Banking on the Human Spirit

Cargills Bank Limited | Annual Report 2017

This report's theme focuses on the resolve of the community's human spirit that abounds when people stand in support of one another, and its significance in Cargills Bank's equation for progress.

Banking on the Human Spirit

Cargills Bank was founded on our belief in the resolve of the human spirit. The past year has been fruitful with us having begun consciously divesting our non-core assets, as we continue on our path of profitable growth. We are set to multiply the benefits we offer you in terms of convenience with the addition of social media banking and investment in superior card management technology.

Our vision-oriented focus on sustainability, social responsibility and equality in all things, as well as our passion to empower the agricultural sector, all add up towards promoting social inclusiveness.

We are banking on the human spirit and believe that by driving your personal development,
we can lead that of the nation’s; together.

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.

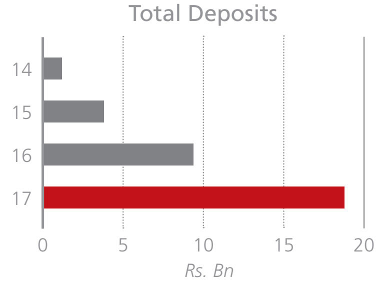
To facilitate and empower small and medium entrepreneurs, enhance industry standards through a highly motivated team of innovative bankers.

The Year at a Glance

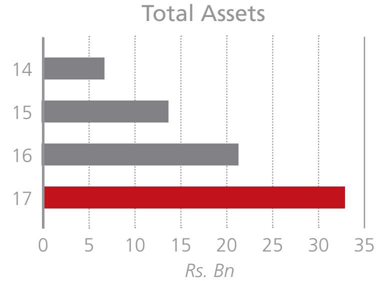
	2017 Rs. '000	2016 Rs. '000	Change %	2017 Rs. '000 Adjusted*	Change %
Operating Results					
Gross Income	3,611,813	1,701,713	112%	3,131,156	84%
Total Operating Income	2,196,326	1,090,755	101%	1,715,669	57%
Operating profit/(loss) before VAT	795,578	(13,268)	6096%	314,921	2474%
Profit/(loss) before tax	621,137	(56,270)	1204%	210,319	474%
Profit / (loss) after tax	512,859	12,067	4150%	102,041	746%
Assets and Liabilities					
Loans	20,797,560	13,424,038	55%	20,797,560	55%
Deposits	18,808,432	9,435,089	99%	18,808,432	99%
Total Assets	32,512,711	20,989,298	55%	32,512,711	55%
Total Liabilities	21,318,380	10,336,119	106%	21,318,380	106%
Shareholders' Funds	11,194,331	10,653,179	5%	11,194,331	5%
Key Indicators					
Earnings per share	0.58	0.02	2800%	0.12	478%
Net assets value per share	12.68	12.06	5%	12.68	5%
Interest margin %	5.53	6.47	-15%	5.53	-15%
Return on Assets (before tax) %	2.32	-0.34	782%	0.79	332%
Return on equity %	4.69	0.15	3027%	0.93	520%
Liquid assets ratio %	43.99	55.98	-21%	43.99	-21%
NPL ratio	3.55	0.94	278%	3.55	278%
Capital Adequacy					
Tier 1	34.39%	51.93%	-34%	34.39%	-34%
Tier 1 & 2	34.76%	50.81%	-32%	34.76%	-32%

* Excluding the gain from disposal of subsidiary

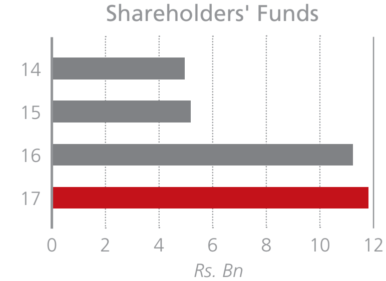
Total Deposits



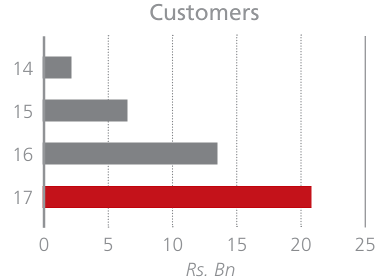
Total Assets



Shareholders' Funds



Loans & Receivables to Other Customers



Gross Income

Financial Overview

Total Deposits in Rs. Mn
18,808

Total Advances in Rs. Mn
20,798

Total Assets in Rs. Mn
32,513

Gross Income Growth
84%

Profit Before Tax Growth
474%

Capital Adequacy Ratio
34%

Liquid Asset Ratio
44%

No of Branches
17

Total No of Employees
451

Access Points
350+

Our Heritage

Founded on the belief that uplifting the people in the rural sector will strengthen our nation, and on the basis that our nation has always been an agrarian society, once renowned as the granary of the east, the fortunes of our nation have always centred around agriculture. Thus, the Cargills Bank logo portrays an ear of paddy, a symbol of prosperity and agriculture in Sri Lanka. The upward movement of the logo depicts prosperity and growth. The colour, a hue of Red and Orange, denotes a bright future. As we look closer, we also see people standing behind one another, symbolic of supporting each other, giving significance to the nature of the human spirit, that an individual's success is built on support of the community, of which Cargills Bank is also a part. The tag line "Banking on the Human Spirit", embodies our philosophy and belief in the resolve of the human spirit, of people, as they endeavour and strive for success.

Our Partners

The largest shareholders of Cargills Bank Limited are Cargills (Ceylon) PLC and CT Holdings PLC, both highly diversified conglomerates listed in the Colombo Stock Exchange, with interests in entertainment, the hospitality trade, property development, manufacturing, food processing and retailing. Cargills Ceylon PLC, a Sri Lankan corporate established in 1844 is built on a strong foundation of values and ethics.

Cargills Bank is also well partnered through investments of leading corporates in the country whose brands, financial performance, market share and business foresight have placed them at the highest levels of their respective fields.

Adds up

CSR + Social inclusion + Sustainability = Equity

Our values of social responsibility, inclusiveness and sustainable development all *add up* towards our vision of equity across all social and income groups.

Chairman's Message

Dear Stakeholder,
I take pleasure in presenting to you the annual report and audited financial statements for the year 2017.

In its third year of operations, Cargills Bank achieved a satisfactory Profit before Tax of Rs. 621 Mn, which included a substantial one-off gain of Rs. 410 Mn (net). These results are discussed further in the CEO's Review and the Management Discussion & Analysis (MD&A). In this message I present highlights of the Bank's performance and an overview of the economic backdrop to the industry's performance. The latter is discussed further in the MD&A.

Economic Backdrop

Sri Lanka's economic policies since 2015 have focused on achieving macroeconomic stability whilst fueling growth. The Central Bank (CBSL) adopted significant policy initiatives during 2017 in this direction. As the CBSL has described it, the Sri Lankan economy has begun to show "discernible green shoots of recovery", and it encourages us that Sri Lanka's economy is now moving in the right direction. GDP growth in 2017 remained subdued and was lower than targeted, provisionally at just under 4%, owing to adverse conditions of drought followed by floods during the year; these significantly impacted the agriculture sector and food supplies.

The CBSL maintained a tight monetary policy stance in 2017 which saw interest rates peak in the first quarter of the year but eased somewhat and remained stable during the rest of the year. This tight monetary regime was unable to anchor inflation as envisaged, however, due to higher food prices and tax increases. Headline inflation, as measured by the year-on-year change in the NCPI, rose by over 8% in the year.

It is encouraging that the exchange rate remained stable in 2017 in an environment in which market forces were given greater freedom, without intervention to support the Rupee. The Rupee vis-a-vis the US Dollar appreciated at certain points during 2017 and depreciated by 2% overall in the year.

Disruption in the agriculture sector, which impacted livelihoods, and rises in the cost of living contributed to lower discretionary spending. This in turn impacted on consumer spending and on credit growth during the year, affecting the Bank and Non-Bank financial sectors.

It is notable that Sri Lanka's exports reached record highs, with earnings growing by 8.8% year-on-year during the first ten months of the year, mainly due to increased export earnings from tea, spices and seafood. Import expenditure increased by 8.7 % during the first ten months of 2017 largely due to food imports and the higher price of fuel, contributing to an increased trade deficit of USD 7.5 Bn.

In June 2016 Sri Lanka had reached agreement with the IMF for an Extended Fund Facility (EFF), reflecting the global community's confidence in its prospects. The third review of Sri Lanka's performance under the EFF programme in December 2017 concluded that Sri Lanka's "macro-economic performance had been stable" and its fiscal performance "satisfactory", resulting in disbursement of the fourth tranche under the facility.

In November 2017, S & P Global Ratings revised its outlook on Sri Lanka to "Stable" from "Negative" thus bolstering the outlook for higher investments and growth in the year

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ahead. S&P's "Stable" Outlook reflects the expectation that the "Government will maintain the reform momentum over the next 12 months and smoothen the upcoming surge in debt redemptions, particularly in 2019". S&P also reaffirmed its B+/B Sovereign Credit ratings on Sri Lanka.

2017 saw several other significant policy initiatives by the Government. Among them were two landmark reforms; VAT reform and a New Inland Revenue Act, which sought to enhance revenues and pave the way for reduction in the Government's budget deficits.

Our Sustainable Approach

A progressive, sustainable approach is intrinsic to Cargills Bank's business model and we consider our business an avenue for wealth creation and financial inclusion for the yet unbanked, but bankable – a vital segment in the long term progress of Sri Lanka. Cargills Bank was established envisaging an unique model of inclusivity and reaching the grassroots, with a key competitive advantage centred on the retail network of over 350 Cargills Food City outlets spread across the length and breadth of the country. The Cargills outlets offer banking customers convenience with low overhead for the Bank.

The Cargills legacy spans 174 years and the Cargills brand is synonymous with trust and confidence. Its success over this time in the competitive retail market space has been based on a differentiated model of value creation and long term relationships with its customers. The Bank's presence in the retail banking space is also based on this differentiated approach to business.

Governance

The Bank believes the highest standards in governance are indispensable in creating long term value for its stakeholders, and must be pursued uncompromisingly. We believe Corporate Governance is about engendering trust, and is about effective and transparent governance by management and the Board of Directors. The Board sets the tone at the top by promoting professional standards and corporate values which cascade to senior management and other employees of the Bank.

In addition to compliance with mandatory requirements laid down by the CBSL, the Bank strives to comply with best practices in Governance, recognizing also that it is not just about adhering to codes but extends to how we engage with our people and our customers. The Bank strives to ensure that its employees live the Bank's values, practice the highest ethical standards and respect policies, procedures and processes established across the organization.

Looking Ahead

As mentioned above, the year under review saw the Government resolute in its commitment to a programme of fiscal consolidation, revenue mobilization, and reform. These policy measures which are aimed at consolidating the fiscal position of the country and preventing an overheating of the economy augur well for stronger macroeconomic fundamentals in the future and a greater inflow of investment.

> *"We believe Corporate Governance is about engendering trust, and is about effective and transparent governance by management and the Board of Directors."*

We welcome the key policy frameworks the CBSL plans to introduce in the year ahead and its focus on institutionalizing these frameworks. These include a Flexible Inflation Targeting (FIT) regime, a Fiscal Consolidation framework, an Exchange Rate Act and a Liability Management Act all of which will ensure greater stability, policy consistency and coherence and market competitiveness of the Sri Lanka Rupee.

The environment in the United States points to the Federal Reserve adopting a tighter monetary policy in 2018, which we must consider in its likely implication on domestic interest rates and capital flow.

Chairman's Message Contd.

The CBSL estimates that GDP growth is likely to increase over the next few quarters to reach 5% - 5.75% for 2018. The CBSL also expects inflation to decelerate in the year ahead, to 4% - 6% as food supplies stabilize. Another spell of adverse climatic conditions in 2018 and a sharper than expected depreciation of the Rupee could however, reverse this trend and exert pressure on inflation again. International oil prices would also be a key factor for Sri Lanka. A rise in prices would hinder plans to introduce energy pricing reforms in the form of a pricing formula in the first half of the year.

A vibrant export sector is vital for sustainable growth of Sri Lanka's economy. The growth in exports during the year is in that context encouraging. The outlook in Sri Lanka's key export markets such as the United States and Europe and the GSP+ scheme are likely to offer tail winds to support future growth. Export growth should also be supported by CBSL's stance of facilitating a market determined competitive exchange rate, essential for Sri Lanka Government's Vision 2025, which aims to position the nation as an export-oriented economic hub at the centre of the Indian Ocean. Free Trade Agreements with India and Singapore are also expected to strengthen the nation's journey towards this vision.

The 99 year lease of a 70% stake of the Hambantota port for a joint venture with a Chinese company is expected to facilitate an economic zone and industrialization in that area, which bodes well for reducing debt, economic development and increasing tourist arrivals in Sri Lanka.

Drawbacks such as cumbersome procedures on starting businesses and paying taxes need urgent attention, however, for Sri Lanka to move up in the Ease of Doing Business Index rankings and attract more foreign investment.

Sri Lanka is blessed with a well-regulated and vibrant banking sector. The large number of banks compared to its population size contributes to greater consumer choice and has intensified competition. We are hence always mindful of the need for continuing innovation and development to grow and sustain profitability in an intensely competitive and rapidly technology driven market. We welcome the Central Bank's proposed initiatives to strengthen its regulatory and supervisory role whilst ensuring greater consistency and coherence of policy.

Against this backdrop, the Bank is optimistic about the many opportunities it sees to partner SME's in the country leveraging the synergies of its strong association with the Cargills Group, and looks towards increasing exports and large scale revenue generating infrastructure projects to create new supply chains and employment opportunities.

The Bank is working towards listing its shares in the CSE in 2020. More details will be provided at the appropriate time.

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Acknowledgements

I would like to convey sincere appreciation to my colleagues on the Board for their valuable support and guidance, and to the entire team of employees of the Cargills Bank family. I also extend my gratitude to the Governor of the Central Bank and other regulatory bodies for the role they play and the guidance they give us. My sincere appreciation also, to our shareholders, our customers and our other stakeholders for their support and the confidence they place in us as we stride towards our vision to eventually become the leading Retail and SME Bank in this country.

Louis R. Page
Chairman

28 March 2018

CEO's Review

Dear Stakeholder,
As Cargills Bank completes its third year of operations. "Banking on the Human Spirit" has been about the Spirit of our team that has fuelled the launch of this enterprise and about making inroads in Sri Lanka's Retail Banking space, and about kindling the entrepreneurial spirit of the Sri Lankan people from across the rural hinterlands to urban localities.

Performance

It gives me pleasure to share with you a commendable performance as Cargills Bank expanded its scope and operations whilst attracting new business. The Bank's Net Interest Income grew 55% to reach Rs. 1.48 Bn, whilst Net Fee and Commission Income rose 43% to Rs. 114 Mn during the year, with other sources of income (excluding the gain from disposal of its subsidiary) growing 109% to Rs. 121 Mn at year-end. These revenue increases saw the Bank's Total Operating Income growing substantially from its previous level to Rs. 2.2 Bn for the year, enabling it to achieve a Profit Before Tax of Rs. 210 Mn (when the net gain of Rs 410 Mn from disposal of its subsidiary is excluded). It is heartening that the contribution to this performance came from growth in activity across all core segments of the Bank and was supported by synergies from its strong association with the Cargills Group.

The Bank's Trade Financing portfolio exceeded Rs. 7 Bn during the year, growing from Rs. 5.3 Bn in the previous year. The Bank's international reach expanded, with relationships established with correspondent banks in several major economies across the globe.

Our Retail Banking arm, which constitutes the Agri, Personal Banking and Private Banking divisions performed well during the year, supported by the expansion of our brick and mortar channel and parallel expansion of the ATM network. The Personal Loans portfolio reached Rs. 3.3 Bn in 2017, vis-a-vis Rs. 1.7 Bn in the previous year while Overdraft facilities expanded to Rs. 4.6 Bn, compared with Rs. 3.0 Bn in 2016. Lending to the Trading sector grew to Rs. 3.5 Bn during the year, from Rs. 2.4 Bn in the previous year. Similarly, lending to the Construction sector expanded to Rs. 2.7 Bn, from Rs. 1.5 Bn. Lending to the Agriculture and Fishing sector increased to Rs. 1.7 Bn, compared with Rs. 272 Mn in 2017. Total deposits doubled from Rs. 9.4 Bn to Rs. 18.8 Bn during the year under review. The CASA mix stood at 22% at year end.

We continued to expand our reach by opening 3 new branches in Wattala, Ratnapura and Kaduruwela, bringing the total number of stand-alone branches to 17 whilst the total number of contact points stood at over 350.

The year under review saw progress with "Cargills Cash", enabling customers to "Experience the New Way to Bank". This unique value proposition offers customers the opportunity to deposit, remit or withdraw cash from over 350 Cargills Food City (CFC) Outlets with the use of their Mobile Banking App.

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The remittance facility allows cash remittances even to non-account holders of Cargills Bank, offering them the convenience to collect cash from their Bank or from over 350 CFC outlets. It is encouraging that, in line with the Bank's strategic focus, transactions at the CFC counters during the year exceeded Rs. 4 Bn in value.

The Bank's technology focus and enhancing convenience through its extensive CFC network is a key strategy which is proving successful in attracting millennials, for whom speed and convenience are key value drivers. The year under review saw the pioneering of several initiatives towards this end, to enhance our product offering to this segment of customers. We launched Social banking where banking transactions can be carried out by connecting Facebook to the Mobile Banking App. The "Pay a Friend via Facebook" campaign communicated its signature feature.

The Mobile Banking App which is one of the USPs of the Bank enables customers to make Utility Bill Payments, CEFT / SLIPS transfers, Standing Orders, Open Accounts and Fixed Deposits. Beyond this, the Bank launched Sri Lanka's first contactless Mastercard branded Debit card with EMV Compliant Chip and PIN Technology which enables customer convenience with enhanced security.

In a world in which digital banking is becoming the preferred channel for banking, an organization's web site is the most important touch point. We are encouraged by the recognition received for our new Life Style Banking website from The Financial Brand as one of the "Top 20 Visually Stunning Website Designs" among Banks & Credit Unions in the world.

In line with our strategic focus and Triple Bottom Line objectives, the Bank initiated a partnership with leading insurance company under the guidance of the National Agri Development Program (NADEP) and the Central Bank of Sri Lanka; under which Cargills Bank has committed itself to grant farmers special loans at a concessionary interest rate. During the year under review, the loans benefited farmers in the areas of Monaragala and Anuradhapura regions to purchase seeds, fertilizer and other Agri related assets. Our partner supports repayment of these loans in the event of damage to crops from adverse weather. The Bank will support more farmers in the next five years, and will thus contribute to one of the nation's key development objectives of strengthening the Agriculture sector.

Our People

The talents, passion and commitment of our spirited team has been the fuel behind the Bank's success in a span of 4 years since its launch into the banking space in Sri Lanka. As a new entity, a key strategic priority continues to be acquiring, developing and retaining the best talent to meet the expanding scale of our operations.

As much as 90% of our team of 451 employees is below the age of 40 years, reflecting a younger workforce with high energy and the ability to understand and cater to facets unique to millennials, helping the bank become a champion of digital disruption in the retail banking space.

> "Cargills Bank aims to relieve the hitherto unbanked from the burden of borrowing from the informal sector whilst supporting the small and medium scale sectors in their entrepreneurship."

Our Sustainable Model of Value Creation

As stated in the Chairman's message, the Cargills Bank's model is one which offers an unique value proposition in reaching towards its Vision "to be the most inclusive bank, harnessing the spirit of progress in every Sri Lankan". A key strategic priority towards this is accessibility for the rural population and others who have hitherto been excluded from the country's formal banking system. The Cargills Food City Model offers a win-win value proposition to both the consumer and farmer, with a reach to the farmer that facilitates greater income generation for him and better prices for the consumer. In

CEO's Review Contd.

the same manner Cargills Bank aims to relieve the hitherto unbanked from the burden of borrowing from the informal sector whilst supporting the small and medium scale sectors in their entrepreneurship. Being integrated into local communities will hence be a key element of how we engage with our social capital.

Strategy & Outlook

As a retail centric bank, Cargills Bank offers an unique value proposition and harnesses synergies from the Cargills Group – its brand heritage and its retail strength, encompassing 350 Food City outlets spread across the length and breadth of the country.

With technology being a strategic priority Cargills Bank has been able to open new vistas in customer convenience across the island, by enabling the deposit and withdrawal of funds 365 days of the year, from 8 am to 11 pm., by converting supermarket checkouts to simple but versatile banking counters. This complements the Bank's ability to compete in a non-traditional banking space where there is much untapped potential amongst hitherto excluded segments and the SME sector of the country.

Being in the forefront of technology in the banking sector will continue to be a key strategic path for sustained profitability and leadership in the future. We will increase investments and focus on electronic and mobile banking channels to augment the extensive retail banking channels at CFC and carve out a niche by serving the underbanked and offering the best in customer convenience.

Whilst we look to the future with optimism, we are mindful of the possible challenges of narrower margins and the entry of nonbank players such as Telco's into the banking space and of market volatility caused by global events, international conflicts, global terrorism, cyber threats and environmental challenges. Cargills Bank remains relatively insulated from direct impacts of global political events due to its business model being primarily domestic market focused. However, international commodity price increases and the performance of Sri Lanka's key export markets can impact prices, economic growth and the balance of payments, which can translate to lower economic activity, reduced purchasing power and hence, reduced credit growth.

Our unique retail and SME- focused and technology- led model, with the aim of offering customers new paradigms in convenience and speed of service, is based on an "Operational Expenditure model" rather than a Capital Expenditure based one. This approach places us on a firmer foundation of lower costs with greater agility and nimbleness to adapt to rapidly evolving technology.

> "Being in the forefront of technology in the banking sector will continue to be a key strategic path for sustained profitability and leadership in the future."

With increasing reliance on technology and the internet across every realm of business comes increased vulnerability to cyber-attacks. A key strategic priority is hence to ensure the highest level of security, and to enable this the Bank will continue to make significant investments in this area.

Cargills Bank, with its ownership structure and grassroots reach, finds itself well poised to become the Preferred Retail and SME Bank over the next five years, propelled by a unique business model and differentiated strengths, able to benefit from a vibrant and stable economy.

Acknowledgement

I would like to convey my sincere appreciation to our Chairman and my colleagues on the Board for their guidance and the confidence placed in me and to the entire team at Cargills whose Spirit, talent, tireless effort and commitment have been the fuel enabling us to achieve much in a short span in Sri Lanka's sophisticated banking sector. I also wish to place on record my deep appreciation to Mr. Prabhu Mathavan for giving leadership to management during the year under review. My heartfelt appreciation goes to our customers and other stakeholders for their unreserved support, confidence and trust in us – the new player on the field. My gratitude extends to the Central Bank of Sri Lanka and other regulatory agencies for their valuable guidance in the vital role they play.

Rajendra Theagarajah
Managing Director / CEO

28 March 2018

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 the 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

Managing Director / CEO
(Executive Director)
(Joint Deputy Chairman-Non Executive Director till 31 December 2017)

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 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 Carsons Cumberbatch PLC.

Prabhu Mathavan

Executive Director
(Managing Director / CEO till 31 December 2017)

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.

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, 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.)

Company Secretary (Executive Director) (Resigned as a Director w.e.f 17 January 2018)

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.

Board of Directors Contd.

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.

Multiplied

Advanced technology x Far reaching network = Accessibility

By introducing Sri Lanka's first ever contactless Master debit cards and social media banking facilities, the convenience you have with us, has been *multiplied.*

Management Discussion & Analysis

Backdrop to Performance

Sri Lanka's economy grew at a rate of 3.9 % in real terms during the first half of 2017 in comparison to a growth of 3.7 % in the first half of the previous year; and is estimated to have grown by about 4.5% during the year in 2017, in comparison to the 4.4% growth in GDP in 2016.

Growth was mainly driven by Industry activities, supported by the expansion in Services whilst output in the Agriculture sector contracted by a sharp 11.5% in first half of 2017 (compared with a contraction of 3.4% in the corresponding period of 2016) due to severe drought conditions which impacted the cultivation of rice, vegetables, fruits, grains and coconuts.

Industry activities grew by 5.8 % (at the same pace as it did in the first half of 2016) in value added terms during the first half of 2017 mainly supported by the significant increase in Construction activities together with the expansion in mining and quarrying activities. The Services sector which grew by 4%, in first half of the year, in comparison to 3.6% in the corresponding period of 2016, was mainly supported by an expansion of financial services, wholesale and retail trade activities, healthcare and transportation.

The drought and flood-related disturbances which significantly affected Agriculture activities, also had a spillover effect on other sectors of the economy, creating a negative impact on overall growth. These negative spillover effects were felt by the other sectors of the economy through higher prices of domestic food supplies, increased expenditure on imports amidst rising international commodity prices and costs incurred on relief measures.

Sri Lanka's External trade, which was sluggish during the past two years, rebounded during the first eight months of 2017 with both earnings from exports as well as expenditure on imports increasing during the year. Exports reached record highs and crossed the USD 9 Bn. mark with earnings growing by 8.8% year on year during the first ten months of the year, mainly due to increased export earnings from tea, petroleum products, spices and seafood. Import expenditure increased by 8.7 % year-on-year to USD 16 Bn. during the first ten months of 2017 largely due to higher imports of fuel, gold and rice. The import of food items was necessitated by supply constraints on the back of adverse weather whilst the higher price of fuel contributed to the expansion of the trade deficit to USD 7.5 Bn. Crude Oil prices rose during the year due to an unexpected drop in U.S. oil production, a disruption of a Libyan pipeline due to an attack and production cuts by OPEC and Russia.

Tourism, one of Sri Lanka's key foreign exchange earners saw a moderate performance during the first nine months of 2017 as arrivals increased marginally by 2.9 % over the corresponding period of 2016. Flight cancellations and delays at the BIA until April 2017, caused by partial operations of the airport owing to the repair and upgrade of the runway, and the breakout of the dengue epidemic partly contributed to the sluggish performance in the tourism industry.

The declining trend observed in workers' remittances is expected to reverse during 2018 with improvements in economic activity in source countries. An upward trend in labour migration under skilled and professional categories over the past few years is encouraging although a large mismatch still exists between the specific skills demanded in the international market for jobs and Sri Lanka's supply capabilities.

The realisation of expected benefits from GSP+ and other trade pacts would boost the performance of manufacturing as well as external trade. However, the downside risks to this positive outlook include the continuation of adverse weather conditions and possible delays in the implementation of envisaged structural reforms.

Interest Rates

The Central Bank maintained a tight monetary policy stance during the first nine months of 2017 to preempt the buildup of excessive demand pressures and adverse inflation expectations in the economy. The policy rates were thus increased by 25 basis points (bps) in March 2017, in addition to the 100 bps increase in policy interest rates and the 1.50 percentage point increase in the Statutory Reserve Ratio (SRR) in 2016. This saw interest rates peak in the first quarter of the year but begin to ease and remain stable during the remainder of the year.

Deposit interest rates of commercial banks continued to increase particularly during the first seven months of 2017, reflecting the increased competition among banks to mobilise deposits from the general public amidst tight monetary conditions in the market. Accordingly, the average weighted deposit rate (AWDR), increased by 108 basis points to 9.25 % by end September 2017 from 8.17 % at end 2016 whilst the average weighted fixed deposit rate (AWFDR), also increased by 135 basis points to 11.81 % by end September 2017 from 10.46 % at end 2016.

The market environment in the United States point to the Federal Reserve adopting a much tighter monetary policy in 2018, which in turn necessitates that we factor in likely implications on domestic interest rates and capital flow.

Inflation

A tighter monetary regime during the year failed to anchor inflation as envisaged. The year-on-year headline inflation, measured by the Colombo Consumer Price Index (CCPI) and the National Consumer Price Index (NCPI) remained in single digits, but above the desired levels during most months, mainly reflecting the impact of tax adjustments made in 2016 as well as high food inflation driven by adverse weather conditions.

Exchange Rate

As per its ‘Road Map 2017’, the Central Bank of Sri Lanka (CBSL) implemented a more market based exchange rate policy during the year, which curtailed CBSL’s intervention in the foreign exchange market to only build-up international reserves with a minimal impact on the exchange rate. Accordingly, the external value of the Sri Lankan Rupee remained relatively stable, to depreciate by 2.2% during the year up to end September 2017, amidst substantial absorption of foreign exchange liquidity by the CBSL.

The significant depreciation pressure on the Rupee that existed particularly during the first quarter of 2017, was mainly due to continued outflow in terms of import expenditure, debt service payments and unwinding of foreign investments in the government securities market. The depreciation pressure that prevailed during the first two months of the year necessitated CBSL to supply foreign currency liquidity to the domestic foreign exchange market to defend the external value of the Sri Lankan rupee. However, increased foreign investments in the CSE and the government securities market and the conversion of export proceeds, provided an opportunity for CBSL to absorb foreign exchange liquidity from the market which helped reverse the depreciating trend. These factors contributed towards the relative stability of the rupee against the US dollar during the period March to September 2017. The depreciation pressure on the Rupee further eased gradually from May onwards with the issuance of the ISB, the receipt of the foreign currency term financing facility and the disbursement of the third tranche of the IMF-EFF programme, which helped improve investor confidence.

The Performance of the Banking Sector

Sri Lanka’s Bank branch network expanded further during the first half of 2017, improving financial accessibility across the country. The number of branches as at end June, stood at 3,543 (following the opening of 19 new branches and the closure of one) and the number of student savings units stood at 3,045 whilst the number of ATM’s across the country increased by 335, to 4,148 as at end June 2017.

As per CBSL statistics, total assets of the Banking sector grew by 9.4% during the first 8 months of the year to Rs. 9.9 trillion by end August 2017, compared to a growth of 6.8 % during the same period of 2016. This expansion was largely financed through the increase in deposits.

Management Discussion & Analysis Contd.

Deposits, which were the main source of funding, represented 71.3 % of the total assets of the banking sector, surpassing Rs. 7 trillion by end August 2017. The deposit base of the banking sector grew by Rs. 767.9 Bn (12.2 %), of which 84 % comprised Rupee deposits.

Despite higher market interest rates, lending to total loans and advances of the Banking sector increased by 10.8 % during the first eight months of 2017 and stood at Rs. 6.1 trillion by end August 2017. Lending to all economic sectors increased during the first half of 2017 with large disbursements towards transport, trading, tourism and manufacturing sectors. Credit to the construction (17.7 %), trading (14.3 %), manufacturing (10.8 %) and other (16.5 %) sectors were the main contributors to growth in credit as at end June 2017. During the first eight months of 2017, overdrafts (18.4 %), term loans (10.3 %) and pawning (8.7 %) also reported significant increases.

The asset quality of the Banking sector deteriorated marginally as reflected in the marginal rise in the NPL ratio, to 2.8%, from 2.6% in August 2017; supported by recovery measures adopted by banks. Higher NPL ratios came from Tourism (4.7 %), Agriculture and Fishing (4.1 %), Manufacturing (3.8 %), Trading (3.6 %), Information & Communication Technology (3.2 %) and Construction (3 %) sectors, as at end June 2017.

The Banking sector's profit increased by 18.2% to Rs. 86.6 Bn in Profits After Tax during the first eight months supported by higher net interest income, which increased by Rs. 24.9 Bn. Non-interest income also increased by Rs. 18.3 Bn during this period as a result of significant capital gains and an increase in other sources of income. Operating expenses increased by Rs. 5.1 Bn while losses on trading and investment securities declined during this period. Staff costs increased by Rs. 3.3 Bn reporting an increase of 5.7 % over the corresponding period of last year. Profitability ratios as measured by the Return on Assets (ROA) before tax and Return on Equity (ROE) improved to 2 % and 17.6 %, respectively, during the first eight months of 2017 compared to 1.9 % and 16.9 %, respectively, in the corresponding period of 2016.

Outlook

The CBSL estimates GDP growth to reach 5% to 5.75% for 2018 and this growth is expected to be broad based, buoyed by all major economic activities. Inflation is expected to decelerate in the year ahead to be 4% to 6% as food supplies stabilise. Another spell of adverse climatic conditions in 2018 and a sharper than expected depreciation of the Rupee however, could reverse this trend and exert upward pressure on inflation once again. International oil prices would also be a key factor in Sri Lanka's inflation. It is expected that the prices will stabilize as solutions are found to the disruptions that occurred during the year in Libya and the North Sea region. A rise in global oil prices however, would hinder CBSL's plans to introduce energy pricing reforms in terms of a pricing formula in the first half of the year.

The Agriculture Sector is expected to recover partially in 2018 from the impact of adverse weather conditions experienced in 2017, amidst favourable domestic and global conditions. Industrial activities are expected to continue the positive momentum in 2018 with the Manufacturing sub-sector expected to provide a significant contribution activities supported by the improvement in macroeconomic conditions, continuous efforts of the government to attract FDI and the favourable impact of the GSP+ concessions reinstated in May 2017. In addition, the envisaged development of industrial corridors and logistic facilities are likely to help attract FDI and provide an environment for industrial development in the country. These are expected to be facilitated through conducive and consistent policies on taxation, land administration and labour regulations along with increased digitalisation and incentives offered by the government. Meanwhile, SME's are envisaged to benefit from the new credit guarantee and SME funding schemes introduced by the government.

As per CBSL projections, the Services sector is expected to maintain its high growth momentum in 2018. This broad-based growth is expected to be from traditional economic activities such as wholesale and retail trade and transport activities as well as more dynamic activities such as financial services, professional services, IT programming, telecommunication services and personal services, which have gathered momentum in line with global developments. Initiatives in enhancing support services such as transportation, financial services and communication, which provide significant support in boosting other economic activities, are essential in moving towards this broad-based growth.

Import expenditure is projected to grow moderately in 2018. Higher commodity prices in the international market, particularly petroleum prices, would affect the expenditure on imports as well. In addition, import volumes are expected to increase in 2018 in line with the growth of exports and domestic economic activities. Reflecting these developments, the trade deficit is expected to reduce in 2018.

A vibrant export sector is vital for sustainable growth of Sri Lanka's economy. The prospects for exports in 2018 point to higher growth and supports the bright prognosis for higher economic growth and stability in the year ahead. The outlook in Sri Lanka's key export markets such as the United States and Europe, improved global trade, the reinstatement of the EU GSP+ facility, enhanced trade relations expected through multilateral trade agreements, strong institutional support and consistent policies that will result in increased domestic and foreign investments in export oriented industries, are expected to drive the momentum. Export growth is also expected to be supported by CBSL's stance of facilitating an increasingly market determined and less interventionist policy on the exchange rate, an important element in the government's Vision 2025, which aims to position the nation as an export-oriented economic hub at the centre of the Indian Ocean. Trade agreements reached are intended to provide vital linkages in accessing global value chains for Sri Lanka to harness its geographical position and competitive advantages. It is also vital that the government takes necessary steps to enforce anti-dumping policies expeditiously, in order to ensure growth of the Micro, Small and Medium Enterprises (MSMEs) of Sri Lanka.

Company Performance

Financial Performance

The Bank performed satisfactorily in its third year of operations, as it continued to expand its reach and visibility amongst the Sri Lankan people.

The Bank's Net Interest Income grew 55% to reach Rs. 1.48 Bn, whilst Net Fee and Commission Income rose 43% to Rs. 114 Mn during the year, with other sources of income (excluding the gain from disposal of its subsidiary) growing 109% to Rs. 121 Mn at year-end. These revenue increases saw the Bank's Total Operating Income growing substantially from its previous level to Rs. 2.2 Bn for the year, enabling it to achieve a Profit Before Tax of Rs. 210 Mn (when the net gain of Rs 410 Mn from disposal of its subsidiary is excluded). It is heartening that the contribution to this performance came from growth in activity across all core segments of the Bank and was supported by synergies from its strong association with the Cargills Group.

The Bank's Trade Financing portfolio exceeded Rs. 7 Bn during the year, growing from Rs. 5.3 Bn in the previous year. The Bank's international reach expanded, with relationships established with correspondent banks in several major economies across the globe.

Our Retail Banking arm, which constitutes the Agri, Personal Banking and Private Banking divisions performed well during the year, supported by the expansion of our brick and mortar channel and parallel expansion of the ATM network. The Personal Loans portfolio reached Rs. 3.3 Bn in 2017, vis-a-vis Rs. 1.7 Bn in the previous year while Overdraft facilities expanded to Rs. 4.6 Bn, compared with Rs. 3.0 Bn in 2016. Lending to the Trading sector grew to Rs. 3.5 Bn during the year, from Rs. 2.4 Bn in the previous year. Similarly, lending to the Construction sector expanded to Rs. 2.7 Bn, from Rs. 1.5 Bn. Lending to the Agriculture and Fishing sector increased to Rs. 1.7 Bn, compared with Rs. 272 Mn in 2017. Total deposits doubled from Rs. 9.4 Bn to Rs. 18.8 Bn during the year under review. The CASA mix stood at 22% at year end.

The Bank's stated capital as at 31st December 2017 stood at Rs. 11.4 Bn. The Bank also maintained a Statutory Liquid Asset ratio at 44% at year end, well above the Central Bank's regulatory requirement of a minimum liquid assets ratio of 20% of its total liabilities.

Management Discussion & Analysis Contd.

Products and Delivery Channels

Driven by our Vision "to be the most inclusive bank" and our Mission to "have an unique and far reaching network: and thus facilitate access for the bankable underbanked", Cargills Bank continued to expand its reach during the year and harness the synergies of its strong association with the Cargills Group. It continued to extend its reach by expanding its Brick and Mortar channels, concurrently with its technology driven channels such as ATM's, internet banking and the conversion of Cargills Food City (CFC) cashier counters to banking counters also. During the year the Bank was able to obtain approval for all its CFC outlets to operate as banking agencies.
The year under review saw the opening of 3 new branches in Wattala, Ratnapura and Kaduruwela in September, October and December respectively.

The Ultimate in Customer Convenience thorough new products & Delivery channels in 2017 :

Cargills Cash : 365days x 15 hour day banking at over 350 CFC outlets, while you shop for groceries…

Customers are now afforded an unique value proposition in convenience, enabling them to deposit or withdraw cash from their accounts at over 350 CFC Outlets. They can also remit cash to anyone including a non Cargills Bank account holder who can collect cash in a hurry from any of the over 350 CFC outlets in the country.

Launch of a Mobile App

We introduced an advanced mobile banking app which enables customers to make Utility Bill Payments, CEFT / SLIPS transfers and Standing Orders, and even open accounts and Fixed Deposits all with a touch of their smartphone screens whilst on the move or in the convenience of their home or office.

Launch of an EMV Compliant Debit Card

The Bank launched Sri Lanka's first ever Contactless Debit Card with EMV Compliant Chip and PIN Technology which enables customer convenience with enhanced security.

Launch of Social Media Banking

The year under review also saw the Bank pioneer Social Media Banking in Sri Lanka with its signature "Pay a Friend" via Facebook which has proven to be particularly popular amongst millennials who can now pay a friend instantly across the restaurant table if they have not taken cash to a dinner or lunch meeting.

The Bank's new Lifestyle Banking website was selected among the top 20 Visually Stunning Website Designs among Banks & Credit Unions by The Financial Brand.

Support to the SME sector is a key win-win strategic priority of the Bank. The year under review saw us initiate a partnership with a Leading Insurance Company, with guidance from the National Agri Development Program (NADEP) of the CBSL, which grants farmers loans at a concessionary interest rate. The insurer will ensure loan repayment in the event of the farmer's inability to pay due to crop damage caused by adverse weather. During the year, farmers in Monaragala and Anuradhapura regions benefitted from low cost funding for seeds, fertilizer and Agri related assets, and the Bank will expand lending to farmers over the next five years.

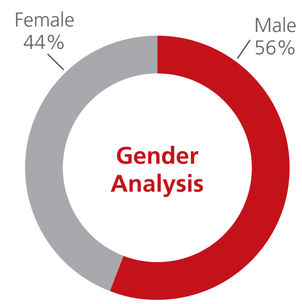
Our People

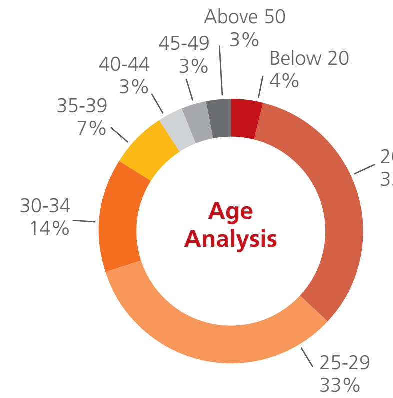
The talents, commitment and spirit of our team have been the fuel behind the Bank's success in the span of 4 years since its launch into the competitive banking space in Sri Lanka. As a new entity, a key strategic priority continues to be acquiring, developing and retaining the best talent, and during the year, the Bank recruited for several key positions to meet the expanding scale of its operations.

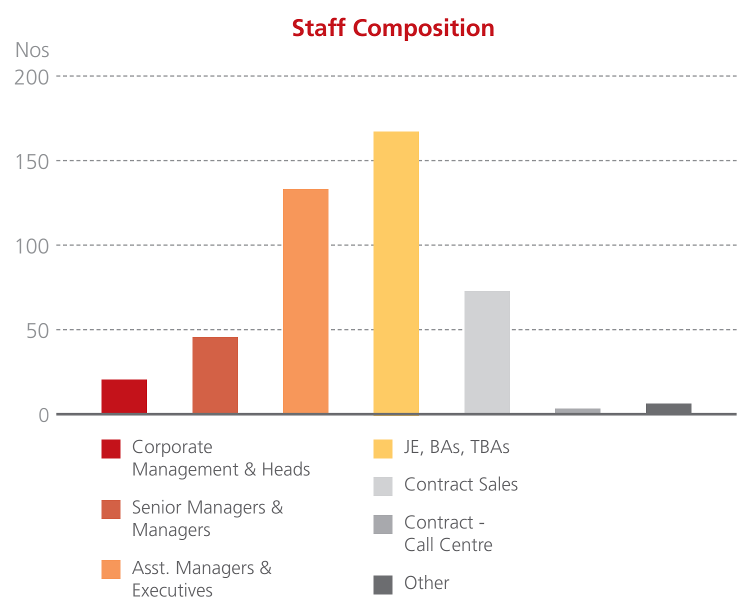
As much as 90% of our team of 451 employees is below the age of 40 years, reflecting a younger workforce, with high energy as well as better ability to understand and cater to facets unique to millennials, and enable the Bank to become a champion of digital disruption in the retail banking space.

Cargills Bank follows a lean model, with a higher number of sales staff vis a vis back office staff – a model founded on state of the art technology. Our model in keeping with our Vision, Mission and strategic focus on the SME and on serving the rural underbanked will also give priority to recruiting from localities in which we are present, thus contributing further to alleviating regional economic disparities and enhancing our sustainability.

Recruiting and retaining the right talent is a challenge common across the financial service industry. Training remains a key priority and the year under review saw several external and internal training programmes. These targeted the further strengthening of core skills and competencies while developing more holistic 'soft'







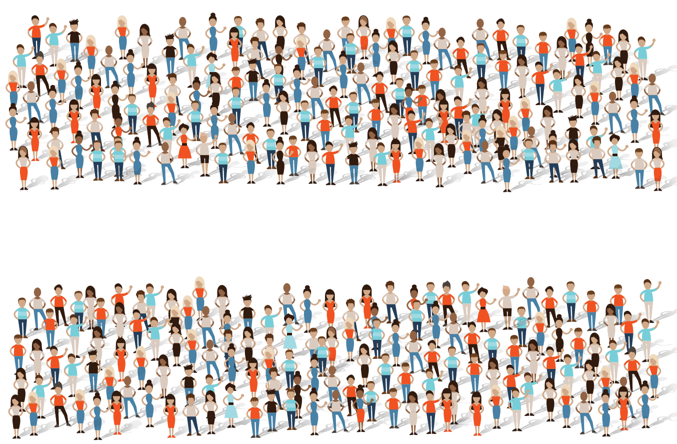
skills aimed at enhancing the Bank's overall service offering. These training initiatives were complemented by other programmes such as launch of the Bank's own Toastmasters Club. The Bank's representatives also participated in several industry level events and forums.

We also launched our first recognition programme with an "Achievers Night" to recognize employees who have excelled in contributing towards the Bank's business goals. The years ahead will see such events expanded to cover achievements across the board.

Outlook

A satisfying performance in its 3rd year of operations, in which the Bank was able to produce profits despite ongoing investments in developing operational capacity and expanding reach, has bolstered our optimism and confidence that we are on the path to becoming a vibrant player in Sri Lanka's banking space. Our unique selling proposition of a ready network which offers the ultimate in customer convenience, a strategic focus on underbanked segments in retail and SME areas which brim with untapped potential, and the equity of brand Cargills, as one of Sri Lanka's oldest consumer brands associated with reliability, trust and confidence find Cargills Bank well poised to harness the potential it has identified.

Equal



Rural sector upliftment + Community support = Progress

A culture of inclusive commercial banking that facilitates progress and delivers wealth equates to everyone having the opportunity to succeed in life.

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

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 2017 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 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. 11 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. The Board approved the Business plan 2017-2020.
	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 2017-2020 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.

Corporate Governance Contd.

No.	Rule	Degree of Compliance
	e) Review the Bank's internal control systems and management information systems	Complied with. Internal Control System has been reviewed on a regular basis and findings reported to the Board by the Board Audit Committee. The Internal Audit division of the Bank has carried out regular reviews on the Internal Control System and has reported directly to the Board Audit Committee. With the expansion of banking operations the Internal Controls System will be further strengthened to include testing of system controls.
	f) Identify and designate Key Management Personnel	Complied with. "Related Party Disclosures" require that the Key Management Personnel (KMP) 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.

No.	Rule	Degree of Compliance
	g) Define the area of authority and key responsibilities for the Board Directors themselves and for the Key Management Personnel	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 in terms of Code of Corporate Governance, was approved by the Board which defines the areas of authorities and key responsibilities for the Board of Directors. The Job Description for the CEO has been approved by the Board. The Job Description of KMPs were reviewed by the Board in 2017.
	h) Ensure appropriate oversight 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.
	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 2017.
	j) Ensure an appropriate succession plan for Key Management Personnel	Complied with. A succession plan was reviewed by the Board Human Resource and Remuneration Committee and approved by the Board.

Corporate Governance Contd.

No.	Rule	Degree of Compliance
	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.
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.

No.	Rule	Degree of Compliance
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 2017.
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, adequate notice may be given	Complied with. Monthly Board Meetings are generally scheduled for the last Friday of the month and notice sent one week before the date of the meeting. Adequate notice is given for any other Special Meetings.
3 (1) (vi)	Action on Directors who have not attended at least two-thirds of the meetings	Complied with. All Directors have attended more than the required number of meetings held during 2017. No Director has been absent from three consecutive regular Board meetings during 2017.

Corporate Governance Contd.

No.	Rule	Degree of Compliance
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 statutes 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. A Board approved Related Party Transaction Policy is in place.
3 (1) (xiii)	Formal schedule of matters to ensure the direction and control of the Bank.	Complied with. This is included in the Bank's Code of Corporate Governance.
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 2017.

Corporate Governance Contd.

No.	Rule	Degree of Compliance
3 (1) (xvi)	Publish Corporate Governance report	Complied with. This report serves the said requirement.
3 (1) (xvii)	Adopt a scheme of self-assessment of Directors	Complied with. The Bank has adopted a system of self-assessment, to be undertaken by each Director annually. Each member of the Board carried out a self-assessment on their own effectiveness and submitted with comments to the Company Secretary for the year 2017. Further, each Director submitted 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 2017.
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 2017, the Board consists of eight Directors of which two are Executive Directors. All other Directors are Non-Executive.
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 2017, the Board consists of eight Directors of which 3 are Independent Non-Executive Directors. The names of the Independent Non-Executive Directors are as follows: 1. Mangala Boyagoda 2. Faizal Salieh 3. 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 2017.
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 2017 were duly constituted.
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 2017 is as follows: 1. Louis R Page - Chairman/ NED 2. Ranjit Page - Deputy Chairman/NED 3. Rajendra Theagarajah - Deputy Chairman/NED 4. Mangala Boyagoda - Senior Director/INED 5. Kamalini De Silva - ED 6. Faizal Salieh - INED 7. Richard Ebell - INED 8. Prabhu Mathavan - MD/CEO Directors profiles are given on pages 16 to 18.
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.

Corporate Governance Contd.

No.	Rule	Degree of Compliance
3 (2) (x)	All Directors appointed to fill a casual vacancy are subject to election by shareholders at the first General Meeting after their appointment	Complied with. All the Directors appointed to the Board are 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	Not applicable. No resignation or removal of Directors during the year 2017.
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 16 to 18. 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/ institutions inclusive of subsidiaries or associate companies of the Bank.

No.	Rule	Degree of Compliance
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 is approved by the Board of Directors.
3 (4) (ii)	Extent of delegation to be within appropriate limits	Complied with. The Board is empowered by the Articles of Association of the Bank, to delegate to an Executive Director any of the powers vested with the Board, upon such terms and conditions and with such restrictions as the Board may think fit. 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 Terms of Reference approved has separate provisions 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	Complied with. The Chairman is a Non-Executive Non-Independent Director. Therefore, the Board has appointed an Independent Director as the Senior Director.

Corporate Governance Contd.

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 relationship between the Chairman and the Deputy Chairman.
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 is agreed 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.
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 is available.
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.

No.	Rule	Degree of Compliance
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. Board Strategic Planning Committee 6. Board Credit Committee Each committee has a Secretary to coordinate the meeting and maintain minutes. Board Committee reports are addressed directly to the Board. Annual Report of 2017 includes individual reports of each mandatory committee. Such reports include summary of it's duties, roles and performance.
3 (6) (ii)	Audit Committee (BAC)	
	a) The Chairman of the Committee shall be an Independent Non-Executive Director (INED) and possess 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.

Corporate Governance Contd.

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 Committee met with the external auditors to discuss and finalise the scope of the audit to ensure that it is in compliance with guidelines issued by Central Bank of Sri Lanka.

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 Statements 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 during the year. The Committee has met the External Auditors thrice 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 2016 and management responses thereto and also the follow-up thereafter.

Corporate Governance Contd.

No.	Rule	Degree of Compliance
	j) 1. Review the adequacy of the scope, functions and resources of the Internal Audit Department	Complied with. The Internal Audit scope, functions and 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 reviewed the internal audit reports and directed 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.	The appraisal of the Head of Internal Audit was reviewed.
	4. Recommend any appointment or Termination of Head of Audit and Senior IA Staff	Complied with. There had been no requirement to appoint or terminate Senior Internal Audit staff during the year.
	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 would have at least two meetings with the External Auditors without the Executive Directors being present	Complied with. Three meetings were held during the year.

No.	Rule	Degree of Compliance
	m) Terms of Reference of the Committee	Complied with. Audit Committee charter was reviewed and approved.
	n) Regular committee meetings	Complied with. The Audit Committee met nine times during the year. Refer 'Audit Committee Report' on page 66.
	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 66. The Board was briefed with regard to items discussed at 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 acts 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 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.	Complied with. A remuneration policy for all employees has been reviewed by the BHRRC and approved by the Board.

Corporate Governance Contd.

No.	Rule	Degree of Compliance
	b) The Committee shall set documented goals and targets for the Directors, CEO and the Key Management Personnel	Complied with. Goals and targets for the CEO and Corporate Management are reviewed by the BHRRC and approved by the Board.
	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 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 when matters relating to him are discussed.
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 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	Complied with. This is duly 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.

No.	Rule	Degree of Compliance
	d) Ensure the Directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in the Statutes	Complied with. Declarations and affidavits have been obtained by the Company Secretary and all appointments have been approved as fit and proper by CBSL.
	e) Consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel	Complied with. There is a formal succession plan approved by the Board in place for the Corporate Management Personnel.
	f) The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors	Complied with. The committee is chaired by an Independent Director. Composition of the Committee as at 31 December 2017 is as follows: 1. Mangala Boyagoda - Chairman 2. Faizal Salieh - INED 3. Ranjit Page - NED 4. Rajendra Theagarajah - 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 2017 is as follows: 1. Rajendra Theagarajah - Chairman/ NED 2. Mangala Boyagoda - INED 3. Faizal Salieh - INED 4. Richard Ebell - INED 5. Prabhu Mathavan - MD/CEO 6. Chief Risk Officer Compliance Officer of the Bank acts as the Secretary of the Committee while Corporate Management personnel participate by invitation.

Corporate Governance Contd.

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 the BIRMC for discussion and necessary corrective actions, if any, on a quarterly basis. The BIRMC met six times during the year and reviewed 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 was not carried out at a group level, but assessed at subsidiary level. The subsidiary was divested in 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. Review of dequacy and effectiveness on all management level risk related committees such as ALCO, ERMC and Executive Credit Committee have been commenced.
	d) Take prompt corrective action to mitigate the effects of specific risks in case such risks are at levels beyond the prudent levels decided by the committee on the basis of the Bank's policies and regulatory and supervisory requirements	Complied with. The Committee reviewed the KRI dashboard and specifically discussed indicators at level beyond approved internal limits.
	e) Meet at least quarterly to assess all aspects of risk management including updated business continuity plans	Complied with. The BIRMC had six meetings during the year.
	f) Take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions	Complied with. The Terms of References has special provisions to cover this.

No.	Rule	Degree of Compliance
	g) Submit a risk assessment report within a week of each meeting to the Board	Complied with. The risk assessment reports from the Board Integrated Risk Management Committee are presented to the next Board meeting, by way of Board Committee minutes and reports.
	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. Monthly/Quarterly compliance reports are submitted to the Board/BIRMC with regard to key compliance areas and risks.
3 (7)	Related party transactions	
3 (7) (i) & (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 being strengthened by introducing a formal process by which the Company Secretary circulates details of the related entities to the Finance Department and business units. 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 45 to the Financial Statements. This process is being strengthened through specific Related Party Transactions Policy.

Corporate Governance Contd.

No.	Rule	Degree of Compliance
3 (7) (iii)	The Board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3 (7) (i) above, in a manner that would grant such parties 'more favourable treatment' than that accorded to other constituents of the Bank carrying on the same business	Complied with. No such situation had arisen.
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.
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.

No.	Rule	Degree of Compliance
3 (8) (ii)	The Board shall ensure that the following minimum disclosures are made in the Annual Report:	
	a) A statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures	Complied with. Disclosures on compliance with applicable accounting standards and regulatory requirements in preparation of the Annual Audited Financial Statements have been made in the statements of 'Directors Responsibility for Financial Reporting' and 'CEO's and CFO's Responsibility for Financial Reporting' on page 73 and 78.
	b) A report by the Board on the Bank's Internal Control Mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements	Complied with. Report by the Board on the effectiveness of the Bank's Internal Control Mechanism to ensure that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting is given in the 'Directors Statement of Internal Controls Over Financial Reporting' on page 75.
	c) The external auditor's report on the effectiveness of the Internal Control Mechanism referred to in Direction 3 (8) (ii) (b) above	Complied with. The Bank has obtained an Assurance Report from the External Auditors on the effectiveness of the Internal Control Mechanism. Refer page 77.
	d) Details of Directors, including names, qualifications, age, experience fulfilling the requirements of the guidelines on fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank	Complied with. Profiles of Directors are given on pages 16 to 18 Directors transactions with the Bank and their remunerations have been disclosed in the Note 14 and 45 the Financial Statements on page 107 and 139.
	e) Total net accommodation as defined in 3 (7) (iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital	Complied with. The net accommodation granted and the net accommodation granted as a percentage of the Bank's regulatory capital is disclosed in Note 45 in page 139.

Corporate Governance Contd.

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 45 to the Financial Statements on page 139 . Further, in addition to the above total deposits made and accommodation obtained as at 31 December 2017 by the other Key Management Personnel (selected members of corporate management) amounted to Rs. 23 Mn and Rs. 25 Mn respectively.
	g) External Auditors' report on compliance with Corporate Governance Directions	Complied with. A Factual Findings Report from the External Auditors' has been obtained to comply with the requirements of these Directions.
	h) A report setting out details of compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances	Complied with. Refer statement of 'Directors' Responsibility for Financial' Reporting" on page 73.
	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. Risk at Cargills Bank refers to the possibility that the outcome of an action or event could bring adverse impacts. 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 and mitigate the overall risks assumed. The bank possesses a comprehensive Integrated Risk Management Framework and a dedicated Risk Management Unit where the scopes of its activities are enhanced continuously to cover various risks that the bank is exposed to, when conducting normal banking operations.

The bank's risk profiling and management focuses on, but not limited to, the key risk categories such as credit risk, market risk, liquidity risk, operational risk, legal risk, strategic and business risk, reputational risk, cyber and data security risk, human resource risk and outsourcing risk.

Risk identification is to recognize and understand risks that may arise from both existing and new business initiatives which are understood at both transaction and portfolio levels.

As the bank's set risk appetite is expressed and monitored in terms of qualitative and quantitative measures, pro-actively identifying the said is the key to manage 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 and Key Risk Indicators (KRI) through policies, standards and procedures that define responsibility and authority for the various risks assumed by the Bank.

Further, for risk control we apply a range of mitigating tools in minimizing exposure to various risks and have a process to authorize and document exceptions or changes to risk limits when warranted.

Integrated Risk Management Framework (IRMF)

The framework facilitates oversight of and accountability for risks at all levels of the bank and across all risk types. Key elements of the Integrated Risk Management Framework are as follows.

- Risk Governance and Management Structure
- Risk Appetite
- Risk Management Tools
- A culture of risk awareness

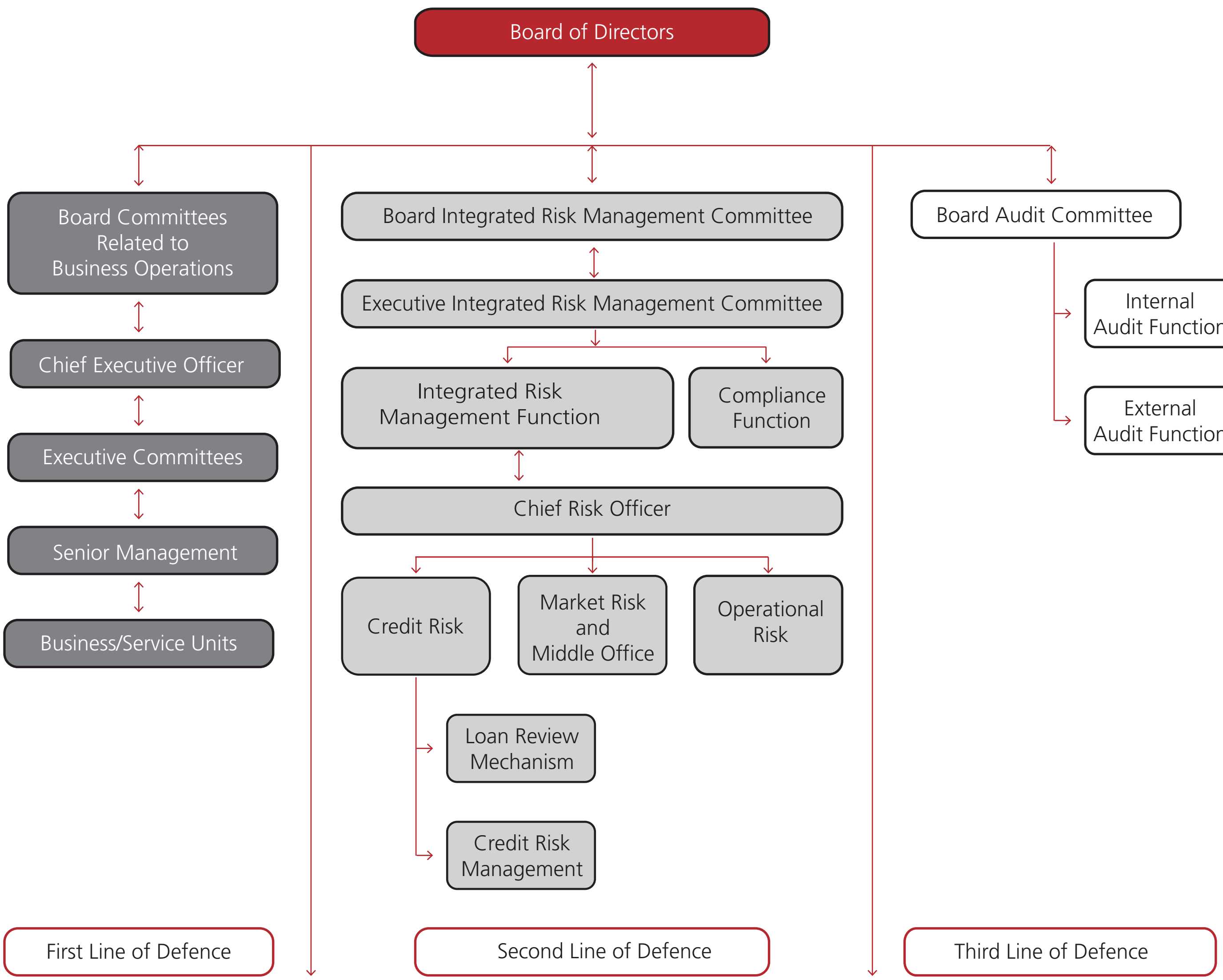
Risk Governance and Management Structure of the Bank

Risk management structure of the Bank includes three lines of defense comprising of business operation, integrated risk management/compliance functions and internal/external audit functions. These operate under the guidelines issued by the regulator and the Board of Directors defending bank against unacceptable risk exposures. Key functionality of the mechanism is board and the senior management oversight, policies and procedures defined on the risk management, risk measurement and controls and the independent audit carried out by the third line of defense.

The bank has developed sound policies and procedural framework with respect to the key risk areas faced by the bank. The policies and the systems are reviewed periodically to ensure the compatibility and the compliance. Risk appetite has been established through limits, Key Risk Indicators (KRIs) and statements. Bank's organizational structure clearly defines roles and responsibilities of individuals involved in risk taking and managing activities. Delegation of Authorities and the risk ownership have been specified on the job roles and designations. Risk management tools enable prompt identification and monitoring of relevant risks. Risk reporting framework has been laid and practiced. Efforts are taken to internalize the risk management concepts within the bank through capacity building and review mechanisms.

Risk Management Contd.

Since interaction of various risks could result in diminution or increase in risk, the risk management process of the bank recognizes and reflects risk interactions in all business activities as appropriate. Integrated risk management function of the bank has the following structure in place to look at risk inter-relationships across the organization.



Role of the Board and Board Sub Committees

Board of Directors hold the ultimate responsibility for oversight of the risk management of the bank and determines the risk appetite and review the governance structure, policy framework, risk management process and other matters related to the effective management of risk on a regular basis.

The Board has appointed Integrated Risk Management Committee to assist the Board in fulfilling the oversight of the risk management function of the bank.

The Board Audit Committee ensures that operational controls are in place and that operations are carried out as per the relevant policies, procedures and guidelines.

Board Credit Committee ensures the compliance of the credit operation with the set credit appetite by the board and assesses and monitors in specific the credit risk of the bank.

Apart from the Board Committees, Management Committees are responsible for focused oversight on designing, implementing and maintaining an effective risk management framework and culture in various risk areas. 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. Line business managers being risk owners are responsible for managing risks in their respective areas.

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, market, operational, strategic risks etc. in an overall perspective.
E. Ensure compliance with regulatory guidelines issued by the CBSL in the area of risk management.

Integrated Risk Management Division (IRMD)

IRMD headed by the Chief Risk Officer (CRO) who 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. IRMD involves 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, IT Steering Committee and Information Security Council. Further the CRO is the secretary to the Board Credit Committee.

Risk Management Contd.

Credit Risk	Operational Risk	Market Risk
Implementation of credit risk framework, policies and tools Independent credit risk reviews prior to approval	Identification, assessment, measurement & monitoring operational risk and introducing mitigation effects.	Treasury Middle Office independent reviewing of positions and limits.
Post disbursement review mechanism	Minimize frequency of operational losses / events.	Monitoring asset and liability management
Monitoring stressed credits and excesses		Analyze market performance

Risk appetite of Cargills Bank has been clearly defined with the internal limits and the tolerance levels set under each risk type which is approved by the Board of Directors and responsible officers are monitoring on regular basis.

IRMD will independently monitor the set limits and reports any breaches to line managers, senior management and the board.

Aspect	Measure	Risk Appetite
• Credit risk-Asset quality down grade	• Gross NPA	• Overall Maximum 2.5%
• Operational Risk	• Operational loss tolerance limit	• Overall Maximum 0.5% of revenue
• Foreign Exchange Risk	• Exchange rate shock	• Maximum of Rs.20Mn p.a
• Liquidity Risk	• Liquid Assets	• Liquid Asset Ratio 23%
• Interest Rate Risk	• Repricing Gaps	• Assets: liability of 1.5 times
• Compliance Risk	• Tolerance level	• Zero non compliance

Credit Risk

Credit risk is defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Loans and advances granted to counterparties under various product creates main source of the credit risk of the bank.

The Bank has developed and annually review policies and the framework which defines the principles encompassing client selection, due diligence, risk tolerance, review and recovery procedures, portfolio monitoring and management according to the board approved risk appetite levels. These documents guide to identify, measure, monitor and control credit risk through establishing an appropriate credit risk environment, sound credit-granting process, appropriate credit administration, measurement and monitoring process while ensuring adequate controls over credit risk.

Credit risk management function of the bank is focused on setting acceptable credit standards for borrowers and counterparties, developing risk assessment and monitoring tools, sound portfolio / stressed credit management and continuous attention to changes in economic or other circumstances that can lead to deterioration in the credit standing of a bank's counterparties.

Clear guidelines have been established in the bank for credit approval structure and the authority has been delegated to different levels in the approval process. Credit facilities beyond a set threshold will be independently evaluated by the risk officers attached to the risk management division and the comments will be followed when approving such facilities.

IRMD uses internally developed scoring models to rate the Business / Corporate Banking, SME and Retail facilities. The rating factors include quantitative and qualitative issues and are reviewed at least annually.

The bank has established a Credit Administration Division to ensure efficient post sanction processes and to verify loan releases comply with the bank's set guidelines.

Loan Review Mechanism carried out by the Risk Management Department of the bank independently review the quality of the credit granting process and ensures early identification of problem loans to safeguard the bank against possible losses. Credit risk indicators set at the bank level is monitored at frequent intervals to identify early warning signals and to take precautionary actions.

Recovery responsibility of problem loans and non performing advances are managed by the Credit Units and the Recovery Unit. Credit officers will follow up the recovery of advances in the initial stages and will be transferred to the Recovery Unit when the loan becomes non-performing. This unit carries out the recovery process until recovery matters are finalized while monitoring the value of the collateral. Recovery Unit liaise with Credit Risk Management Unit to ensure effective follow-up and learning transfer. Unrecovered advances will be transferred to the Legal Division to initiate legal action as the last option.

Accountability of the credit risk performance is vested with individual business units and unhealthy trends are addressed at all levels of the bank.

The Product Wise Exposure and Sector Wise Exposure details are provided in page 115 of the Annual Report.

Operational Risk

Operational risk is the risk of loss resulting from human errors/frauds, system failures, inadequate procedures/ controls and external events.

Operational Risk Management Function is accountable for the design, implementation and maintenance of an effective and efficient Operational Risk Management Framework (ORMF) which enables to determine the operational risk profile and the risk appetite, systematically identify operational risks and define risk mitigating measures.

In order to cover the broad range of risk types underlying operational risk, our framework contains a number of operational risk management techniques.

i. The Risk Control Self-Assessment (RCSA) identifies the potential operational risks in each business or support function reported by process owners. In this process risk owners propose action plan to mitigate risks they identify and to improve systems and procedures to mitigate potential operational risk incidents.
ii. Key Risk Indicator (KRI) reporting highlights pre-determined key indicators which enable to monitor and measure risk profile of each business operation in a timely manner.
iii. Operational loss and event reporting. The process comprises of prompt collection of operational loss events reported by business units, systematic risk analyses, root cause analysis and review of control improvements and other actions to prevent or mitigate the recurrence of such events.

To support the above reporting structure,The Bank has appointed Business Operational Risk Managers (BORM) who work as a link between the Operational Risk Unit and the respective departments. They are responsible for embedding the ORMF within the relevant business division.

Risk Management Contd.

Operational risk findings assessed through reporting from business units, internal audits and compliance findings are reported with risk mitigation actions to the Executive Risk Management Committee, Board Risk Management Committee and the Board which review the risk findings and support with immediate responses for resolution.

Board through Board Integrated Risk Management Committee (BIRMC) ensures that the scope of the management of operational risk is achieved.

Internal Audit periodically validates that the operational risk management framework is 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 in the event of a disaster. Information Security Council and IT Steering Committee primarily addresses operational risks related to information technology.

Market Risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads, affects 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 returns.

The Bank has developed a comprehensive policy framework, limits, key risk indicators (KRIs) and risk management tools for assets and liability management and market risk management to ensure interest rate risk and foreign exchange risks are within the risk appetite of the Bank. An independent Treasury Middle Office and a Market Risk Management Function are established to monitor and manage the market risks on a regular basis. The Middle Office monitors the asset and liability position under the supervision of ALCO.

The Bank performs stress tests involving sensitivity analysis and examines the effects of market risk indicators to the income and economic capital through earning and economic value perspectives.

Liquidity Risk

Liquidity risk is the risk that the Bank will not be able to efficiently meet both expected and unexpected current and future cash flows and collateral needs without affecting either daily operations or the financial condition of the Bank. The primary aspect in funding liquidity risk is the risk that the Bank is unable to meet its financial obligations as they fall due.

Liquidity risk is mainly monitored through Stock Approach & Floor Approach. 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 and maintenance of liquidity ratios. Under floor approach the bank monitors contractual and behavioral liquidity mismatches through static and dynamic maturity analysis.

The ALCO monitors the Bank's liquidity position by reviewing liquidity reports and ratios produced by the Finance, Treasury and Risk Management Divisions. The maturity gap analysis of assets and liabilities is provided in the page 132 of the Annual Report.

Strategic Risk

Strategic risk arises from bank's inability to implement appropriate business plans, strategies, decision making, resource allocation and its inability to adapt to changes in its business environment.

The Board of Directors and Senior Management oversight is an integral part of our strategic risk management program. The Board of Directors mainly 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.

We have implemented robust strategic risk mitigation and monitoring measures to continuously assess and monitor performance aligning to strategic goals. Regular reviews through KRIs are monitored and reported. Industry and competitor benchmark is carried out to ensure achievement of strategic objectives in line with the industry performance.

Reputational Risk

Reputational risk is the possible loss of the bank's reputational capital.

The Bank's reputation can be tarnished due to several factors such as unethical practices, regulatory actions, customer dissatisfaction, complaints and negative publicity, etc.

The Bank's operational risk management division assess reputational risk based on the information gathered on processes such as loss event and near miss identification, peer group comparison, staff conduct and competence, customer service and complaints management etc. The RMD monitors overall position of the reputational risk under a developed framework and mitigation controls are being suggested. The Bank is committed to continuously strive to maintain and improve in all the business activities that it operates.

Compliance Risk

Compliance risk is defined as the risk of legal or regulatory sanctions, material financial loss, or loss to reputation and integrity an entity may face as a result of its failure to comply with laws, regulations, rules, regulatory organizational standards, codes of conduct, internal policies and procedures applicable to its business activities. It is also the threat posed on the Bank's financial, organizational, or reputational standing resulting from the breach of such laws, regulations, rules, codes of conduct applicable to the banking activities.

Compliance laws, rules and standards cover areas such as observing proper standards of market conduct, managing conflicts of interest, treating customers fairly, and ensuring the suitability of customer advice, prevention of miss-selling, confidentiality and observation of Chinese walls, Compliance with the Customer Charter, and areas of Anti Money Laundering, Know Your Customer (KYC) and Customer Due Diligence (CDD) processes, to identify and report suspicious transactions and prevention of Terrorist Financing.

Cargills Bank has taken necessary measures to implement these regulatory and legislative requirements for Anti Money Laundering (AML) and Terrorist Financing. The steps taken in this regard include customer identification, Due Diligence and verification, maintenance of records, ascertaining sources of funds, monitoring and maintenance of AML programmes, Compliance reviews and an installation of a sophisticated AML software system "Compass" for transaction monitoring, CDD, Customer Screening, risk profiling and suspicious transaction and regulatory reporting.

A compliance culture has been driven within the Bank with, the tone from the top driven by the Directors and the Senior Management, together with processes and work flow designed with the required checks and balances to facilitate compliance. The compliance function works closely with the business lines and operational units to ensure consistent management of compliance risk.

The Head of Compliance submits monthly /quarterly reports on the compliance status to the Board and the BIRMC, to enable oversight to be exercised with the added safeguard of being subject to internal audit. A culture of compliance permeates all levels of the Bank with regular training including E learning modules being developed as mandatory training across the entire staff cadre.

Legal Risk

Legal risk is the risk of financial or reputational loss that can result from lack of awareness or misunderstanding of, ambiguity in, or reckless indifference to, the way law and regulation apply to our business, its relationships, processes, products and services. The bank's internal legal team covers all legal related activities of the Bank where external expertise is obtained when required. Risk Management Division provides feedback on improvements through evaluation of set KRIs and findings obtained through review mechanisms.

Risk Management Contd.

Cyber and Data Security

The Bank is very focused on emerging cyber and information security risks and steps to mitigate them. The increased frequency of financial institutions being targeted globally, requires the Banking sector in Sri Lanka to deploy internationally proven security tools and processes. Cargills Bank is playing a pioneering role by investing in people, technology, and processes and ensuring cyber security is a core component of the operational risk profile.

The Bank has implemented a cognitive artificial intelligence enabled Security Operations Centre that enables early detection, threat classification and response, while strengthening preventive measures to mitigate cyber risk. The Bank also subscribes to an internationally recognised Cyber Fraud detection and take-down service. As an ISO27001 : 2013 certified organisation, the bank enforces Information Security policy and audits compliance, and fosters staff awareness through E-Learning, and specialised training.

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 as guided by the regulatory directions issued under Basel III.

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.

As at the end of the year 2017, the bank's CAR of 34.76% is well above the regulatory CAR requirement of 11.25% specified under Basel III.

The disclosure requirement as per the Banking Act Direction No. 1 of 2016, is included in pages 153 to 159 of the annual report.

Board Integrated Risk Management Committee Report

The Board Integrated Risk Management Committee (BIRMC) was established as a Committee of the Board of Directors in compliance with Section 3 (6) of the Banking Act Direction No. 11 of 2007 on "Corporate Governance for Licensed Commercial Banks in Sri Lanka".

Composition

The Committee comprises seven (7) members of which four (4) members are Non-Executive Directors. The Head of Compliance is the Secretary to the Committee. Mr. R.Theagarajah was the Chairman during 2017 and stepped down from that position with effect from 1 January 2018 following his appointment as the MD/CEO.

Members

The following are the members of the Committee:

1. Faizal Salieh - Chairman (w.e.f. 1 January 2018) (Independent Non-Executive Director)
2. Rajendra Theagarajah - Former Chairman (resigned w.e.f. 1 January 2018) (Non- Executive Non-Independent Director till 31 December 2017)
3. Mangala Boyagoda (Independent Non-Executive Director)
4. Richard Ebell (Independent Non-Executive Director)
5. Prabhu Mathavan (Executive Director)
6. Jayani Senanayke (Chief Risk Officer w.e.f. 22/05/2017)
7. Summaiya Macan Markar (Head of Compliance) - Secretary to the Committee

The following Executive Management Officers attend the BIRMC meetings as permanent invitees:

1. Chief Operating Officer
2. DGM- Retail Banking
3. AGM-Corporate Banking
4. Head of Treasury
5. Head of Finance

Role & Responsibilities

In accordance with the Terms of Reference (TOR) set by the Board, the primary role of the Committee is the oversight of the Bank's governance of enterprise-wide risks, the risk management framework, policies, procedures and work practices and its key responsibilities include:

- Assisting the Board of Directors in understanding the risk management function adopted by the Bank in operating the banking business and ensures the effectiveness and the adequacy of the same.
- Ensuring the Bank has a comprehensive risk management framework and periodically reviewing the risk appetite set by the Board.
- Reviewing and recommending for the approval by the Board of Directors the Bank's key risk policies on the establishment of risk limits and receiving reports on Bank's adherence to limits.
- Reviewing the Bank's credit, market, liquidity, operational, strategic and other risk management frameworks, including significant policies, processes and systems that Management uses to manage risk exposures as well as the risk measurement methodologies and approaches to stress testing.
- Reviewing, assessing, monitoring and providing feedback to Management on the various categories of risk the Bank faces, including but not limited to credit, market, liquidity, operational and strategic risk, the exposures in each category, significant concentrations within those risk categories, metrics used to monitor the exposures and Management's views and actions on the acceptable and appropriate levels of the risk exposures.
- Reviewing the independence and authority of the Risk Management and Compliance functions.
- Reviewing and assessing the Bank's Risk Capital Framework
- Reviewing the adequacy and effectiveness of the Management level committees such as the Executive Risk Management Committee (ERMC), the Assets & Liabilities Management Committee (ALCO) and the Executive Credit Committee (ECC) in assessing, mitigating and managing the enterprise-wide risks within the quantitative and qualitative risk limits specified.

The BIRMC through its oversight role monitors the Bank's internal risk control environment and works in conjunction with the Board Audit Committee in the assessment and mitigation of risks.

Board Integrated Risk Management Committee Report Contd.

While the governance of risk rests with the BIRMC and the Board, the management and mitigation of risks are carried out by the various Management level committees.

Performance

In 2017, the year under review, the Committee

- Strengthened the Integrated Risk Management Framework by reviewing and developing policies related to credit, market, liquidity and operational risks, risk based delegation of authorities and pricing mechanism.
- Reviewed and developed risk management tools such as rating models and dashboards.
- Assessed and monitored Bank's overall risk profile by way of a comprehensive risk indicator system and monitored the compliance with internally set risk appetite limits.
- Strengthened credit risk management through independent loan reviews and portfolio management.
- Strengthened the Credit Risk Monitoring Processes on stressed credit, watch-listed customers, and credit excesses on a regular basis enabling early identification of warning signals in order to enable the Management to proactively remedy stressed credits.
- Developed a comprehensive stress testing framework.
- Developed Internal Capital Adequacy Assessment Process to review capital adequacy under stressed scenarios for budgeted performances.
- Strengthened the operational risk management framework through Risk Control Self-Assessments.
- Initiated a sound compliance risk management framework supported by policies and procedures.

The Core Capital Adequacy ratio (Tier 1) of 34.39% stands well above the industry averages and the regulatory requirement.

Meetings

The total number of meetings held for the year is six (6) covering at least one in each quarter in accordance with the BIRMC TOR and all the Directors Attended the meetings.

Reporting

The discussions and conclusions reached at the Committee meetings are recorded in the BIRMC minutes and are reported to the Board for information and notification. Risk Assessment and Compliance Reports are also tabled at Board meetings. Recommendations made by the BIRMC during the year under review were approved by the Board without any material changes.

Performance Evaluation

The Committee carried out a self evaluation exercise at the end of the year and received a very satisfactory overall rating and constructive feedback for continuous improvement.

Faizal Salieh
Chairman, Board Integrated Risk Management Committee

Colombo
28 March 2018

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 at the end of the year:

1. Mangala Boyagoda - Chairman (Independent - Non Executive Director)
2. Faizal Salieh - Member (Independent - Non Executive Director)
3. Ranjit Page - Member (Non-Executive - Non Independent Director)
4. Rajendra Theagarajah - Member (Non-Executive - Non Independent Director till 31 December 2017)

Ms. Kamalini De Silva functioned as the Secretary of the Committee.

Profiles of the members of the Committee are given on pages 16 to 18 of the Annual Report.

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 external advice, including legal and/or other professional advice, at the Bank's expense as it considers it necessary.

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 six (6) meetings. Mr. V R Page. Mr. M O F Salieh and Mr. R Theagarajah attended all the meetings and Mr. E M M Boyagoda was excused for one meeting.

The Committee considered and recommended the suitability of three retiring directors, Mr. L R Page, Mr. V R Page and Mr. R Theagarajah for re-election to the Board of Directors.

The Committee considered the suitability of identified candidates for the posts of Managing Director/CEO, Executive Director, Head of Financial Reporting, DGM Recoveries & Credit Administration, DGM - Retail Banking, AGM - Cards, Head of Risk/Chief Risk Officer.

The Committee also formulated a procedure to select /appoint directors, CEO and Key Management Personnel and recommended for Board approval.

Mangala Boyagoda
Chairman - Board Nomination Committee

Colombo
28 March 2018

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. Ranjit Page - Chairman (w.e.f. 1 January 2018)

   (Non Independent - Non Executive Director)
2. Rajendra Theagarajah - Chairman (1st January 2017- 31st December 2017)

   (Non Independent - Non Executive Director till 31 December 2017)
3. Faizal Salieh - Member (Independent - Non Executive Director)

Ms. Kamalini De Silva Company Secretary, functions as the Secretary of the Committee.

Profiles of the members of the Committee are given on pages 16 to 18 of the Annual Report.

Purpose of Establishing the Committee

The purpose of the Committee is to assist the Board in the discharge of its responsibilities and oversight relating 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 policies (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.

Four meetings were held during the year and all the members attended the meetings:

The Committee considered and reviewed on behalf of the Board, The Organizational Chart of the Bank, Terms of Reference of the Board HR & Remuneration Committee, Goals & Targets for CEO and the Key Management Personnel , and the Succession Plan for Corporate Management.

The Committee considered and recommended for Board approval the following policies

1. Policy on Occupational Health & Safety
2. Remuneration Policy
3. Amendment to the policy on leave and attendance
4. HR and Remuneration Policy
5. Career Development Policy
6. Policy on Learning and Growth

Ranjit Page
Chairman - Board HR and Remuneration Committee

Colombo
28 March 2018

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:
R A Ebell (as Chairman)
V R Page (Non-Executive Director)
E M M Boyagoda (Non-Executive Director)

Mr Chandima Samarasinghe, Head of Internal Audit, served as the Committee's Secretary throughout the year.

Mr R Theagarajah, then Joint Deputy Chairman (now Managing Director / CEO), Mr. P S Mathavan, then Managing Director / CEO (now Executive Director), Mr R Muttiah, Chief Operating Officer, Ms I Sanjeewanie, then Head of Finance, and Mr T Nagalingam, now Head of Financial Reporting, attended meetings by invitation during the year to assist BAC awareness of key issues and developments relevant to the Board Audit Committee, and provide responses to questions asked.

KPMG, external auditors, was invited to attend meetings at their discretion from 26 July 2017 and did so from that point.

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, R A Ebell, is a Fellow of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Chartered Institute of Management Accountants (CIMA), UK, and has experience in 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. The profiles of the three BAC members are included on pages 16 to 18 of the Annual Report.

DUTIES AND ROLE OF THE BOARD AUDIT COMMITTEE

The BAC's duties and role are prescribed in its Charter. It has oversight responsibility for:

- The integrity of the annual and quarterly financial statements of the Bank and the appropriateness of accounting policies adopted, which it assessed by reviewing these statements with the management and external auditors.
- The effectiveness of the Bank's systems of internal controls including internal controls over financial reporting, which it assessed through review of internal audit reports and discussion with management and the external auditors.
- Independence and performance of internal audit, which it assessed through review of audit plans and work done, and internal audit reports provided.
- Monitoring the independence and performance of the External Auditor, which it assessed through multiple interactions during the year, and making recommendations on their reappointment and the fees payable to them.

MEETINGS OF THE BOARD AUDIT COMMITTEE

The Committee met nine times in 2017. Attendance at these meetings was:

R A Ebell	9 / 9 Meetings
V R Page	9 / 9 Meetings
E M M Boyagoda	9 / 9 Meetings

KPMG were present at six meetings during the year.

FINANCIAL REPORTING

The Committee reviewed with management, who provided to the BAC internal assurances of compliance, 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 Auditors 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 and its resources. The BAC had regular interaction with the Head of Internal Audit, who serves as its Secretary.

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

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, KPMG. The BAC recommended the fees for audit services and reviewed the fees applicable on other 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 3 confidential meetings with the external auditors without any representative of Bank management present, 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 did not have any relationship or interest in the Company which had a bearing on their independence. The Committee reviewed the external audit plan and audit findings, as well as the auditors' management letters and followed up on issues raised.

EVALUATION OF THE COMMITTEE

A self- evaluation of the workings of the Committee was conducted in early 2017, and a further evaluation was conducted in December / January 2018. The findings from these evaluations are appropriately reviewed by the BAC.

On behalf of the Audit Committee

Richard Ebell

Richard Ebell
Chairman of Audit Committee

Colombo
28 March 2018

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, 2017.

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 changed its name to "Cargills Bank Limited" on 28 January 2014. It was 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 28 March 2018.

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;

	2017 Rs. '000	2016 Rs. '000
Profit / (Loss) before taxation	621,137	(56,270)
Taxation	(108,278)	68,337
Profit for the year	512,859	12,067
Accumulated loss brought forward	(725,747)	(737,703)
Transfer to reserve fund	(25,643)	(603)
Losses to be carried forward	(236,882)	(725,747)

FINANCIAL STATEMENTS

The Financial Statements of the Bank are given on page 80 to 152 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 income could be shown as follows:

	2017 Rs. '000	2016 Rs. '000
Interest income	2,850,581	1,540,488
Fees and commission income	159,196	103,183
Net gains / (losses) from trading	3,100	(1,361)
Net gains / (losses) from Financial Investments	18,760	12,534
Other income	580,176	46,869

SHAREHOLDERS' FUNDS AND RESERVES

The Bank's total reserves as at 31 December 2017 stood at a negative balance of Rs. 200.1 Mn. This comprises an accumulated loss of Rs. 236.8 Mn, statutory reserve of Rs. 26.2 Mn and available-for-sale reserve of Rs. 10.5 Mn. The movement in accumulated loss and available-for-sale reserve are shown in Notes 36 and 37.2 to the Financial Statements.

AUDITORS' REPORT

The Auditors of the Bank are Messrs KPMG, Chartered Accountants. Their report on the Financial Statements is given on page 79. They come up for re-election at the Annual General Meeting, with the recommendation 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 86 to 103.

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 are given in Note 45 to the Financial Statements.

DIRECTORS' REMUNERATION

Directors' remuneration and other benefits of the Directors are given in Note 14 and 45 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 2017 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 - Deputy Chairman	Non Executive	Non Independent
Rajendra Theagarajah - Managing Director / CEO	Executive (Non Executive till 31 December 2017)	Non Independent (Appointed as the MD/ CEO on 1 January 2018)
Prabhu Mathavan - Executive Director (MD / CEO till 31 December 2017)	Executive	Non Independent (Appointed as the Executive Director on 1 January 2018)
Mangala Boyagoda - Senior Director	Non Executive	Independent
Kamalini De Silva (Ms.) – Company Secretary	Executive	Non Independent (Resigned as a Director w.e.f. 17 January 2018)
Faizal Salieh	Non Executive	Independent
Richard Ebell	Non Executive	Independent

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

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

DIRECTORS' INTEREST

Related party transactions of the Bank are disclosed in Note 45 to the Financial Statements on page 139 to 143. In addition, transactions with entities where the Directors of the Bank hold directorates are disclosed on page 72. The Directors have no direct or indirect interest or proposed contract other than those disclosed.

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

AUDITORS

In accordance with the Companies Act No. 7 of 2007, a resolution for the re-appointment of Messrs KPMG, Chartered Accountants, to the Bank is being proposed at the Annual General Meeting. Audit and audit related fees payable to KPMG for the year under review amounted to Rs. 6.8 Mn (Audit - Rs. 1.5 Mn and Audit related services - Rs. 5.3 Mn).

STATED CAPITAL

The Stated Capital of the Bank is Rs. 11,394.42 Mn, the details of which are given in Note 35 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 its 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 28 to 52 of the Annual Report.

CAPITAL EXPENDITURE

The Bank's expenditure on Property, Plant & Equipment at cost amounted to Rs. 200.34 Mn during 2017, details of which are given in Note 27 to the Financial Statements. Expenditure on Intangible Assets at cost amounted to Rs. 281.48 Mn during 2017, details of which are given in Note 28 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, 2017 was 70 (69 as at 31 December 2016). The schedule indicating the shareholders' analysis is on pages 160 to 161, '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 Corporate Governance rules, transparency and accountability, the Board has appointed the required Board Committees and their composition is given in the Corporate Governance report.

NEW BRANCHES

3 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 Institute of Chartered Accountants of Sri Lanka, No 30A, Malalasekara Mawatha, Colombo 07 on 27 April 2018. The Notice of Meeting can be found on page 162 of the Annual Report.

GOING CONCERN

The Directors after making necessary inquiries and reviews including reviews of the Bank's ensuing year's budget for capital expenditure requirements, future prospects and risk and cash flow 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

Rajendra Theagarajah
Managing Director / CEO

Kamalini De Silva (Ms.)
Company Secretary

Colombo
28 March 2018

Directors Interest

In addition to the related party transactions disclosed in note 45.4 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 & expenses Charged Rs. '000	Balance Outstanding	
							31-Dec-2017 Rs. '000	31-Dec-2016 Rs. '000
Wealth Trust Securities (Pvt) Ltd	Common Directors	Deposits	-	-	-	1	128	99
Sierra Construction Ltd	Common Directors	Loans & Advances	400,000	-	10,929	1	201,445	-
		Off balance sheet accommodations	1,400,000	-	-	1,701	201,680	379,510

Directors' Responsibility for Financial Reporting

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

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

In terms of Sections 150 (1) and 151 (1) of the Companies Act No. 7 of 2007, the Directors of the Bank are responsible for ensuring that the Bank prepares its Financial Statements in a manner that gives a true and fair view of the state of affairs of the Bank as at 31 December 2017 and the profit of the Bank for the financial year ended on 31 December 2017 and places them before a General Meeting. The Financial Statements comprise the Statement of Financial Position as at 31 December 2017, Income Statement, Statements of Profit or Loss and Other Comprehensive Income, 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 give a true and fair view of;

a) the financial position of the Bank as at 31 December 2017; and
b) the financial performance of the Bank for the financial year then ended.

The Financial Statements of the Bank 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 have been signed by two Directors of the Bank on 28 March 2018 as required by Section 150 (1) of the Companies Act.

Under Section 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 enable the Directors to prepare Financial Statements, in accordance with the said Act and also 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 judgements 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, the Companies Act No. 7 of 2007, the Sri Lanka Accounting and Auditing Standards Act of No. 15 of 1995, the Banking Act No. 30 of 1988 and amendments thereto.

The Directors have taken adequate measures with regard to inspecting 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 2017 are given on page 75 to 76 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 77 of the Annual Report.

The Bank's External Auditors, Messrs KPMG, carried out reviews and sample checks on the system of internal controls as they are considered appropriate and

Directors' Responsibility for Financial Reporting Contd.

necessary for expressing their opinion on the Financial Statements and maintaining accounting records. They have examined the Financial Statements made available to them together with all financial records, related data and minutes of the Shareholders' and Directors' meetings and expressed their opinion which appears as reported by them on page 79 of this Annual Report.

The Directors are satisfied that all statutory payments in relation to 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
28 March 2018

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, the management is in the process of updating the procedure manuals and completing documentation of key controls for selected key processes. The bank updated the internal control matrix to reflect the current banking operations, with the assistance of an external consultant during the year. Therefore, the testing carried out by the Internal Audit Department during the year were aligned with the 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 recommends 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 all the branches were audited during the year and observations reported to the Audit Committee. Information System (IS) audit was outsourced to an external consultant with a predefined scope.

Directors' Statement on Internal Controls Over Financial Reporting Contd.

- 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 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 66.
- 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 audits undertaken in 2017.
- The Compliance Department has taken initiatives to implement a robust compliance process to address and monitor compliance with regulatory requirements.
- 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' which is effective from 1 January 2018, as the Standard will have a significant impact on the assessment 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 action plan was developed to address these aspects within a reasonable time frame. The day one impact assessment of the potential impact on the transition to SLFRS 9 has been completed with the assistance of an external consultant. The next phase, being the implementation phase, is in progress.
- The comments made by the External Auditors in connection with the internal control system over financial reporting in the previous year was reviewed during the year and appropriate steps are being taken to address them. The recommendations made by the External Auditors in 2017 in connection with the internal control system over financial reporting will be dealt with when they are known.

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 is 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 2017 and have reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal controls over financial reporting of the Bank.

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

Rajendra Theagarajah
Managing Director/ Chief Executive Officer

Kamalini de Silva

Kamalini De Silva (Ms.)
Company Secretary

Colombo
28 March 2018

Independent Assurance Report

KPMG
(Chartered Accountants)
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Colombo 00300, Sri Lanka.

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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") set out in pages 75 to 76 in this annual report.

MANAGEMENT'S RESPONSIBILITY FOR THE STATEMENT ON INTERNAL CONTROL

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of 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.

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
28 March 2018

CEO's and CFO's Responsibility for Financial Reporting

The Financial Statements of Cargills Bank Limited ("the Bank") for the year ended 31 December 2017 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 Bank.

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 judgement and complexity were discussed with the Audit Committee and External Auditors. The Board of Directors and the Management of the Bank accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgements 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 Bank's state of affairs is reasonably presented. To ensure this, the Bank 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 2017, as required by the Banking Act Direction No. 11 of 2007, result of which is given on page 75 to 76 of the Annual Report, 'Directors' Statement on Internal Controls over Financial Reporting'. 'External Auditors' Assurance Report on the Bank's Internal Controls over Financial Reporting' is given on page 77 of the Annual Report.

The Financial Statements of the Bank were audited by Messrs. KPMG, Chartered Accountants, the independent External Auditors. Their report is given on page 79 of the Annual Report. The Audit Committee of the Bank meets periodically with the Internal Audit team and the independent External Auditor to review their audit plans, assess the manner in which these auditors are 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 Bank other than those disclosed in the Note 48 to the Financial Statements.

All contributions, levies and taxes paid on behalf of and in respect of the employees of the Bank as at 31 December 2017 have been paid or where relevant provided for.

Rajendra Theagarajah
Managing Director/ Chief Executive Officer

Thamilchelvan Nagalingam
Head of Financial Reporting

Colombo
28 March 2018

Independent Auditors' Report

KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
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TO THE SHAREHOLDERS OF CARGILLS BANK LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Cargill Bank Limited, ("the Company"), which comprise the statement of financial position as at December 31, 2017, and the income statement, statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information set out on pages 80 to 152 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 financial statements give a true and fair view of the financial position of the Company as at December 31, 2017, 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. 07 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 and the financial statements of the Company, comply with the requirements of section 151 of the Companies Act.

KPMG

CHARTERED ACCOUNTANTS

Colombo
28 March 2018

Income Statement

For the year ended 31 December	Note	2017 Rs. '000	2016 Rs. '000	Change %
Gross income		3,611,813	1,701,713	112
Interest income		2,850,581	1,540,488	85
Less: Interest expenses		1,369,924	586,998	133
Net interest income	7	1,480,657	953,490	55
Fees and commission income		159,196	103,183	54
Less: Fees and commission expenses		45,563	23,960	90
Net fees and commission income	8	113,633	79,223	43
Net gains / (losses) from trading	9	3,100	(1,361)	328
Net gains / (losses) from financial instruments designated at fair value through profit or loss		-	-	-
Net gains from financial investments	10	18,760	12,534	50
Other income	11	580,176	46,869	1,138
Total operating income		2,196,326	1,090,755	101
Less: Impairment for loans and other losses	12	131,675	115,622	14
Net operating income		2,064,651	975,133	112
Less: Expenses				
Personnel expenses	13	516,919	410,757	26
Other expenses	14	752,154	577,644	30
Operating Profit/ (loss) before Value Added Tax (VAT)		795,578	(13,268)	6,096
Less: Value Added Tax (VAT) on financial services		174,441	43,002	306
Profit/(Loss) before tax		621,137	(56,270)	1,204
Less: Income tax expenses / (reversal)	15	108,278	(68,337)	258
Profit for the year		512,859	12,067	4,150
Basic earnings per share (Rs.)	16	0.58	0.02	2,800

The notes to the Financial Statements appearing on pages 86 to 152 form an integral part of these Financial Statements.

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December	Note	2017 Rs. '000	2016 Rs. '000	Change %
Profit for the year		512,859	12,067	4,150
Other comprehensive income, net of tax				
Items that will never be reclassified to profit or loss				
Net actuarial gains on defined benefit plans	34.1	2,290	683	235
Deferred tax liability on actuarial gains on defined benefit plans	29.2	(641)	(191)	(236)
		1,649	492	235
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		37,006	(6,522)	667
Deferred tax (liability) / asset on net fair value changes	29.2	(10,362)	1,826	(667)
		26,644	(4,696)	667
Other comprehensive income for the year, net of tax		28,293	(4,204)	773
Total comprehensive income for the year		541,152	7,863	6,782

The notes to the Financial Statements appearing on pages 86 to 152 form an integral part of these Financial Statements.

Statement of Financial Position

As at 31 December	Note	2017 Rs. '000	2016 Rs. '000	Change %
ASSETS				
Cash and cash equivalents	19	685,652	618,120	11
Balances with Central Bank of Sri Lanka	20	925,719	417,161	122
Placements with Banks	21	4,035,671	2,118,462	91
Securities purchased under resale agreements		-	1,350,759	(100)
Derivative financial instruments	22	1,272	-	-
Loans & receivables to Banks	23	44,131	158,367	(72)
Loans & receivables to other customers	24	20,797,560	13,424,038	55
Financial investments available for sale	25	4,751,412	1,569,722	203
Investment in subsidiary	26	-	566,917	(100)
Property, plant and equipment	27	347,234	213,253	63
Intangible assets	28	340,493	166,728	104
Deferred tax assets	29	139,752	200,360	(30)
Other assets	30	443,815	185,411	139
Total assets		**32,512,711**	**20,989,298**	**55**
LIABILITIES				
Due to banks	31	961,253	282,533	240
Derivative financial instruments	32	1,397	2,915	(52)
Due to other customers	33	18,808,432	9,435,089	99
Securities sold under repurchase agreements		742,994	340,702	118
Other liabilities	34	804,304	274,880	193
Total liabilities		**21,318,380**	**10,336,119**	**106**

As at 31 December	Note	2017 Rs. '000	2016 Rs. '000	Change %
EQUITY				
Stated capital	35	11,394,421	11,394,421	-
Statutory reserves	37.1	26,246	603	4,253
Accumulated losses	36	(236,882)	(725,747)	67
Other Reserves	37.2	10,546	(16,098)	166
Total equity		**11,194,331**	**10,653,179**	**5**
Total equity and liabilities		**32,512,711**	**20,989,298**	**55**
Contingent liabilities & commitments	38	**18,751,069**	10,619,325	77
Net assets value per share (Rs.)	39	**12.68**	12.06	5

The notes to the Financial Statements appearing on pages 86 to 152 form an integral part of these Financial Statements.

These Financial Statements have been prepared in compliance with requirements of the Companies Act No. 07 of 2007.

N Thamilchelvan
Head of Financial Reporting

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

R Theagarajah
Managing Director/ Chief Executive Officer

Mangala Boyagoda
Senior Director

28 March 2018
Colombo

Statement of Changes in Equity

	Stated Capital Rs. '000	Statutory Reserves Rs. '000	Accumulated Losses Rs. '000	Other Reserves (Available for Sale Reserve) Rs. '000	Total Rs. '000
Balance as at 01 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**
Balance as at 01 January 2017	**11,394,421**	**603**	**(725,747)**	**(16,098)**	**10,653,179**
Total comprehensive income for the year 2017					
Profit for the year	-	-	512,859	-	512,859
Other comprehensive income, net of tax	-	-	1,649	26,644	28,293
Total comprehensive income for the year 2017	-	-	514,508	26,644	541,152
Transactions with owners of the bank					
Contributions and distributions					
Transfer to statutory reserve	-	25,643	(25,643)	-	-
Total transactions with equity owners	-	25,643	(25,643)	-	-
Balance as at 31 December 2017	**11,394,421**	**26,246**	**(236,882)**	**10,546**	**11,194,331**

The notes to the Financial Statements appearing on pages 86 to 152 form an integral part of these Financial Statements.

Statement of Cash Flow

For the year ended 31 December	Note	2017 Rs. '000	2016 Rs. '000
Cash flow from operating activities			
Profit/(loss) before tax		621,137	(56,270)
Adjustments for:			
Non-cash items included in profit / (loss) before tax	40	(192,712)	260,291
Change in operating assets	41	(11,866,708)	(7,237,698)
Change in operating liabilities	42	10,517,902	5,933,427
Dividend income	11	(600)	(295)
Benefits paid on defined benefit plans	34.1	(1,881)	(2,222)
Net cash used in operating activities		(922,862)	(1,102,767)
Cash flow from investing activities			
Sale proceeds from disposal of subsidiary	50	1,065,573	-
Purchase of property, plant and equipment	27	(200,343)	(57,825)
Proceeds from sale of property, plant and equipment		3,750	
Purchase of intangible assets	28	(281,478)	(22,385)
Investment in subsidiary right issue		-	(115,717)
Dividends received	11	600	295
Net cash from / (used in) investing activities		588,102	(195,632)
Cash flow from financing activities			
Net proceeds from the issue of ordinary share capital		-	3,395,071
Change in securities sold under repurchase agreements		402,292	(1,652,681)
Net cash from financing activities		402,292	1,742,390
Net increase in cash & cash equivalents		67,532	443,991
Cash and cash equivalents at the beginning of the year		618,120	174,129
Cash and cash equivalents at the end of the year	19	685,652	618,120

The notes to the Financial Statements appearing on pages 86 to 152 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 carrying 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 Principal activities and nature of Operations

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

1.3 Number of Employees

The total number of employees of the Bank as at 31 December 2017 was 451 (2016 – 430).

2. BASIS OF ACCOUNTING

2.1 Statement of Compliance

The 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 68 to 71, 73 and 83 respectively.

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 Bank for the year under review. Refer pages 80 to 81.
- a Statement of Financial Position providing the information on the financial position of the Bank as at the year-end. Refer pages 82 to 83.
- a Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Bank. Refer page 84.
- a Statement of Cash Flows providing the information to the users, on the ability of the Bank to generate cash and cash equivalents and the needs of entities to utilise those cash flows. Refer page 85.
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information. Refer pages 86 to 152.

2.3 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Bank for the year ended 31 December 2017 were approved and authorised for issue by the Board of Directors on 28 March 2018.

2.4 Basis of Measurement

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

Items	Measurement basis
Derivative financial instruments	Fair value
Non-derivative financial instruments at fair value through profit or loss	Fair value
Available-for-sale financial assets	Fair value
Net defined benefit (asset) liability	Present value of the defined benefit obligation

2.5 Functional and Presentation Currency

Items included in the Financial Statements of 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 Bank's Functional and Presentation Currency.

2.6 Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period for all amounts reported in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter-period comparability.

The presentation and classification of the Financial Statements of the previous year is amended, where relevant for better presentation and to be comparable with those of the current year.

2.7 Presentation of Financial Statements

The assets and liabilities of the Bank 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 Statement of Financial Position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize 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 Use of Judgements and Estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's 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 estimates are recognised prospectively.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2017 is set out below in relation to the impairment of financial instruments and in the following notes in relation to other areas:

Notes to the Financial Statements Contd.

Note 3.2.3 – determination of the fair value of financial instruments with significant unobservable inputs;

Note 3.6.2 – measurement of defined benefit obligations: key actuarial assumptions;

Note 3.23 – recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used;

Note 3.7 to 3.9 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources; and

Note 3.2.5 – identification and measurement of impairment.

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 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 Bank'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

3.2 Financial instruments

3.2.1 Initial Recognition, Classification and Subsequent Measurement

3.2.1.1 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.

3.2.1.2 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'.

3.2.1.2.1 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.

3.2.1.3 Classification and subsequent measurement

FINANCIAL ASSETS

Bank 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:

3.2.1.3.1 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.

3.2.1.3.2 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 recognizing 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.

3.2.1.3.3 Derivatives recorded at fair value through profit or loss

Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

Other derivatives

If a derivative is not held for trading, and is not designated in a qualifying hedge relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of net income from other financial instruments at FVTPL.

3.2.1.3.4 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

Notes to the Financial Statements Contd.

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.

The Bank has no financial assets classified as held-to-maturity.

3.2.1.3.5 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 Bank intends to sell immediately or in the near term and those that the Bank 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, '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'.

Securities purchased under resale agreements (Reverse Repos)

When the Bank 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 Bank. 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.

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 Bank in the management of its short-term commitments.

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

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.

3.2.1.3.6 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.

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'.

FINANCIAL LIABILITIES

Bank 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.

3.2.1.3.7 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

Financial liabilities held-for-trading details of derivative financial liabilities are given in Note 32 on page 122.

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

3.2.1.3.8 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.

3.2.1.3.8.1 Deposits and borrowings

Deposits and borrowings are the Bank's sources of funding.

3.2.1.3.8.2 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.

3.2.1.3.8.3 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 Bank designates liabilities at fair value through profit or loss. Interest paid/ payable on these deposits is recognised in profit or loss.

3.2.1.3.8.4 Securities sold under repurchase agreements (Repos)

When the Bank 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 Bank's Financial Statements as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the 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 Bank.

Notes to the Financial Statements Contd.

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.

3.2.2 Amortised cost measurement

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3.2.3 Determination of Fair Value

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. These portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3.2.4 Reclassification of Financial Assets & Liabilities

The Bank 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 Bank 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 Bank 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 Bank 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 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.

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

The Bank does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition. Further, the Bank 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.

3.2.5 Impairment of Financial Assets

The Bank 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 Bank 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.

3.2.5.1 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 Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank 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'.

Notes to the Financial Statements Contd.

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.

3.2.5.2 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.

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.

3.2.5.3 Renegotiated loans

Where possible, the Bank 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.

3.2.5.4 Collateral valuation
The Bank 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.

3.2.6 Derecognition of Financial Assets and Financial Liabilities
3.2.6.1 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.

3.2.6.2 Financial liabilities
A financial liability is derecognized 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.

3.2.7 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.

3.3 Property, Plant and Equipment
Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

Any gain or loss on disposal of an item of property and equipment is recognised within other income in profit or loss.

Subsequent expenditure

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure

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will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

Depreciation

Depreciation is calculated to write off the cost of items of property, plant 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. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Bank will obtain ownership by the end of the lease term.

The estimated useful lives are as follows:

Furniture & Fittings	5 years
Office Equipment	5 years
Computer hardware	4 years
Motor Vehicle	4 years
Machinery	5 years
Improvements to Leasehold Buildings	8-15 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3.4 Intangible Assets

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

Expenditure on internally developed software is recognised as an asset when the Bank 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

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.

Amortisation

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is 4-8 years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3.5 Impairment of Non-Financial Assets

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs.

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.6 Employee Benefits

3.6.1 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.

3.6.2 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 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.

3.6.3 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 Bank 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.

3.6.4 Terminal Benefits

Termination benefits are expensed at the earlier of when the Bank can no longer withdraw the offer of those benefits and when the Bank 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.

3.7 Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

3.8 Financial guarantees and Loan Commitments

'Financial guarantees' are contracts that require the Bank 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

Notes to the Financial Statements Contd.

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.

3.9 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 Bank (as a lessor and as a lessee) form part of commitments and pending legal claims against the Bank form part of contingencies.

3.10 Restructuring

Provision for restructuring is recognised when the Bank 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.

3.11 Onerous Contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank 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.

3.12 Stated Capital and Reserves

3.12.1 Debt Vs Equity

The Bank 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 Bank in order to meet various legal and operational requirements.

3.13 Earnings Per Share

The Bank presents basic and diluted EPS data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Bank by the weighted-average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

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 Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

3.15 Interests

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense presented in the statement of profit or loss and OCI include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis; and
- interest on available-for-sale investment securities calculated on an effective interest basis;

Fair value changes on other derivatives held for risk management purposes, and other financial assets and financial liabilities carried at FVTPL, are presented in net income from other financial instruments at FVTPL in the statement of profit or loss and OCI.

3.16 Fee and Commission Income

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Other fees and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

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 Net income from other financial instruments at FVTPL

Net income from other financial instruments at FVTPL relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships and financial assets and financial liabilities designated at FVTPL. It includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

3.19 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.

3.20 Leases

Lease payments – Lessee

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 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.

Notes to the Financial Statements Contd.

Lease assets - Lessee

Assets held by the Company under leases that transfer to the Company substantially all of the risks and rewards of ownership are classified as finance leases. The leased asset is initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Company's statement of financial position.

3.21 Borrowing Costs

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

3.22 Expenditure Recognition

Expenditure is recognised in the financial statements as they are incurred and recognised on an accrual basis.
All expenditure incurred in the running of the business and in maintaining the Property, Plant & Equipment in a state of efficiency has been charged to the profit or loss.

3.23 Taxation

3.23.1 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.

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. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

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.

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

Bank 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 Bank 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.

3.23.2 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.

3.23.3 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.

3.23.4 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.

3.23.5 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 Bank 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 Bank'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
- 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.

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6. NEW ACCOUNTING STANDARDS

SLFRS 9 – 'FINANCIAL INSTRUMENTS'

SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 – Financial Instruments: Recognition and Measurement is effective for annual reporting periods beginning on or after January 01, 2018. The key aspects of SLFRS 9 are;

1. Classification – Financial assets

SLFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

SLFRS 9 includes three principal classification categories for financial assets – i.e. measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). It eliminates the existing LKAS 39 categories of Held-to-maturity, Loans and receivables and Available-for-sale.

2. Impairment – Financial assets , loan commitment and financial guarantee contracts

SLFRS 9 replaces the 'Incurred Loss Model in LKAS 39 with forward looking "Expected Loss Model (ECL). This will require considerable judgement over how changes in economic factors affect ECL, which will be determined in a probability weighted basis.

SLFRS 9 requires loan loss to be recognised at an amount equal to either 12 month ECL or life time ECL .

Lifetime ECLs are the ECLs that result from possible default events over the expected life of a financial instrument, whereas 12 months ECLs are the portion of the ECLs that results from default events that are possible within 12 months after the reporting date.

3. Inputs into measurement of ECLs

The key inputs into measurement of ECLs are likely to be the term structures of the following variables which will be derived from internally developed statistical models and other historical data that leverage regulatory models. They will be adjusted to reflect forward looking information.

- Probability of default (PD) are estimates at a certain date which will be calculated based on statistical models and assessed using rating tools tailored to the various categories of counterparties and exposures
- Loss Given Default (LGD) is the magnitude to the likely loss if there is default. The Bank estimates LGD parameters based on history of recovery rates of claims against defaulted counter parties.
- Exposure at Default (EAD) represents the expected exposure in the event of a default. The Bank will derive the EAD from the current exposure to the counter party and potential chances to the current amount allowed under the contract.

The most significant impact on the Bank's financial statements from the implementation of SLFRS 9 is expected to result from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments within the scope of SLFRS 9.

The Bank has employed statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposure and how these are expected to change as a result of the passage of time. This analysis include the identification and celebration of relationship between changes in default rates and changes in key macro-economic factors as well as analysis of the impact of certain other factors on the risk of default. However, due to limitation of data as the Bank has been in operations only since 2014, only two years data has been analysed in arriving at PD.

The Bank has used regulated LGD parameters recommended by BASEL II as the Bank's own data based on the history of recovery rates of claims against defaulted counter parties was limited given that the banking operations were commenced only from 2014.

EAD for lending commitments and financial guarantees, include the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which has been estimated based on historical observations and forward looking forecasts

Under SLFRS 9, the Bank has incorporated forward looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The Bank has completed the initial high level assessment of the potential impact on its Financial Statements for the year ended 31 December 2016, resulting from the application of SLFRS 9 with the assistance of an external consultant.

Based on the preliminary assessments undertaken to date, which is yet to be audited, the total estimated additional loan loss provision on the financial statements for the year ended 31 December 2016 on adoption of SLFRS 9 is expected to be in the range of 35 % to 45 %. It will also have an impact on Tier 1 Capital Adequacy Ratio of approximately 30 basis points as at 31 December 2016.

The above assessment which is yet to be audited, is preliminary because not all transition work has been finalised. The actual impact of adopting SLFRS 9 on 1 January 2018 may change because;

- SLFRS 9 will require the Bank to revise accounting process and internal controls and these changes are not yet complete;
- The Bank is refining and finalising its models for ECL calculations; and
- The new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Bank finalises its first financial statements for the year 31 December 2018 that include the date of initial application.

The Bank is in the process of assessing the additional loan loss provision impact on the Financial Statements for the year ended 31 December 2017, resulting from the application of SLFRS 9.

SLFRS 15 – 'REVENUE FROM CONTRACTS WITH CUSTOMERS'

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. 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.

The 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 Bank is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 16.

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For the year ended 31 December	2017 Rs. '000	2016 Rs. '000
7 NET INTEREST INCOME		
Interest income (Refer Note 7.1)	2,850,581	1,540,488
Less: Interest expenses (Refer Note 7.2)	1,369,924	586,998
Net interest income	1,480,657	953,490
7.1 Interest income		
Cash & cash equivalents	35,315	13,311
Placements with other banks	137,929	209,278
Loans & receivable to banks	54,873	38,986
Loans & receivables to other customers	2,343,040	1,134,882
Financial investments available for sale	279,424	144,031
Total interest income	2,850,581	1,540,488
7.2 Interest expenses		
Due to banks	27,416	10,140
Due to other customers	1,314,056	531,031
Other borrowings	28,452	45,827
Total interest expenses	1,369,924	586,998
7.3 Net interest income from Sri Lanka Government Securities		
Interest income	315,476	176,851
Less : Interest expenses	28,452	45,827
Sub total	287,024	131,024

The Inland Revenue Act No. 10 of 2006 and the amendments thereto, provide that a company which derives net interest income from 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 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. 28.7 Mn. (2016-Rs.13.1).

For the year ended 31 December	2017 Rs. '000	2016 Rs. '000
8 NET FEES AND COMMISSION INCOME		
Fees and commission income (Note 8.1)	159,196	103,183
Less: Fees and commission expenses (Note 8.2)	45,563	23,960
Net fees and commission income	113,633	79,223
8.1 Fees and commission income		
Loans & advances	36,542	22,214
Debit cards	6,053	2,165
Trade & remittances	48,492	35,991
Guarantees	40,607	20,607
Deposits	15,081	8,644
Other financial services	12,421	13,562
Total commission income	159,196	103,183
8.2 Fees and commission expenses		
Debit cards	14,528	121
Trade & remittances	1,227	-
Other financial services	29,808	23,839
Total fee & commission expenses	45,563	23,960
9 NET GAINS / (LOSSES) FROM TRADING		
Foreign exchange		
From bank and other customers	3,100	(1,361)
Total	3,100	(1,361)
10 NET GAINS FROM FINANCIAL INVESTMENTS		
Financial investments – available-for-sale		
Net capital gains from Treasury bills	8,478	2,196
Net capital gains from Treasury bonds	10,282	10,338
Total	18,760	12,534

Notes to the Financial Statements Contd.

For the year ended 31 December	2017 Rs. '000	2016 Rs. '000
11 OTHER INCOME		
Gain on sale of property, plant and equipment	3,750	-
Gains on revaluation of foreign exchange	74,091	45,867
Dividend Income	600	295
Rental and other income	21,078	707
Gain on disposal of subsidiary (Note 26.2)	480,657	-
Total	580,176	46,869
12 IMPAIRMENT FOR LOANS & OTHER LOSSES		
Loans & receivable to other customers		
Charge to the income statement on individual impairment (Refer Note 24.2)	86,782	59,740
Charge to the income statement on collective impairment (Refer Note 24.2)	46,081	45,516
Direct write-offs	192	15
Financial investments available for sale (Refer Note 25.2)	(4,809)	4,809
Investment in subsidiary (Refer Note 26.2)	(8,000)	8,000
Write-off of Property, plant and equipment	9,456	(3,908)
Write-off other assets	1,973	1,450
Total	131,675	115,622
13 PERSONNEL EXPENSES		
Salaries and bonus (Refer Note 13.1)	401,541	333,461
Contributions to defined contribution plans	55,023	42,098
Contributions to defined benefit plans	8,907	5,132
Others	51,448	30,066
Total	516,919	410,757

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

For the year ended 31 December	2017 Rs. '000	2016 Rs. '000
14 OTHER EXPENSES		
Directors' emoluments (Refer note 14.1)	13,158	12,692
Auditors' remunerations	7,390	4,985
Audit fees and expenses	1,500	1,200
Audit related fees and expenses	5,315	1,985
Non-audit fees and expenses	575	1,800
Professional and legal expenses	25,251	6,246
Depreciation of property, plant and equipment (Refer note 27)	98,329	90,830
Amortisation of intangible assets (Refer note 28)	64,949	50,172
Office administration and establishment expenses	543,077	412,719
	752,154	577,644

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

For the year ended 31 December	2017 Rs. '000	2016 Rs. '000
15 INCOME TAX EXPENSES / (REVERSAL)		
Current taxation on profits/(loss) for the year	58,673	9,573
Deferred tax asset (originated)/reversals during the year (Refer Note 29)	29,625	(80,789)
Deferred tax liability originated during the year (Refer Note 29)	19,980	2,879
	49,605	(77,910)
	108,278	(68,337)

15.1 Reconciliation of the accounting profit/(loss) to income tax expense / (reversal)

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

	2017		2016	
	Rs. '000	%	Rs. '000	%
Accounting profit/(loss) before tax from operations	621,137	100	(56,270)	100
Tax effect at the statutory income tax rate	173,918	28	(15,756)	28
Tax effect of exempt income	(139,610)	(22)	(1,839)	3
Tax effect of non-deductible expenses	122,202	20	74,332	(132)
Tax effect of deductible expenses	(66,244)	(11)	(42,009)	75
Tax losses utilized during the year	(31,593)	(5)	(5,155)	9
Deferred tax expense/ (reversal)	49,605	8	(77,910)	138
Income tax expense / (reversal) reported in the Income Statement at the effective income tax rate	108,278	17	(68,337)	121

15.2 In terms of provision of Inland Revenue Act No.10 of 2006 and amendments thereto, the Bank is liable for income tax at the rate of 28%.

Notes to the Financial Statements Contd.

For the year ended 31 December	2017 Rs. '000	2016 Rs. '000
15.3 TAX EXPENSES RECOGNIZED IN OTHER COMPREHENSIVE INCOME		
Deferred tax on net actuarial gains on defined benefit plans	(641)	(191)
Deferred tax on available for sale reserve	(10,362)	1,826
	(11,003)	1,635
15.4 Tax losses/ credits carried forward		
Tax losses brought forward	1,298,493	1,316,904
Tax losses utilized during the year	(112,832)	(18,411)
Tax losses arise during the year	-	-
Tax losses/ credits available for utilization	1,185,661	1,298,493

16 EARNINGS PER SHARE

16.1 Basic EPS

	2017	2016
Amount used as the numerator		
Profit for the year (Rs. '000)	512,859	12,067
Amount used as the denominator		
Weighted average number of ordinary shares in issue during the year (Refer Note 16.1.1)	883,142,858	709,307,633
Basic earnings per share (Rs.)	0.58	0.02

16.1.1 Weighted average number of ordinary shares

	2017	2016
Issued ordinary shares at 1 January	883,142,858	483,000,000
Effect on right issue-10 May 2016	-	113,315,068
Effect on right issue-30 June 2016	-	112,992,564
Weighted average number of ordinary shares as at 31 December	883,142,858	709,307,633

16.2 Diluted EPS

There was no dilution of ordinary shares outstanding as at the reporting date. Therefore, diluted earnings per share is the same as basic earnings per share as shown in Note 16.1.

17 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

17.1 2017

As at 31 December	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	19	-	-	685,652	-	-	685,652
Balances with Central Bank of Sri Lanka	20	-	-	925,719	-	-	925,719
Placements with banks	21	-	-	4,035,671	-	-	4,035,671
Derivative financial assets	22	1,272	-	-	-	-	1,272
Loans & receivables to banks	23	-	-	44,131	-	-	44,131
Loans & receivables to other customers	24	-	-	20,797,560	-	-	20,797,560
Financial investments available for sale	25	-	-	-	4,751,412	-	4,751,412
Other assets	30	-	-	139,172	-	-	139,172
Total financial assets		1,272	-	26,627,905	4,751,412	-	31,380,589
Financial liabilities							
Due to banks	31	-	-	-	-	961,253	961,253
Derivative financial instruments	32	1,397	-	-	-	-	1,397
Due to other customers	33	-	-	-	-	18,808,432	18,808,432
Securities sold under repurchase agreements		-	-	-	-	742,994	742,994
Other liabilities	34	-	-	-	-	391,406	391,406
Total financial liabilities		1,397	-	-	-	20,904,085	20,905,482

Notes to the Financial Statements Contd.

17 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

17.2 2016

As at 31 December	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	19	-	-	618,120	-	-	618,120
Balances with Central Bank of Sri Lanka	20	-	-	417,161	-	-	417,161
Placements with banks	21	-	-	2,118,462	-	-	2,118,462
Securities purchased under resale agreements		-	-	1,350,759	-	-	1,350,759
Loans & receivables to banks	23	-	-	158,367	-	-	158,367
Loans & receivables to other customers	24	-	-	13,424,038	-	-	13,424,038
Financial investments available for sale	25	-	-	-	1,569,722	-	1,569,722
Other assets	30	-	-	31,226	-	-	31,226
Total financial assets		-	-	18,118,133	1,569,722	-	19,687,855
Financial liabilities							
Due to banks	31	-	-	-	-	282,533	282,533
Derivative financial instruments	32	2,915	-	-	-	-	2,915
Due to other customers	33	-	-	-	-	9,435,089	9,435,089
Securities sold under repurchase agreements		-	-	-	-	340,702	340,702
Other liabilities	34	-	-	-	-	106,391	106,391
Total financial liabilities		2,915	-	-	-	10,164,715	10,167,630

18 FAIR VALUES OF FINANCIAL INSTRUMENTS

18.1 Financial instruments measured at fair value - fair value hierarchy

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

	Note	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
As at 31 December 2017					
Assets					
Derivative financial instruments	22	-	1,272	-	1,272
Financial investments - Available-for-sale	25	4,745,529	-	5,883	4,751,412
Total assets at fair value		4,745,529	1,272	5,883	4,752,684
Liabilities					
Derivative financial instruments	32	-	1,397	-	1,397
Total liabilities at fair value		-	1,397	-	1,397
As at 31 December 2016					
Assets					
Financial investments - Available-for-sale	25	1,563,839	-	5,883	1,569,722
Total assets at fair value		1,563,839	-	5,883	1,569,722
Liabilities					
Derivative financial instruments	32	-	2,915	-	2,915
Total liabilities at fair value		-	2,915	-	2,915

18.2 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 18.1.

Type of Financial Instruments	Fair Value as at 31/12/2017 (Rs.'000)	Valuation Technique	Significant Valuation inputs
Derivative Financial Assets	1,272	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
Derivative Financial Liabilities	1,397		

18.3 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	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Carrying Amount Rs. '000
As at 31 December 2017					
Assets					
Cash and cash equivalents	19	-	685,652	-	685,652
Balances with Central Bank of Sri Lanka	20	-	925,719	-	925,719
Placements with banks	21	-	4,035,671	-	4,035,671
Loans & receivables to banks	23	-	44,131	-	44,131
Loans & receivables to other customers	24	-	-	20,797,560	20,797,560
Other assets	30	-	-	139,172	139,172
Total financial assets not at fair value		-	**5,691,173**	**20,936,732**	**26,627,905**

	Note	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Carrying Amount Rs. '000
18.3 Fair value of financial instruments not carried at fair value Contd.					
Liabilities					
Due to banks	31	-	961,253	-	961,253
Due to other customers	33	-	-	18,808,432	18,808,432
Securities sold under repurchase agreements		-	742,994	-	742,994
Other liabilities	34	-	-	391,406	391,406
Total financial liabilities not at fair value		-	**1,704,247**	**19,199,838**	**20,904,085**
As at 31 December 2016					
Assets					
Cash and cash equivalents	19	-	618,120	-	618,120
Balances with Central Bank of Sri Lanka	20	-	417,161	-	417,161
Placements with banks	21	-	2,118,462	-	2,118,462
Securities purchased under resale agreements		-	1,350,759	-	1,350,759
Loans & receivables to banks	23	-	158,367	-	158,367
Loans & receivables to other customers	24	-	-	13,424,038	13,424,038
Other assets	30	-	-	31,226	31,226
Total financial assets not at fair value		-	**4,662,869**	**13,455,264**	**18,118,133**
Liabilities					
Due to banks	31	-	282,533	-	282,533
Due to other customers	33	-	-	9,435,089	9,435,089
Securities sold under repurchase agreements		-	340,702	-	340,702
Other liabilities	34	-	-	106,391	106,391
Total financial liabilities not at fair value		-	**623,235**	**9,541,480**	**10,164,715**

As at 31 December	2017 Rs. '000	2016 Rs. '000
19 CASH AND CASH EQUIVALENTS		
Cash in hand		
Coins and notes held in local currency	374,219	329,163
Coins and notes held in foreign currency	22,870	16,948
Money at call and short notice	288,563	272,009
Total	**685,652**	**618,120**

Notes to the Financial Statements Contd.

As at 31 December	2017 Rs. '000	2016 Rs. '000
20 BALANCES WITH CENTRAL BANK OF SRI LANKA		
Statutory balances with central banks		
Central Bank of Sri Lanka	925,719	417,161
Total	925,719	417,161

20.1 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 2017, the minimum cash reserve requirement was 7.5% of the rupee deposit liabilities.

21 PLACEMENTS WITH BANKS

Placements - within Sri Lanka	1,947,325	1,977,752
Placements - outside Sri Lanka	2,088,346	140,710
Total	4,035,671	2,118,462

22 OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING

Derivative financial instruments	1,272	-
Total	1,272	-

23 LOANS & RECEIVABLES TO BANKS

Gross loans & receivables	44,131	158,367
Less : Provision for impairment	-	-
Net loans and receivables	44,131	158,367

23.1 Analysis

23.1.1 By product

Short-term loans	44,131	158,367
Total	44,131	158,367

23.1.2 By currency

Sri Lankan Rupee	44,131	158,367
Total	44,131	158,367

As at 31 December	2017 Rs. '000	2016 Rs. '000
24 LOANS & RECEIVABLES TO OTHER CUSTOMERS		
Gross loans & receivables	21,067,586	13,561,176
Less: Provision for individual impairment (Note 24.2)	155,731	68,949
Less: Provision for collective impairment (Note 24.2)	114,295	68,189
Net loans and receivables	20,797,560	13,424,038

24.1 Analysis

24.1.1 By product

Loans and advances		
Overdrafts	4,582,050	2,953,568
Trade finance	2,701,997	2,259,860
Housing loans	708,152	428,407
Personal loans	3,267,366	1,702,903
Staff loans	143,811	134,581
Term loans	5,645,102	3,289,172
Loans against Property	165,126	-
Agriculture loans	530,880	71,027
Money market loans	3,282,341	2,666,309
Vehicle loans	32,867	40,124
Bills of exchange	7,894	15,225
Total gross loans & receivables	21,067,586	13,561,176

24.1.2 By currency

Sri Lankan Rupee	19,828,102	13,285,306
United States Dollar	1,239,484	275,870
Total gross loans & receivables	21,067,586	13,561,176

24.1.3 By industry

Agriculture & fishing	1,673,936	271,885
Manufacturing	2,395,203	2,640,471
Tourism	716,206	195,139
Transport	166,414	73,535
Construction	2,726,252	1,465,378
Traders	3,513,375	2,443,750
New economy	175,211	88,334
Financial & business services	2,649,592	2,848,082
Infrastructure	32,535	25,232
Other services	1,750,609	1,162,325
Other customers	5,268,253	2,347,045
Total gross loans & receivables	21,067,586	13,561,176

Notes to the Financial Statements Contd.

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

	2017 Rs. '000	2016 Rs. '000
Movement in provision for individual impairment		
Opening balance	68,949	9,209
Charge to the income statement	86,782	59,740
Closing balance	155,731	68,949
Movement in provision for collective impairment		
Opening balance	68,189	22,618
Charge to the income statement	46,081	45,516
Exchange rate variance on foreign currency provisions	25	55
Closing balance	114,295	68,189

As at 31 December	2017 Rs. '000	2016 Rs. '000
25 FINANCIAL INVESTMENTS-AVAILABLE FOR SALE		
Government securities (Refer Note 25.1)	4,745,529	1,563,839
Equity securities		
Unquoted shares (Refer Note 25.3)	5,883	5,883
Total	4,751,412	1,569,722
25.1 Government securities		
Treasury bills	4,225,307	681,397
Treasury bonds	520,222	887,251
	4,745,529	1,568,648
Less: Impairment provision (Refer Note 25.2)	-	4,809
Total	4,745,529	1,563,839

25.2 The Bank had entered into repo borrowings transactions with Entrust securities PLC. The carrying value of borrowings as at 31 December 2016 amounted to Rs. 305Mn and the market value of securities pledged to Entrust securities PLC as collateral was Rs. 338Mn as at that date. Entrust securities failed to return these securities when borrowings were matured in 2016 and accordingly a provision of Rs. 4.8Mn was made in the financial statements as at 31 December 2016.

However, during the year ended 31 December 2017 the Entrust securities PLC was able to settle all the respective transactions at the book value except for one transaction which was settled at the discounted market value resulting in a trading loss of Rs. 5.3Mn.The provisions made against securities pledged to entrust securities were reversed during the year.

As at 31 December	2017 No. of Shares	2017 Amount Rs. '000	2016 No. of Shares	2016 Amount Rs. '000
25.3 Unquoted shares				
Lanka Clear (Pvt) Ltd.	50,000	3,500	50,000	3,500
Credit Information Bureau of Sri Lanka	300	2,383	300	2,383
Total		5,883		5,883

	2017 No. Of Shares Rs. '000	2017 Holding %	2017 Cost Rs. '000	2016 No. Of Shares Rs. '000	2016 Holding %	2016 Cost Rs. '000
26 INVESTMENT IN SUBSIDIARY						
26.1 Quoted						
Colombo Trust Finance PLC	-	-	-	37,375	80.34	574,917
Total	-	-	-	-	-	574,917
Less: Impairment loss on investment in subsidiary			-			8,000
			-			566,917

26.2 Disposal of the subsidiary

The bank disposed its investment in subsidiary (Colombo Trust Finance PLC) on 12th September 2017, for a net consideration of Rs.1,066Mn. Accordingly, a gain of Rs. 481Mn was recognized in the bank's financial statements with respect to disposal. The impairment losses of Rs. 8Mn recorded on investments in subsidiary was reversed during the year.

The unaudited proforma consolidated financial statements of the Bank and its subsidiaries have been presented for the period ended 30 September 2017 that reflect the Group's results for nine months and the Financial position as at 30 September 2017 in Note 50 to the Financial Statements. The comparative consolidated statements of profit or loss and OCI has been restated to show the discontinued operation separately from continuing operation.

Notes to the Financial Statements Contd.

	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 2017 Rs. '000	Total 2016 Rs. '000
27 PROPERTY, PLANT AND EQUIPMENT								
Cost								
Balance as at 01 January	132,214	206,283	125,174	29,048	64,643	-	**557,362**	499,537
Additions during the year	14,128	135,866	33,091	-	5,048	12,210	**200,343**	57,825
Disposals during the year	-	-	-	(4,950)	-	-	**(4,950)**	-
Transfers/ Adjustments	(70)	41,611	(117)	-	-	-	**41,424**	-
Write - Off	(14,576)	-	(5,720)	-	-	-	**(20,296)**	-
Balance as at 31 December	131,696	383,760	152,428	24,098	69,691	12,210	**773,883**	557,362
Accumulated Depreciation								
Balance as at 01 January	33,391	164,818	62,863	27,279	38,498	-	**326,849**	236,019
Charge for the year	13,487	44,900	26,787	624	12,531	-	**98,329**	90,830
Disposals during the year	-	-	-	(4,950)	-	-	**(4,950)**	-
Transfers/ Adjustments	(7)	-	7	-	-	-	**-**	-
Write - Off	(5,309)	-	(5,530)	-	-	-	**(10,839)**	-
Balance as at 31 December	41,562	209,718	84,127	22,953	51,029	-	**409,389**	326,849
Less: Provision for impairment (Note 27.1)								
Balance as at 01 January	13,913	-	3,347	-	-	-	**17,260**	21,168
Charge/(Write back) to income statement	-	-	-	-	-	-	**-**	(3,908)
Balance as at 31 December	13,913	-	3,347	-	-	-	**17,260**	17,260
Carrying Value as at								
31 December 2017	**76,221**	**174,042**	**64,954**	**1,145**	**18,662**	**12,210**	**347,234**	
31 December 2016	**84,910**	**41,465**	**58,964**	**1,769**	**26,145**	-	-	**213,253**

27.1 Provision for impairment includes the cost of improvements made to leasehold building & electrical fittings in branches that will not commence commercial operations in the foreseeable future.

27.2 ***Title restriction on property, plant and equipment***

There were no restrictions existed on the title of the property, plant and equipment of the Bank as at the reporting date.

27.3 ***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 Bank as at the reporting date.

27.4 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	2017 Rs. '000	2016 Rs. '000
Computer hardware	114,508	100,797
Office Equipment, Furniture & Fittings	17,405	-
Machinery	18,554	-
Motor vehicles	21,600	26,550
Computer Software	37,647	19,403
Total	209,714	146,750

28 INTANGIBLE ASSETS

Computer software (Refer note 28.1)	340,493	166,728
Total	340,493	166,728

28.1 Computer software

Cost		
Balance as at 1 January	299,454	277,069
Additions during the year	281,478	22,385
Transfers/ adjustments	(42,764)	-
Balance as at 31 December	538,168	299,454
Accumulated amortisation		
Balance as at 1 January	132,726	82,554
Charge for the year	64,949	50,172
Transfers/ adjustments	-	-
Balance as at 31 December	197,675	132,726
Carrying Value	340,493	166,728

Notes to the Financial Statements Contd.

As at 31 December	2017		2016	
	Temporary difference Rs. '000	Tax effect Rs. '000	Temporary difference Rs. '000	Tax effect Rs. '000
29 DEFERRED TAX ASSETS AND LIABILITIES				
29.1 Summary of Net Deferred Tax Asset				
Balance as at 01 January	715,571	200,360	431,483	120,815
Amount originating/(reversing) to income statement	(177,164)	(49,605)	278,249	77,910
Amount originating/(reversing) to statement of profit or loss and other comprehensive income	(39,295)	(11,003)	5,839	1,635
Balance as at 31 December	499,112	139,752	715,571	200,360

For the year ended/ as at 31 December	Statement of Financial Position 2017 Rs. '000	Statement of Financial Position 2016 Rs. '000	Income Statement 2017 Rs. '000	Income Statement 2016 Rs. '000	Statement of Profit or Loss and Other Comprehensive Income 2017 Rs. '000	Statement of Profit or Loss and Other Comprehensive Income 2016 Rs. '000
29.2 Reconciliation of Net Deferred Tax Asset						
Deferred Tax Assets on:						
Defined benefit plans	5,440	3,473	1,967	815	-	-
Tax effect on actuarial losses on defined benefit plans	-	-	-	(381)	-	-
Unrealised loss on Available-for-Sale (AFS) portfolio	-	6,260	-	-	(6,260)	1,826
Carried forward tax losses	203,409	235,001	(31,592)	80,355	-	-
	208,849	244,734	(29,625)	80,789	(6,260)	1,826
Deferred Tax Liabilities on:						
Accelerated depreciation for tax purposes	64,163	44,183	19,980	2,879	-	-
Tax effect on actuarial gains on defined benefit plans	832	191	-	-	641	191
Unrealised gain on Available-for-Sale (AFS) portfolio	4,102	-	-	-	4,102	-
	69,097	44,374	19,980	2,879	4,743	191
Net deferred tax liability as at 31 December	139,752	200,360	(49,605)	77,910	(11,003)	1,635

29.3 The total temporary differences arising from tax losses and tax credits amounted to Rs. 1,185 Mn. resulting in a deferred tax asset of Rs. 332 Mn. as at 31 December 2017. Based on internal assessment carried out by the Board of directors, the recognition of deferred tax asset has been limited to Rs. 203 Mn. The unrecognized deferred tax asset as at 31 December 2017 was Rs 129 Mn.

As at 31 December	2017 Rs. '000	2016 Rs. '000
30 OTHER ASSETS		
Financial assets		
Deposits	18,457	16,656
Other receivable	120,715	14,570
	139,172	31,226
Non-Financial assets		
Prepayments	156,745	54,920
Tax recoverable (Refer Note 30.1)	139,237	96,660
Other receivable	8,661	2,605
	304,643	154,185
Total other assets	443,815	185,411
30.1 Tax recoverable		
Withholding Tax recoverable	68,624	65,370
Economic Service Charge recoverable	10,048	-
Notional tax recoverable	60,565	31,290
	139,237	96,660
31 DUE TO BANKS		
Borrowings		
Local currency borrowings	961,253	263,877
Foreign currency borrowings	-	18,656
Total	961,253	282,533

Notes to the Financial Statements Contd.

As at 31 December	2017 Rs. '000	2016 Rs. '000
32 DERIVATIVE FINANCIAL INSTRUMENTS		
Derivative financial liabilities	1,397	2,915
Total	1,397	2,915
33 DUE TO OTHER CUSTOMERS		
Local currency deposits	14,292,106	8,334,390
Foreign currency deposits	4,516,326	1,100,699
Total	18,808,432	9,435,089
33.1 Analysis of due to customers		
33.1.1 By product		
Current account deposits	494,826	1,363,251
Savings deposits	3,574,500	1,203,701
Time deposits	13,958,390	6,086,999
Certificate of deposits	764,467	750,482
Margin deposits	16,249	30,656
Total	18,808,432	9,435,089
33.1.2 By currency		
Sri Lanka Rupees	14,292,106	8,334,390
United States Dollars	3,202,340	988,932
Great Britain Pound	387,876	79,664
Euro	921,566	32,103
Singapore Dollars	4,544	-
Total	18,808,432	9,435,089
33.1.3 By institution/customers		
Deposits from banks	584,750	-
Deposits from finance companies	2,283,748	453,241
Deposits from other customers	15,939,934	8,981,848
Total	18,808,432	9,435,089

As at 31 December	2017 Rs. '000	2016 Rs. '000
34 OTHER LIABILITIES		
Financial liabilities		
Other payables	391,406	106,391
	391,406	106,391
Non-financial liabilities		
Employee benefits (Note 34.1)	16,455	11,719
Accrued expenditure	173,290	114,463
Other payables	223,153	42,307
Total	412,898	168,489
Total other liabilities	804,304	274,880

34.1 Employee benefits - Defined benefit plans

	2017 Rs. '000	2016 Rs. '000
Balance as at 01 January	11,719	9,492
Current service cost	7,560	4,183
Interest cost	1,347	949
Benefits paid for those who left during the year	(1,881)	(2,222)
Actuarial gains	(2,290)	(683)
Balance as at 31 December	16,455	11,719

34.1.1 Expense Recognised in the Income Statement – Gratuity

	2017 Rs. '000	2016 Rs. '000
Current service cost	7,560	4,183
Interest cost	1,347	949
	8,907	5,132

34.1.2 Details of actuarial assumptions are as follows,

	2017	2016
Discount rate per annum	10.5%	11.5%
Future salary increases	10%	10%
Retirement age (years)	50	50

An actuarial valuation of the retirement benefit obligation was carried out as at 31 December 2017 by Mr. M. Poopalanathan, AIA, of Messrs Actuarial and Management Consultants (Pvt) Ltd., 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.

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34.1.3 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 2017 Rs. '000	2016 Rs. '000
1% increase in discount rate	(672)	(268)
1% decrease in discount rate	728	283
1% increase in salary escalation rate	804	346
1% decrease in salary escalation rate	(754)	(334)

	2017 Rs. '000	2016 Rs. '000
35 STATED CAPITAL		
Balance as at 01 January	11,394,421	5,592,350
Issue of ordinary shares	-	5,802,071
Balance as at 31 December	**11,394,421**	**11,394,421**
35.1 Movement in number of ordinary shares		
Balance as at 01 January	883,142,858	483,000,000
Issue of ordinary shares	-	400,142,858
Balance as at 31 December	**883,142,858**	**883,142,858**
36 ACCUMULATED LOSSES		
Balance as at 01 January	(725,747)	(737,703)
Total comprehensive income		
Profit for the year	512,859	12,067
Other comprehensive income	1,649	492
Transfer to statutory reserve	(25,643)	(603)
Balance as at 31 December	**(236,882)**	**(725,747)**
37 RESERVES		
37.1 Statutory Reserve		
Balance as at 01 January	603	-
Transfers during the year	25,643	603
Balance as at 31 December	**26,246**	**603**

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 1998.

As at 31 December	2017 Rs. '000	2016 Rs. '000
37.2 Other reserves		
Available for sale reserve		
Balance as at 01 January	(16,098)	(11,402)
Other comprehensive income for the year	26,644	(4,696)
Balance as at 31 December	10,546	(16,098)

38 CONTINGENT LIABILITIES & COMMITMENTS

38.1 Contingent liabilities

	2017 Rs. '000	2016 Rs. '000
Guarantees	5,750,578	3,559,793
Documentary credits	757,027	1,317,113
Bills for collection	639,257	520,930
Forward exchange purchases	941,427	990,513
Total contingent liabilities	8,088,289	6,388,349

38.2 Commitments

38.2 .1 Direct and indirect advances

	2017 Rs. '000	2016 Rs. '000
Undrawn commitments	10,621,619	4,203,745
	10,621,619	4,203,745

38.2.2 Capital commitments

38.2.2 (a) Capital expenditure commitments in relation to property, plant & equipment

	2017 Rs. '000	2016 Rs. '000
Approved and contracted for	35,457	8,283
	35,457	8,283

38.2.2 (b) Capital expenditure commitments in relation to intangible assets

	2017 Rs. '000	2016 Rs. '000
Approved and contracted for	5,704	18,948
	5,704	18,948
Total capital commitments	41,161	27,231
Total commitments	10,662,780	4,230,976
Total commitments and contingencies	18,751,069	10,619,325

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As at 31 December	2017 Rs. '000	2016 Rs. '000
39 NET ASSETS VALUE PER SHARE		
Amount used as the numerator		
Shareholders' funds	11,194,331	10,653,179
Amount used as the denominator		
Total no. of shares	883,142,858	883,142,858
Net assets value per ordinary share (Rs.)	12.68	12.06

For the year ended 31 December	2017 Rs. '000	2016 Rs. '000
40 NON-CASH ITEMS INCLUDED IN LOSS BEFORE TAX		
Depreciation of property, plant and equipment	98,329	90,830
Amortisation of intangible assets	64,949	50,172
Disposal profit on property, plant and equipment	(3,750)	-
Disposal profit on subsidiary	(480,657)	-
Provisions for contingencies	(10,000)	-
Impairment losses on loans and advances	132,863	105,256
Impairment losses on financial investments available for sale	(4,809)	4,809
Impairment losses on investment in subsidiary	(8,000)	8,000
Impairment losses on property, plant & equipment	9,456	(3,908)
Charge for defined benefit plans	8,907	5,132
	(192,712)	260,291
41 CHANGE IN OPERATING ASSETS		
Change in balances with Central banks	(508,558)	(277,819)
Change in placements with banks	(1,917,209)	(99,689)
Change in other financial assets held-for-trading	(1,272)	-
Change in securities purchased under resale agreements	1,350,759	317,822
Change in loans and receivables to banks	114,236	(158,367)
Change in loans and receivables to other customers	(7,506,385)	(6,991,328)
Change in financial investments available-for-sale	(3,139,875)	23,027
Change in deposits & pre-payments	(103,626)	(13,577)
Change in other assets	(154,778)	(37,767)
	(11,866,708)	(7,237,698)

For the year ended 31 December	2017 Rs. '000	2016 Rs. '000
42 CHANGE IN OPERATING LIABILITIES		
Change in derivative financial instruments	(1,518)	2,915
Change in deposits from banks, customers and debt securities issued	10,052,063	5,842,075
Change in accruals and deferred income	58,827	34,434
Change in other liabilities	408,530	54,003
	10,517,902	5,933,427

43 OPERATING SEGMENTS

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

The following table presents the income, profit and asset and liability information on the Bank's business segments for the year ended December 31, 2017.

	Banking		Treasury/ Investments		Unallocated		Total	
For the year ended 31 December	2017	2016	2017	2016	2017	2016	2017	2016
Net interest income	1,080,303	610,018	400,354	330,028	-	13,444	1,480,657	953,490
Foreign exchange profit	7,791	(10,282)	66,300	53,528	-	1,260	74,091	44,506
Net fees and commission income	119,356	83,078	(5,723)	(3,404)	-	(451)	113,633	79,223
Other income	21,078	-	21,860	12,534	485,007	1,002	527,945	13,536
Operating income by segment	1,228,528	682,814	482,791	392,686	485,007	15,255	2,196,326	1,090,755
Credit loss expenses	(133,055)	(105,271)	-	-	-	-	(133,055)	(105,271)
Impairment for other losses	(11,429)	-	4,809	(4,809)	8,000	(5,542)	1,380	(10,351)
Net operating income	1,084,044	577,543	487,600	387,877	493,007	9,713	2,064,651	975,133
Segment result	(182,439)	238,791	485,010	371,761	493,007	(623,820)	795,578	(13,268)
VAT on financial services	-	-	-	-	-	(174,441)	(174,441)	(43,002)
Profit/(loss) before tax	(182,439)	238,791	485,010	371,761	493,007	(798,261)	621,137	(56,270)
Income tax expense							(108,278)	(68,337)
Profit for the year							512,859	12,067
Other information								
Segment assets	22,798,637	10,304,068	9,714,074	10,118,313	-	566,917	32,512,711	20,989,298
Segment liabilities	20,573,989	9,577,482	744,391	613,911	-	144,726	21,318,380	10,336,119

Notes to the Financial Statements Contd.

44 FINANCIAL RISK MANAGEMENT

44.1 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. The Bank has 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 Integrated 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.

44.2 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.

44.2.1 Credit quality analysis

	Loans and Advances to Other Customers		Loans and Advances to Banks	
As at 31 December	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Maximum exposure to credit risk				
Carrying amount	21,067,586	13,561,176	44,131	158,367
Amount committed/ guaranteed	-	-	-	-
At amortised cost				
Current	20,268,063	13,414,139	44,131	158,367
Special mentioned	644,460	78,886	-	-
Substandard	52,160	-	-	-
Doubtful	9,260	-	-	-
Loss	93,643	68,151	-	-
Total gross amount	21,067,586	13,561,176	44,131	158,367
Allowance for impairment (Individual and collective)	(270,026)	(137,138)	-	-
Net carrying amount	20,797,560	13,424,038	44,131	158,367

44.2.2 Impaired Loans and Receivables

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

As at 31 December	2017 Rs.'000	2016 Rs.'000
Impaired loans and receivables to other customers as at 01 January	68,948	9,209
Newly classified as impaired loans and receivables during the year	76,354	57,261
Net change in already impaired loans and receivables during the year	25,072	2,478
Net payment, write-off and recoveries and other movement during the year	(14,643)	-
Impaired loans and receivables to customers as at 31 December	155,731	68,948

For methodology of the impairment assessment, refer Note 3.2.5.1 on impairment of finance assets which carried at amortised cost on pages 93 to 94.

For details of provision for impairment for loans and receivables to banks and for loans and receivables to other customers, refer Notes 23 and 24 on pages 114 to 116.

44.2.3 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.

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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 2017	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	-	-	-	-	-	-	-	685,652	-	-	-	-	685,652
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-	-	925,719	-	-	-	925,719
Placements with banks	-	-	-	-	-	-	-	4,035,671	-	-	-	-	4,035,671
Derivative financial instruments	-	-	-	-	-	-	-	1,272	-	-	-	-	1,272
Loans & receivables to banks	-	-	-	-	-	-	-	44,131	-	-	-	-	44,131
Loans & receivables to other customers	1,653,952	2,309,249	712,320	165,511	2,696,926	3,439,469	174,260	2,635,218	-	32,358	1,738,623	5,239,672	20,797,560
Financial investments available for sale	-	-	-	-	-	-	-	5,883	4,745,529	-	-	-	4,751,412
Other assets	-	-	-	-	-	31,174	-	83,807	2,415	-	-	21,776	139,172
Total	1,653,952	2,309,249	712,320	165,511	2,696,926	3,470,643	174,260	7,491,634	5,673,663	32,358	1,738,623	5,261,448	31,380,588

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
Balances 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 & receivables to banks	-	-	-	-	-	-	-	158,367	-	-	-	-	158,367
Loans & receivables 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

44.3 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.

44.3.1 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

	2017 %	2016 %
As at 31 December	43.99	55.98
Average for the period	44.82	63.97
Maximum for the period	67.12	102.32
Minimum for the period	36.98	40.16
Statutory minimum requirement	20.00	20.00

Break up of liquid assets

	2017 Rs. '000	2016 Rs. '000
Break up of liquid assets		
Cash	374,467	338,592
Money at call in Sri Lanka	2,864,491	2,635,298
Treasury Bills and Securities issued or guaranteed by the government of Sri Lanka	4,226,848	1,648,681
Balances with banks abroad	797,633	171,233
Total	8,263,439	4,793,804

Notes to the Financial Statements Contd.

44.3.2 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 2017.

	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-17 Rs. '000	Total as at 31-Dec-16 Rs. '000
44.3.2							
Interest earning assets							
Cash and cash equivalents	288,563	-	-	-	-	**288,563**	272,009
Placements with Banks	1,916,177	-	-	-	-	**1,916,177**	1,947,793
Securities purchased under resale agreements	-	-	-	-	-	-	1,350,759
Derivative financial instruments	1,272	-	-	-	-	**1,272**	-
Loans & receivables to Banks	44,131	-	-	-	-	**44,131**	158,367
Loans & receivables to other customers	10,935,716	2,960,586	3,397,039	2,099,247	1,404,972	**20,797,560**	13,424,038
Financial investments available for sale	-	4,275,654	469,875	-	-	**4,745,529**	1,563,839
Total interest earning assets	13,185,859	7,236,240	3,866,914	2,099,247	1,404,972	**27,793,232**	18,716,805
Non-interest earning assets							
Cash and cash equivalents	397,089	-	-	-	-	**397,089**	346,111
Balances With Central Bank	925,719	-	-	-	-	**925,719**	417,161
Placements with Banks	2,119,494	-	-	-	-	**2,119,494**	170,669
Financial investments available for sale	-	-	-	-	5,883	**5,883**	5,883
Investment in subsidiaries	-	-	-	-	-	**-**	566,917
Property, plant and equipment	-	-	-	-	347,234	**347,234**	213,253
Intangible assets	-	-	-	-	340,493	**340,493**	166,728
Deferred tax assets	-	-	-	-	139,752	**139,752**	200,360
Other assets	127,659	157,336	140,667	-	18,153	**443,815**	185,411
Total non-interest earning assets	3,569,961	157,336	140,667	-	851,515	**4,719,479**	2,272,493
Total assets	**16,755,820**	**7,393,576**	**4,007,581**	**2,099,247**	**2,256,487**	**32,512,711**	**20,989,298**

	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-17 Rs. '000	Total as at 31-Dec-16 Rs. '000
Interest bearing liabilities							
Due to banks	674,262	47,832	95,664	143,495	-	**961,253**	282,533
Due to other customers	9,884,918	7,151,495	105,735	1,654,967	11,317	**18,808,432**	9,435,089
Securities sold under repurchase agreements	742,994	-	-	-	-	**742,994**	340,702
Total interest bearing liabilities	11,302,174	7,199,327	201,399	1,798,462	11,317	**20,512,679**	10,058,324
Non-interest bearing liabilities							
Derivative financial instruments	1,397	-	-	-	-	**1,397**	2,915
Other liabilities	532,219	236,429	22,828	4,166	8,662	**804,304**	274,880
Stated capital	-	-	-	-	11,394,421	**11,394,421**	11,394,421
Statutory reserves	-	-	-	-	26,246	**26,246**	603
Accumulated losses	-	-	-	-	(236,882)	**(236,882)**	(725,747)
Other Reserves	-	-	-	-	10,546	**10,546**	(16,098)
Total non-interest bearing liabilities	533,616	236,429	22,828	4,166	11,202,993	**12,000,032**	10,930,974
Total liabilities and equity	**11,835,790**	**7,435,756**	**224,227**	**1,802,628**	**11,214,310**	**32,512,711**	**20,989,298**

44.4 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 established 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.

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44.4.1 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		2017 Market Risk Measurement			2016 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	19	288,563	-	288,563	272,009	-	272,009
Placements with banks	21	1,916,177	-	1,916,177	2,118,462	-	2,118,462
Securities purchased under resale agreements		-	-	-	1,350,759	-	1,350,759
Derivative financial instruments	22	1,272	1,272	-	-	-	-
Loans and receivables to banks	23	44,131	-	44,131	158,367	-	158,367
Loans and receivables to other customers	24	20,797,560	-	20,797,560	13,424,038	-	13,424,038
Financial investments – Available-for-sale	25	4,751,412	-	4,751,412	1,569,722	-	1,569,722
		27,799,115	1,272	27,797,843	18,893,357	-	18,893,357
Liabilities Subject to Market Risk							
Due to banks	31	961,253	-	961,253	282,533	-	282,533
Derivative financial liabilities	32	1,397	1,397	-	2,915	2,915	-
Securities sold under repurchase agreements		742,994	-	742,994	340,702	-	340,702
Due to other customers/ deposits from customers	33	18,808,432	-	18,808,432	9,435,089	-	9,435,089
		20,514,076	1,397	20,512,679	10,061,239	2,915	10,058,324

44.4.2 Exposure to interest rate risk– Sensitivity Analysis

44.4.2 (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 rise 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 2017	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 31.12.2017
Financial Assets							
Cash and cash Equivalents	288,563	-	-	-	-	397,089	685,652
Balances with central bank	-	-	-	-	-	925,719	925,719
Placements with banks	1,916,177	-	-	-	-	2,119,494	4,035,671
Derivative financial instruments	1,272	-	-	-	-	-	1,272
Loans and advances to banks	44,131	-	-	-	-	-	44,131
Loans and receivables to other customers	18,526,693	2,270,867	-	-	-	-	20,797,560
Financial investments - available-for-sale	-	4,275,654	469,875	-	-	5,883	4,751,412
Other assets	-	-	-	-	-	139,172	139,172
Total Financial Assets	20,776,836	6,546,521	469,875	-	-	3,587,357	31,380,589
Financial Liabilities							
Due to banks	625,420	-	304,224	31,609	-	-	961,253
Derivative financial instruments	1,397	-	-	-	-	-	1,397
Due to other customers/ deposits from customers	9,057,103	7,353,923	111,026	1,775,303	-	511,077	18,808,432
Securities sold under repurchase agreements	742,994	-	-	-	-	-	742,994
Other liabilities	-					391,406	391,406
Total Financial Liabilities	10,426,914	7,353,923	415,250	1,806,912	-	902,483	20,905,482
Interest rate sensitivity gap	10,349,922	(807,402)	54,625	(1,806,912)	-	2,684,874	10,475,107
1% increase	103,499	(8,074)	546	(18,069)	-	-	77,902
1% decrease	(103,499)	8,074	(546)	18,069	-	-	(77,902)

Notes to the Financial Statements Contd.

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
Balances with central bank	-	-	-	-	-	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
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	2017 Rs. '000	2016 Rs. '000
44.4.2 (b) Exposure to interest rate risk		
Savings deposits	**3,574,500**	1,203,701
Time deposits	**13,958,390**	6,086,999
Certificate of deposits	**764,467**	750,482
Total	**18,297,357**	8,041,182

44.4.3 Exposure to currency risk

As at 31 December	2017 Amount	2016 Amount
Foreign exchange position - USD	1,630,259	1,069,739
Foreign exchange position - AUD	3,355	750
Foreign exchange position - AED	500	-
Foreign exchange position - EUR	(912)	6,302
Foreign exchange position - THB	1,000	-
Foreign exchange position - SGD	2,306	107,856
Foreign exchange position - GBP	(1,279)	180
Foreign exchange position - JPY	415,871	1,703,311
Foreign exchange position - CAD	1,320	-
Foreign exchange position - ZAR	7,500	-
Foreign exchange position - CHF	500	-
Foreign exchange position - KWD	85	-
Foreign exchange position - CNY	300	-
Foreign exchange position - MYR	10	-

44.5 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.

44.6 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.

Notes to the Financial Statements Contd.

44.7 Regulatory Capital

Capital Adequacy Ratio (CAR) is calculated based on the CBSL Directions stemming from Basel III Accord. These guidelines require the Bank to maintain a CAR of not less than 7.25% with core capital (Tier I) in relation to total risk-weighted assets and a minimum overall CAR of 11.25% inclusive of Tier I and Tier II in relation to total risk-weighted assets.

As at 31 December	2017 Rs. '000	2016 Rs. '000
Tier I: Core Capital		
Paid-up ordinary shares/Common stock/Assigned capital++	11,394,421	11,394,421
Statutory reserve fund	26,246	603
Published retained profits/(accumulated losses)(+/-)	(236,882)	(725,747)
General and other reserves	10,546	-
Minority interests (consistent with the above capital constituents)	-	-
	11,194,331	10,669,277
Tier I: Deductions/Adjustments		
Net Deferred Tax Assets	139,752	200,360
Other intangible assets	340,493	166,728
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
50% Investments in the capital of other banks and financial institutions	-	-
Total Eligible Core Capital (Tier I Capital)	10,714,086	10,018,730
Tier II: Supplementary Capital		
Revaluation reserves (as approved by Central Bank of Sri Lanka)	-	-
General provisions	114,295	67,382
Approved subordinated term debt	-	-
Tier II: Deductions/Adjustments		
50% of investments in unconsolidated banking and financial subsidiary companies	-	283,459
50% investments in the capital of other banks and financial institutions	-	-
Total eligible supplementary capital (Tier II Capital)	114,295	(216,077)
Total capital base	10,828,381	9,802,653

45 RELATED PARTY DISCLOSURES

The Bank carries 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.

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.

45.1 Transactions with Key Management Personnel (KMP)

For the year ended 31 December	2017 Rs. '000	2016 Rs. '000
(a) Compensation of directors		
Directors emoluments	19,658	12,692
Short term employee benefits	28,092	47,347
Post employee benefits	4,140	3,289
	51,890	63,328

The remuneration paid to KMP are disclosed under Notes 13 and 14.

In addition to the salaries, company also provides non cash benefits to Key Management Personnel.

(b) Directors' shareholdings

	Bank	
As at 31 December	2017 Rs. '000	2016 Rs. '000
Number of shares	1,100,000	1,100,000
Shareholding %	0.125%	0.125%

Notes to the Financial Statements Contd.

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

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

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

Accommodation Granted/ Deposits	Interest Paid Rs. '000	Interest Charged Rs. '000	Fees Charged Rs. '000	Balance outstanding 31-Dec-2017 Rs. '000	Balance outstanding 31-Dec-2016 Rs. '000
Deposits	22,936	-	2	437,706	228,955

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

45.3 Transactions with subsidiary until the disposal date

	Accommodation Granted / Deposits	Current Limit Rs. '000	Interest Paid Rs. '000	Interest Charged Rs. '000	Fees Charged Rs. '000	Balance outstanding 12-Sep-2017 Rs. '000	Balance outstanding 31-Dec-2016 Rs. '000
Colombo Trust Finance PLC*	Loans & advances	400,000	-	19,705	9	-	192,006
	Money at call and short notice	-	18,817	-	-	523,688	272,009
	Deposits	-	-	-	-	13,729	22

* The Bank disposed its investment in subsidiary on 12 September 2017 and accordingly this entity is no longer a related party as at the reporting date.

45.4 Transactions with related companies

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 & Expenses Charged Rs. '000	Balance/ Outstanding 31-Dec-2017 Rs. '000	Balance/ Outstanding 31-Dec-2016 Rs. '000
C T Holdings PLC	Significant shareholder	Loans & advances	-	-	4	5	-	-
		Deposits	-	-	-	-	1,347	1,044
Cargills (Ceylon) PLC	Significant shareholder	Loans & advances	-	-	-	48	-	-
		Off-Balance Sheet Accommodations	-	-	-	28	-	4,000
		Deposits	-	212	-	-	1,600	6,140
		Rent	-	-	-	19,989	2,414	-
		Reimbursement of Expenses	-	-	-	64,539	31,174	-
Kotmale Holdings PLC	Subsidiary of Significant shareholder	Deposits	-	17,350	-	-	164,828	189,521
		Securities sold under repurchase agreements	-	-	-	-	-	-
		Loans & advances	-	-	60	2	-	
Cargills Foods Company (Pvt) Ltd	Subsidiary of Significant shareholder	Loans & advances	-	-	513	8	37	-
		Off-Balance Sheet Accommodations	579,700	-	-	24	200,123	132,665
		Deposits	-	58,137	-	-	892,881	212,848
		Rent	-	-	-	14,718	14,718	-
		Reimbursement of Expenses	-	-	-	3,299	1,062	-
Cargills Quality Foods Ltd	Subsidiary of Significant shareholder	Loans & advances	-	-	10	1	-	-
		Off-Balance Sheet Accommodations	-	-	-	-	58,886	-
		Deposits	-	482	-	-	13,027	1,051
C T Properties Ltd	Subsidiary of Significant shareholder	Deposits	-	-	-	-	914	122
		Loans & advances	-	-	-	1	-	-
C T Land Development PLC	Subsidiary of Significant shareholder	Deposits	-	-	-	-	10	10

Notes to the Financial Statements Contd.

Company Name	Relationship	Accommodation Granted / Deposits	Current Limit Rs. '000	Interest Paid Rs. '000	Interest Charged Rs. '000	Fees & Expenses Charged Rs. '000	Balance/ Outstanding 31-Dec-2017 Rs. '000	Balance/ Outstanding 31-Dec-2016 Rs. '000
C T Real Estate (Pvt) Ltd	Subsidiary of Significant shareholder	Deposits	-	-	-	-	2,829	1,460
		Loans & advances	-	-	-	2	-	-
Cargills Agrifoods Ltd	Subsidiary of Significant shareholder	Loans & advances	-	-	11	-	-	-
		Off-Balance Sheet Accommodations	43,400	-	-	194	27,804	18,521
		Deposits	-	5,373	-	-	32,557	48,504
Cargills Food Processors (Pvt) Ltd	Subsidiary of Significant shareholder	Loans & advances	-	-	9	188	-	-
		Deposits	-	861	-	-	93,476	2,049
		Securities sold under repurchase agreements	-	177	-	-	-	-
Cargills Food Services (Pvt) Ltd	Subsidiary of Significant shareholder	Loans & advances	-	-	-	-	-	-
		Deposits	-	-	-	-	437	886
Cargills Quality Dairies (Pvt) Ltd	Subsidiary of Significant shareholder	Loans & advances	-	-	49	-	-	-
		Off-Balance Sheet Accommodations	134,260	-	-	-	55,515	14,347
		Deposits	-	16,516	-	-	97,113	143,135
Millers Ltd	Subsidiary of Significant shareholder	Loans & advances	-	-	-	1	-	-
		Off-Balance Sheet Accommodations	67,330	-	-	-	13,719	3,067
		Deposits	-	8,159	-	-	46,855	71,632
		Rent	-	-	-	2,599	950	-
CT CLSA Securities (Pvt) Ltd - Client Account	Subsidiary of Significant shareholder	Deposits	-	-	-	-	99	99
		Loans & advances	-	-	-	2	-	-
Kotmale Dairy Products (Pvt) Ltd	Subsidiary of Significant shareholder	Deposits	-	49,878	-	-	440,492	696,099
		Off-Balance Sheet Accommodations	8,208	-	-	95	8,154	-
		Loans & advances	-	-	-	2	-	-
		Securities sold under repurchase agreements	-	-	-	-	-	-

Company Name	Relationship	Accommodation Granted / Deposits	Current Limit Rs. '000	Interest Paid Rs. '000	Interest Charged Rs. '000	Fees & Expenses Charged Rs. '000	Balance/ Outstanding 31-Dec-2017 Rs. '000	Balance/ Outstanding 31-Dec-2016 Rs. '000
C P C Lanka Ltd	Subsidiary of Significant shareholder	Loans & advances	108,000	-	7	1	-	-
		Deposits	-	13,383	-	-	68,255	30
Cargills Distributors (Pvt) Ltd	Subsidiary of Significant shareholder	Deposits	-	10,614	-	-	109,334	46
Cargills Quality Confectionery (Pvt) Ltd	Subsidiary of Significant shareholder	Loans & advances	-	-	-	-	-	-
		Off-Balance Sheet Accommodations	5,000	-	-	42	-	5,000
		Deposits	-	868	-	-	7,941	6,344
Cargills Frozen Products (Pvt) Ltd	Subsidiary of Significant shareholder	Deposits	-	4,070	-	-	45,914	6
Cargills Ceylon PLC Employees Providend Fund Association	Provident fund of Significant shareholder	Securities sold under repurchase agreements	-	3,779	-	-	623,000	-
		Deposits				1	7,081	
Ceylon Agro Development Company (Private) Limited	Subsidiary of Significant shareholder	Loans & advances	-	-	1	5	-	-
		Deposits	-	-	-	-	606	-
Cargills Enterprise Solutions (Pvt) Ltd	Subsidiary of Significant shareholder	Loans & advances	-	-	-	-	-	-
		Deposits	-	-	-	-	417	-

Net accommodation as a percentage of the Bank's regulatory capital was 0%.

46 OPERATING LEASE COMMITMENTS

46.1 Operating lease commitments (payables)

The Bank 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 Bank by entering into these leases.

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

	Bank	
As at 31 December	2017 Rs. '000	2016 Rs. '000
Less than one year	68,077	63,539
Between one and five years	300,809	297,221
More than five years	149,074	228,118
Total	517,960	588,878

47 EVENTS AFTER THE REPORTING DATE

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

48 LITIGATION AND CLAIMS

There were no pending litigation of a material nature against the Bank as at the reporting date.

49 COMPARATIVE INFORMATION

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

50 SUPPLEMENTARY INFORMATION ON CONSOLIDATED FINANCIAL STATEMENTS

The Company has disposed its only subsidiary (Colombo Trust Finance PLC) during the current reporting period. Consolidated financial statements are not prepared because the Company is no longer a parent at the reporting date. Accordingly, the financial statements including comparatives, have been presented as unconsolidated financial statements. However, the company has presented following supplementary information on a consolidated basis.

50.1 Consolidated profit or loss and other comprehensive income

	9 Months ended 30 September 2017 (Unaudited) Rs. '000	Year ended 31 December 2016 (Restated) Rs. '000
Gross income	2,203,106	1,701,713
Interest income	1,999,590	1,540,488
Less: Interest expenses	949,650	586,998
Net interest income	1,049,940	953,490
Fees and commission income	113,305	103,183
Less: Fees and commission expenses	32,896	23,960
Net fees and commission income	80,409	79,223
Net gains / (losses) from trading	3,214	(1,361)
Net gains from financial investments	17,871	12,534
Other income	69,126	46,869
Total operating income	1,220,560	1,090,755
Less: Impairment for loans and other losses	81,323	115,622
Net operating income	1,139,237	975,133
Less: Expenses		
Personnel expenses	387,787	410,757
Other expenses	566,532	577,644
Operating profit / (loss) before Value Added Tax (VAT)	184,918	(13,268)
Less: Value Added Tax (VAT) on financial services	80,918	43,002
Profit / (loss) before tax	104,000	(56,270)
Less: Income tax expenses	66,048	(68,337)
Profit from continuing operations	37,952	12,067

Notes to the Financial Statements Contd.

50.1 Consolidated profit or loss and other comprehensive income Contd.

	9 Months ended 30 September 2017 (Unaudited) Rs. '000	Year ended 31 December 2016 (Restated) Rs. '000
Discontinued operation		
Profit from discontinued operation, net of tax	498,453	15,402
Profit for the period/Year	**536,405**	**27,469**
Attributable to:		
Equity holders of the Bank	536,231	26,014
Non controlling interest	174	1,455
Profit for the period/Year	**536,405**	**27,469**
Other comprehensive income, net of tax		
Items that will never be reclassified to profit or loss		
Net actuarial gains on defined benefit plans	-	683
Deferred tax asset on net actuarial gains on defined benefit plans	-	(191)
Other comprehensive income from continuing operations	-	492
Other comprehensive income from discontinued operations, net of tax	96	609
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	23,714	(6,522)
Deferred tax asset on available for sale reserve	(6,640)	1,826
	17,074	(4,696)
Other comprehensive income for the year, net of tax	17,170	(3,595)
Total comprehensive income for the year	**553,575**	**23,874**
Attributable to:		
Equity holders of the Bank	553,382	22,299
Non controlling interest	193	1,575
Total comprehensive income for the year	**553,575**	**23,874**

50.2 Result of discontinued operations

	9 Months ended 30 September 2017 (Unaudited) Rs. '000	Year ended 31 December 2016 (Restated) Rs. '000
Gross income	139,169	151,559
Interest income	131,454	142,825
Less: Interest expenses	50,969	47,350
Net interest income	80,485	95,475
Fees and commission income	1,647	937
Less: Fees and commission expenses	55	283
Net fees and commission income	1,592	654
Net gains / (losses) from financial instruments at fair value through profit & loss	507	(246)
Other income	5,561	8,043
Total operating income	88,145	103,926
Less: Impairment for loans and other losses	903	(1,946)
Net operating income	87,242	105,872
Less: Expenses		
Personnel expenses	37,548	39,408
Other expenses	33,906	48,447
Operating Profit/ (loss) before Value Added Tax (VAT)	15,788	18,017
Less: Value Added Tax (VAT) on financial services	7,564	4,761
Profit before tax	8,224	13,256
Less: Income tax expenses	7,338	(2,146)
Profit after tax	886	15,402

Notes to the Financial Statements Contd.

	9 Months ended 30 September 2017 (Unaudited) Rs. '000	Year ended 31 December 2016 (Restated) Rs. '000
50.2 Result of discontinued operations Contd.		
Profit from sale of discontinued operations (Note 50.3)	497,567	-
Profit from discontinued operations, net of tax	498,453	15,402
Other comprehensive income, net of tax		
Items that will never be reclassified to profit or loss		
Net actuarial gains on defined benefit plans	133	846
Deferred tax asset on net actuarial gains on defined benefit plans	(37)	(237)
Total other comprehensive income from discontinued operations, net of tax	96	609
Total comprehensive income from discontinued operations	498,549	16,011

50.3 Profit from sale of discontinued operations

	9 Months ended 30 September 2017 Rs'000
Total assets	1,296,815
Total Liabilities	(841,586)
Net assets as at 30th September 2017	455,229
Goodwill	202,276
Non controlling interest	(89,498)
Net assets owned by equity holders of the Company	568,007
Consideration received (Net)	1,065,574
Gain on disposal	497,567

50.4 Consolidated Statement of financial position

	30-Sep-17 (Unaudited) Rs. '000	31-Dec-16 (Restated) Rs. '000	Change %
ASSETS			
Cash and cash equivalents	881,348	356,183	147
Balances with Central Bank of Sri Lanka	864,638	417,161	107
Placements with Banks	4,752,803	2,118,462	124
Securities purchased under resale agreements	2,701,496	1,389,397	94
Other financial instruments held for trading	-	1,345	(100)
Derivative financial instruments	65	-	-
Loans & receivables to Banks	173,955	158,367	10
Loans & receivables to other customers	17,805,294	14,313,169	24
Financial investments available for sale	3,901,139	1,570,068	148
Financial investments held to maturity	-	42,402	(100)
Investment in subsidiary	-	-	-
Property, plant and equipment	329,902	261,727	26
Intangible assets	292,573	377,516	(23)
Deferred tax assets	163,417	210,337	(22)
Other assets	251,395	200,772	25
Total assets	**32,118,025**	**21,416,906**	**50**
LIABILITIES		-	
Due to banks	1,280,602	305,314	319
Derivative financial instruments	13	2,915	(100)
Due to other customers	18,519,426	9,729,111	90
Securities sold under repurchase agreements	379,652	340,702	11
Other liabilities	731,471	296,080	147
Total liabilities	**20,911,164**	10,674,122	96

Notes to the Financial Statements Contd.

	30-Sep-17 (Unaudited) Rs. '000	31-Dec-16 (Restated) Rs. '000	Change %
50.4 Consolidated Statement of financial position Contd.			
EQUITY			
Stated capital	11,394,421	11,394,421	-
Statutory reserves	938	938	-
Accumulated losses	(189,474)	(725,782)	74
Other Reserves	976	(16,098)	106
Total equity attributable to equity holders of the Bank	11,206,861	10,653,479	5
Non controlling interest	-	89,305	(100)
Total equity	11,206,861	10,742,784	4
Total equity and liabilities	32,118,025	21,416,906	50
Net assets value per share (Rs.)	12.69	12.16	4

50.5 Consolidated statement of changes in equity

	Stated Capital Rs. '000	Statutory Reserves Rs. '000	Accumulated Losses Rs. '000	Other Reserves (Available for Sale Reserve) Rs. '000	Attributable to Owners of the Company Rs. '000	Non Controlling Interest Rs. '000	Total Rs. '000
Balance as at 01 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
Balance as at 01 January 2017	11,394,421	938	(725,782)	(16,098)	10,653,479	89,305	10,742,784
Total comprehensive income for the year 2017							
Profit for the year	-	-	38,664	-	38,664	174	38,838
Other comprehensive income, net of tax	-	-	77	17,074	17,151	19	17,170
Total comprehensive income for the year 2017	-	-	38,741	17,074	55,815	193	56,008

Notes to the Financial Statements Contd.

	Stated Capital Rs. '000	Statutory Reserves Rs. '000	Accumulated Losses Rs. '000	Other Reserves (Available for Sale Reserve) Rs. '000	Attributable to Owners of the Company Rs. '000	Non Controlling Interest Rs. '000	Total Rs. '000
Transactions with owners of the bank							
Contributions and distributions							
Gain from disposal of subsidiary	-	-	497,567	-	497,567	(89,498)	408,069
Total transactions with equity owners	-	-	497,567	-	497,567	(89,498)	408,069
Balance as at 31 December 2017	11,394,421	938	(189,474)	976	11,206,861	-	11,206,861

Note:
The reserves of the subsidiary including revaluation, attributable to group had been netted-off against investment cost except for statutoty reserve. Accordingly, no reclassifcation had been occurred in other comprehensive income with respect to subsidiary disposal.

Supplementary Information

Basel III Disclosures

1. CAPITAL ADEQUACY RATIOS

1.1 Common equity Tier 1 (CET 1) capital ratio

	2017 Rs.'000
Common Equity Tier 1 Capital (Refer Note 2.1)	10,714,086
Total Risk Weighted Amount	31,147,705
Common Equity Tier 1 (CET 1) Capital Ratio (minimum requirement 5.75%)	34.40
1.2 Total Tier I Capital Ratio	
Total Tier 1 Capital (Refer Note 2.2)	10,714,086
Total Risk Weighted Amount	31,147,705
Total Tier 1 Capital Ratio (minimum requirement 7.25%)	34.40
1.3 Total Capital Ratio	
Total Capital (Refer Note 2.3)	10,828,381
Total Risk Weighted Amount	31,147,705
Total Capital Ratio (minimum requirement 11.25%)	34.77

2. COMPUTATION OF CAPITAL

2.1 Computation of common equity Tier 1 (CET 1) capital

Common Equity Tier I (CETI) Capital after Adjustments	10,714,086
Total Common Equity Tier I (CET1) Capital	11,194,331
Equity capital or stated capital/assigned capital	11,394,421
Reserve fund	26,246
Published retained earnings/(Accumulated retained losses)	(236,882)
Accumulated other comprehensive income (OCI)	10,546
Total Adjustments to CET1 Capital	480,245
Other intangible assets (net)	340,493
Deferred tax assets (net)	139,752

Supplementary Information Contd.

Basel III Disclosures

2.2 Computation of additional Tier 1 (AT1) capital

	2017 Rs.'000
Common Equity Tier I (CETI) capital (Refer Note 2.1)	10,714,086
Total additional Tier 1 (ATI) capital	-
Qualifying Additional Tier 1 Capital Instruments	-
Instruments issued by consolidated banking and financial subsidiaries of the bank and held by third parties	-
Total adjustments to AT1 capital	-
Investment in own shares	-
Reciprocal cross holdings in AT1 capital instruments	-
Investments in the capital of banking and financial institutions where the bank does not own more than 10 per cent of the issued ordinary share capital of the entity	-
Significant investments in the capital of banking and financial institutions where the bank own more than 10 per cent of the issued ordinary share capital of the entity	-
Regulatory adjustments applied to AT1 due to insufficient Tier 2 capital to cover adjustments	-
Total Tier I Capital	-

2.3 Computation of total capital

Common Equity Tier 1 capital (Refer Note 2.1)	10,714,086
Additional Tier 1 (ATI) capital (Refer Note 2.2)	-
Total Tier 2 Capital	114,295
General provisions	114,295
Total Capital	10,828,381

3 KEY REGULATORY RATIOS - CAPITAL & LIQUIDITY

As at 31st December	2017 Basel III Rs.'000	2016 Basel II Rs.'000
Regulatory capital		
Common Equity Tier 1 Capital	10,714,086	-
Total Tier 1 Capital	10,714,086	10,669,277
Total Capital	10,828,381	9,802,653
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio (Minimum Requirement -5.75%)	34.40	-
Total Tier 1 Capital Ratio (Minimum Requirement -7.25%)	34.40	51.93
Total Capital Ratio (Minimum Requirement -11.25%)	34.77	50.81
Regulatory Liquidity		
Statutory Liquid Assets DBU (Rs. 000)	8,263,439	4,793,804
Statutory Liquid Assets OBU (USD. 000)	83	-
Statutory Liquid Assets Ratio (Minimum Requirement - 20%)		
Domestic Banking Unit (%)	43.99	55.98
Foreign Currency Banking Unit (%)	4,150.00	-
Liquidity Coverage Ratio (%)		
Rupee (Minimum Requirement as at 31st December 2017 - 80%)	200.20	237.70
All Currency (Minimum Requirement as at 31st December 2017 - 80%)	228.81	220.76

4 TOTAL RISK WEIGHTED AMOUNT

Risk-Weighted Amount for Credit Risk	28,734,861	18,278,662
Risk-Weighted Amount for Market Risk	795,556	477,550
Risk-Weighted Amount for Operational Risk	1,617,289	895,070

Supplementary Information Contd.

Basel III Disclosures

5 BASEL III - COMPUTATION OF LIQUIDITY COVERAGE RATIO - ALL CURRENCY

As at 31st December	2017		2016	
	Total Un-weighted Value Rs.'000	Total Weighted Value Rs.'000	Total Un-weighted Value Rs.'000	Total Weighted Value Rs.'000
Total Stock of High-Quality Liquid Assets (HQLA)	4,384,777	4,384,777	1,552,436	1,552,436
Total Adjusted Level 1 Assets	4,386,407	4,386,407	1,552,349	1,552,349
Level 1 Assets	4,384,777	4,384,777	1,552,436	1,552,436
Total Adjusted Level 2A Assets	-	-	-	-
Level 2A Assets	-	-	-	-
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows				
Deposits	12,312,184	1,231,218	5,774,399	577,440
Unsecured Wholesale Funding	6,015,012	4,101,170	3,739,313	1,914,493
Secured Funding Transactions	741,555	-	339,996	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	17,591,964	1,619,834	9,429,367	320,974
Additional Requirements	-	-	-	-
Total Cash Inflows				
Maturing Secured Lending Transactions Backed by Collateral	-	-	1,350,000	-
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	6,324,242	5,035,893	4,863,886	3,943,904
Operational Deposits	-	-	-	-
Other Cash Inflows	-	-	-	-
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/ Total net Cash Outflows over the Next 30 Calendar Days) *100		228.81		220.76

6 MARKET RISK UNDER STANDARDISED MEASUREMENT METHOD

As at 31st December	2017 Basel III Rs.'000	2016 Basel II Rs.'000
Total Capital Charge for Market Risk	89,500	47,755
Capital Charge for Interest Rate	61,340	30,252
General Interest Rate Risk	61,340	30,252
Net Long or Short Position	61,340	30,252
Horizontal Disallowance	-	-
Vertical Disallowance	-	-
Options	-	-
Specific Interest Rate Risk	-	-
Capital Charge for Equity	-	-
General Equity Risk	-	-
Specific Equity Risk	-	-
Capital Charge for Foreign Exchange & Gold	28,160	17,503
Total Risk-weighted Amount for Market Risk	795,556	477,550

7 OPERATIONAL RISK UNDER BASIC INDICATOR APPROACH

As at 31st December

		Gross Income		
Capital Charge	Capital Charge Factor (%)	1st Year Rs.'000	2nd Year Rs.'000	3rd Year Rs.'000
The Basic Indicator Approach	15	2,177,566	1,078,221	383,123

Capital Charges for Operational Risk	
The Basic Indicator Approach	181,945
Risk-Weighted Amount for operational Risk	
The Basic Indicator Approach	1,617,289

Supplementary Information Contd.

Basel III Disclosures

8 CREDIT RISK UNDER STANDARISED APPROACH

Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

Asset class	As at 31 December 2017					
	Exposure before credit conversion factor (CCF and CRM)		Exposure post CCF and CRM		RWA and RWA Density (%)	
	On balance sheet amount Rs'000	Off balance sheet amount Rs'000	On balance sheet amount Rs'000	Off balance sheet amount Rs'000	RWA Rs'000	RWA Density* Rs'000
Claims on Central Government and Central Bank of Sri Lanka	931,602	-	931,602	-	-	-
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-
Claims on Public Sector Entities (PSEs)	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks(MDBs)	-	-	-	-	-	-
Claims on Banks Exposures	4,079,802	252,245	4,079,802	5,045	2,066,426	51%
Claims on Financial Institutions	2,304,372	2,592,638	2,304,372	13,784	1,414,212	61%
Claims on Corporates	10,001,174	13,976,439	10,001,174	5,814,533	15,401,511	97%
Retail Claims	7,202,787	1,712,068	6,858,337	-	7,202,787	105%
Claims Secured by Residential Property	757,390	-	757,390	-	757,390	100%
Claims Secured by Commercial Real Estate	-	-	-	-	-	-
Non-Performing Assets (NPAs)	745,976	-	745,976	-	1,101,486	148%
Higher-risk Categories	-	-	-	-	-	-
Cash Items and Other Assets	1,188,138	-	1,188,138	-	791,049	67%
	27,211,241	**18,533,390**	**26,866,791**	**5,833,362**	**28,734,861**	

* RWA Density - Total RWA/Exposures post CCF and CRM

9 CREDIT RISK UNDER STANDARDISED APPROACH : EXPOSURES BY ASSET CLASSESS AND RISK WEIGHTS

Description	Amount (Rs '000) as 31st December 2017 (Post CCF and CRM)							
Risk Weight Asset Class	0%	20%	50%	75%	100%	150%	>150%	Total credit exposure amount
Claims on Central Government and Central Bank of Sri Lanka	931,602	-	-	-	-	-	-	931,602
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	-	-
Claims on Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks(MDBs)	-	-	-	-	-	-	-	-
Claims on Banks Exposures	-	2,494,007	46,430		1,544,410	-		4,084,847
Claims on Financial Institutions		9,173	1,793,212		515,771	-		2,318,156
Claims on Corporates			828,434		14,987,231	42		15,815,707
Retail Claims					7,202,787			7,202,787
Claims Secured by Residential Property					757,390			757,390
Claims Secured by Commercial Real Estate	-	-	-	-	-	-	-	-
Non-Performing Assets (NPAs)	-	-	-	-	34,957	711,019	-	745,976
Higher-risk Categories	-	-	-	-	-	-	-	-
Cash Items and Other Assets	397,089	-	-	-	791,049	-	-	1,188,138
Total	1,328,691	2,503,180	2,668,076	-	25,833,595	711,061	-	33,044,603

Investor Relations

TOP 23 SHAREHOLDERS

As at 31 December

No	Shareholder Name	2017 Shareholding	2017 Ratio	2016 Shareholding	2016 Ratio
1.	Cargills (Ceylon) PLC	350,696,905	39.71%	350,696,905	39.71%
2.	CT Holdings PLC	223,345,953	25.29%	223,345,953	25.29%
3.	Monetary Board of Sri Lanka - On Behalf of EPF	44,000,000	4.98%	44,000,000	4.98%
4.	Mulitex Investment Limited	30,800,000	3.49%	30,800,000	3.49%
5.	MJF Foundation Investments (Pvt) Ltd	28,000,000	3.17%	28,000,000	3.17%
6.	Asian Alliance Insurance PLC	26,600,000	3.01%	26,600,000	3.01%
7.	MAS Capital (Private) Limited	22,000,000	2.49%	22,000,000	2.49%
8.	Rosewood (Pvt) Ltd	16,000,000	1.81%	16,000,000	1.81%
9.	Phoenix Ventures Limited	13,200,000	1.49%	13,200,000	1.49%
10.	Aindri Holdings Pte Ltd	11,000,000	1.25%	11,000,000	1.25%
11.	A I A Holdings Lanka (Pvt) Ltd	11,000,000	1.25%	11,000,000	1.25%
12.	Softlogic Holdings PLC	10,000,000	1.13%	10,000,000	1.13%
13.	Gardiya Lokuge Harris Premaratne	9,089,000	1.03%	9,089,000	1.03%
14.	Merrill Joseph Fernando	7,800,000	0.88%	7,800,000	0.88%
15.	Softlogic Finance PLC	7,400,000	0.84%	7,400,000	0.84%
16.	GF Capital Global Limited	6,100,000	0.69%	6,100,000	0.69%
17.	Periyasamipillai Barathakumar	4,400,000	0.50%	4,400,000	0.50%
18.	Periyasamipillai Muruganandhan	4,400,000	0.50%	4,400,000	0.50%
19.	Periyasamipillai Anandarajah	4,400,000	0.50%	4,400,000	0.50%
20.	Periyasamipillai Devaraj	4,400,000	0.50%	4,400,000	0.50%
21.	Periyasamipillai Barathamanickam	4,400,000	0.50%	4,400,000	0.50%
22.	Rajah Mahinda Nanayakkara	4,400,000	0.50%	4,400,000	0.50%
23.	Lalan Rubber Holdings (Pvt) Ltd	4,400,000	0.50%	4,400,000	0.50%
		847,831,858	96%	847,831,858	96%
	Total No. of Shares Issued	883,142,858	100.00%	883,142,858	100.00%

COMPOSITION OF SHAREHOLDERS

As at 31 December	2017		2016	
Shareholder Name	Shareholding	Ratio	Shareholding	Ratio
Shares held by Directors	1,100,000	0.12%	1,100,000	0.12%
Shares held by Other Related Parties	576,242,858	65.25%	576,242,858	65.25%
Shares held by Group Staff Members	10,260,000	1.16%	14,560,000	1.65%
Shares held by Institutions	232,140,000	26.29%	232,140,000	26.29%
Balance held by Public	63,400,000	7.18%	59,100,000	6.69%
Total	883,142,858	100.00%	883,142,858	100.00%
Shares held by Resident	830,431,858	94.03%	830,431,858	94.03%
Shares held by Non- Resident	52,711,000	5.97%	52,711,000	5.97%
Total	883,142,858	100.00%	883,142,858	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 Sixth Annual General Meeting of Cargills Bank Limited will be held on 27th April 2018 at 2.30 p.m. at the Institute of Chartered Accountants of Sri Lanka, No 30A, Malalasekara Mawatha, Colombo 07.

for the following purposes;

1. To consider and adopt the statement of accounts for the year ended 31 December 2017 with report of the Auditors thereon.
2. To re-elect the following Directors
    a) Mr. M.O.F Salieh 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. E M M Boyagoda who retires by rotation in terms of Article 86 of the Articles of Association of the Company being eligible offers himself for re-appointment.
3. 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

Kamalini De Silva (Ms.)
Company Secretary

28 March 2018

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 Sixth Annual General Meeting of the Company to be held on 27 April 2018 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
		(a)	(b)	
For				
Against				

……………………….......................………....... Date

…………………………….......................……....... Signature of member(s)

NOTES:

(a) Strike out whichever is not desired.

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

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

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

Form of Proxy Contd.

INSTRUCTIONS AS TO COMPLETION OF THE PROXY FORM

1. To be valid, the completed Form of Proxy should be deposited at the Registered Office of the Company at No. 696, Galle Road, Colombo 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.

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.

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TAX PAYER IDENTIFICATION NUMBER (TIN)
134 048 476

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 - Deputy Chairman
Rajendra Theagarajah - Managing Director / CEO
Prabhu Mathavan - Executive Director
Mangala Boyagoda - Senior Director
Faizal Salieh
Richard Ebell

BOARD SUB-COMMITTEES

Board Human Resources & Remuneration Committee
Ranjit Page - Chairman
Faizal Salieh
Prabhu Mathavan
Kamalini De Silva (Ms.) - Secretary

Board Integrated Risk Management Committee
Faizal Salieh - Chairman
Mangala Boyagoda
Richard Ebell
Prabhu Mathavan
Jayani Senanayake - CRO
Summaiya Macan Markar (Ms.) - Secretary

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

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

Board Credit Committee
Mangala Boyagoda - Chairman
Ranjit Page
Faizal Salieh
Jayani Senanayake - Secretary

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

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CargillsBank
Banking on the Human Spirit

Cargills Bank Limited
696, Galle Road, Colombo 03
Sri Lanka.