivables				
Within one year			179,553	164,961
From one to five years			258,524	233,859
Over five years			1,632	2,954
			439,709	401,774
Less : Unearned lease income			92,484	80,933
Net Lease Receivable			347,225	320,841
Less: Provision for individual impairment			44,517	37,338
Provision for collective impairment			2,472	4,179
			300,236	279,324

As at 31 December	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Group 2016 Rs. '000	Group 2015 Rs. '000
25.3.2 Net lease receivable				
Within one year			139,162	129,382
From one to five years			206,467	188,675
Over five years			1,596	2,784
			347,225	320,841

As at 31 December	Group 2016 Rs. '000	Group 2015 Rs. '000

25.4 Hire purchase receivables

The table below provides an analysis of hire purchase receivables,

25.4.1 Gross hire purchase receivables		
Within one year	87,039	114,671
From one to five years	27,224	85,453
	114,263	200,124
Less : Unearned hire purchase income	10,314	32,125
Net hire purchase receivable	103,949	167,999
Less: Provision for individual impairment	40,980	33,554
Provision for collective impairment	3,283	3,317
	59,686	131,128

25.4.2 Net hire purchase receivable		
Within one year	79,921	95,642
From one to five years	24,028	72,357
	103,949	167,999

As at 31 December	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Group 2016 Rs. '000	Group 2015 Rs. '000

26. FINANCIAL INVESTMENTS-AVAILABLE-FOR-SALE

Government securities (Refer Note 26.1)	1,563,839	1,598,197	1,563,839	1,598,197
Equity securities				
Unqouted shares (Refer Note 26.3)	5,883	5,883	6,229	6,229
Total	1,569,722	1,604,080	1,570,068	1,604,426

26.1 Government securities

Treasury bills	681,397	1,146,725	681,397	1,146,725
Treasury bonds	887,251	451,472	887,251	451,472
	1,568,648	1,598,197	1,568,648	1,598,197
Less: Impairment provision (Refer Note 26.2)	4,809	-	4,809	-
Total	1,563,839	1,598,197	1,563,839	1,598,197

26.2 The Bank had entered into Repo borrowing transactions with Entrust Securities PLC. The carrying value of borrowings as at 31 December 2016 amounted to Rs. 305 Mn and the market value of securities pledged to Entrust Securities PLC as collateral was Rs. 338 Mn as at that date. Entrust Securities PLC failed to return the securities when the borrowings matured in 2016. These borrowings have been rolled forward at the request of Entrust Securities PLC.

A provision of Rs. 4.8 Mn has been made in the Financial Statements as at 31 December 2016 in respect of the potential exposure of Rs 33 Mn based on the internal assessment carried out by the Board of Directors.

	Bank				Group			
As at 31 December	2016		2015		2016		2015	
	No. of Shares	Amount Rs. '000	No. of Shares	Amount Rs. '000	No. of Shares	Amount Rs. '000	No. of Shares	Amount Rs. '000
26.3 Unquoted shares								
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

	Group	
As at 31 December	2016 Rs. '000	2015 Rs. '000

27. FINANCIAL INVESTMENTS HELD TO MATURITY

Government securities		
Treasury bills	40,484	38,144
Treasury bonds	1,918	1,892
Total	42,402	40,036

	Bank					
As at 31 December	2016			2015		
	No. of Shares '000	Holding %	Cost Rs. '000	No. of Shares '000	Holding %	Cost Rs. '000

28. INVESTMENT IN SUBSIDIARY

28.1 Quoted

Colombo Trust Finance PLC	37,375	80.34	574,917	29,660	76.51	459,200
Total			574,917			459,200
Less: Impairment loss on investment in subsidiary (Refer Note 28.2)			8,000			-
Total			566,917			459,200

28.2 Impairment loss on investment in subsidiary

A provision of Rs. 8 Mn for impairment loss on investment in subsidiary has been made during the year, based on an internal assessment carried out by the Board of Directors. The impairment losses have been applied to reduce the carrying amount of investment in subsidiary.

28.3 Acquisition of subsidiary

On 5 August 2015, the Company acquired 73.40% of Colombo Trust Finance PLC by acquiring 28,450,958 Ordinary Shares at price ranging from 15.40 to Rs. 15.50 per share.

Subsequently, with the mandatory offer (which was closed on 19 September 2015) and further acquisitions, the share holding was increased to 76.51% as at 31 December 2014. Cargills Bank Limited participated in the rights issue of Colombo Trust Finance PLC, whereby its holding increased from 76.51% to 80.34% as at 5 January 2016.

	Rs. '000
Investment at the beginning of the year	459,200
Investment at the right issue during the year	115,717
Investment at the end of the year	**574,917**

28.4 Consideration transferred

Initial cost of acquisition	462,245
Subsequent investment made during the year	115,717
Total cost of investment	**577,962**
Initial transaction cost on share purchase	3,045
Net investment	**574,917**

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

28.6 Identifiable assets acquired and liabilities assumed.

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date.

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**

	Rs. '000
28.6.1 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 recognized as an asset. Refer note 30 - Intangible assets.

28.6.2 Goodwill arising from further investment	
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 additional investment have been accounted for as equity transaction and recognized directly in equity.

Market value of the quoted subsidiary investment as at 31 December 2016, as quoted by the Colombo Stock Exchange amounted to Rs. 441 Mn. (2015 - Rs. 427.1 Mn).

28.7 Non-controlling interests

The subsidiary does not have significant non-controlling interest.

Name	Principal Place of Business	Operating Segment	Ownership Interests Held by NCI (%)
Colombo Trust Finance PLC	Sri Lanka	Finance	19.66

The following is the summarized 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,	2016 Rs. '000	2015 Rs. '000
Net operating income	97,872	79,063
Profit	7,402	501
Profit attributable to non-controlling interests	1,455	118
Other comprehensive income	609	87
Total comprehensive income	8,011	588
Total comprehensive income attributable to non-controlling interests	**1,575**	**138**
Cash flows from operating activities	(395,695)	13,441
Cash flows from investing activities	112,142	(13,613)
Cash flows from financing activities	(412)	-
Net decrease in cash and cash equivalents	**(283,965)**	**(172)**

As at 31 December,	2016 Rs. '000	2015 Rs. '000
Total assets	1,256,241	1,188,401
Liabilities	801,996	857,471
Net assets	454,246	330,930
Net assets attributable to non-controlling interests	89,305	77,735

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

29. PROPERTY, PLANT AND EQUIPMENT

29.1 Bank

As at 31 December

	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 2016 Rs. '000	Total 2015 Rs. '000
Cost								
Balance as at 1 January	131,562	188,685	95,614	29,048	49,638	4,990	499,537	443,665
Additions during the year	199	17,598	29,040	-	10,988	-	57,825	55,978
Disposals during the year	-	-	-	-	-	-	-	(106)
Transfers/ Adjustments	453	-	520	-	4,017	(4,990)	-	-
Balance as at 31 December	132,214	206,283	125,174	29,048	64,643	-	557,362	499,537
Accumulated Depreciation								
Balance as at 1 January	22,033	123,271	40,708	24,142	25,865	-	236,019	149,815
Charge for the year	11,358	41,547	22,155	3,137	12,633	-	90,830	86,259
Disposals during the year	-	-	-	-	-	-	-	(55)
Balance as at 31 December	33,391	164,818	62,863	27,279	38,498	-	326,849	236,019
Less: Impairment (Note 29.1.1)								
Balance as at 1 January	17,692	-	3,476	-	-	-	21,168	41,496
Write back to income statement	(3,779)	-	(129)	-	-	-	(3,908)	(20,328)
Balance as at 31 December	13,913	-	3,347	-	-	-	17,260	21,168
Carrying Value								
31 December 2016	84,910	41,465	58,964	1,769	26,145	-	213,253	
31 December 2015	91,837	65,414	51,430	4,906	23,773	4,990		242,350

29.1.1 Impairment include the cost of improvements made to leasehold building & electrical fittings in branches that will not commence commercial operations in the foreseeable future.

As the Bank has commenced operations at branches referred to in above, 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. 3.9 Mn was written back in 2016 (2015 Rs. 20.3 Mn) and balance as at reporting date was Rs. 17.26 Mn.

Notes to the Financial Statements continued.

29.2 Group

As at 31 December

	Freehold Land	Freehold Buildings	Leasehold Buildings	Computer Hardware	Office Equipment, Furniture & Fittings	Motor Vehicles	Machinery	Work in Progress	Total 2016	Total 2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost										
Balance as at 1 January	22,500	21,189	131,562	195,468	109,436	34,902	50,285	4,990	570,332	516,948
Additions during the year	-	-	199	18,000	29,129	-	10,996	-	58,324	56,961
Disposals during the year	-	-	-	(537)	(2,414)	-	(1,014)	-	(3,965)	(802)
Transfers/ Adjustments	-	-	453	2,703	540	62	1,232	(4,990)	-	(2,775)
Balance as at 31 December	22,500	21,189	132,214	215,634	136,691	34,964	61,499	-	624,691	570,332
Accumulated Depreciation										
Balance as at 1 January	-	3,514	22,033	127,777	45,297	24,675	29,544	-	252,840	165,960
Charge for the year	-	741	11,358	44,257	23,397	3,251	13,258	-	96,262	88,836
Disposals during the year	-	-	-	(515)	(1,960)	-	(923)	-	(3,398)	(629)
Transfers/ Adjustments	-	-	-	727	711	62	(1,500)	-	-	(1,327)
Balance as at 31 December	-	4,255	33,391	172,246	67,445	27,988	40,379	-	345,704	252,840
Less: Impairment (Note 29.1.1)										
Balance as at 1 January	-	-	17,692	-	3,476	-	-	-	21,168	41,496
Write back to income statement	-	-	(3,779)	-	(129)	-	-	-	(3,908)	(20,328)
Balance as at 31 December	-	-	13,913	-	3,347	-	-	-	17,260	21,168
Carrying Value										
31 December 2016	22,500	16,934	84,910	43,388	65,899	6,976	21,120	-	261,727	
31 December 2015	22,500	17,675	109,529	67,691	64,139	10,227	20,741	4,990		296,324

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

Address	Land Extent	Building Extent	Cost		Accumulated Depreciation	Last Valuation		Carrying Amount (Land & Building)	
			Land	Building	Building	Land	Building	2016	2015
	A-R-P	(Sq. Ft.)	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
No 21, Kumara Veediya. Within Ward No: 19 of Kandy Municipal Council, Kandy District, Central Province	OA-OR-4.75P	3,040	8,313	15,856	4,255	22,500	21,189	39,434	40,175

The fair value of the revalued land was carried out as at 28 October 2014 by Mr. P W Senaratne Chartered Valuation Surveyor valuers who hold recognised and relevant provisional qualifications and have recent experience in the location and category of the revalued properties.

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

The cost of fully depreciated Property, plant and Equipment of the Bank which are still in use are as follows:

As at 31 December	2016 Rs. '000	2015 Rs. '000
Computer equipment	100,797	-
Motor vehicles	26,550	-
Computer Software	19,403	-
Total	146,750	-

	Bank		Group	
As at 31 December	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000

30. INTANGIBLE ASSETS

	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Group 2016 Rs. '000	Group 2015 Rs. '000
Computer software (Refer Note 30.1)	166,728	194,515	175,240	203,308
Goodwill (Refer Note 28.6.1 and 30.2)	-	-	202,276	202,276
Total	166,728	194,515	377,516	405,584

30.1 Computer software

	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Group 2016 Rs. '000	Group 2015 Rs. '000
Cost				
Opening balance	277,069	253,461	289,578	263,747
Additions during the year	22,385	23,608	23,686	23,608
Transfers/ adjustments	-	-	125	2,223
Closing balance	299,454	277,069	313,389	289,578
Accumulated amortisation				
Opening balance	82,554	38,124	86,270	39,088
Charge for the year	50,172	44,430	51,830	45,924
Transfers/ adjustments	-	-	49	1,258
Closing balance	132,726	82,554	138,149	86,270
Carrying Value	166,728	194,515	175,240	203,308

30.2 This represents the goodwill arisen on acqusition of subsidiary during the year 2014, and there is no impairment in goodwill as at the reporting date (Refer Note 28).

As at 31 December	Bank				Group			
	2016		2015		2016		2015	
	Temporary difference Rs. '000	Tax effect Rs. '000	Temporary difference Rs. '000	Tax effect Rs. '000	Temporary difference Rs. '000	Tax effect Rs. '000	Temporary difference Rs. '000	Tax effect Rs. '000

31. DEFERRED TAX ASSETS AND LIABILITIES

31.1 Summary of Net Deferred Tax Asset

	Bank 2016 Temporary difference Rs. '000	Bank 2016 Tax effect Rs. '000	Bank 2015 Temporary difference Rs. '000	Bank 2015 Tax effect Rs. '000	Group 2016 Temporary difference Rs. '000	Group 2016 Tax effect Rs. '000	Group 2015 Temporary difference Rs. '000	Group 2015 Tax effect Rs. '000
Balance as at 1 January	431,483	120,815	414,983	116,195	445,835	124,834	397,025	111,167
Amount originating to income statement	278,249	77,910	-	-	300,375	84,105	32,431	9,081
Amount originating to statement of profit or loss and other comprehensive income	5,839	1,635	16,500	4,620	4,993	1,398	16,379	4,586
Balance as at 31 December	715,571	200,360	431,483	120,815	751,203	210,337	445,835	124,834

31.2 Reconciliation of Net Deferred Tax Asset - Bank

For the year ended/as at 31 December	Statement of Financial Position 2016 Rs. '000	Statement of Financial Position 2015 Rs. '000	Income Statement 2016 Rs. '000	Income Statement 2015 Rs. '000	Statement of Profit or Loss and Other Comprehensive Income 2016 Rs. '000	Statement of Profit or Loss and Other Comprehensive Income 2015 Rs. '000
Deferred Tax Assets on:						
Defined benefit plans	3,473	2,658	815	1,408	-	-
Tax effect on actuarial losses on defined benefit plans	-	381	(381)	-	-	381
Unrealised gain/(loss) on Available-for-Sale (AFS) portfolio	6,260	4,434	-	-	1,826	4,239
Carried forward tax losses	235,001	154,646	80,355	10,115	-	-
	244,734	162,119	80,789	11,523	1,826	4,620
Deferred Tax Liabilities on:						
Accelerated depreciation for tax purposes	44,183	41,304	2,879	11,523	-	-
Tax effect on actuarial gains on defined benefit plans	191	-	-	-	191	-
	44,374	41,304	2,879	11,523	191	-
Net deferred tax liability as at 31 December	200,360	120,815	77,910	-	1,635	4,620

31.3 Reconciliation of Net Deferred Tax Asset - Group

For the year ended/as at 31 December	Statement of Financial Position 2016 Rs. '000	Statement of Financial Position 2015 Rs. '000	Income Statement 2016 Rs. '000	Income Statement 2015 Rs. '000	Statement of Profit or Loss and Other Comprehensive Income 2016 Rs. '000	Statement of Profit or Loss and Other Comprehensive Income 2015 Rs. '000
Deferred Tax Assets on:						
Defined benefit plans	4,889	3,743	1,146	1,841	-	-
Tax effect on actuarial losses on defined benefit plans	-	381	(381)	-	-	381
Unrealised gain/(loss) on Available-for-Sale (AFS) portfolio	6,260	4,434	-	-	1,826	4,239
Carried forward tax losses	247,279	163,597	83,682	8,514	-	-
Specific provision on lease receivable	10,773	11,759	(986)	5,532	-	-
	269,201	183,914	83,461	15,887	1,826	4,620
Deferred Tax Liabilities on:						
Accelerated depreciation for tax purposes	49,166	47,012	2,154	11,430	-	-
Finance leases	9,236	12,034	(2,798)	(4,624)	-	-
Tax effect on actuarial gains on defined benefit plans	462	34	-	-	428	34
	58,864	59,080	(644)	6,806	428	34
Net deferred tax liability as at 31 December	210,337	124,834	84,105	9,081	1,398	4,586

31.4 Unrecognised Tax Losses

The total temporary differences arising from tax losses and tax credits amounted to Rs. 1,332 Mn resulting in a deferred tax asset of Rs. 373 Mn as at 31 December 2016. 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. 245 Mn. The unrecognized deferred tax assets as at 31 December 2016 was Rs. 129 Mn.

As at 31 December	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Group 2016 Rs. '000	Group 2015 Rs. '000
32. OTHER ASSETS				
Financial other assets				
Deposits	16,656	6,320	21,506	6,320
Other receivable	14,570	145,000	14,570	145,000
	31,226	151,320	36,076	151,320
Non-Financial assets				
Prepayments	54,920	51,679	56,851	60,106
Tax recoverable (Refer Note 32.1)	96,660	84,744	103,595	95,431
Other receivable	2,605	897	4,250	11,567
Total	154,185	137,320	164,696	167,104
Total other assets	185,411	288,640	200,772	318,424
32.1 Tax recoverable				
Withholding Tax recoverable	65,370	61,508	65,370	61,508
Economic Service Charge recoverable	-	3,520	-	3,520
Notional tax recoverable	31,290	19,716	31,290	19,716
Value Added Tax recoverable	-	-	1,814	2,252
Income tax recoverable	-	-	5,121	8,435
	96,660	84,744	103,595	95,431

33. DUE TO BANKS

Local currency borrowings	263,877	-	286,658	1,160
Foreign currency borrowings	18,656	5,347	18,656	5,347
Total	282,533	5,347	305,314	6,507

34. DERIVATIVE FINANCIAL INSTRUMENTS

Forward foreign exchange contracts	2,915	-	2,915	-
Total	2,915	-	2,915	-

35. DUE TO OTHER CUSTOMERS

Local currency deposits	8,334,390	3,555,801	8,628,412	4,272,789
Foreign currency deposits	1,100,699	314,399	1,100,699	314,399
Total	9,435,089	3,870,200	9,729,111	4,587,188

As at 31 December	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Group 2016 Rs. '000	Group 2015 Rs. '000
35.1 Analysis of due to customers				
35.1.1 By product				
Current account deposits	1,363,251	324,498	1,363,251	324,498
Savings deposits	1,203,701	474,645	1,203,701	474,645
Time deposits	6,086,999	2,677,017	6,381,021	3,394,005
Certificate of deposits	750,482	380,108	750,482	380,108
Margin deposits	30,656	13,933	30,656	13,933
Total	9,435,089	3,870,200	9,729,111	4,587,188
35.1.2 By currency				
Sri Lanka Rupees	8,334,390	3,555,801	8,628,412	4,272,789
United States Dollars	988,932	294,196	988,932	294,196
Great Britain Pound	79,664	-	79,664	-
Euro	32,103	20,203	32,103	20,203
Total	9,435,089	3,870,200	9,729,111	4,587,188
35.1.3 By institution/customers				
Deposits from finance companies	453,241	1,456	-	1,456
Deposits from other customers	8,981,848	3,868,744	9,275,870	4,585,732
Total	9,435,089	3,870,200	9,729,111	4,587,188

36. OTHER LIABILITIES

	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Group 2016 Rs. '000	Group 2015 Rs. '000
Financial other liabilities				
Other payables	106,391	76,663	110,560	76,880
Share applications received	-	2,552,000	-	2,552,000
	106,391	2,628,663	110,560	2,628,880
Non-financial other liabilities				
Employee benefits (Note 36.1)	11,719	9,492	15,809	13,247
Accrued expenditure	114,463	80,029	122,513	83,512
Other payables	42,307	18,032	47,198	23,316
Total	168,489	107,553	185,520	120,075
Total other liabilities	274,880	2,736,216	296,080	2,748,955
36.1 Employee benefit - defined benefit plans				
At the beginning of the year	9,492	4,466	13,247	6,794
Current service cost	4,183	3,680	5,364	5,228
Interest cost	949	425	949	425
Benefits paid for those who left during the period	(2,222)	(440)	(2,222)	(440)
Actuarial (gains)/ losses	(683)	1,361	(1,529)	1,240
At the end of the year	11,719	9,492	15,809	13,247

As at 31 December	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Group 2016 Rs. '000	Group 2015 Rs. '000
36.1.1 Expense Recognised in the Income Statement – Gratuity				
Current service cost	4,183	3,680	5,364	5,228
Interest cost	949	425	949	425
	5,132	4,105	6,313	5,653
36.1.2 Details of actuarial assumptions are as follows,				
Discount rate per annum	11.5%	10%	11.5%	10%
Future salary increases	10%	7%	10%	10%
Retirement age (years)	50	60	50 to 55	55 to 60

An actuarial valuation of the retirement benefit obligation was carried out as at 31 December 2016 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.

36.1.3 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	Sensitivity effect on defined benefit obligation 2016 Rs. '000	2015 Rs. '000
1% increase in discount rate	(268)	(428)
1% decrease in discount rate	283	490
1% increase in salary escalation rate	346	446
1% decrease in salary escalation rate	(334)	(395)

As at 31 December	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Group 2016 Rs. '000	Group 2015 Rs. '000
37. STATED CAPITAL				
Opening balance	5,592,350	4,968,850	5,592,350	4,968,850
Issue of ordinary shares	5,802,071	623,500	5,802,071	623,500
Closing balance	11,394,421	5,592,350	11,394,421	5,592,350
37.1 Movement in number of ordinary shares				
Opening balance	483,000,000	440,000,000	483,000,000	440,000,000
Issue of ordinary shares	400,142,858	43,000,000	400,142,858	43,000,000
Closing balance	883,142,858	483,000,000	883,142,858	483,000,000

As at 31 December	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Group 2016 Rs. '000	Group 2015 Rs. '000

38. ACCUMULATED LOSSES

Opening balance	(737,703)	(420,515)	(741,767)	(424,694)
Total comprehensive income				
Profit / (Loss) for the year	12,067	(316,208)	26,014	(315,825)
Other comprehensive income	492	(980)	981	(913)
Movement due to change in shareholding	-	-	(9,609)	-
Expense on right issue	-	-	(798)	-
Transfer to statutory reserves	(603)	-	(603)	(335)
Closing balance	(725,747)	(737,703)	(725,782)	(741,767)

39. RESERVES

39.1 Statutory reserve

Opening balance	-	-	335	-
Transfer during the year	603	-	603	335
Closing balance	603	-	938	335

The statutory reserve fund is maintained as per the requirements under Section 20 (1) of the Banking Act No. 30 of 1988. Accordingly, the fund is built up by allocating a sum equivalent to not less than 5% of the profit after tax, but before declaring any dividend or any profits that are transferred elsewhere until the reserve is equal to 50% of the Bank's stated capital and thereafter a further sum equivalent to 2% of such profit until the amount of said the reserve fund is equal to the stated capital of the Bank.

The balance in the statutory reserve fund will be used only for the purpose specified in the Section 20 (2) of the Banking Act No. 30 of 1988.

As at 31 December	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Group 2016 Rs. '000	Group 2015 Rs. '000

39.2 Available for sale reserve

Opening balance	(11,402)	(502)	(11,402)	(502)
Other comprehensive income for the year	(4,696)	(10,900)	(4,696)	(10,900)
Closing balance	(16,098)	(11,402)	(16,098)	(11,402)

40. CONTINGENT LIABILITIES & COMMITMENTS

40.1 Contingent liabilities

Guarantees	3,559,793	1,076,133	3,559,793	1,076,133
Documentary credits	1,317,113	632,479	1,317,113	632,479
Bills for collection	520,930	252,412	520,930	252,412
Forward exchange purchases	990,513	-	990,513	-
Total contingent liabilities	6,388,349	1,961,024	6,388,349	1,961,024

As at 31 December	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Group 2016 Rs. '000	Group 2015 Rs. '000
40.2 Commitments				
40.2.1 Direct and indirect advances				
Undrawn commitments	4,203,745	3,782,565	4,203,745	3,782,565
	4,203,745	3,782,565	4,203,745	3,782,565
40.2.2 Capital commitments				
40.2.2 (a) Capital expenditure commitments in relation to property, plant & equipment				
Approved and contracted for	8,283	12,561	8,283	12,561
	8,283	12,561	8,283	12,561
40.2.2 (b) Capital expenditure commitments in relation to intangible assets				
Approved and contracted for	18,948	50,891	18,948	50,891
	18,948	50,891	18,948	50,891
Total capital commitments	27,231	63,452	27,231	63,452
Total commitments	4,230,976	3,846,017	4,230,976	3,846,017
Total commitments and contingencies	10,619,325	5,807,041	10,619,325	5,807,041

41. NET ASSET VALUE PER SHARE

	Bank 2016	Bank 2015	Group 2016	Group 2015
Amount used as the numerator				
Shareholders' funds (Rs. '000)	10,653,179	4,843,245	10,653,479	4,839,516
Amount used as the denominator				
Total no. of shares	883,142,858	483,000,000	883,142,858	483,000,000
Net assets value per ordinary share (Rs.)	12.06	10.03	12.06	10.02

For the year ended 31 December	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Group 2016 Rs. '000	Group 2015 Rs. '000

42. NON-CASH ITEMS INCLUDED IN LOSS BEFORE TAX

Depreciation of property, plant and equipment	90,830	86,259	96,262	88,836
Amortisation of intangible assets	50,172	44,430	51,830	45,924
Impairment losses on loans and advances	105,256	20,685	111,310	44,819
Impairment losses on financial investments available for sale	4,809	-	4,809	-
Impairment losses on investment in subsidiary	8,000	-	-	-
Impairment losses on property, plant & equipment	(3,908)	(20,328)	(3,908)	(20,328)
Charge for defined benefit plans	5,132	4,105	6,314	5,653
	260,291	135,151	266,617	164,904

43. CHANGE IN OPERATING ASSETS

Change in balances with Central banks	277,819	83,456	277,819	83,456
Change in placements with banks	99,689	300,036	99,689	300,036
Change in other financial assets held-for-trading	-	-	(955)	(1,899)
Change in securities purchased under resale agreements	(317,822)	1,165,156	(331,692)	1,171,239
Change in loans and receivables to banks	158,367	-	158,367	-
Change in loans and receivables to other customers	6,991,328	4,328,233	7,038,484	4,383,404
Change in financial investments available-for-sale	(23,027)	585,193	(23,027)	585,193
Change in deposits & pre-payments	13,577	8,923	11,931	9,774
Change in other assets	37,767	8,054	29,040	11,358
	7,237,698	6,479,051	7,259,656	6,542,561

44. CHANGE IN OPERATING LIABILITIES

Change in derivative financial instruments	2,915	-	2,915	-
Change in deposits from banks, customers and debt securities issued	5,842,075	2,330,690	5,440,730	2,395,321
Change in accruals and deferred income	34,434	14,543	39,001	11,232
Change in other liabilities	53,003	57,140	57,562	51,977
	5,933,427	2,402,373	5,540,208	2,458,530

Notes to the Financial Statements continued.

45. 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 for the year ended December 31, 2016.

For the year ended 31 December	Banking 2016 Rs. '000	Banking 2015 Rs. '000	Leasing & Hire purchase 2016 Rs. '000	Leasing & Hire purchase 2015 Rs. '000	Treasury/ Investments 2016 Rs. '000	Treasury/ Investments 2015 Rs. '000	Unallocated 2016 Rs. '000	Unallocated 2015 Rs. '000	Total 2016 Rs. '000	Total 2015 Rs. '000
Net interest income	610,132	194,761	42,593	55,211	332,634	129,373	63,606	37,704	1,048,965	417,049
Foreign exchange profit	(10,282)	(6,912)	-	-	53,528	29,467	1,260	(1,729)	44,506	20,826
Net fees and commission income	83,077	38,673	432	848	(3,404)	(842)	(228)	26	79,877	38,705
Other income	-	(51)	5,525	5,553	12,288	3,774	3,520	4,089	21,333	13,365
Operating income by segment	682,927	226,471	48,550	61,612	395,046	161,772	68,158	40,090	1,194,681	489,945
Credit loss expenses	(105,271)	(23,599)	(9,950)	(14,501)	-	-	3,896	(6,719)	(111,325)	(44,819)
Impairment for other losses	-	-	-	-	(4,809)	-	2,458	20,328	(2,351)	20,328
Net operating income	577,656	202,872	38,600	47,111	390,237	161,772	74,512	53,699	1,081,005	465,454
Operating expenses	(338,966)	(115,169)	(12,034)	(16,046)	(18,882)	(16,980)	(706,374)	(637,657)	(1,076,256)	(785,852)
Operating profit by segment	238,690	87,703	26,566	31,065	371,355	144,792	(631,862)	(583,958)	4,749	(320,398)
VAT on financial services	-	-	-	-	-	-	(47,763)	(3,383)	(47,763)	(3,383)
Segment profit before tax	238,690	87,703	26,566	31,065	371,355	144,792	(679,625)	(587,341)	(43,014)	(323,781)
Income tax expense									70,483	(8,074)
Non-controlling interest									1,455	118
Net profit for the year, attributable to equity holders of the parent									26,014	(315,825)
Other information										
Segment assets	9,846,466	4,090,163	359,924	408,212	1,395,989	2,399,003	9,814,527	7,355,906	21,416,906	14,253,284
Segment liabilities	9,117,581	3,972,244	230,381	296,365	666,866	2,067,493	659,294	2,999,931	10,674,122	9,336,033

46. FINANCIAL RISK MANAGEMENT

46.1 Introduction

The dynamic 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. Despite being in operations for just one and half years, 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 Central Bank of Sri Lanka (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.

46.2 Credit risk

Being mainly involved in lending activities, management of credit risk is very critical to our institution ,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 the regulatory guidelines.

46.2.1 Credit quality analysis

46.2.1 (a) Bank

As at 31 December	Loans and Advances to Other Customers 2016 Rs.'000	Loans and Advances to Other Customers 2015 Rs.'000	Loans and Advances to Banks 2016 Rs.'000	Loans and Advances to Banks 2015 Rs.'000
Maximum exposure to credit risk				
Carrying amount	13,561,176	6,569,793	158,367	-
At amortised cost				
Current	13,414,139	6,477,469	158,367	-
Special mentioned	78,886	28,933	-	-
Substandard	-	63,314	-	-
Doubtful	-	77	-	-
Loss	68,151	-	-	-
Total gross amount	13,561,176	6,569,793	158,367	-
Allowance for impairment (Individual and collective)	(137,138)	(31,827)	-	-
Net carrying amount	13,424,038	6,537,966	158,367	-

As at 31 December	Loans and Advances to Other Customers 2016 Rs. '000	Loans and Advances to Other Customers 2015 Rs. '000	Loans and Advances to Banks 2016 Rs. '000	Loans and Advances to Banks 2015 Rs. '000
46.2.1 (b) Group				
Maximum exposure to credit risk				
Carrying amount	14,551,473	7,512,934	158,367	-
Amount committed/ guaranteed	-	-	-	-
At amortised cost				
Current	14,253,785	7,258,083	158,367	-
Special mentioned	122,311	80,334	-	-
Substandard	4,382	75,551	-	-
Doubtful	6,751	6,744	-	-
Loss	164,244	92,222	-	-
Total gross amount	14,551,473	7,512,934	158,367	-
Allowance for impairment (Individual and collective)	(238,304)	(126,939)	-	-
Net carrying amount	14,313,169	7,385,995	158,367	-

46.2.2 Impaired Loans and Receivables

Reconciliation of changes in the carrying amount of individually impaired loans and receivables as detailed below:

As at 31 December	2016 Rs. '000	2015 Rs. '000
Impaired loans and receivables to other customers as at 01 January	9,209	-
Newly classified as impaired loans and receivables during the year	57,261	9,209
Net change in already impaired loans and receivables during the year	2,478	-
Net payment, write-off and recoveries and other movement during the year	-	-
Impaired loans and receivables to customers as at 31 December	**68,948**	**9,209**

For methodology of the impairment assessment, refer Note 3.3.4.1 on impairment of finance assets which carried at amortised cost on pages 102 to 103.

For details of provision for impairment for loans and receivables to banks and for loans and receivable to other customers, refer Notes 24 and 25 on pages 125 to 127.

46.2.3 Concentrations of Credit Risk

By setting various concentration limits under different criteria within the established risk appetite framework (i.e., single borrower/ group, industry sectors, product, counterparty and country etc.), the Bank ensures that an acceptable level of risk diversification is maintained on an ongoing basis. These limits are continuously monitored and periodically reviewed by the Credit Policy Committee, the Executive Integrated Risk Management Committee and the Board Integrated Risk Management Committee to capture the developments in market, political and economical environment both locally and internationally to strengthen the dynamic portfolio management practices and to provide an early warning on possible credit concentrations.

The maximum exposure to credit risk to the components of financial assets in the Statement of Financial Position as at 31 December, broken down by industry sector financial assets are given below:

As at 31 December 2016	Agriculture & fishing Rs. '000	Manufacturing Rs. '000	Tourism Rs. '000	Transport Rs. '000	Construction Rs. '000	Traders Rs. '000	New economy Rs. '000	Financial & business services Rs. '000	Government Rs. '000	Infrastructure Rs. '000	Other services Rs. '000	Other customers Rs. '000	Total Rs. '000
Financial Assets													
Cash and cash equivalents	-	-	-	-	-	-	-	618,120	-	-	-	-	618,120
Balance with Central Bank of Sri Lanka	-	-	-	-	-	-	-	-	417,161	-	-	-	417,161
Placements with banks	-	-	-	-	-	-	-	2,118,462	-	-	-	-	2,118,462
Securities purchased under resale agreements	-	-	-	-	-	-	-	-	1,350,759	-	-	-	1,350,759
Loans & receivable to banks	-	-	-	-	-	-	-	158,367	-	-	-	-	158,367
Loans & receivable to other customers *	270,511	2,617,604	194,153	73,163	1,454,000	2,391,382	87,888	2,833,687	-	25,104	1,153,084	2,323,462	13,424,038
Financial investments available for sale	-	-	-	-	-	-	-	5,883	1,563,839	-	-	-	1,569,722
Other assets	-	6,847	-	-	-	12,778	-	9,294	-	-	2,307	-	31,226
Total	270,511	2,624,451	194,153	73,163	1,454,000	2,404,160	87,888	5,743,813	3,331,759	25,104	1,155,391	2,323,462	19,687,855

(*) Industry wise loans and receivables appearing in the Note 25.1.3 on page 126 do not agree due to the impairment.

As at 31 December 2015	Agriculture & fishing Rs. '000	Manufacturing Rs. '000	Tourism Rs. '000	Transport Rs. '000	Construction Rs. '000	Traders Rs. '000	New economy Rs. '000	Financial & business services Rs. '000	Government Rs. '000	Infrastructure Rs. '000	Other services Rs. '000	Other customers Rs. '000	Total Rs. '000
Financial Assets													
Cash and cash equivalents	-	-	-	-	-	-	-	174,129	-	-	-	-	174,129
Balance with Central Bank of Sri Lanka	-	-	-	-	-	-	-	-	139,342	-	-	-	139,342
Placements with banks	-	-	-	-	-	-	-	2,018,773	-	-	-	-	2,018,773
Securities purchased under resale agreements	-	-	-	-	-	-	-	-	1,668,581	-	-	-	1,668,581
Loans & receivable to other customers *	229,983	1,198,275	53,872	24,115	775,699	1,746,620	42,222	1,035,446	-	-	446,203	985,531	6,537,966
Financial investments available for sale	-	-	-	-	-	-	-	5,883	1,598,197	-	-	-	1,604,080
Other assets	-	6,320	-	-	-	-	-	-	-	-	145,000	-	151,320
Total	229,983	1,204,595	53,872	24,115	775,699	1,746,620	42,222	3,234,231	3,406,120	-	591,203	985,531	12,294,191

(*) Industry wise loans and receivables appearing in the Note 25.1.3 on page 126 do not agree due to the impairment.

46.3 Liquidity risk and fund management

"Liquidity risk is the risk that the Bank will be unable to honour daily cash and financial obligations without resorting to costly and untimely measures. Liquidity risk arises when sources of funds become insufficient to meet scheduled payments under the Bank's commitments. Liquidity risk stems from mismatched cash flows related to assets and liabilities as well as the behavioral characteristics of certain products, such as savings and current accounts and non-fixed term deposits."

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.

46.3.1 Exposure to liquidity risk

As per the regulations by the Bank Supervision Department of Central Bank of Sri Lanka 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. For this purpose, 'liquid assets' include cash and cash equivalents, placements with banks and Government Securities (net). Details of the reported ratio of liquid assets to external liabilities as at the Reporting date are as follows:

Statutory liquid asset ratio

	2016 %	2015 %
As at 31 December	55.98	93.27
Average for the period	63.97	90.26
Maximum for the period	102.32	180.68
Minimum for the period	40.16	36.66
Statutory minimum requirement	20.00	20.00

As at 31 December	2016 Rs. '000	2015 Rs. '000
Break up of liquid assets		
Cash	338,592	114,738
Money at call in Sri Lanka	2,635,298	2,884,306
Treasury Bills and Securities issued or guaranteed by the government of Sri Lanka	1,648,681	370,809
Balances with banks abroad	171,233	56,519
Treasury Bonds	-	-
Total	4,793,804	3,426,372

46.3.2 Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31 December 2016.

46.3.2 (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-16 Rs. '000	Total as at 31-Dec-15 Rs. '000
Interest earning assets							
Cash and cash equivalents	272,009	-	-	-	-	272,009	-
Placements with Banks	1,947,793	-	-	-	-	1,947,793	1,679,244
Securities purchased under resale agreements	1,350,759	-	-	-	-	1,350,759	1,668,581
Loans & receivables to Banks	-	119,452	38,915	-	-	158,367	-
Loans & receivables to other customers	7,777,516	1,687,537	2,007,085	1,220,648	731,252	13,424,038	6,537,966
Financial investments available for sale	150,711	832,014	332,526	248,588	-	1,563,839	1,598,197
Total interest earning assets	11,498,788	2,639,003	2,378,526	1,469,236	731,252	18,716,805	11,483,988
Non-interest earning assets							
Cash and cash equivalents	346,111	-	-	-	-	346,111	174,129
Balances With Central Bank	417,161	-	-	-	-	417,161	139,342
Placements with Banks	170,669	-	-	-	-	170,669	339,529
Financial investments available for sale	-	-	-	-	5,883	5,883	5,883
Investment in subsidiaries	-	-	-	-	566,917	566,917	459,200
Property, plant and equipment	-	-	-	-	213,253	213,253	242,350
Intangible assets	-	-	-	-	166,728	166,728	194,515
Deferred tax assets	-	-	-	-	200,360	200,360	120,815
Other assets	133,265	12,090	3,645	867	35,544	185,411	288,640
Total non-interest earning assets	1,067,206	12,090	3,645	867	1,188,685	2,272,493	1,966,355
Total assets	**12,565,994**	**2,651,093**	**2,382,171**	**1,470,103**	**1,919,937**	**20,989,298**	**13,448,391**
Interest bearing liabilities							
Due to banks	270,012	6,180	6,341	-	-	282,533	5,347
Due to other customers	7,111,976	2,279,324	17,893	19,873	6,023	9,435,089	3,870,200
Securities sold under repurchase agreements	340,702	-	-	-	-	340,702	1,993,383
Total interest bearing liabilities	7,722,690	2,285,504	24,234	19,873	6,023	10,058,324	5,868,930
Non-interest bearing liabilities							
Derivative financial instruments	2,915	-	-	-	-	2,915	-
Other liabilities	274,880	-	-	-	-	274,880	2,736,216
Stated capital	-	-	-	-	11,394,421	11,394,421	5,592,350
Statutory reserve	-	-	-	-	603	603	-
Accumulated losses	-	-	-	-	(725,747)	(725,747)	(737,703)
Other Reserves	-	-	-	-	(16,098)	(16,098)	(11,402)
Total non-interest bearing liabilities	277,795	-	-	-	10,653,179	10,930,974	7,579,461
Total liabilities and equity	**8,000,485**	**2,285,504**	**24,234**	**19,873**	**10,659,202**	**20,989,298**	**13,448,391**

46.3.2 (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-16 Rs. '000	Total as at 31-Dec-15 Rs. '000
Interest earning assets							
Placements with Banks	1,947,793	-	-	-	-	1,943,793	1,679,244
Securities purchased under resale agreements	1,389,397	-	-	-	-	1,389,397	1,721,089
Loans & receivables to Banks	-	119,452	38,915	-	-	158,367	-
Loans & receivables to other customers	8,212,419	1,848,789	2,210,626	1,308,349	732,986	14,313,169	7,385,995
Financial investments available for sale	151,057	832,014	332,526	248,588	-	1,564,185	1,598,197
Financial investments held to maturity	7,935	32,549	-	1,918	-	42,402	40,036
Total interest earning assets	11,709,946	2,832,804	2,582,067	1,558,855	732,986	19,416,658	12,424,561
Non-interest earning assets							
Cash and cash equivalents	356,183	-	-	-	-	356,183	196,157
Balances With Central Bank	417,161	-	-	-	-	417,161	139,342
Placements with banks	170,669	-	-	-	-	170,669	339,529
Other financial instruments held for trading	1,345	-	-	-	-	1,345	2,300
Financial investments available for sale	-	-	-	-	5,883	5,883	6,229
Property, plant and equipment	-	-	-	-	261,727	261,727	296,324
Intangible assets	-	-	-	-	377,516	377,516	405,584
Deferred tax assets	-	-	-	9,977	200,360	210,337	124,834
Other assets	134,945	18,264	7,758	4,261	35,544	200,772	318,424
Total non-interest earning assets	1,081,028	18,264	7,758	14,238	881,030	2,000,248	1,828,723
Total assets	12,788,904	2,851,068	2,589,825	1,573,093	1,614,016	21,416,906	14,253,284
Interest bearing liabilities							
Due to banks	292,793	6,180	6,341	-	-	305,314	6,507
Due to other customers	7,260,297	2,401,633	38,219	22,939	6,023	9,729,111	4,587,188
Securities sold under repurchase agreements	340,702	-	-	-	-	340,702	1,993,383
Total interest bearing liabilities	7,893,792	2,407,813	44,560	22,939	6,023	10,375,127	6,587,078
Non-interest bearing liabilities							
Derivative financial instruments	2,915	-	-	-	-	2,915	-
Other liabilities	286,398	4,683	599	4,400	-	296,080	2,748,955
Stated capital	-	-	-	-	11,394,421	11,394,421	5,592,350
Statutory reserves	-	-	-	-	938	938	335
Accumulated losses	-	-	-	-	(725,782)	(725,782)	(741,767)
Other Reserves	-	-	-	-	(16,098)	(16,098)	(11,402)
Non controlling interest	-	-	-	-	89,305	89,305	77,735
Total non-interest bearing liabilities	289,313	4,683	599	4,400	10,742,784	11,041,779	7,666,206
Total liabilities and equity	**8,183,105**	**2,412,496**	**45,159**	**27,339**	**10,748,807**	**21,416,906**	**14,253,284**

46.4 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 maximizing the returns.

The Bank has completed only two and half years since commencing operations as such the relative exposures lies at a very low level. However, necessary policies and procedures are in place to regularly assess its assets and liability profile in terms of interest rate and other risks and depending on this assessment, realignments in the assets and liability structure are undertaken where necessary.

46.4.1 Exposure to Market Risk - Trading and Non-Trading Portfolios

The table below sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios:

As at 31 December		2016			2015		
		Market Risk Measurement			Market Risk Measurement		
	Note	Carrying Amount Rs. '000	Trading Portfolios Rs. '000	Non-Trading Portfolios Rs. '000	Carrying Amount Rs. '000	Trading Portfolios Rs. '000	Non-Trading Portfolios Rs. '000
Assets Subject to Market Risk							
Cash and cash equivalents	20	272,009	-	272,009	-	-	-
Placements with banks	22	2,118,462	-	2,118,462	2,018,773	-	2,018,773
Securities purchased under resale agreements		1,350,759	-	1,350,759	1,668,581	-	1,668,581
Loans and receivables to banks	24	158,367	-	158,367	-	-	-
Loans and receivables to other customers	25	13,424,038	-	13,424,038	6,537,966	-	6,537,966
Financial investments – Available-for-sale	26	1,569,722	-	1,569,722	1,604,080	-	1,604,080
		18,893,357	-	18,893,357	11,829,400	-	11,829,400
Liabilities Subject to Market Risk							
Due to banks	33	282,533	-	282,533	5,347	-	5,347
Derivative financial liabilities	34	2,915	2,915	-	-	-	-
Securities sold under repurchase agreements		340,702	-	340,702	1,993,383	-	1,993,383
Due to other customers/ deposits from customers	35	9,435,089	-	9,435,089	3,870,200	-	3,870,200
		10,061,239	2,915	10,058,324	5,868,930	-	5,868,930

As at 31 December	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Group 2016 Rs. '000	Group 2015 Rs. '000
46.4.1 Exposure to Market Risk - Trading and Non-Trading Portfolios Contd.				
Financial investments -available for sale				
Treasury Bills	681,397	1,146,725	681,397	1,146,725
Treasury Bonds	887,251	451,472	887,251	451,472
Total	1,568,648	1,598,197	1,568,648	1,598,197
Financial investments -held for trading				
Equity shares	-	-	1,345	2,300
Total	-	-	1,345	4,300
Financial investments -held to maturity				
Treasury Bills	-	-	40,484	38,144
Treasury Bonds	-	-	1,918	1,892
Total	-	-	42,402	40,036

46.4.2 Exposure to interest rate risk – Sensitivity Analysis

46.4.2 (a) Exposure to Interest Rate Risk – Non-Trading Portfolio

The possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments gives ri se to interest rate risk. The Bank's policy is to continuously monitor portfolios and adopt hedging strategies to ensure that interest rate risk is maintained within prudent levels.

"The tables below analyse the Bank's interest rate risk exposure on financial assets and financial liabilities. The Bank's assets and liabilities are included at carrying amount and categorised by the earlier of contractual re-pricing or maturity dates."

Interest rate gap position of the non-trading portfolio of the Bank is given below:

As at 31 December 2016	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	Non-Sensitive Rs. '000	Total as at 31.12.2016 Rs. '000
Financial Assets							
Cash and Cash Equivalents	272,009	-	-	-	-	346,111	618,120
Balance with central banks	-	-	-	-	-	417,161	417,161
Placements with banks	1,947,793	-	-	-	-	170,669	2,118,462
Securities purchased under resale agreements	1,350,759	-	-	-	-	-	1,350,759
Loans and Advances to banks	-	119,452	38,915	-	-	-	158,367
Loans and receivables to other customers	10,606,348	2,627,592	70,698	-	-	119,400	13,424,038
Financial investments - available-for-sale	150,711	832,014	332,526	248,588	-	5,883	1,569,722
Other assets	-	-	-	-	-	31,226	31,226
Total Financial Assets	14,327,620	3,579,058	442,139	248,588	-	1,090,450	19,687,855

As at 31 December 2016	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	Non-Sensitive Rs. '000	Total as at 31.12.2016 Rs. '000
46.4.2 (a) Exposure to Interest Rate Risk – Non-Trading Portfolio Contd.							
Financial Liabilities							
Due to banks	251,356	-	12,521	-	-	18,656	282,533
Derivative Financial Instruments	2,915	-	-	-	-	-	2,915
Due to other customers/ deposits from customers	5,765,818	2,238,278	17,571	19,515	-	1,393,907	9,435,089
Securities sold under repurchase agreements	340,702	-	-	-	-	-	340,702
Other liabilities	-	-	-	-	-	106,391	106,391
Total Financial Liabilities	**6,360,791**	**2,238,278**	**30,092**	**19,515**	**-**	**1,518,954**	**10,167,630**
Interest rate sensitivity gap	**7,966,829**	**1,340,780**	**412,047**	**229,073**	**-**	**(428,504)**	**9,520,225**
1% Increase	79,668	13,408	4,120	2,291	-	-	99,487
1% Decrease	(79,668)	(13,408)	(4,120)	(2,291)	-	-	(99,487)

As at 31 December 2015	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	Non-Sensitive Rs. '000	Total as at 31.12.2015 Rs. '000
Financial Assets							
Cash and Cash Equivalents	-	-	-	-	-	174,129	174,129
Balance with Central Bank of Sri Lanka	-	-	-	-	-	139,342	139,342
Placements with banks	1,679,244	-	-	-	-	339,529	2,018,773
Securities purchased under resale agreements	1,668,581	-	-	-	-	-	1,668,581
Loans and receivables to other customers	5,256,589	1,143,296	60,403	-	-	77,678	6,537,966
Financial investments - available-for-sale	251,820	895,064	451,313	-	-	5,883	1,604,080
Other assets	-	-	-	-	-	151,320	151,320
Total Financial Assets	**8,856,234**	**2,038,360**	**511,716**	**-**	**-**	**887,881**	**12,294,191**
Financial Liabilities							
Due to banks	-	-	-	-	-	5,347	5,347
Due to other customers/ deposits from customers	2,143,571	1,279,623	100,500	8,075	-	338,431	3,870,200
Securities sold under repurchase agreements	1,993,383	-	-	-	-	-	1,993,383
Other liabilities	-	-	-	-	-	2,628,663	2,628,663
Total Financial Liabilities	**4,136,954**	**1,279,623**	**100,500**	**8,075**	**-**	**2,972,441**	**8,497,593**
Interest rate sensitivity gap	**4,719,280**	**758,737**	**411,216**	**(8,075)**	**-**	**(2,084,560)**	**3,796,598**
1% Increase	47,193	7,587	4,112	(81)	-	-	58,811
1% Decrease	(47,193)	(7,587)	(4,112)	81	-	-	(58,811)

As at 31 December	Bank 2016 Rs. '000	Bank 2015 Rs. '000	Group 2016 Rs. '000	Group 2015 Rs. '000
46.4.2 (b) Exposure to interest rate risk				
Savings deposits	1,203,701	474,645	1,203,701	474,645
Time deposits	6,086,999	2,677,017	6,381,021	3,394,005
Certificate of deposits	750,482	380,108	750,482	380,108
Total	8,041,182	3,531,770	8,335,204	4,248,758

46.4.3 Exposure to currency risk

As at 31 December	2016 Amount	2015 Amount
Foreign exchange position - USD	1,069,739	1,419,612
Foreign exchange position - AUD	750	950
Foreign exchange position - CNY	-	450
Foreign exchange position - EUR	6,302	29,484
Foreign exchange position - SAR	-	-
Foreign exchange position - SGD	107,856	-
Foreign exchange position - GBP	180	180
Foreign exchange position - JPY	1,703,311	1,635,500

46. FINANCIAL RISK MANAGEMENT (CONTD.)

46.5 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 utilizing 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.

46.6 Capital Management

Objective

The Bank is required to manage its capital taking into account the need to meet the regulatory requirements as well as the current and future business needs, stakeholder expectations and available options for raising capital.

46.7 Regulatory Capital

Capital Adequacy Ratio (CAR) is calculated based on the CBSL Directions stemming from Basel II Accord. These guidelines require the Bank to maintain a CAR of not less than 5% with core capital (Tier I) in relation to total risk-weighted assets and a minimum overall CAR of 10% inclusive of Tier I and Tier II (Supplementary Capital) in relation to total risk-weighted assets.

As at 31 December	2016 Rs. '000	2015 Rs. '000
Tier I: Core Capital		
Paid-up ordinary shares/Common stock/Assigned capital++	11,394,421	5,592,350
Statutory reserve fund	603	-
Published retained profits/(accumulated losses)(+/-)	(725,747)	(737,703)
General and other reserves	-	-
Minority interests (consistent with the above capital constituents)	-	-
	10,669,277	4,854,647
Tier I: Deductions/Adjustments		
Net Deferred Tax Assets	200,360	120,815
Other intangible assets	166,728	209,692
Advances granted to employees of the Bank for the purchase of shares of the Bank (ESOP)	-	-
50% of Investments in unconsolidated banking and financial subsidiary companies	283,459	229,600
50% Investments in the capital of other banks and financial institutions	-	-
Total Eligible Core Capital (Tier I Capital)	10,018,730	4,294,540
Tier II: Supplementary Capital		
Revaluation reserves (as approved by Central Bank of Sri Lanka)	-	-
General provisions	67,382	32,335
Approved subordinated term debt	-	-
Tier II: Deductions/Adjustments		
50% of investments in unconsolidated banking and financial subsidiary companies	283,459	229,600
50% investments in the capital of other banks and financial institutions	-	-
Total eligible supplementary capital (Tier II Capital)	(216,077)	(197,265)
Total capital base	9,802,653	4,097,275

47. 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 ad 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.

KMP of the Bank

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 Bank's KMP include the Board of Directors.

KMP of the Group

As the Bank is the ultimate parent of the subsidiary (Colombo Trust Finance PLC), The Board of Directors of the Bank has the authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly. Accordingly, the Board of Directors of the Bank is also KMP of the Group. Therefore, officers who are only Directors of the subsidiary and not of the Bank have been classified as KMP only for the Subsidiary.

47.1 Transactions with Key Management Personnel (KMP)

	Bank		Group	
For the year ended 31 December	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
47.1.1 Compensation of directors				
Directors emoluments	12,692	11,010	15,177	12,220
Short term employee benefits	47,347	69,271	57,843	70,481
Post employee benefits	3,289	3,289	4,161	3,289
	63,328	83,570	77,181	85,990

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

47.1.2 Directors' shareholdings

	Bank	
As at 31 December	2016 Rs. '000	2015 Rs. '000
Number of shares	1,100,000	1,100,000
Shareholding %	0.125%	0.23%

47.2 Transactions, arrangements and agreements involving KPMs, 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	Interest Charged Rs. '000	Fees Charged Rs. '000	Balance outstanding 31-Dec-2016 Rs. '000	Balance outstanding 31-Dec-2015 Rs. '000
Deposits	6,792	172	4	228,955	32,184

Net accommodation as a percentage of the Bank's regulatory capital was 0.0%

47.3 Transactions with subsidiary

	Accommodation Granted / Deposits	Current Limit	Interest Charged Rs. '000	Fees Charged Rs. '000	Balance outstanding 31-Dec-2016 Rs. '000	Balance outstanding 31-Dec-2015 Rs. '000
Colombo Trust	Loans & advances	200,000	10,134	40	192,006	126,584
Finance PLC	Money at call and short notice	-	13,311	-	272,009	-
	Deposits	-	-	-	22	-

Net accommodation as a percentage of the Bank's regulatory capital was 5%

47.4 Transactions with related companies

47.4.1 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-2016 Rs. '000	Balance Outstanding 31-Dec-2015 Rs. '000
C T Holdings PLC	Significant shareholder	Loans & advances	-	-	1	-	-	-
		Deposits	-	-	-	5	1,044	4,195
		Proceeds from unallocated shares	-	-	-	-	-	1,276,000
Cargills (Ceylon) PLC	Significant shareholder	Loans & advances	-	-	49	-	-	-
		Off-Balance Sheet Accommodations	4,000	-	-	-	4,000	-
		Deposits	-	59	-	43	6,140	34,848
		Proceeds from unallocated shares	-	-	-	-	-	1,276,000
Kotmale Holdings PLC	Subsidiary of Significant shareholder	Deposits	-	15,216	-	32	189,521	9,083
		Securities sold under repurchase agreements	-	116	-	-	-	117,013

Notes to the Financial Statements continued.

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-2016 Rs. '000	Balance Outstanding 31-Dec-2015 Rs. '000
Cargills Foods Company (Pvt) Ltd	Subsidiary of Significant shareholder	Loans & advances	-	-	341	-	-	-
		Off-Balance Sheet Accommodations	160,400	-	-	-	132,665	39,448
		Deposits	-	20,361	-	613	212,848	269,792
		Securities sold under repurchase agreements	-	89	-	-	-	-
Cargills Quality Foods Ltd	Subsidiary of Significant shareholder	Loans & advances	-	-	10	-	-	-
		Off-Balance Sheet Accommodations	-	-	-	-	-	37,094
		Deposits	-	-	-	16	1,051	2,409
C T Properties Ltd	Subsidiary of Significant shareholder	Deposits	-	-	-	9	122	2,024
C T Land Development PLC	Subsidiary of Significant shareholder	Deposits	-	-	-	-	10	10
C T Real Estate (Pvt) Ltd	Subsidiary of Significant shareholder	Deposits	-	-	-	5	1,460	4,761
Cargills Agrifoods Ltd	Subsidiary of Significant shareholder	Loans & advances	-	-	1	-	-	-
		Off-Balance Sheet Accommodations	37,009	234	-	-	18,521	25,332
		Deposits	-	3,359	-	135	48,504	35,470
Cargills Food Processors (Pvt) Ltd	Subsidiary of Significant shareholder	Loans & advances	-	-	18	-	-	-
		Deposits	-	-	-	137	2,049	2,430
		Securities sold under repurchase agreements	-	4	-	-	-	-
Cargills Food Services (Pvt) Ltd	Subsidiary of Significant shareholder	Loans & advances	-	-	-	-	-	-
		Deposits	-	-	-	91	886	34

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-2016 Rs. '000	Balance Outstanding 31-Dec-2015 Rs. '000
Cargills Quality Dairies (Pvt) Ltd	Subsidiary of Significant shareholder	Loans & advances	-	-	26	-	-	-
		Off-Balance Sheet Accommodations	111,725	-	-	-	14,347	109,428
		Deposits	-	12,705	-	841	143,135	116,909
Millers Ltd	Subsidiary of Significant shareholder	Loans & advances	-	-	-	-	-	-
		Off-Balance Sheet Accommodations	56,200	-	-	-	3,067	680
		Deposits	-	6,555	-	79	71,632	65,888
CT CLSA Securities (Pvt) Ltd - Client Account	Subsidiary of Significant shareholder	Deposits	-	-	-	-	99	99
Kotmale Dairy Products (Pvt) Ltd	Subsidiary of Significant shareholder	Deposits	-	64,165	-	14	696,099	699
		Securities sold under repurchase agreements	-	489	-	-	-	626,000
C P C Lanka Ltd	Subsidiary of Significant shareholder	Loans & advances	-	-	-	-	-	
		Deposits	-	-	-	48	30	4,460
Cargills Distributors (Pvt) Ltd	Subsidiary of Significant shareholder	Deposits	-	-	-	26	46	72
Cargills Quality Confectionery (Pvt) Ltd	Subsidiary of Significant shareholder	Loans & advances	-	-	10	-	-	
		Off-Balance Sheet Accommodations	5,000	-	-	-	5,000	5,000
		Deposits	-	513	-	55	6,344	5,956
Cargills Frozen Products (Pvt) Ltd	Subsidiary of Significant shareholder	Deposits	-	-	-	14	6	
Cargills Ceylon PLC Employees Provident Fund Association	Provident fund of Significant shareholder	Securities sold under repurchase agreements	-	6,966	-	-	-	942,000

Net accommodation as a percentage of the Bank's regulatory capital was 2%.

47.4.2 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-2016 Rs. '000	Balance outstanding 31-Dec-2015 Rs. '000
C T Holdings PLC	Significant shareholder	Loans & advances	-	-	1	-	-	-
		Deposits	-	-	-	5	1,044	4,195
		Proceeds from unallocated shares	-	-	-	-	-	1,276,000
Cargills (Ceylon) PLC	Significant shareholder	Loans & advances	-	-	49	-	-	-
		Off-Balance Sheet Accommodations	4,000	-	-	-	4,000	-
		Deposits	-	59	-	43	6,140	139,848
		Proceeds from unallocated shares	-	-	-	-	-	1,276,000
Kotmale Holdings PLC	Subsidiary of Significant shareholder	Deposits	-	15,216	-	32	189,521	9,083
		Securities sold under repurchase agreements	-	116	-	-	-	117,013
Cargills Foods Company (Pvt) Ltd	Subsidiary of Significant shareholder	Loans & advances	-	-	341	-	-	-
		Off-Balance Sheet Accommodations	160,400	-	-	-	132,665	39,448
		Deposits	-	20,361	-	613	212,848	269,792
		Securities sold under repurchase agreements	-	89	-	-	-	-
Cargills Quality Foods Ltd	Subsidiary of Significant shareholder	Loans & advances	-	-	10	-	-	-
		Off-Balance Sheet Accommodations	-	-	-	-	-	37,094
		Deposits	-	-	-	16	1,051	2,409
C T Properties Ltd	Subsidiary of Significant shareholder	Deposits	-	-	-	9	122	2,024
C T Land Development PLC	Subsidiary of Significant shareholder	Deposits	-	-	-	-	10	10

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-2016 Rs. '000	Balance outstanding 31-Dec-2015 Rs. '000
C T Real Estate (Pvt) Ltd	Subsidiary of Significant shareholder	Deposits	-	-	-	5	1,460	4,761
Cargills Agrifoods Ltd	Subsidiary of Significant shareholder	Loans & advances	-	-	1	-	-	-
		Off-Balance Sheet Accommodations	37,009	234	-	-	18,521	25,332
		Deposits	-	3,359	-	135	48,504	35,470
Cargills Food Processors (Pvt) Ltd	Subsidiary of Significant shareholder	Loans & advances	-	-	18	-	-	-
		Deposits	-	-	-	137	2,049	2,430
		Securities sold under repurchase agreements	-	4	-	-	-	-
Cargills Food Services (Pvt) Ltd	Subsidiary of Significant shareholder	Loans & advances	-	-	-	-	-	-
		Deposits	-	-	-	91	886	34
Cargills Quality Dairies (Pvt) Ltd	Subsidiary of Significant shareholder	Loans & advances	-	-	26	-	-	-
		Off-Balance Sheet Accommodations	111,725	-	-	-	14,347	109,428
		Deposits	-	12,705	-	841	143,135	116,909
Millers Ltd	Subsidiary of Significant shareholder	Loans & advances	-	-	-	-	-	-
		Off-Balance Sheet Accommodations	56,200	-	-	-	3,067	680
		Deposits	-	6,555	-	79	71,632	65,888
CT CLSA Securities (Pvt) Ltd - Client Account	Subsidiary of Significant shareholder	Deposits	-	-	-	-	99	99
Kotmale Dairy Products (Pvt) Ltd	Subsidiary of Significant shareholder	Deposits	-	64,165	-	14	696,099	699
		Securities sold under repurchase agreements	-	489	-	-	-	626,000
C P C Lanka Ltd	Subsidiary of Significant shareholder	Loans & advances	-	-	-	-	-	
		Deposits	-	-	-	48	30	4,460
Cargills Distributors (Pvt) Ltd	Subsidiary of Significant shareholder	Deposits	-	-	-	26	46	72

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-2016 Rs. '000	Balance outstanding 31-Dec-2015 Rs. '000
Cargills Quality Confectionery (Pvt) Ltd	Subsidiary of Significant shareholder	Loans & advances	-	-	10	-	-	
		Off-Balance Sheet Accommodations	5,000	-	-	-	5,000	5,000
		Deposits	-	513	-	55	6,344	5,956
Cargills Frozen Products (Pvt) Ltd	Subsidiary of Significant shareholder	Deposits	-	-	-	14	6	
Cargills Ceylon PLC Employees Providend Fund Association	Provident fund of Significant shareholder	Securities sold under repurchase agreements	-	6,966	-	-	-	942,000

48. OPERATING LEASE COMMITMENTS

48.1 Operating lease commitments (payable)

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 lease as follows:

	Bank		Group	
As at 31 December	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Less than one year	63,539	60,783	63,539	60,783
Between one and five years	297,221	280,380	297,221	280,380
More than five years	228,118	308,499	228,118	308,499
Total	588,878	649,662	588,878	649,662

49. EVENTS AFTER THE REPORTING DATE

No Circumstances have arisen since the reporting date which would require adjustments to or disclosure in the financial statements.

50. LITIGATION AND CLAIMS

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

51. COMPARATIVE INFORMATION

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

52. 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

TOP 23 SHAREHOLDERS

As at 31 December		2016		2015	
No	Shareholder Name	Shareholding	Ratio	Shareholding	Ratio
1.	Cargills (Ceylon) PLC	350,696,905	39.71%	88,000,000	18.22%
2.	CT Holdings PLC	223,345,953	25.29%	88,000,000	18.22%
3.	Monetary Board of Sri Lanka - On Behalf of EPF	44,000,000	4.98%	44,000,000	9.11%
4.	Mulitex Investment Limited	30,800,000	3.49%	30,800,000	6.38%
5.	MJF Foundation Investments (Pvt) Ltd	28,000,000	3.17%	28,000,000	5.80%
6.	Asian Alliance Insurance PLC	26,600,000	3.01%	22,600,000	4.68%
7.	MAS Capital (Private) Limited	22,000,000	2.49%	22,000,000	4.55%
8.	Rosewood (Pvt) Ltd	16,000,000	1.81%	16,000,000	3.31%
9.	Phoenix Ventures Limited	13,200,000	1.49%	13,200,000	2.73%
10.	Aindri Holdings Pte Ltd	11,000,000	1.25%	11,000,000	2.28%
11.	A I A Holdings Lanka (Pvt) Ltd	11,000,000	1.25%	11,000,000	2.28%
12.	Softlogic Holdings PLC	10,000,000	1.13%	10,000,000	2.07%
13.	Gardiya Lokuge Harris Premaratne	9,089,000	1.03%	9,089,000	1.88%
14.	Merrill Joseph Fernando	7,800,000	0.88%	7,800,000	1.61%
15.	Softlogic Finance PLC	7,400,000	0.84%	7,400,000	1.53%
16.	GF Capital Global Limited	6,100,000	0.69%	4,000,000	0.83%
17.	Periyasamipillai Barathakumar	4,400,000	0.50%	4,400,000	0.91%
18.	Periyasamipillai Muruganandhan	4,400,000	0.50%	4,400,000	0.91%
19.	Periyasamipillai Anandarajah	4,400,000	0.50%	4,400,000	0.91%
20.	Periyasamipillai Devaraj	4,400,000	0.50%	4,400,000	0.91%
21.	Periyasamipillai Barathamanickam	4,400,000	0.50%	4,400,000	0.91%
22.	Rajah Mahinda Nanayakkara	4,400,000	0.50%	4,400,000	0.91%
23.	Lalan Rubber Holdings (Pvt) Ltd	4,400,000	0.50%	4,400,000	0.91%
		843,431,858	95.51%	439,289,000	90.94%
	Total No. of Shares Issued	883,142,858	100.00%	483,000,000	100.00%

COMPOSITION OF SHAREHOLDERS

	2016 Shareholding	2016 Ratio	2015 Shareholding	2015 Ratio
Shares held by Directors	1,100,000	0.12%	1,100,000	0.23%
Shares held by Other Related Parties	576,242,858	65.25%	178,200,000	36.89%
Shares held by Group Staff Members	14,560,000	1.65%	14,660,000	3.04%
Shares held by Institutions	232,140,000	26.29%	230,040,000	47.63%
Balance held by Public	59,100,000	6.69%	59,000,000	12.22%
Total	883,142,858	100.00%	483,000,000	100.00%
Shares held by Resident	830,431,858	94.03%	432,389,000	89.52%
Shares held by Non- Resident	52,711,000	5.97%	50,611,000	10.48%
Total	883,142,858	100.00%	483,000,000	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	43,000,000	623,500,000
2016	Right issue	400,142,858	5,802,071,441
	Total	883,142,858	11,394,421,441

Notice of Annual General Meeting

Notice is hereby given that the Fifth Annual General Meeting of Cargills Bank Limited will be held on 5 May 2017 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 2016 with report of the Auditors thereon.
2. To re-elect the following Directors
   a) Mr. Louis R Page 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) Mr. Ranjit Page who retires by rotation in terms of Article 86 of the Articles of Association of the Company being eligible offers himself for re-appointment.
3. To re-elect Mr. Rajendra Theagarajah 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

Kamalini De Silva (Ms.)
Company Secretary

1 March 2017

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.

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 Fifth Annual General Meeting of the Company to be held on 5 May 2017 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 continued.

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 03, 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.

Notes

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. 7 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 - 7 640 000

FACSIMILE
011 - 2 055 575

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 : 80.34%

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
Summaiya Macan Markar (Ms)

COMPANY SECRETARY
Kamalini De Silva (Ms.)

BOARD OF DIRECTORS
Louis R Page - Chairman
Ranjit Page - Joint Deputy Chairman
Rajendra Theagarajah - Joint Deputy Chairman
Prabhu Mathavan - Managing Director / CEO
Mangala Boyagoda - Senior Director
Kamalini De Silva (Ms.) - Company Secretary
Faizal Salieh
Richard Ebell

BOARD SUB-COMMITTEES
Board Human Resources & Remuneration Committee
Rajendra Theagarajah - Chairman
Ranjit Page
Faizal Salieh
Kamalini De Silva (Ms.) - Secretary

Board Integrated Risk Management Committee
Rajendra Theagarajah - Chairman
Mangala Boyagoda
Faizal Salieh
Richard Ebell
Summaiya Macan Markar (Ms.) - Secretary

Board Nomination Committee
Mangala Boyagoda - Chairman
Rajendra Theagarajah
Ranjit Page
Faizal Salieh
Kamalini De Silva (Ms.) - Secretary

Board Audit Committee
Richard Ebell - Chairman
Ranjit Page
Mangala Boyagoda
C Samarasinghe - Secretary

Board Credit Committee
Faizal Salieh - Chairman
Ranjit Page
Rajendra Theagarajah
Mangala Boyagoda
V Ratnasabapathy - Secretary

Board Strategic Planning Committee
Ranjit Page - Chairman
Rajendra Theagarajah
Prabhu Mathavan - Managing Director/ CEO
Mangala Boyagoda - Senior Director
Faizal Salieh
Richard Ebell
Kamalini De Silva (Ms.) - Secretary

Cargills Bank
Banking on the Human Spirit
Cargills Bank Limited 696, Galle Road, Colombo 03, Sri Lanka.