CargillsBank
ANNUAL REPORT 2018

Like NO OTHER

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Many would claim to provide a novel banking experience but we at Cargills Bank lay claim to many other factors that shape the way that our customers see and work with us.

WE LAY CLAIM TO ACTIVELY WORKING WITH THE UN-BANKABLE; THOSE WHO HAVE NOT BEEN AFFORDED THE SAME CHANCES TO REINVENT THEIR LIVES, ESPECIALLY IN THE AGRICULTURAL SECTOR.

It is a big part of our ethos as we uplift the grassroots of the country while also extending our limitless support to entrepreneurs, businesses and also individuals and families that seek financial independence and security.

All this, coupled with

OUR REACH, LEGACY AND INFALLIBLE SPIRIT IS WHAT MAKES US, LIKE NO OTHER.

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.

Vision

TO BE THE MOST INCLUSIVE BANK HARNESSING THE SPIRIT OF PROGRESS IN EVERY SRI LANKAN.

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 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.

Our Partners

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.

Year in Review

380 +
Access Points

19
No. of Branches

586
No. of Employees

32 %
Capital Adequacy Ratio

Loans
Rs.23,917Mn
15% ▲

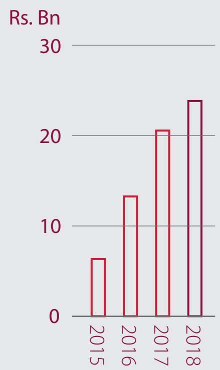
Deposits
Rs.19,903Mn
6% ▲

Total Assets
Rs.33,803Mn
4% ▲

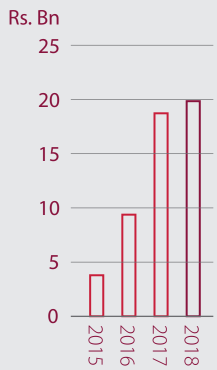
Operating Income
Rs.2,358Mn
37% ▲

Profit
Rs.123Mn
20% ▲

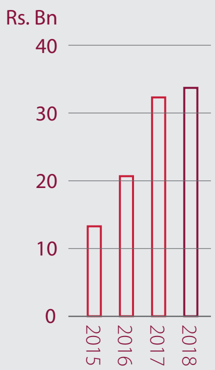
Gross Income
Rs.4,300Mn
37% ▲



Loans & Advance



Total Deposits



Total Assets

	2018 Rs' 000	2017 Rs' 000	Change %	2017 Rs' 000 Adjusted*	Change % Adjusted*
Operating Results					
Gross Income	4,300,243	3,611,813	19	3,131,156	37
Net Interest Income	2,029,307	1,480,657	37	1,480,657	37
Net Fees and Other income	328,674	715,669	(54)	235,012	40
Total Operating Income	2,357,981	2,196,326	7	1,715,669	37
Operating profit before taxes	336,586	795,578	(58)	314,921	7
Profit for the year	122,805	512,859	(76)	102,041	20
Assets and Liabilities					
Loans and Advances	23,917,397	20,797,560	15		
Customers Deposits	19,902,741	18,808,432	6		
Total Assets	33,803,120	32,512,711	4		
Total Liabilities	22,779,158	21,318,380	7		
Shareholder's Funds	11,023,962	11,194,331	(2)		
Key Indicators					
Earning per share	0.14	0.58	(76)	0.12	17
Net asset value per share	12.48	12.68	(2)		
Net Interest Margin %	5.88	5.53	6		
Return on Assets (before income tax) %	0.97	2.32	(58)	0.79	(38)
Return on Equity %	1.09	4.69	(77)	0.93	13
NPL Ratio	6.04	3.55	70		
Regulatory Ratios					
Tier 1 Capital Adequacy Ratio %	32.27	34.39	(6)		
Tier 1 & 2 Capital Adequacy Ratio %	32.62	34.76	(6)		
Liquid Asset Ratio %	23.34	43.99	(47)		

* Excluding the gain from disposal of subsidiary.

** The Financial Statements for the year ended 31 December 2018 have been prepared in accordance with Sri Lanka Accounting Standards - SLFRS 9 (Financial Instruments), whereas prior period Financial Statements have not been restated.

Chairman's Statement

THROUGH A UNIQUE EMPHASIS ON CUSTOMER CENTRICITY, ENTERPRISE EMPOWERMENT AND TECHNOLOGICAL SOPHISTICATION, WE ARE PLEASED TO REPORT THAT THE BANK HAS CONTINUED TO GAIN MOMENTUM IN ITS FOURTH YEAR OF FULLY FLEDGED OPERATIONS.

Dear Stakeholder,
We are pleased to present the annual report and audited Financial Statements of Cargills Bank for the year 2018.

Cargills Bank has from its inception ambitiously set out to revitalize traditional concepts of banking in Sri Lanka. Through a unique emphasis on customer centricity, enterprise empowerment and technological sophistication, we are pleased to report that the Bank has continued to gain momentum in its fourth year of fully fledged operations.

Cargills Bank concluded 2018 having achieved a Profit Before Taxes (PBT) of Rs. 338.1 million, excluding a one-off capital gain recorded in 2017, while posting strong improvements across all key performance indicators. Particularly at a time when the entire banking sector continued to face notable challenges – including the imposition of new levies that put pressure on bottom lines industry-wide – we are pleased to note that Cargills Bank's financial performance has poised the organization for an increasingly aggressive growth trajectory.

Operating Environment

The Sri Lankan economy continued to show signs of recovery in 2018 despite exchange rate fluctuation, continuing tight monetary conditions and political instability in the final quarter of the year. Posting marginal improvements through the year, GDP growth climbed to 3.8% in 2018, which served as an encouraging sign of further growth appetite as compared with 2017, when Sri Lanka recorded GDP growth of just 3.3% - the lowest rate since 2001.

The agriculture sector, which was affected by natural disaster in 2017, made a partial recovery that helped to spur economic growth. Although continued monetary tightening weighed down domestic demand and investment, credit growth to the private sector also decelerated in the wake of rising interest rates. However this conservative approach proved effective in terms of containing headline inflation in low single digit levels during the year due to a slowdown in food inflation and low money supply in the market.

Despite a concerted effort to introduce further fiscal discipline by minimizing revenue leakage through the strengthening of tax collection, the economy overshot its budget deficit target of 4.8% of GDP, instead closing the year with a deficit of 5.3% of GDP, largely as a result of expenditure on flood and drought relief.

On a brighter note, the Sri Lankan economy was able to attract its highest levels of Foreign Direct Investment (FDI) on record during the year, with a total of US$ 2.3 billion flowing into the country despite political volatility dampening investor sentiment in the final quarter.

Another notable development in the banking sector during the period in review was the imposition of a new 7% Debt Recovery Levy on banks which came into effect from 01 October 2018 and which will continue as a temporary measure till 31 December 2021. Whilst the levy is aimed at supporting repayment of Government debt, this would negatively impact profitability in the banking industry.

International developments also impacted the Sri Lankan economy as continuing interest rate hikes in the United States of America resulted in a strengthened dollar. Consequently, the Sri Lankan rupee witnessed unprecedented depreciation at a rate of approximately 19% YoY in 2018. While such dynamics presented a boon to exporters in terms of the total value of exports, the domestic economy was forced to contend with a net negative impact to its trade deficit which expanded by a drastic 16.7% Year-on-Year (YoY) to US$ 8.9 billion during the first ten months of 2018.

The weaker performance of Sri Lanka's external sector was however mitigated by improved export performance during the year as the country recorded 15% YoY growth up to US$ 17 billion, supported by the continuing effect of the reinstatement of GSP + concessions in 2017. Exports of apparel, rubber, tea and frozen fish recorded significant improvements as overall exports to the EU increased by 11% YoY in the 12 months since the GSP+ facility was reinstated.

In order to ease pressure on the country's balance of payments, the International Monetary Fund concluded its fourth review of its extended fund facility to Sri Lanka and authorized the release of US$ 252 million – signaling its approval of continuing reforms and improved economic performance – particularly with regard to curbing of credit growth and stabilization of inflationary pressure. The facility which was put on hold in November 2018 following the recent political crisis will be resumed as confirmed by IMF recently.

The destabilizing influence of the crisis was also felt in terms of Sri Lanka's country rankings, as the island was hit by ratings downgrades from B+ to B by Standard & Poor's and Fitch Ratings while Moody's downgraded B1 to B2 but changed Sri Lanka's outlook from 'negative' to 'stable'. The revised ratings served to weaken the country's attractiveness to international investors despite notable improvements in Ease of Doing Business rankings.

Outlook

Backed by continuing structural reforms in key areas and a commitment to disciplined fiscal and monetary policy management, the Sri Lankan economy has made important progress. While falling short of ambitious fiscal targets set in 2018, Sri Lankan economy continues to display great potential and current projections show a recovery in key macroeconomic indicators including GDP, which is targeted to rebound to 4% in 2019.

It is hoped that the continuing revisions to the country's tax structure will support further improvements to the country's budget deficit, down to an estimated 4.8% of GDP by the end of 2019 as annual expenditure has been budgeted at Rs. 4.5 trillion, with approximately half being channeled towards debt servicing payments.

Important improvements are also expected in terms of FDI, which is targeted to expand to US$ 3 billion, while exports are projected to increase to US$ 20 billion by the end of the year, which would be a highly significant milestone for the economy and the nation.

Meanwhile, negotiations are underway for the resumption of the IMF's Extended Funding Facility and its successful resumption would provide further support to the country's balance of payments. Particularly when considered against the on-going transition of economic power towards the East, Sri Lanka remains poised for a much deeper integration with the Asian region, particularly in the context of potential Free Trade Agreements between Sri Lanka, India and Singapore.

While it is difficult to anticipate how changes in the American economy will play out over the coming year, it currently appears as though the dollar will rise in value against global currencies following most recent announcements that the US Federal Reserve will continue to raise interest rates in 2019. Consequently, the rupee and other regional currencies are expected to undergo continued depreciation which when combined with the knock on effects of unprecedented rupee depreciation in 2018, could create further inflationary pressure within the domestic economy, particularly in relation to fuel and energy costs. Such dynamics however help to further bolster the argument in favour of a more dynamic, value-added export industry in Sri Lanka.

Sri Lanka is anticipated to witness further volatility as a result of the upcoming election cycle. Given the fact that important progress has been made towards creating a conducive environment for business and investment, policy consistency and macroeconomic stability remain absolutely crucial to furthering broad-based national economic development.

While it is clear that Sri Lanka can expect to face more challenges over the short-medium term, we believe there is also a compelling case for strong growth momentum across the island. The keys to unleashing this growth are education, entrepreneurial empowerment and access to finance. In this journey, greater attention and resources need to be focused on the bottom of the economic pyramid, in communities outside of the Western Province and outside of major urban centres. By harnessing opportunity and creating meaningful value for these segments, we are better able to integrate such communities into the wider Sri Lankan economy and this is where Cargills Bank has a unique role to play, like no other.

The Agility to Excel

Given these notable challenges, we are deeply inspired and encouraged by the noteworthy performance of Cargills Bank. Over the past year, we have continued to firmly establish the Bank as a truly unique entity that holds the potential to positively touch the lives of Sri Lankans from every corner of the island. Cargills Bank seeks to carve out its own niche through innovations in Retail, SME, Agri and Digital banking. In this manner, we aim to reach customers and communities often overlooked by the established banking sector and serve as an agile force of empowerment across the Sri Lankan economy.

We are part of a new chapter in the 175 year legacy of the Cargills Group in Sri Lanka. A central pillar of our growth strategy is built out of the substantial retail network of over 380 Cargills Food City outlets across the island. Under the agency banking guidelines of the Central Bank of Sri Lanka, Cargills Bank continues to leverage the extensive Cargills Food City footprint to connect and engage with customers on a scale and format that is completely unprecedented in the arena of Retail Banking in Sri Lanka.

The trust and goodwill of the Cargills brand is also opening up innovative synergistic opportunities for the integration of related supply chains within the umbrella of Cargills Bank. Investments in back-end and customer facing technology, coupled with the entirety of its infrastructure and strategies slanted towards capturing a dominant digital leadership position has enabled Cargills Bank to optimize use of resources from Day 1.

Cargills Bank's business model aims to achieve intrinsic sustainability by forming personalized, customer-centric relationships that are focused on value creation and financial empowerment and inclusion, combined with a concerted emphasis on the empowerment of Micro and Small and Medium Enterprises (SMEs). In this manner, we aim to broaden access to advanced, high quality financial services to a broader segment of Sri Lankan society.

Whilst the agility to excel in Retail, Digital and SME Banking augurs well for Cargills Bank, we remain steadfastly focused on Agri-lending given the opportunities presented to the Bank by the deep penetration of this sector by its Parent Company leveraging a sustainable and integrated business model that spans farm-to-fork.

WHILST THE AGILITY TO EXCEL IN RETAIL, DIGITAL AND SME BANKING AUGURS WELL FOR CARGILLS BANK, WE REMAIN STEADFASTLY FOCUSED ON AGRI-LENDING GIVEN THE OPPORTUNITIES PRESENTED TO THE BANK BY THE DEEP PENETRATION OF THIS SECTOR BY ITS PARENT COMPANY LEVERAGING A SUSTAINABLE INTEGRATED BUSINESS MODEL THAT SPANS FARM-TO-FORK.

Over the coming year, we aim to further expand our capacity to connect with customers across the island through selectively growing our branch network, whilst parallel expansion into the more intuitive digital platforms. As one of the most recent entrants into the Sri Lankan banking industry, we are determined to drive forward strategies that are tailored towards the present and future needs of our customers.

Stringent Governance

Trust is crucial to any enterprise and even more so in the banking industry. As an entity that not only carries the Cargills name, but is also tasked with building and enhancing social and economic value, trust is a value that lies at the very foundation of our business. We remain constantly vigilant with respect to our fiduciary, statutory and regulatory obligations. Our stakeholders will be pleased to learn that over the past year, Cargills Bank continued to work under the careful supervision and able guidance of the regulator to maintain compliance with the letter and spirit of all applicable rules and regulations. We continue to adopt a systematic approach to governance, supported by a comprehensive governance framework and the collective technical expertise and oversight of our esteemed Board of Directors.

The Board continues to set the tone at the top by promoting highest professional standards and corporate values which cascade to senior management and across the entire workforce. We encourage every employee to truly live out the Bank's values in their daily lives, conducting themselves according to the highest ethical standards at all times.

The number of Directors on the Board was increased with the appointment of two Non-Executive Directors and the Bank is bound to benefit from their wisdom and expertise.

Listing in the Colombo Stock Exchange

Work towards listing the Bank on the Colombo Stock Exchange has commenced and is scheduled to reach completion in 2020. In preparation for this major milestone, Cargills Bank has set an extremely high standard for itself in terms of governance, risk management and regulatory compliance.

Acknowledgements

In concluding my statement, I wish to firstly convey my sincere appreciation to our growing team of employees, senior management and my colleagues on the Board of Directors, for the progress they have made in delivering an impressive financial and operational performance while positioning Cargills Bank for strong and sustained growth over the coming years.

We also convey our heartfelt gratitude to the Central Bank of Sri Lanka and its Governor for their continuous support and unwavering guidance. We as an organization remain fully committed to being compliant with all regulations and well-positioned to serve our customers best interests.

Lastly and most importantly, we convey our sincere appreciation to our loyal and increasing customer base and our stakeholders for the trust and confidence that they place in our organization, as we forge ahead in our mission to be bank like no other – for all Sri Lankans.

Louis R Page
Chairman

CEO's Statement

WE AIM TO SERVE AS THE CHANGE AGENT FOR RETAIL BANKING, A THOUGHT LEADER IN DIGITALIZATION AND CATALYST FOR SME AND AGRI GROWTH

Dear Stakeholder

It has been four years since Cargills Bank was first established and in that time, you will be pleased to learn that the Bank has been extremely successful in our pursuit of a new vision for banking in Sri Lanka – one that is built on customer centricity, amplified by technological innovation and focused on meaningful value creation for diverse and growing array of customers from every corner of Sri Lanka. Our business model is conservative in execution but ambitious in design. We aim to serve as the change agent for Retail Banking, a thought leader in digitalization and catalyst for SME and Agri growth while infusing the entire industry with vibrant solutions and services that will capture the imaginations and secure the financial future of a new generation of Sri Lankans.

Financial performance

The increased physical and digital reach of Cargills Bank in 2018 was instrumental in securing meaningful performance across the entire breadth of our operations as evidenced by steady improvements to Key Performance Indicators (KPIs).

Net Interest Income during the period in review increased by a sharp 37% Year-on-Year (YoY) up to Rs. 2.029 billion while Net Fee and Commission Income has increased by 39% YoY - to Rs. 158 million, driven by a continued focus on non-fund based income and higher volumes across core banking activities. Similarly dynamic growth was also recorded in relation to the Bank's other sources of income which generated a further Rs. 171 million, when one-off capital gain recorded in 2017 is eliminated, reflecting an increase of 41% YoY.

Cargills Bank's personnel expenses, depreciation and amortization and other operating expenses increased YoY by 44% to Rs. 744 million, 51% to Rs. 246.6 million and 22% to 716.8 million respectively, commensurate with the continuing expansion of the Bank's scope of operations and the opening of new branches. Notably, the year in review also saw a significant but temporary increase in the Bank's impairment charges which increased by 138% YoY to Rs. 313.9 million as a result of non-performance by some large customers and delayed settlements on smaller ticket loans. While the situation still presents notable concerns for the Bank, it has been closely monitored throughout the year and the management considers the increase to be temporary and likely to be contained within the coming year.

Complying with the regulatory requirement, the Bank has implemented SLFRS 09 from 01 January 2018, further contributing to the higher impairment charges reported also slowed down the growth in the bottom line.

Another constraining factor on the Bank's performance was the significant impact of the Debt Repayment Levy imposed by the Sri Lankan Government in 2018 which resulted in an additional expense of Rs. 17.8 million. The sudden imposition of the levy caused massive impacts across the banking industry. In relation to Cargills Bank, the impact further exacerbated the Bank's already substantial tax burden.

Despite these challenges, Cargills Bank continued to record improvements to its Profit Before Taxes, which increased by 7% YoY up to Rs. 336.6 million and Profit After Tax at Rs.122.8 registering an improvement of 20% YoY.

Operational highlights

The continuing improvements to Cargills Bank's top and bottom line were supported throughout the year by a relatively stable middle market and corporate banking portfolio, steady growth in the retail banking portfolio and primarily spearheaded by the SME sector which stands as the Bank's fastest growing segment.

The Bank loan book reported a YoY growth of 16% to Rs. 24.06 billion against the 20.8 billion in 2017.

Loans to the SME sector expanded by a substantial 86% YoY to Rs.6.26 billion, reflecting Cargills Bank's sustained focus on funneling capital and facilitating opportunity in this vital sector of the Sri Lankan economy.

The strategy of Cargills Bank in relation to SMEs is unique in that we place a particular emphasis on identifying and supporting community-based businesses with the potential to grow over time into large corporates.

By catalyzing growth in this segment, Cargills Bank aims to build up its most promising SME customers into a new generation of vibrant, large-scale enterprises that will in turn serve as engines of growth for the national economy over the medium-long term. The ownership structure of Cargills Bank helps to further reinforce our position as a uniquely SME-oriented bank where the parent's extensive SME network, enables increased cash flow to the sector for mutual benefit – for clients, the Bank and the Cargills Group thus delivering greater opportunities for supply chain connectivity.

Similarly, Cargills Bank's Retail banking arm showed improvement during the year in review –- also securing strong improvements over the year in review supported by the opening of three new in-store branches in Ratnapura, Chilaw and Rajagiriya in addition to the extensive retail network enabled through the Cargills Cash agency banking arrangement at Cargills Food City and the 'Bank in a Box' kiosk machines – both of which benefited from increased customer patronage during the year. Given that this is one of the Bank's most unique selling points and the fact that it is a low-cost customer touch point capable of considerably increasing retail banking penetration, we aim to continue developing this unique channel moving forward.

Parallel to its brick-and-mortar expansion, Cargills Bank was also successful in extending its pioneering digitization effort across customer-facing and administrative processes. Most notable on the front-end of the Bank's digitization efforts was the successful launch of the first 5 Cargills Bank Digi Zones - providing customers with digital access the vast majority of the comprehensive array of services available at any Cargills Bank brick-and-mortar branch.

The Bank's remittance business also performed well during the year. This is another area in which Cargills Bank has succeeded in significantly differentiating ourselves from the competition, utilizing the Cargills Bank mobile app and aggregators to ensure a highly streamlined and reliable process for customers. These improvements were further supported by the initiation of new partnerships with remittance agencies – including a new agreement with RippleNet to facilitate secure cross-border inward remittances to Sri Lanka using block chain based enterprise solutions.

Over the past year, our Agrarian Microfinance network has also been extended to cover approximately 14,000 farmers, including dairy farmers. This is a segment which is rightfully considered a national priority and lending to the sector to meet demand for

CARGILLS BANK AIMS TO BUILD UP ITS MOST PROMISING SME CUSTOMERS INTO A NEW GENERATION OF VIBRANT, LARGE-SCALE ENTERPRISES THAT WILL IN TURN SERVE AS ENGINES OF GROWTH FOR THE NATIONAL ECONOMY...

essential agricultural inputs like purchase seeds, fertilizer and other Agri related assets. Cargills Bank is working in partnership with the National Agri Development Program (NADEP) and the Central Bank of Sri Lanka to support the needs of farmers largely from the Monaragala and Anuradhapura districts.

Total loans within the retail arm rose by 26% YoY up to Rs. 7.9 billion while personal loans increased by 11.4% to Rs. 3,640 million Similarly, lending to the Construction sector expanded to Rs. 3,881 million, as compared with a previous Rs. 2,726 million while Agriculture and Fishing sector lending increased from Rs.1,674 million , to Rs. 2,186 million in 2018. Meanwhile, total deposits with the Bank recorded modest growth of 6% YoY up to Rs. 20 billion while the CASA mix stood at 17% in 2018.

During the year under review, the Bank's revenue generating ability was ably supported by its Business Banking division despite a 10% reduction in loans to Middle Market and Corporate customers, with the portfolio standing at Rs. 10.3 billion at the end of the year. The Bank's corporate banking portfolio accounted for 42% of our total business in 2018, however weaker macroeconomic conditions acted as a constraint on growth across the sector, leading to weaker growth for Cargills Bank.

Treasury operations were negatively impacted by the unprecedented depreciation of the rupee however, higher interest rate conditions stemming from tighter macroeconomic conditions prevalent during the year helped mitigate this impact.

In relation to the performance of its cards business, Cargills Bank faced limited challenges from the delayed implementation of its new Credit Card System – which in turn hampered customer acquisition during the year. Nevertheless, the Bank was successful in launching a new range of credit cards, in partnerships with Master Card for the launch of EMV compliant chip and PIN technology, as well as NFC for a tap-and-go payment experience.

These achievements opened up new possibilities for the launch of special discounts and promotions including a 15% cash-back promo at all Cargills Food City outlets as well as TGI Fridays and KFC. Similarly the Bank also received Master Card and VISA certification for point-of-sale Merchant acquiring.

Another notable development for the Bank in that regard was the launch of its first virtual card, enabling customers to make card payments via the Cargills Bank app – adding yet another unique feature to our increasingly unique product and service offering.

A special fraud monitoring system was also established during the year to better protect against card fraud while the Bank also maintains strict compliance with Payment Card Industry Data Security Standard (PCI DSS) – a timely development given the increasing risk of fraud in the domestic market.

Cargills Bank has been at the forefront of supporting national payments initiatives of the Central Bank and Lanka Pay, and is the bank of choice for merchants and Fintechs looking to acquire payments through Just Pay, the national account to account Point-of-Sale payment system. Further evidence of this national perspective was demostrated with the launch of acquiring for AliPay, bringing financial inclusivity to many small businesses to benefit from the growing number of visitors from China.

People power

In the four years since its establishment, Cargills Bank succeeded in attracting a young, diverse and highly skilled pool of talent to the organization, despite an extremely competitive industry landscape. Particularly in the context of Cargills Bank's unique business model and the rapidly evolving role of technology – both within the Bank and the wider industry – the expectations placed on our people has significantly changed in many ways, while still remaining a people-centric business.

Technologies such as process automation and machine learning and big data analytics are already beginning to have a significant impact on compliance, payments and retail services, among other banking functions. In this environment, banks need employees with the skills to understand how these technologies can be effectively applied and they need agile and adaptive workforces to navigate these changes.

Consequently, the recruitment and retention strategy of Cargills Bank is also evolving and while key positions have already been filled, our continuing expansion requires a consistent focus on maintaining an effective balance between the old and the new. On average, our team is one of the youngest, most diverse and most dynamic in the domestic industry and we believe this augers well for the future of Cargills Bank. At present, approximately 90% of our entire team of 586 individuals is below the age of 40, reflecting not only the youthfulness of our bank, but also of our appetite for ambitious, digitally disruptive growth over the coming decades.

Strategic Outlook

From the outset, it has always been clear that the success of Cargills Bank would hinge on its ability to chart a new course in the banking industry – one that fully embraced digitization from its inception, and remained primarily focused on inclusivity and the harnessing of entrepreneurial spirit across Sri Lanka, and particularly within the SME sector.

Given our relative size, we are conscious that Cargills Bank will not be able to compete purely on traditional, volume-based approaches to business. Instead while offering a fully-fledged suite of banking products and services, each has been finely tuned to meet the unique needs of our customers, especially those at the bottom of the pyramid. By linking them to the wider business of the Cargills Group, we are able to drive sustainable value creation in a manner that no other bank in Sri Lanka can.

A crucial component in this vision is Cargills Bank's agency banking model implemented through the Cargills Food City network, essentially re-purposing the existing and its strongly distributed network to massively extend the reach of the Bank island-wide. In this manner, Cargills Bank is able to reach out to communities into urban and rural centres across Sri Lanka, thus bringing us closer to SMEs and retail customers that have hitherto remained unbanked or underbanked.

Combined with one of the most functional online and mobile banking platforms available in Sri Lanka, we are able to serve the needs of customers anywhere and at any time. Such a strategy is in keeping with the ongoing changes in customer requirements and preferences across demographics. Priorities among these groups are changing and the Bank realizes the need to provide next generation banking services through user friendly digital platforms and this will enable the Bank to be a transforming force within the banking industry

Moving forward, Sri Lankans will continue to place an increasing priority on healthcare and education while at an enterprise level, a more competitive business landscape will require companies to be more agile and more deeply integrated into domestic and international supply chains. Meanwhile at a national level, the country is prioritizing development of local enterprises, education, technology, value added exports, reduction in the current account deficit and improvement in the performance of its financial markets.

We believe that the ambitious and progressive strategies implemented by Cargills Bank will be vital in better positioning the Bank to service these important national requirements. Our vision, products and services have all been crafted to serve as a catalyst for economic growth leveraging superior service delivery across digital banking, remittances, Agri/ Micro and SME businesses in line with the deeply felt economic imperatives of the nation.

Given that 2019 will see increased socio-economic uncertainty in the run-up to another election cycle, the industry is now bracing for continued volatility. As a result, Cargills Bank will continue to focus extensively on further reducing inefficiencies while improving engagement in areas of the SME economy with the highest growth potential. Our focus on mitigation of systemic external risk arising will be complemented by a strategy that seeks and embraces opportunities arising from the country's shifting macroeconomic landscape.

The coming year will also see a significant ramping up of marketing and promotional initiatives – including promotions campaigns exclusively designed to build engagement across new media platforms and with a particular emphasis on cards and retail banking.

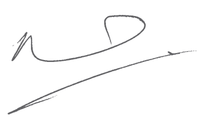
In keeping with our strategy of customer-focused digital innovation, Cargills Bank is also in the process of scaling up its analytics and risk management capabilities through the establishment of a centralized data warehouse. Leveraging its investments into advanced infrastructure, the Bank aims to draw on this wealth of information to enhance banking functions. Data intelligence will be utilized to support innovation, product development and risk management within the Bank.

The coming year will also see Cargills Bank leverage on the data, experience and expertise it has gathered so far towards the development of novel and extremely innovative Fin Tech solutions which will prove particularly useful to our retail and SME clients in 2019.

Acknowledgements

It has been another landmark year for Cargills Bank and as we move boldly into a new year full of potential and promise, we wish to acknowledge the contributions of those who have fueled our success so far. In particular, we express our sincere gratitude to our Chairman and Board of Directors for the trust and confidence that they have placed in myself, my team and Cargills Bank as a whole. Their guidance and oversight has been critical to our achievements and we look forward to working closely to further our ambitious vision for the Bank. The authorities at the Central Bank of Sri Lanka have been similarly invaluable to our goal of establishing a vibrant and uniquely differentiated bank.

I also wish to thank the senior management and my entire team – at the head office and across our growing branch network – for their dedicated efforts and unwavering commitment, without which we could not have risen so quickly and effectively to carve out a truly unique niche in the Sri Lankan market. Finally, on behalf of the entire Cargills Bank family, I wish to thank our customers and stakeholders for their unreserved support and complete confidence in our abilities. As Sri Lanka's most recent entrant into the banking industry, we have a great deal left to prove and we therefore sincerely thank each of our customers for being a part of this remarkable journey of becoming the preferred banker to a new generation of Sri Lankans and Sri Lankan SMEs.



Rajendra Theagarajah
Managing Director / CEO

29 March 2019

Board of Directors

Louis R Page
Chairman
(Non - Executive Director)

Louis 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 worked for a number of years in the accounting profession before joining the Shaw Group of Companies (Hongkong) in 1974.

He took a leave of absence from the position of Group Secretary and Financial Controller in early 1982 to take up an appointment as Executive Director of Cargills Group, a diversified group of companies in Sri Lanka engaged in supermarket retailing and distribution of consumer products, food and beverage, real estate investment and development, entertainment and financial services. Following his return to Hongkong in 1983, he was appointed Executive Director of the Shaw Group and also held the position of Managing Director of Television Broadcast Limited until his resignation in 2006.

Louis Page served on the Board of Directors of Macy's in the United States during the years 1990 to 1994. He was also the Chairman of the Board of Governors of the Sir Run Run Shaw Hospital in Hangzhou, China from 1990 until his retirement in September 2006. He also served on the Board of Trustees of the Shaw College of the Chinese University of Hongkong. For his leadership of this endeavour Loma Linda University presented him the University's Distinguished Service Award. He is presently the Chairman of the CT Holdings Group of Companies.

Board of Directors

Ranjit Page
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 Deputy Chairman/Managing Director of C T Holdings PLC and Deputy Chairman/Chief Executive Officer of Cargills (Ceylon) PLC and also serves on the Boards of several other companies. He is also a Founder - Director of the Mawubima Lanka Foundation, set up to promote local industry and produce.

Rajendra Theagarajah
Managing Director/Chief Executive Officer

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 is a veteran banker with a wealth of experience in the Banking and financial services sector. He counts over 35 years in banking both locally and overseas.

Rajendra Theagarajah served as Director/Chief Executive Officer (CEO) of National Development Bank PLC (NDB) from August 2013 till November 30, 2016. Prior to that, he served as CEO/ Managing Director at Hatton National Bank PLC for 9 years. Rajendra Theagarajah was also a past Chairman of Sri Lanka Bankers' Association (Guarantee) Ltd, Financial Ombudsman Sri Lanka (Guarantee) Ltd, former Director of Colombo Stock Exchange and former Chairman of the Asian Bankers Association. He has also served as a Council Member of the Sri Lanka Institute of Directors.

He currently serves as the Chairman of the Ceylon Chamber of Commerce and a past Chairman of the Chartered Institute of Management Accountants (UK) Sri Lanka Governing Board. Also serves as an independent non-executive Director of Carsons Cumberbatch PLC.

Prabhu Mathavan
(Executive Director)

Prabhu Mathavan is an Associate Member of the Chartered Institute of Management Accountants (UK) and the Institute of Chartered Accountants of Sri Lanka. He also holds a Bachelor's Degree in Commerce. He possesses over 25 years of experience in the fields of Finance, Auditing, Accounting and Taxation. He served 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 37 years' experience holding key positions in the field 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., Ambeon Holdings PLC , Dankotuwa Porcelain PLC, Sri Lanka Gateway Industries (Pvt) Ltd., CA Crushing (Pvt) Ltd., Ceylinco Insurance General (Pvt) Ltd., Royal Fernwood Porcelain (Pvt) Ltd.,United Hotel (Pvt) Limited., Chemanex PLC., Asset Holding (Pvt) Ltd., Dhamma Parami Trust., CIESOT and Faber Capital (Pvt) 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).

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 NDBHousing Bank, the country's first private sector housing bank and was its CEO and Board Director.

Faizal Salieh 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 has served on the Boards of Lanka Clear (Private) Limited which is the country's automated cheque clearing house, The Institute of Bankers of Sri Lanka and The Ceylon Chamber of Commerce.

Presently he is the Vice Chairman of The Sri Lanka Institute of Directors and serves on the Boards of the Distance Learning Centre, and HNB General Insurance Limited as a Non-Executive Independent Director; and is a Council Member & Financial Sector Consultant at Gerson Lehrman Group, USA and 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.

Richard Ebell

(Non - Executive Independent Director)

Richard Ebell is a Fellow of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and of the Chartered Institute of Management Accountants (CIMA), UK, and holds a Diploma in Marketing from the Chartered Institute of Marketing (CIM), UK. He has over 40 years' experience in finance, operations and Board roles after qualifying as a Chartered Accountant.

He is a Past President of CIMA, Sri Lanka Division. He is engaged with an Audit Committee Forum established in June 2014 and is on the Committee of a more recently established Independent Directors' Forum. He serves as an Independent Non-Executive Director of Asiri Hospital Holdings PLC and chairs its Audit Committee. He has previously served in the same capacities on the Boards of other listed and regulated entities.

Board of Directors

Mrs. Ruvini Fernando

(Non-Executive Independent Director)

Mrs. Fernando is employed at Pricewaterhouse Coopers Colombo as Director PPP Advisory and Deals Strategy and was formerly an Executive Director of Ceylon Guardian Investment Trust PLC and several of its group companies and the Chief Executive Officer of Guardian Fund Management Limited, heading the investment business of Carson Cumberbatch PLC. Prior to that she was employed within the Carsons Group as head of planning and various other positions.

Mrs. Fernando was a visiting lecturer at the Postgraduate Institute of Management, University of Sri Jayewardenepura where she taught strategy and finance and is a committee member of the National Agenda Committee on Finance and Capital at the Ceylon Chamber of Commerce.

She has a Masters in Business Administration from the Postgraduate Institute of Management, University of Sri Jayewardenepura and is a Fellow of the Chartered Institute of Management Accountants (CIMA), UK and the Association of Chartered Certified Accountants (ACCA), UK.

Dr. Dushni Weerakoon

(Non-Executive Independent Director)

Dr. Weerakoon is the Executive Director of the Institute of Policy Studies of Sri Lanka (IPS), the foremost economic policy research organization in Sri Lanka. She also heads the IPS' Macroeconomic Policy Research Programme. With over 24 years of post-doctoral research experience, she has written and published widely on macroeconomic policy, regional trade integration and international economics.

She has also served as a Director on the boards of corporate and academic entities, including as an Independent Non-Executive Director at the Nations Trust Bank (2007-2016), Centre for Poverty Analysis (2008-2014), and currently as a Director of the Gamani Corea Foundation, the Social Policy Analysis and Research Centre of the University of Colombo and the South Asia Centre for Policy Studies, New Delhi.

Dr. Weerakoon holds a BSc in Economics with First Class Honours from the Queen's University of Belfast, U.K., and an MA and PhD in Economics from the University of Manchester, U.K.

Management Discussion & Analysis

Economic Overview

The Sri Lankan economy posted a marginal recovery in its growth momentum during the year in review as GDP was projected to increase to 3.8% in 2018, as compared with its performance in 2017 when economic growth slowed to a historic low point of 3.3% in the wake of weather conditions. GDP growth in 2018 fell short of initial targets set out at the start of 2018 that aimed at a rate of 4.2%. Tight monetary conditions resulted a sluggish pace of growth during the third quarter of 2018, however improvements in the agriculture and services sector during the fourth quarter of the year helped to raise cumulative economic growth ahead of the previous year.

The agriculture sector was estimated to have contributed 7.6% of Sri Lanka's total GDP in 2018 where the industry sector accounted for 17.6%. Meanwhile, the services sector continued to account for the largest share at 77.9% of GDP in 2018.

As at the third quarter of 2018, agriculture sector growth had completely reversed its position from 2017 when the sector was hit by a contraction of 3%, subsequently recording growth of 3.3% during the period in review. Improved performance was primarily a result of improved weather conditions and stronger harvests – which also supported minor reductions in food inflation.

Industry sector growth was hampered by tighter monetary conditions and a drawing down of public and private sector investment – particularly in terms of construction and infrastructure projects – thereby leading to growth of 1.9%, as compared with 5.3% in 2017. Conversely, the services sector was able to sustain continuous improvements throughout the year, concluding the third quarter with a growth rate of 3.9%, as compared with 2.8% in 2017. A notable highlight in the services sector was the performance of the tourism industry, which posted a 10.6% YoY increase in earnings over the first 10 months, up to US$ 3.9 billion.

While a relative improvement over the previous year, Sri Lanka's economic growth remained subdued in 2018, which was attributed towards weak domestic demand, tight monetary conditions, lower Government spending, stagnant fixed investment and lower net exports. Nevertheless, the value of Sri Lankan exports increased by 15% Year-on-Year (YoY) up to US$ 17 billion. Unemployment during the year recorded marginal increases up from 4.2% in 2017 to 4.5% in 2018, as compared with a historic low of 4% in 2012.

Improved export values were largely driven by exports of apparel, rubber, tea and frozen fish – particularly towards the European Union which reinstated GSP+ concessions to Sri Lanka in 2017.

Exporters benefitted from three quarters of unprecedented depreciation as the US Dollar strengthened by 19% against the Sri Lankan rupee which resulted in larger net export earnings in rupees. During this time, the rupee depreciated in value by 19% YoY in 2018 to conclude the year in the range of Rs. 182.6 to the US dollar. While currency volatility positively impacted the value of Sri Lankan exports, it also resulted in a sharp increase in terms of import expenditure arising out of high import dependency

While the CBSL had previously allowed the market to determine the exchange rate, interventions to defend the rupee out of its official international reserves - following many regional peers – resulted in gross official reserves dropping from US$ 7.95 billion in 2017, down to US$ 6.91 billion as at the end of December 2018.

The trade deficit expanded by 16.7% Year-on-Year (YoY) to US$ 8.9 billion during the first ten months of 2018 before narrowing sharply in November to 4.1% growth up to US$ 980 million as spending on big ticket imports like vehicles. Expenditure on personal vehicle imports showed a significant decline of 34.8% in November 2018 from the previous month following several consecutive months of sustained growth, reflecting the impact of policy measures specifically targeted at curtailing personal vehicle imports which had previously acted as a severe drain on foreign exchange reserves. Nevertheless, on a cumulative basis, the deficit in the trade account expanded during the first eleven months of 2018 to US$ 9.64 billion from 8.6 billion dollars in the same 2017 period.

Foreign Direct Investment to Sri Lanka reached US$ 2.3 billion during the year, however investor sentiment was drastically weakened in the wake of the political crisis prevailing during the final months of 2018.

While the International Monetary Fund concluded its fourth review of its extended fund facility to Sri Lanka and authorized the release of US$ 252 million – signaling its approval of continuing reforms and improved economic performance the facility was subsequently put on hold in November 2018 following the political crisis and negotiations are still underway to resume the facility.

The destabilizing influence of the crisis was also felt in terms of Sri Lanka's country Credit Rating, as the island was hit by ratings downgrades. Both Standard & Poor's and Fitch Ratings downgraded from B+ to B while Moody's downgraded to B2 from B1 but changed Sri Lanka's outlook from 'negative' to 'stable'. The revised ratings served to weaken the country's attractiveness to international investors despite notable improvements in Ease of Doings Business rankings.

Worker remittances contracted during 2018 to approximately US$ 7 billion, as compared with US$ 7.16 billion in 2017 partially due to socio-political volatility in traditional employment destinations in the Middle East.

While, the tight monetary policy maintained by the Central Bank of Sri Lanka in 2018 acted as a limiting factor on growth, it also helped to contain inflation. During the period in review, headline inflation remained in low single digit levels during the year due to continued slowdown in food inflation and low money supply in the market, averaging approximately 4.4% across 2018.

While interest rates were relaxed in April, the Monetary Board subsequently increased the Standing Deposit Facility Rate (SDFR) by 75 basis points to 8% and the Standing Lending Facility Rate (SLFR) by 50 basis points to 9% in November while lowering its reserve requirement on banks in order to boost liquidity in the domestic money market and reduce the cost of funds while still maintaining an overall neutral monetary policy stance through the raising of key policy rates.

Government expenditure spiked during the first half of 2018, it was subsequently curbed over the remainder of the year. Recurrent expenditure from January to September increased by 9.7% YoY up to Rs. 1.58 trillion while total revenue increased by 6.7% YoY to Rs. 1.42 trillion. By the end of 2018, the country's budget deficit stood at 5.3% of GDP, as compared with a target of 4.8% and 5.5% in 2017. While continuing to overshoot targets, the economy has nevertheless made steady progress in reducing the countries budget deficit, assisted by the continuing consolidation of the tax revenues.

The country's substantial debt burden, impending elections and global market volatility are all anticipated to generate the significant down-side risks for the economy over the short term. Further rupee depreciation could also raise the cost external debt servicing and refinancing, while also adding greater inflationary pressure to the economy on account of an increased imports bill.

Domestic Economic Outlook

The Sri Lankan economy is currently projected to exceed 4% economic growth in 2019 with debt repayment presenting one of the largest challenges to the national economy. Particularly in relation to foreign debt settlement, the expectation of further political uncertainty in the build up to the next election cycle and weaker credit ratings could generate further downside risks over the next year.

At present, the country will have debt service payments of US$ 5.9 billion in 2019, while total cumulative debt falling due over the next four years is reported to total US$ 14.9 billion. Current signs of a further cycle of monetary policy tightening in the US will likely drive further rupee depreciation in 2019, putting further pressure on reserves and potentially generating further inflationary pressure within the domestic economy. Inflation is projected to increase by an average of 5.2% in 2019.

Industry Overview

During the year in review, the Sri Lankan banking sector was comprised of 25 Licensed Commercial Banks (LCBs), including 12 branches of foreign banks and 7 Licensed Specialised Banks (LSBs). While the sector recorded overall positive performance, growth was constrained by sluggish economic growth, lower disposable income and increased bad loan provisioning.

Banking sector loan growth reached a record high in 2018, rising sharply by 19.6% YoY up to Rs. 1.3 trillion, with Rs. 400 billion in loans being granted over the final quarter of 2018 alone. The largest loan growth originated from medium and large scale banks. Parallel to the sector's unprecedented expansion in lending, a notable increase was also recorded in terms of the sector's Non Performing Loans which peaked at 3.6% before eventually returning to 3.4% in December in contrast with an average of 2.5% in 2017. Higher NPLs were recorded in agriculture, construction and SME sectors during the year. It is however important to note that NPLs stood at a 10 year low in 2017 and the agriculture sector has since witnessed a strong recovery in 2018.

Total assets within the banking sector increased to Rs. 10.8 trillion in the first half of 2018, reflecting growth of 11.1% YoY while total deposits increased to Rs. 7.9 trillion by the end of 2Q18. A 15.1% YoY growth in interest income along with a slower 13.7% growth in interest expense in 1H 2018 helped banks record a 17.8% YoY growth in net interest income (NII) over 1H18. This growth was driven primarily by an expansion in loans and advances coupled with high interest rates that prevailed during the period. A higher interest rate environment also helped facilitate improvements in terms of average Net Interest Margins within the sector, which increased by 3.7% in 1H18, as compared with 3.5% in the previous year.

Notable developments impacting the industry during the year included the implementation of SLFRS 9 which is set to come into effect by 2019 and will subsequently increase total impairment provisioning across the industry.

Capital adequacy requirements first introduced by the CBSL under Basel III with effect from 1 July 2017 are set to impact the industry from 1 January 2019, leading to more stringent regulation in capital, liquidity and leverage. In order to achieve compliance, several banks raised capital through rights issues over the period which is expected to strengthen the equity base of the banks in order to sustain required capital adequacy ratios. However, implementation of SLFRS 9, increasing impairment charges and tax increments are expected to put pressure on capital adequacy ratios across the sector moving forward. Sri Lankan banks have raised Tier 1 capital of Rs. 66 billion and Tier 2 capital of Rs. 45 billion since 2017 ahead of the full implementation of Basel III.

Management Discussion & Analysis

The effects of the Inland Revenue Act No 24 of 2017 (IRA) which became effective from 1 April 2018 had a negative impact on the industry's profits due to the removal of selected tax exemptions on interest income sources such as USD denominated bonds, professional loans and SMEs and the removal of notional tax credit on treasury bills and bonds. Industry profits were further constrained by the imposition of a 7% Debt Repayment Levy on financial institutions, effectively increasing VAT on financial services from 15% to 22%.

From a strategic perspective, the entire banking industry – both globally and locally – is also grappling with the emergence of disruption from fintech solutions that have provided new solutions to complex aspects of the banking and financial services value chain. Domestically, the appetite for such services has expanded drastically and while presenting clear challenges to traditional banking business models, they are also creating space for competitive innovation and a more stringent focus on effective product mixes.

Company Performance

Having completed four and half years of operations, the scale and scope of Cargills Bank's has recorded significant improvements across key performance indicators. Despite a challenging operating environment, Cargills Bank was successful in consolidating its position while expanding its capacity to engage and serve a wider base of customers in 2018.

Increased non-fund income and an expansion in volumes across the Bank's operations resulted in a 37% YoY increase in Net Interest Income up to Rs. 2.029 billion while Net Fee and Commission Income expanded by 39% YoY to Rs. 158 million. While the expansion in Net Fee and Commission income was substantial, the delayed launch of Cargills Bank's credit cards limited the potential of its fee and commission income.

Other income expanded by 41% YoY to Rs. 171 million, when one-off capital gain is excluded, supported by increased earnings from foreign exchange earnings, leading to a highly commendable increase in Total Operating Income of 37% YoY up to Rs.2,358 million.

The bank's ongoing expansion was reflected in a 44% YoY increase in personnel expenses, up to Rs. 744 million in 2018. Challenging domestic economic and regulatory conditions during the year negatively impacted the performance of key sectors in the Sri Lankan economy, resulting in a massive spike in impairment charges across the banking industry.

Non-performance on the part of some of the Bank's large customers together with a slight increase in non-performance on small ticket loans caused a 138% YoY expansion in impairment charges up to Rs. 313.9 million while the Non Performing Asset ratio increased from 3.55% in 2017 up to 6.04% during the year in review. These significant increases were made more pronounced by the relatively smaller scale of operations currently maintained by the Bank together with increased bad loan provisioning requirements imposed through the establishment of Sri Lanka Accounting Standard (SLFRS 9) on financial instruments, effective for annual reporting after January 2018. Additional loan loss provisioning increased impairment provisioning by approximately 40-45%.

Bolstered by strong improvements across its core banking operations, Cargills Bank Profit Before Taxes increased by 7% YoY to Rs. 336.6million, when the one-off capital gain reported in 2017 is excluded.

Divisional Performance

Cargills Bank operates as a fully-fledged commercial bank with operations that span Retail, SME, Business Banking, Cards and Treasury divisions. All of the Bank's core banking operations recorded satisfactory performances, in line with targets set in the previous year – with the exception of the Bank's newly established Cards business which was constrained by the delayed implementation of the Bank's state-of-the-art new Card Management System – which in turn hampered customer acquisition during the year.

The Bank successfully launched Sri Lanka's first contactless Mastercard branded Debit card with EMV Compliant Chip and PIN Technology in July 2017 replacing the previously issued proprietary ATM cards. The new debit card enables the Bank to onboard customers speedily and offers customers greater access to many service points. The launch of the Master Card Debit Card was a precursor to the launch of the Master Card Credit Card, opening up new possibilities for the launch of special discounts and promotions including a 15% cash-back promo at all Cargills Food City outlets as well as TGI Fridays and KFC. Through these numerous initiatives and concentered focus on offering demonstrably the best value to its customers, Cargills Bank was able to achieve cost leadership in the cards business in 2018.

Another notable development for the Bank in that regard was the launch of its first virtual card, enabling customers to make card payments via the Cargills Bank app – adding yet another unique feature to our increasingly unique product and service offering.

Total loans within the Bank's retail division – comprised of agri, personal and private banking – increased by 26% YoY up to Rs. 7.9 billion. Personal loans increased at a rate of 11.4% YoY up to Rs. 3,640 million by the end of the year. The Bank's remittance business also recorded a strong performance in 2018, bolstered by new partnerships with remittance agencies such as Ria, Trans Fast, TransferTo and Crosspay.

The growth in business volumes helped increase fee income and currency conversion income. Expanding its remittance network, the Bank partnered with RippleNet to facilitate cross-border inward remittances to Sri Lanka using Ripple's blockchain based enterprise software solution, enabling safe and secure cross-border transactions. Consequently, Cargills Bank customers can now access more than 360 access points to collect their remittances from and the convenience and service we provide here is unmatched.

Lending to the trading sector increased to Rs.4,981 million, reflecting growth of 41% YoY while lending to the construction sector expanded by 42% YoY to Rs. 3,881 million. Meanwhile, lending to the agriculture and fisheries sector posted growth of 30% YoY to Rs. 2,186 million.

The Bank remains deeply cognizant of its core business objectives of fostering entrepreneurial and SME centric growth and financing the Agri sector. Growth in this segment achieved satisfactory levels and in particular, Agri lending represents 8.8% of total loans and advances as at 31 December 2018 and continuing to grow month on month. Cargills Bank has been an active partner in Central Bank enabled agri programmes such as National Agribusiness Development Programme (NADEP), Non Comprehensive Rural Credit Scheme (NCRCS), Saubhagya and remains in continuous engagement with the Central Bank in partnering them on impending programmes such as Smallholder Agribusiness Partnership Program (SAPP).

In total, Cargills Bank's SME lending portfolio expanded by 86% YoY to close the year at a value of Rs. 6.26 billion. Income generated by the Bank's Treasury division increased by 41% YoY to Rs. 171 million, bolstered by improved performance on fixed income securities. This was a direct result of prevailing interest rate editions, however the unprecedented rupee depreciation placed notable limitations on overall performance.

Meanwhile, total deposits with the Bank recorded modest growth of 6% YoY up to Rs. 20 billion while the CASA mix stood at 17% in 2018.

Operational Highlights

As the most recent entrant into the Sri Lankan banking sector, Cargills Bank's occupies a unique position as the first bank in the country to commence its operations in a competitive environment that features extensive consolidation of digitally enabled banking products and services. While presenting notable challenges, the Bank's business model is also aligned to streamlined, tangible value creation for a diverse array of customers by offering a fully-fledged array of products and services for every customer segment, while placing a special emphasis on the SME sector.

As is borne out in the financials of the Bank, the year in review witnessed a continued consolidation of Cargills Bank's operations. This included the further expansion of its physical presence with the establishment of branches in Ratnapura, Chilaw and Rajagiriya. Combined with the extended reach of the Bank, enabled through its agency banking relationship with Cargils Food City, Cargills Bank has effectively achieved extremely wide brick-and-mortar coverage that provides a level of access to customers that is comparable with long established players in the industry.

Consequently, customers can now access Cargills Bank services 7 days a week between 8am -11 pm at any food city outlet, including two 24-hour outlets, making Cargills Bank one of the most easily accessible banks in the country. This has provided a strong competitive advantage to the Bank that has drastically mitigated the less entrenched position that the Bank holds in the domestic market vis a vis the competition.

BY EFFECTIVELY CONVERTING THE 380 PLUS CFC OUTLETS INTO FUNCTIONAL BANK BRANCHES CAPABLE OF CONDUCTING SEVERAL ESSENTIAL BANKING TRANSACTIONS UTILIZING THE PIONEERING CARGILLS CASH FACILITY, CFC OUTLETS ARE ABLE TO ACCEPT DEPOSITS, ENABLE CUSTOMER WITHDRAWALS, DOMESTIC CASH REMITTANCES AND EVEN ENABLE CUSTOMERS TO SETTLE PURCHASE OF GOODS FROM CFC DIRECTLY FROM THEIR CARGILLS BANK ACCOUNTS.

By effectively converting the 380 plus CFC outlets into functional bank branches capable of conducting several essential banking transactions utilizing the pioneering Cargills Cash facility, CFC outlets are able to accept deposits, enable customer withdrawals, domestic cash remittances and even enable customers to settle purchase of goods from CFC directly from their Cargills Bank Accounts. Combined with the Bank's strong emphasis on technologically enhanced products and services, the Bank continues to deliver one of the most unique value propositions in the domestic market.

The Bank also invested in Kiosks which are now being promoted under the concept "Bank in a Box". These Kiosks can facilitate key transactions such as cash deposits, payment of utility bills and settlement of credit card bills, further enhancing customer convenience. It is expected that more such kiosks will be rolled out and eventually we believe that staffing in outlets could be more economically managed.

Over the year in review, the Bank was successful in further technological augmentation for its business model through the establishment of the first 5 Cargills Bank Digi Zones - providing customers with digital access to the majority of the comprehensive array of services available at any Cargills Bank brick-and-mortar branch. Similarly, the Bank's back-end processes were also through the digitization of customer processes, establishment of comprehensive e-statements for cards and bank accounts. Such efforts will prove invaluable in further streamlining processes, standardizing costs and perfecting customer convenience.

Notably, the Bank also launched its private banking centre at Maitland Crescent branch where tailor-made solutions are made available to discerning customers. This private banking centre is also expected to bring in attractive business volumes in the coming months.

The Bank also signed a strategic partnership agreement with Flemingo Duty Free and Supreme Paysez to roll out the Alipay mobile payment gateway in the Colombo Airport's duty free shops of Flemingo. A joint effort between the Bank, Supreme Paysez and Flemingo has since been launched to increase the pool of Alipay merchants across the country.

Despite its recent establishment, Cargills Bank has already succeeded in setting the pace for the banking industry in terms of technological service innovation. During the year in review, the Bank won three awards – Best Retail Payments Acquiring Bank Bank of the Year for Financial Inclusivity – Category C and Best Common ATM Acquirer of the Year Category C - at the recently concluded LankaPay Technovations Awards 2018, demonstrating the success of its thrust in technological innovation and operational excellence. The event was organized by Lanka Clear Ltd. to recognised banks, non-banking financial institutions and fintechs for their excellence and commitment to digital adoption.

Risk Management

Effective analysis and response to external and internal risk is fundamental to the sustainability and success of any organization and particularly so in relation to the banking industry. Given that Cargills Bank is pursuing an aggressive growth strategy that seeks to leverage a relatively small balance sheet, the Bank's risk appetite is necessarily set higher than traditional, established players in the industry. Consequently, the Bank continuously channels extensive resources towards risk monitoring to ensure that all of the Bank's operations are maintained within defined risk parameters and in alignment with the macro strategy stances being adopted by the business.

During the year in review, Cargils Bank moved on to the ICAAP Risk Management framework. A process that is being regulated by the Central Bank of Sri Lanka, the framework analyzes risk management in relation to multiple related factors in order to ensure that shareholder funds are available as cover for all business risks. The Bank made its first submission under ICAAP during the year in review and it was received extremely well. Moving forward, the Bank will continuously evolve its risk management framework in order to effectively keep track of the Bank's exposure to new risks as it expands the scale of its operations with the addition of new IT-enabled products.

In order to ensure that the Bank is able to navigate an increasingly complex risk landscape, the Bank has also invested in the automation of its risk analytics. The Bank is setting up its internal data repository to support advance risk analytics through the use of statistical tools and Artificial Intelligence (AI) based modelling. These tools and technologies will support the Bank in its path of value creation through digital channels by consistently providing management with timely and actionable insights.

Human capital

Given that the business model of Cargills Bank is focused around innovation and value creation, it is essential to the success of our vision that the Bank's team of employees share this commitment to changing the face of banking in Sri Lanka. The domestic industry remains highly competitive in nature, however as in previous years, the Bank has been successful in terms of recruiting and retaining the best talent. In 2018, the Bank's team of employees comprised a diverse, cross-disciplinary talent – including a mixture of traditional banking sector experts, together with highly skilled and resourceful professionals from related professions.

IN 2018, THE BANK'S TEAM OF EMPLOYEES COMPRISED A DIVERSE, CROSS-DISCIPLINARY TALENT – INCLUDING A MIXTURE OF TRADITIONAL BANKING SECTOR EXPERTS, TOGETHER WITH HIGHLY SKILLED AND RESOURCEFUL PROFESSIONALS FROM RELATED PROFESSIONS

As at the end of the period in review, the total employee headcount of Cargills Bank expanded to 586, as compared with 436 in 2017, reflecting the Bank's continued brick-and-mortar expansion. As in previous year's, the Bank's team of employees remains one of the youngest and most dynamic in the industry, with over 90% of our team being below the age of 40. This reflects a concerted strategy on the part of Cargills Bank to ensure a high energy sales force that is focused on customer engagement and meaningful interactions capable of championing our vision for a more personal, accessible style of banking for a new generation.

Empowered by its substantial investments into the automation of its back-end processes, Cargills Bank follows a lean model, with a higher number of sales staff vis a vis back office staff – enabling a continued focus on out-reach to underbanked communities with a view to alleviating regional economic disparities and enhancing sustainability.

Recruitment continues to be a challenge for the entire industry, hence were possible, the Bank has drawn from co-related fields while investing significantly in targeted training programs aimed at further strengthening core banking skills and related 'soft' skills – thereby providing our people with all the tools they need to succeed and drive forward the strategic vision of the Bank.

Outlook

While the year in review has presented notable challenges for the Bank, the industry and wider economy as a whole, Cargills Bank was nevertheless successful in growing its business, expanding is portfolio and deepening its own capacity to attract and service larger volumes of business across its core banking operations in 2018.

Notably, Fitch Ratings has affirmed a National Long-Term Rating of 'BB(lka)' with a Stable Outlook for the Bank. The Bank continues its preparation for a listing within the time frame stipulated by the Central Bank and anticipates listing by 30 June 2020.

The numerous strategic initiatives implemented by the Bank in 2018 have made way for unprecedented new growth opportunities for the Bank. The Cargills Cash service which has enabled agency banking at CFC and the Bank in a Box Kiosk machines have drawn increased customer patronage, enabled significant growth in retail banking penetration across these low-cost customer touch points. Hence the Bank is confident that its early initiatives in the Retail, SME and Agri segments will develop strongly, supported by the continuing evolution of its digital banking capacity.

Firmly supported by its corporate banking portfolio and the valuable synergies created with the Cargills Group, the Bank is confident of continued growth despite greater volatility across global and local markets anticipated in the coming year.

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.

Cargills Bank has appointed the following Board Committees reporting to the Board an is in Compliance with the Central Bank of Sri Lanka (CBSL) Directions on Corporate Governance

1. Audit Committee
2. Integrated Risk Management Committee
3. Human Resource and Remuneration Committee
4. Nomination Committee
5. Credit Committee
6. Strategic Planning Committee
7. Related Party Transaction Review 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

For the year ended 31 December 2018

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 aligns with Numbering in "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 business strategy and execution of the strategic objectives and adherence to corporate values and policies are addressed directly by the Board. The Board's views relating to the above are communicated throughout the Bank.
	b) Approve the overall business strategy of the Bank including Risk Policy and Risk Management procedures and mechanisms	Complied with The overall business strategy for 2018-2020 was approved by the Board in the Bank's Business Plan. 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. Board approved Risk Frameworks, Policies, Key Risk Indicators (KRIs) and monthly and quarterly risk monitoring and reporting mechanisms are in place.

No.	Rule	Degree of Compliance
	d) Policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers	Complied with. A Board approved Stakeholder Communication Policy is in place.
	e) Review the Bank's internal control systems and management information systems	Complied with. Internal Control system have 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. The specific IS audit scope was outsourced to an external firm.
	f) Identify and designate Key Management Personnel	Complied with. As per LKAS 24, "Related Party Disclosures" the Key Management Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the Bank. The Directors have been identified as KMP of the Bank for financial reporting purpose as per LKAS 24. For Corporate Governance reporting the Bank has defined the Board of Directors and selected officials of the Bank as KMPs. Board approval has been obtained for the KMPs list.

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. The Bank has a Board approved Code of Corporate Governance which includes the roles and responsibilities of the Directors and KMPs. Areas of authority and responsibilities for members of the Corporate Management are stated in the Job Descriptions of each member. Affairs of the Bank are regularly discussed and monitored by the Directors at Board level and by the Members of Corporate Management at Management Level. The job descriptions of KMPs were last reviewed by the Board in 2018.
	h) Ensure appropriate oversight of the affairs of the Bank by Key Management Personnel	Complied with. The Board has formulated the following subcommittees to exercise appropriate oversight of the affairs of the Bank as evidenced by the Board minutes: • Board Audit Committee • Board Human Resources and Remuneration Committee • Board Nomination Committee • Board Integrated Risk Management Committee • Board Credit Committee • Board Strategic Planning Committee • Board Related Party Transactions Review Committee
	i) Periodically assess the effectiveness of the Board of Directors' own governance practices	Complied with. An evaluation specifically designed to cover the area related to (i) to (iii) was completed by the Directors for the purpose of evaluating the effectiveness of governance practices in 2018. This is done on an annual basis.
	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.

No.	Rule	Degree of Compliance
	k) Regular meetings with the Key Management Personnel	Complied with. Key Management Personnel regularly make presentations and take part in discussions on their areas of responsibility with the Board, which monitors progress made towards achieving corporate objectives at monthly Board meetings.
	l) Understand the regulatory environment and maintain relationship with regulators.	Complied with. The Board collectively, as well Directors individually, recognize their duties to comply with laws and regulations which are applicable to the Bank. The Compliance Report includes an update on new laws and regulations which is provided monthly to the Board, and these laws/regulations are also uploaded on the Banks intranet, and shared with Corporate Management and discussed as required at Corporate Management meetings.
	m) Exercise due diligence in the hiring and over sight of External Auditors	Complied with. As per the Audit Committee Charter, the Audit Committee has the primary responsibility for making the recommendation on the appointment, re-appointment or termination of the external auditors in line with professional standards and regulatory requirements Further the Audit Committee monitors and reviews the external auditor's independence, objectivity and the effectiveness of the audit process taking into account relevant professional and regulatory requirements. The external auditors submit a statement annually confirming their independence as required by Section 163 (3) of the Companies Act No 07 of 2007 in connection with the external audit.

No.	Rule	Degree of Compliance
3 (1) (ii)	The Board shall appoint the Chairman and the Chief Executive Officer (CEO)	Complied with. Positions of the Chairman and the Chief Executive Officer (CEO) are separated. The functions and responsibilities of the Chairman and the CEO are defined in line with Direction 3(5) of these Directions. The Bank has a Board approved Code of Corporate Governance which sets out the roles and responsibilities and the separation of duties/functions of the Chairman and CEO.
3 (1) (iii)	The Board shall meet regularly	Complied with. The Board usually meets at monthly intervals, but meets more frequently whenever it is needed. The Board met 12 times during the year.
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 in this regard where proposals relate to the promotion of business and the management of risks of the Bank. Directors could thus submit proposals for inclusion in the agenda on matters relating to the business of the Bank.
3 (1) (v)	The Board shall ensure notice of at least 7 days for a regular Board meeting and for all other Board Meetings, adequate notice may be given	Complied with. Board meeting dates are agreed at the start of the year. In the case of a date change, all directors are given at least 7 days prior notice of the meeting date. The Agenda, together with associated papers are sent to Board members at least 7 days prior to the meeting.
3 (1) (vi)	Action on Directors who have not attended at least two-thirds of the meetings	Complied with. All Directors have attended at least two-thirds of meetings held during 2018. Further no Director has been absent from three consecutive regular Board meetings during 2018

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 and applicable regulations.	Complied with. An Attorney-at-Law functions as the Secretary of the Board and complies with the requirements under the Banking Act No. 30 of 1988. She has ensured that proper Board procedures are followed and that applicable rules and regulations are adhered to.
3 (1) (viii)	All Directors to have access to advice and services of the Company Secretary	Complied with. As set out in the Bank's Code of Corporate Governance, all Board members have full access to advice and assistance of the Company Secretary to ensure that proper Board procedures are followed and all applicable rules and regulations are complied with.
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. Minutes of Board meetings are maintained in sufficient detail to satisfy the requirements of this direction by the Company Secretary, and are open for inspection by any Director. The minutes are read together with the corresponding Board papers, which supplement information in the minutes.
3 (1) (xi)	Seeking independent professional advice in appropriate circumstances	Complied with. This requirement is included in the Code of Corporate Governance of the Bank and is used when required by the Directors.

No.	Rule	Degree of Compliance
3 (1) (xii)	Avoid conflicts of interests, or the appearance of conflicts of interest due to commitments to other organisations and related parties	Complied with. Directors make declarations of interest when they join the Bank Board and annually thereafter. They also update their declaration quarterly. Conflicts of interest (if any) are addressed based on this information. 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 at the Board meeting. Directors do not participate in making decisions on matters, in which they have an interest and thus avoid conflicts of interest with the activities of the Bank. Their presence is disregarded in assessing existence of a quorum for the agenda item at meetings at which such issues are considered.
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 during the year. The Bank has included a process for the same in the Board's Terms of Reference.
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 Capital Adequacy requirements throughout the year 2018.
3 (1) (xvi)	Publish Corporate Governance report	Complied with. This report serves the said requirement.

No.	Rule	Degree of Compliance
3 (1) (xvii)	Adopt a scheme of self-assessment of Directors	Complied with. The Board has adopted a scheme of self-assessment undertaken by directors annually, and maintains records of same.
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 9 Directors on the Board as at 31 December 2018.
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 is under 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 2018, the Board consists of nine 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 2018, the Board had 5 Independent Non-Executive Directors, which is over one third of the total number of Directors. The following individuals are Independent, Non-Executive Directors. 1. Ekanayake Mudiyanselage Mangala Boyagoda 2. Muhammad Ozman Faizal Salieh 3. Richard Annesley Ebell 4. Wedage Yasanthi Ruvini Fernando 5. Dushni Neelika Weerakoon
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 2018.

No.	Rule	Degree of Compliance
3 (2) (vi)	The Bank shall have a process for appointing Independent Directors	Complied with. Whenever such need arises the Directors nominate names of eminent professionals or academics from various disciplines to the Nomination Committee who consider their profiles and recommend the suitable candidate to the Board. The Bank has a Board approved Policy for appointment of new Directors.
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 2018 were duly constituted with Non-Executive Directors present exceeding 50% of the quorum required.
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 2018 is as follows: 1. Louis R Page - Chairman/ NED 2. Ranjit Page - Deputy Chairman/NED 3. Rajendra Theagarajah - MD/CEO 4. Prabhu Mathavan - ED 5. Mangala Boyagoda - Senior Director/INED 6. Faizal Salieh - INED 7. Richard Ebell - INED 8. Ruvini Fernando - INED 9. Dushni Weerakoon - INED 10. Directors profiles are given on pages 17 to 20.
3 (2) (ix)	The procedure for the appointment of new Directors to the Board	Complied with. The Bank has a Board approved Policy for appointment of new Directors and new appointments to the Board are based on the recommendations made by the Board Nomination Committee.

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. The process is followed at Annual General Meetings where required.
3 (2) (xi)	Proper procedure to be followed for resignation or removal of a Director	Complied with. Mrs. W K F De Silva resigned in January 2018 for personal reasons.
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. Declarations signed by Directors on quarterly and annual basis will identify any issues arising. None of the Directors are Directors or employees at any other bank. Employees are prohibited from taking up any other appointment according to their Letters of Appointment.
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.
3 (4)	*Management functions delegated by the Board*	
3 (4) (i)	The Directors shall understand the delegation arrangements in place	Complied with. The Board takes ultimate responsibility for activities of the Bank. The Board has delegated to Board Sub Committees and Management Committees certain responsibilities as set out in the respective TORs.
3 (4) (ii)	Extent of delegation to be within appropriate limits	Complied with.

No.	Rule	Degree of Compliance
3 (4) (iii)	The Board shall review the delegation processes in place on a periodic basis	Complied with.
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. Positions of the Chairman and the CEO are separated; thereby preventing unfettered powers of decision-making being vested with one person. This has been captured in the Bank's Code of Corporate Governance
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 Mr. L R Page is a non-executive non-independent director. Therefore a senior independent director Mr. E M M Boyagoda was appointed (w.e.f. June 2015). The Bank's Code of Corporate Governance covers the role and functions of the Senior Director.
3 (5) (iii)	Disclose relationships, if any, between the Chairman and the CEO and Board Members and the nature of any relationships including among members of the Board	Complied with. The Board is aware that there are no relationships, whether financial, business or family or any other material/relevant relationship between the Chairman and the CEO. The Board is aware that there is a family 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 Board's annual assessment process includes an area to measure the effectiveness of the Chairman.

No.	Rule	Degree of Compliance
3 (5) (v)	Formal Agenda is approved by the Chairman prior to circulation by the Secretary	Complied except for March 2018. The Company Secretary circulates the formal agenda after obtaining the approval of the Chairman.
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. Chairman is a non-executive director. The Chairman does not directly get involved in the supervision of key management personnel or any other executive duties.
3 (5) (x)	The Chairman shall ensure effective communication with shareholders and that the views of shareholders are communicated to the Board	Complied with. At general meetings, shareholders are given the opportunity to take up matters for which clarification is required. These matters are adequately clarified by the Chairman and/or CEO and/or any other officer. The Bank has a Board approved Stakeholder Communication Policy.
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 is supported by the members of the Corporate Management to manage 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 formed sub committees to exercise appropriate oversight of the affairs of the Bank: • Board Integrated Risk Management Committee • Board Audit Committee • Board Nomination Committee • Board Human Resources & Remuneration Committee In addition, the Board has appointed the following sub committees: • Board Strategic Planning Committee • Board Credit Committee • Board Related Party Transactions Review Committee Each committee has a Secretary to arrange the meetings and maintain minutes. Board Committee reports are addressed directly to the Board. Annual Report of 2018 includes individual reports of each committee. Such reports include summary of it's duties, roles and performance.

No.	Rule	Degree of Compliance
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. Current Chairman Mr Richard Ebell is an independent non-executive director and possesses required qualifications. Mr. 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. He also holds a Diploma in Marketing from the Chartered Institute of Marketing (CIM), UK.
	b) All members of the Committee shall be Non- Executive Directors (NED)	Complied with Members are: Mr Richard Ebell (Chairman) Mr Ranjit Page (resigned w.e.f 01August 2018) Mr Mangala Boyagoda (resigned w.e.f 01 August 2018) Mr Faizal Salieh (appointed w.e.f 01 August 2018) Dr Dushni Weerakoon (appointed w.e.f 01 August 2018) All members 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 and the fees payable to the 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 SLAuS. 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.

No.	Rule	Degree of Compliance
	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.
	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 The Audit Committee met the external auditors thrice during the year without executive management present.
	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 2017 and management responses thereto and also the follow-up thereafter.

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 resource 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.
	6. 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. The Audit Committee met the external auditors thrice during the year without executive directors present.
	m) Terms of Reference of the Committee	Complied with. Audit Committee charter was reviewed and approved.

No.	Rule	Degree of Compliance
	n) Regular committee meetings	Complied with. The Audit Committee met nine times during the year. Refer 'Audit Committee Report' on page 69.
	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 69. 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. A process and proper arrangements are in place to conduct fair and independent investigations and appropriate follow up action.

No.	Rule	Degree of Compliance
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.
	b) The Committee shall set documented goals and targets for the Directors, CEO and the Key Management Personnel	Complied with. Goals and targets of the Directors, CEO and KMPs for 2018 were 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. A Standard Performance Evaluations Process which is linked to year end remuneration and performance based incentives is in place. The cycle for year 2017 has been concluded and the final Performance Evaluations of KMPs and salary increments were approved by the Board Evaluation process for 2018 is in progress.
	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 state that the CEO should not be present at meetings when matters relating to CEO is being 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 Policy on selecting and appointing new directors/ CEO/KMPs has been approved by the Board Nominations Committee and approved by the Board. 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. The nominations committee sets the criteria such as qualifications, experience and key element required for eligibility to be considered for appointment or promotion to the post of CEO and KMP's.

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. The Nomination Committee peruse the profiles and recommend suitable candidates to the Board to replace retiring directors and KMPs, as required. The Bank has a succession plan for KMPs that was presented to the BHRRC and approved by the Board.
	f) The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors	Complied with. Committee was chaired by Mr. Mangala Boyagoda – Senior Director, who is an Independent Non-Executive Director. The Committee comprised 3 Independent Directors and one Non-Independent Non -Executive Director. The CEO was present at Nomination Committee meetings by invitation.

No.	Rule	Degree of Compliance
3 (6) (v)	*Integrated Risk Management Committee (IRMC):*	
	a) The Committee shall consist of at least three Non-Executive Directors, CEO and Key Management Personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee	Complied with. The Committee consists of three non-Executive Directors, CEO and Key Management Personnel supervising broad risk categories. Other KMP supervising credit, market, Liquidity, operational and strategic risks are invited to attend the meeting on regular basis. Composition of the Committee is as follows: 1. Faizal Salieh - Chairman (Independent Non-Executive Director) 2. Richard Ebell (Independent Non- Executive Director) 3. Mangala Boyagoda (Independent Non-Executive Director) Until August 2018 4. Ms Ruvini Fernando (Independent Non-Executive Director) From September 2018 5. Rajendra Theagarajah – (Managing Director /Chief Executive Officer) 6. Prabhu Mathavan (Executive Director) 7. Jayani Senanayke (Chief Risk Officer) Until 18th June 2018 8. Mr Alex Perera – (Head of Risk Management) From 15th August 2018 9. Summaiya Macan Markar (AGM Compliance) - Secretary to the Committee Compliance Officer of the Bank acts as the Secretary of the Committee while Corporate Management personnel participate by invitation.

No.	Rule	Degree of Compliance
	b) Assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a bank basis and group basis.	Complied with. The IRM framework, credit risk, liquidity risk, interest rate risk, operational risk, foreign exchange risks, capital adequacy planning and management, financial position and compliance reviews are discussed and risk assessments were presented to the BIRMC on a quarterly basis. These risks are captured through a KRI dashboard which is presented to the Board on a monthly basis. The Assets and Liabilities Committee (ALCO) reviewed the risks such as market and liquidity risk monthly and key matters were discussed at the BIRMC on a quarterly basis. Operational risk Key Risk Indicators have been developed and presented to the BIRMC. The Risk Management team updates the Board monthly, highlighting key macro and strategic risks observed during the month.
	c) Review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset-Liability Committee	Complied with. Review of adequacy and effectiveness on all management level risk related committees such as ALCO, ERMC and Executive Credit Committee have been carried out.
	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 committee met 7 times during 2018.
	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. Compliance function is in place to assess the Bank's compliance with laws, regulations and regulatory guidelines. The Compliance Officer (AGM Compliance) submits a compliance report (including any non-compliance) to the BIRMC and the Board. AGM Compliance participates as a member at Committee meetings and is also the Secretary to the Committee.
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 47 to the Financial Statements. The Board approved Related Party Transactions Policy is in place.
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.	Rule	Degree of Compliance
3 (7) (iv)	A bank shall not grant any accommodation to any of its directors or to a close relation of such director unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation	Complied with.
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 specified in this Direction was granted to employees only under the 'Staff Benefit Scheme' of the Bank.
3 (8)	*Disclosures*	
3 (8) (i)	Financial reporting, statutory reporting and regulatory reporting	Complied with. Annual Audited Financial Statements and Interim Financial Statements of the Bank were prepared and published in the newspapers (in Sinhala, Tamil and English) in accordance with the formats prescribed by the Supervisory and Regulatory Authorities and applicable accounting standards.
3 (8) (ii)	*The Board shall ensure that the following minimum disclosures are made in the Annual Report:*	
	a) A statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures	Complied with. Disclosures on compliance with applicable accounting standards and regulatory requirements in preparation of the Annual Audited Financial Statements have been made in the statements of 'Directors Responsibility for Financial Reporting' and 'CEO's and CFO's Responsibility for Financial Reporting' on page 77 and 81.
	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 78.

No.	Rule	Degree of Compliance
	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 80.
	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 17 to 20 Directors transactions with the Bank and their remunerations have been disclosed in the Note 47 of the Financial Statements on pages 134 and 135.
	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 47 in pages 134 and 135 .
	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 of the Bank's Key Management Personnel and transactions with the Bank's Key Management Personnel as defined by LKAS 24 have been disclosed in Note 47 to the Financial Statements on pages 134 and 135. In addition to the above total deposits made and accommodation obtained as at 31 December 2018 by the other Key Management Personnel (selected members of corporate management) amounted to Rs. 19 Mn and Rs. 21 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.

No.	Rule	Degree of Compliance
	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 77.
	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.

The Bank has been compliant with Direction No. 11 of 2007 on Corporate Governance issued by the Central Bank of Sri Lanka under the Banking Act No. 30 of 1988 (as amended) in the manner discussed in the above report.

RISK MANAGEMENT

Management of risk is crucial for the success of any institution; as such it is fundamental to our strategy. We at Cargills Bank consider the uncertainty of future outcomes and the benefits of those outcomes as the key lenses for risk evaluation. The risk management function focuses on mitigating the downside while strategically focusing on the optimization of gains within defined risk tolerance limits.

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 enhancement of our ability to identify measure, monitor, control and mitigate the overall business risks. The Bank has in place a comprehensive Integrated Risk Management Framework and a dedicated Risk Management Unit where the scope of its activities is enhanced continuously to cover various risks that the bank is exposed to.

The Bank's risk profiling and management focuses on, but is 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. We continuously work on improving our understanding of the risks that arise from both existing and new business activities.

The Bank's risk appetite is pro-actively expressed and monitored both in terms of qualitative and quantitative measures. Risk Monitoring is carried out by robust and effective management information systems. This facilitates 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. The Bank's risk management process leverages a range of tools to identify, measure and manage risk in an ongoing basis.

Integrated Risk Management Framework (IRMF)

The framework facilitates oversight of and accountability for various risks at different levels of the bank. Key elements of the Integrated Risk Management Framework are as follows:

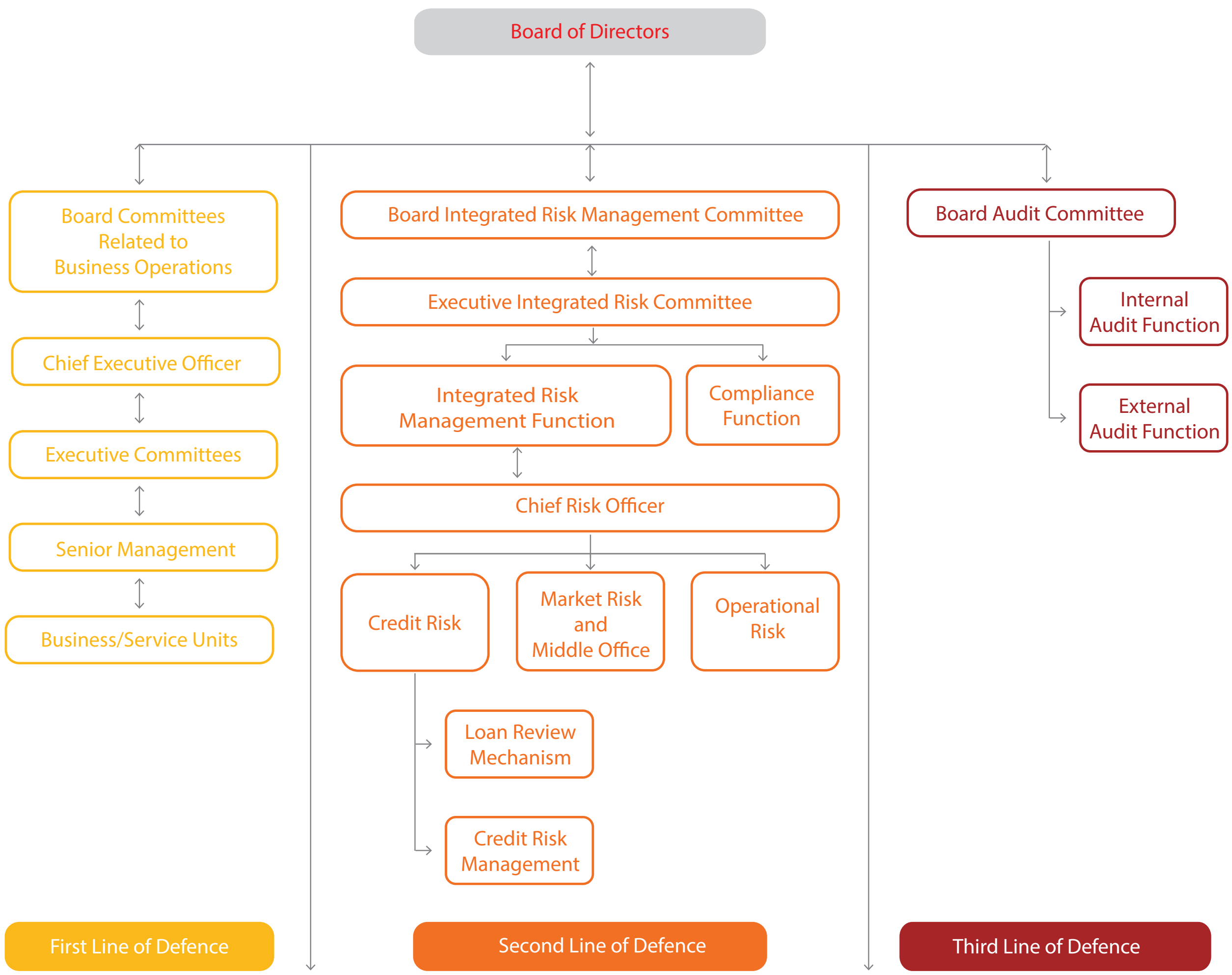
Risk Governance and Management Structure
Risk Appetite
Risk Management Tools
A culture of risk awareness

Risk Governance and Management Structure of the Bank
The risk management structure of the Bank includes three lines of defense comprising the 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, aimed at safeguarding the Bank against unacceptable risk exposures. The Board oversight, senior management supervision, the policies and procedures governing risk management, and the risk measurement and controls framework constitute the main building blocks of the risk management structure within the Bank.

The Bank has developed sound policies and a procedural framework covering key risk areas. These are reviewed periodically to ensure compliance and compatibility. Risk appetite has been established through limits, KRIs and risk review reports. The Bank's organizational structure clearly defines roles and responsibilities of individuals involved in risk taking and managing activities. Delegations of authority and risk ownership have been clearly defined and communicated. Risk management tools enable prompt identification and monitoring of relevant risks. The risk reporting framework has been laid out and implemented. In all its internal processes the Bank aims to implement a strong risk culture where clear emphasis is given to the risk-reward relationship.

The Bank takes an integrated approach to its risk management process. The integrated risk view helps the Bank achieve diversification benefits, while having full awareness on the underlying risk factors and their inter-connectedness. The integrated risk management function of the Bank has the following structure in place to examine risk inter-relationships across the organization.

Risk Management



Role of the Board and Board Committees

The Board of Directors holds the ultimate responsibility for oversight of the risk management of the Bank and determines the risk appetite and reviews 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 a Board Integrated Risk Management Committee (BIRMC) to assist the Board in fulfilling the oversight of the risk management function.

The Board Audit Committee considers whether operational controls are in place and are carried out as required by the relevant policies, procedures and guidelines.

The Board Credit Committee monitors compliance of credit operations with the risk appetite set by the Board, and oversees the credit risk management of the Bank.

Apart from the Board Committees, Management Committees have focused oversight on designing, implementing and maintaining an effective risk management framework and culture. The senior management is given clear guidelines by the Board of Directors on risk tolerance limits and control parameters. This enables senior management to design strategies and business plans in accordance with the guidelines. Senior management is also guided by the laws, regulations and other directives in managing the responsibilities assigned to them. Being the risk owners, line business managers 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 risk exposures.

b) Define responsibilities of different parties involved in the integrated risk management function.

c) Integrate and aggregate different risk exposures such as credit, market, operational, strategic risks etc. to develop an overall risk view.

d) Ensure compliance with regulatory guidelines issued by the CBSL in the area of risk management.

e) Create staff awareness and inculcate a risk culture throughout the Bank.

Integrated Risk Management Division (IRMD)

IRMD, headed by the Head of Risk Management, is assigned the responsibility of establishing overall risk management in the Bank, at strategic and operational levels.

Currently IRMD consists of separate units for Credit Risk Management, ALM & Market Risk Management / Treasury Middle Office and Operational Risk Management.

IRMD plays a key role in providing inputs for the Bank's business strategy development, product development, and ongoing reviews and updates. IRMD provides a risk perspective for all key business activities from initial design through development and ongoing review.

The Head of Risk Management plays a key role in a number of management and Board level committees including BIRMC, Credit Committee, ALCO, Executive Risk Management Committee, IT Steering Committee and Information Security Council. This is to ensure an independent view of risk taking is presented and discussed at key forums within the Bank. Further the Head of Risk Management is the Secretary to the Board Credit Committee.

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 of operational risk and introducing mitigation effects.	Treasury Middle Office independent review of positions and limits.
Post disbursement review mechanism	Minimize frequency of operational losses / events.	Monitoring asset and liability management
Monitoring stressed credits and excesses		Analyzing market performance

The risk appetite of Cargills Bank has been clearly defined with internal limits and tolerance levels set under each risk type, approved by the Board of Directors, and is monitoring by responsible officers on a regular basis.
IRMD independently monitors the limits set and reports breaches to line managers, the senior management and the Board.

Key Implementations during 2018

- Strengthening of existing Risk Management Policy Framework
- Submission of ICAAP report
- Automating initial step of Treasury Middle office limit monitoring system
- Automating manual monitoring modules
- Implementing the Risk Register
- Establishment of the Operations Risk Management Committee
- Establishment of the Loan Review Mechanism (LRM) unit

Bank's Priorities for 2019

- Continuous development of the Integrated Risk Management Framework
- Development, validation and calibration of risk models
- Risk data centralization, back-testing and analytics
- Risk model development in line with IFRS 9

Risk Management

- Development and improvement of the ICAAP framework
- Centralization the stress testing framework
- Making the LRM process robust and increase the coverage
- Strategic risk evaluation
- Focus on key risks related to Information Security
- Consumer credit analytics

Credit Risk

Credit risk management forms an integral part of the Bank's risk management activities. The Bank has developed policies and a framework which defines the principles encompassing client selection, due diligence, risk tolerance, portfolio monitoring and management, and facility review and recovery procedures. These are reviewed annually by the Board and influence the Bank's risk appetite. These serve as a guide to measure, monitor and control credit risk through an appropriate credit risk environment, a sound credit-granting process and appropriate credit administration.

Credit risk management of the Bank is focused on setting acceptable credit standards for borrowers and counterparties and identifying emerging risks which could impact business activities of clients well in advance. The credit risk management team develops risk assessment and monitoring tools used in credit origination and portfolio, including stressed credit, management. Moreover close monitoring of the usage of working capital facilities and continuous attention to changes in economic or other circumstances that can lead to risk deterioration are key areas of focus.

Clear guidelines have been established in the Bank for the credit approval structure and authority has been delegated to different levels in the approval process. Credit facilities beyond a set threshold are independently evaluated by risk officers attached to the Risk Management Division and comments made and considered when approving such facilities.

IRMD uses internally developed risk scoring models to rate Business Banking, SME and Retail facilities. The rating considers both quantitative and qualitative factors and is reviewed at least annually. The rating models used by IRMD are independently validated annually in accordance with the regulatory requirement.

The Bank's Credit Administration Division ensures efficient post-sanction processes and credit disbursements complying with the Bank's guidelines.

During 2018, Cargills Bank established a Loan Review Mechanism unit under the Integrated Risk Management Division, to independently review the quality of the loan book and encourage qualitative improvements in credit administration. The unit reviews loans, usually within three months of sanction, in key areas such as the credit approval and monitoring processes, risk rating, compliance, and portfolio quality.

The responsibility for recovery of problem loans and non-performing advances is managed by the Business Unit and the Recovery Unit. Credit officers follow up recovery of advances at the initial stage and advances are transferred to the Recovery Unit when the loan becomes non-performing.

This unit pursues the recovery process until matters are finalized, while monitoring the value of the collateral held. The Recovery Unit liaises with the Credit Risk Management Unit to ensure effective follow-up and the transfer of key learnings. Unrecovered advances are transferred to the Legal Department to initiate legal action as the last resort.

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

Details of Product Wise Exposure and Sector Wise Exposure are provided in page 121 of the Annual Report.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The key to management of operational risk lies in the Bank's ability to assess its process for vulnerability and establish controls as well as safeguards while providing for unanticipated worst-case scenarios. Operational Risk Management is accountable for the design, implementation and maintenance of an effective and efficient Operational Risk Management Framework (ORMF). The Bank manages operational risk using the ORMF which enables it to determine the operational risk profile in comparison to its risk appetite, to systematically identify operational risk themes and concentrations, and define risk mitigating measures and priorities.

In order to cover the broad range of risk types underlying operational risk, our framework contains a number of operational risk management techniques. These aim to efficiently manage the operational risk in our business and are used to identify, assess and mitigate operational risks.
To achieve these goals the Operational Risk Unit has established the following risk reporting structure across the Bank:

A. The Risk and Control Self-Assessment (RCSA) is the ongoing self-evaluation of operational risks and controls associated with each risk faced by business or support functions. The risk owners propose an action plan to mitigate risk, which is evaluated periodically under the RCSA. The goal is to create awareness of the risks and controls. This would improve the systems and procedures to mitigate potential operational risk incidents. ORM reviews identified risks and controls and centrally tracks these through the Risk Register. RCSA reporting is done bi-annually.
B. KRIs are used to enhance the monitoring and mitigation of risks and facilitate risk reporting. This tool is used to monitor the operational risk profile and alert the organization to impending problems in a timely manner. KRIs enable the monitoring of the Bank's control culture and business environment and trigger risk mitigating actions based on actual month- on- month data comparison.
C. Operational Loss and Event Reporting is a mechanism stipulated in the Basel Committee guidelines. The continuous collection of data on operational losses and events support timely action on key observations. This process includes, but is not limited to:
   - Systematic risk analyses, including a description of the business environment in which the loss occurred, previous events, near misses and event-specific Key Risk Indicators.
   - A Corrective Action Report (CAR) from responsible staff which includes a root-cause analysis.
   - Review of control improvements and other actions to prevent or mitigate recurrence
D. The Risk Register (RR) is the central repository of all material operational risks identified by the Bank. The controls and the residual risk emanating from each risk item are recorded in the register. All RR items are reviewed as a part of the RCSA where a timely evaluation is made of the risk controls and residual risks. The register is centrally maintained and accessible by all departments to report their risk issues.

To support the above reporting structure the Bank has appointed department-wise Business Operational Risk Managers (BORM) who serve as a link between the Operational Risk Unit and the respective departments. They are responsible for embedding the ORMF within the relevant business units or infrastructure function.

The Bank has in place adequate operational risk coverage to assess whether operating policies and procedures have been implemented effectively.

The Operational Risk Management Committee (ORMC) was formed by the BIRMC in the second half of 2018, to deal with operational risk management issues and highlight major risk concerns to the EIRMC for necessary action.

The ORMC is further authorized by the EIRMC to:-

- Conduct Risk Assessments on any activity within its Terms of Reference
- Request information from employees to identify and mitigate risk
- Propose best practices to mitigate risks arising from any activity

Internal Audit periodically validates the effectiveness of the Bank's operational risk management framework and its implementation. Operational Risk Unit has been able to reduce the number of operational risk events by implementing a Business Continuity Plan together with a Disaster Recovery Plan aimed at ensuring that the critical operations of the Bank will function with minimal disruption. Information Technology related operational risks are managed primarily through the IT Steering Committee and IT system security policies.

Operational Risk Governance Structure
Operational risk is intrinsic to the banking business and the extent of risk it is exposed to depends on a number of factors including size, sophistication and level of automation, nature and complexity of activities undertaken

The Operational Risk Unit is part of the Bank's Independent Risk Management Unit headed by the Head of Risk Management. The Unit Manager is responsible for providing Operational Risk related reporting formats such as KRI, RCSA, Risk Register and Loss reporting. Apart from collating information from earlier mentioned reports the Operational Risk Unit performs site risk reviews of Departments and Branches. Significant findings are reported to relevant committees.

Risk Management

Market Risk

Market Risk is the potential loss arising from changes in the fair value of financial instruments due to fluctuations in market variables. The main market risk factors include interest rates, foreign exchange rates and other market benchmarks. The main objective is to manage and control market risk exposures within acceptable levels in line with the Bank's risk appetite. The Bank has developed a comprehensive framework for market risk management which includes limits, KRIs and risk management tools. Moreover the bank conducts stress testing and sensitivity analyses to review the Bank's performance under various stress conditions.

The Treasury Middle Office (TMO) and Market Risk Management functions monitor and manage the market risks on a regular basis. The TMO monitors the asset and liability positions under the supervision of ALCO.

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 the daily operations or the financial condition of the Bank. The primary aspect in 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 a stock approach and a floor approach. Under the stock approach liquidity is measured in terms of key ratios showing the liquidity stored on the Balance Sheet. Under the floor approach the Bank monitors contractual and behavioural liquidity mismatches through static and dynamic maturity analyses. The ALCO monitors the Bank's liquidity position by reviewing liquidity reports and ratios produced by the Finance, Treasury and Risk Management Divisions. The minimum liquidity standards under Basel III have been implemented.

Strategic Risk

Strategic risk arises from an inability to implement appropriate business plans, strategies, and resource allocation and inability to adapt to changes in the business environment.

The oversight role of the Board of Directors and the supervisory role of the senior management are an integral part of the Bank's strategic risk management program. The Board of Directors is responsible for setting corporate strategy and reviewing management performance in the execution of the Bank's strategic plan. In turn, senior management ensures that there is an effective strategic risk management process considering the strategic direction established by the Board.

We have implemented robust strategic risk mitigation and monitoring measures with KRIs to continuously assess and monitor the alignment of performance to the strategic goals. Industry and competitor benchmarking is carried out to target achievement of strategic objectives in keeping with industry performance.

Reputational Risk

Reputational risk is the risk of possible damage to the Bank's brand and reputation, and the associated risk to earnings, capital or liquidity arising from any association, action or inaction which could be perceived to be inappropriate, unethical or inconsistent with the Bank's values and beliefs.

The Bank's operational risk management division assesses reputational risks based on the information gathered through processes such as loss event and near-miss identification, peer group comparison, and assessments of such matters as staff conduct and competence, customer service and complaints management. The RMD monitors reputational risk under a risk framework, with mitigation controls. The Bank is committed to continuously maintaining and improving all business activities it is engaged in.

Compliance Risk

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation the Bank 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.

Compliance is segregated to two main sections – regulatory compliance and financial crime compliance.

Regulatory compliance involves ensuring compliance with applicable laws, rules and standards, regulatory directions and circulars and also covers areas such as observing proper standards of market conduct, managing conflicts of interest, treating customers fairly and in accordance with the Bank's Customer Charter, and ensuring the suitability of customer advice, prevention of miss-selling, maintenance of confidentiality and "Chinese walls".

Financial crime compliance focuses on Anti Money Laundering (AML), Know Your Customer (KYC) and Customer Due Diligence (CDD) processes, and sanctions compliance, combatting and avoiding terrorist financing and includes identification and reporting of suspicious transactions that may be related to money laundering and terrorist financing.

The Bank has taken necessary steps to implement these requirements through stringent customer identification and KYC processes, due diligence and verification actions, maintenance of customer records, ascertainment of the source of funds brought into the Bank , monitoring and maintenance of AML programs and compliance reviews. It includes installation of a sophisticated AML software system, "Compass", for transaction monitoring, risk profiling and regulatory reporting, and a subscription with Thompson Reuters World Check system for continuous screening of customers.

Compliance culture is developed within the Bank with the tone from the top driven by the Directors and senior management, together with processes and work flows incorporating 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 value of being subject to internal audit. A culture of compliance permeating all levels of the Bank is targeted, with regular training including E- learning modules developed as mandatory learning 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 laws and regulations apply to our business, its relationships, processes, products and services. The Bank's internal legal team covers all legal related activities, with external expertise obtained when required. The Risk Management Division provides feedback on improvements, through evaluation of KRIs and findings of review mechanisms.

Cyber and Data Security

The Bank is focused on emerging cyber and information security risks and has taken 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. The Bank is investing in appropriate people, technology, and processes and has made cyber security a core component of the operational risk profile.

The Bank has implemented a cognitive Artificial Intelligence enabled Security Operations Centre that enables early detections, threat classification and responses, while strengthening measures to mitigate cyber risk. The Bank also subscribes to an internationally recognized Cyber Fraud detection and take-down service. As an ISO27001 : 2013 certified organization, the Bank implements Information Security policy and audits compliance, and fosters staff awareness through E-Learning and specialized training.

Capital Adequacy

Capital adequacy is a measure of the Bank's ability to withstand the risks associated with its activities. The 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, credit, operational and market risks are being calculated based on the standardized approach, basic indicator approach and standardized measurement approach respectively. The Bank will move towards a more advanced approach when the scale of operations and the availability of data warrant and support implementation of the same.

The disclosure requirement as per the Banking Act Direction No. 1 of 2016, is included in page 153 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 three (3) members are Independent Non-Executive Directors. The Head of Compliance is the Secretary to the Committee.

Members

The following are the members of the Committee:

1. Faizal Salieh - Chairman (Independent Non-Executive Director)
2. Mangala Boyagoda (Independent Non-Executive Director) Until August 2018
3. Richard Ebell (Independent Non-Executive Director)
4. Ms Ruvini Fernando (Independent Non-Executive Director) from September 2018
5. Rajendra Theagarajah – Managing Director (Chief Executive Officer)
6. Prabhu Mathavan (Executive Director)
7. Jayani Senanayke (Chief Risk Officer until 18th June 2018)
8. Mr Alex Perera – Head of Risk Management (w.e.f. from 15th August 2018)
9. Summaiya Macan Markar (AGM 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. Head of Corporate Banking
4. Head of SME and Business Banking
5. Head of Treasury
6. Head of Financial Reporting
7. Other members of the Corporate Management as needed.

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 seeking to ensure 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 of the Board of Directors the Bank's key risk policies on the establishment of risk limits and receiving reports on the 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 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 internal control risks.

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 2018, 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. Technology based automation was used to increase the accuracy and efficiency of the risk quantification tools, and advanced quantitative risk evaluation techniques based on global best practices were developed. In line with the quantitative risk measures the bank is focused on risk data centralization and analytics an is in the process of developing a predictive analytical model for consumer credit risk evaluation.
- Assessed and monitored the 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 enabling early identification of warning signals in order to enable the Management to proactively address and remedy stressed credits. The BIRMC works in tandem with the Board Credit Committee (BCC) in this regard.
- Developed a comprehensive stress testing framework.
- Developed the Internal Capital Adequacy Assessment Process (ICAAP) to review capital adequacy under stressed scenarios for budgeted performances.
- Strengthened the operational risk management framework through Risk Control Self-Assessments.
- Strengthened the compliance risk management framework with supported policies and procedures.

The Banks Core Capital Adequacy ratio (Tier1) of 31.28% stands well above the industry average and the regulatory requirement.

Meetings

The total number of meetings held for the year is seven (7), with a minimum of one meeting in each quarter in accordance with the BIRMC's TOR

Reporting

The discussions and conclusions reached at Committee meetings are recorded in the BIRMC minutes and are regularly reported to the Board for information and notification. Risk Assessment and Compliance Reports are also tabled regularly 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 from the members and the Management for its continuous improvement.

Faizal Salieh
Chairman, Board Integrated Risk Management Committee

Colombo
29 March 2019

BOARD NOMINATION COMMITTEE REPORT

Composition of the Committee

The Board Nomination Committee ("BNC") presently comprises four Non-Executive Directors, three of whom are Independent. The following Directors served on the BNC during the year.

1. E M M Boyagoda - Committee Chairman

   (Independent Non Executive Director)

2. V R Page - Member

   (member till 3rd January 2018 and re-appointed w.e.f. 1st August 2018)

   (Non Independent Non Executive Director)

3. M O F Salieh - Member (Independent Non Executive Director)

4. R A Ebell - Member

   (member from 3rd January 2018)

   (Independent Non Executive Director)

5. R Theagarajah

   (member till 3rd January 2018)

Ms. Amendra de Silva - Company Secretary, functions as the Secretary of the Committee.

Profiles of the Members of the Committee are given on pages 17 to 20 of this 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 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 criteria such as qualifications, experience and key attributes required to be considered for appointment or promotion to the post of CEO and to 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 and to obtain independent external advice, including legal and/ or other professional advice, at the Bank's expense as it considers necessary.

Frequency of Meetings and Quorum

The Committee meets at least twice during the Financial Year, as and when deemed necessary.

The quorum for meetings of the Committee is three (03) members including at least one Independent Non-Executive Director including its Chairperson.

The Committee met 8 times during the year and all the members attended the meetings.

Activities of the Committee

The Committee considered/reviewed and recommended the following for approval of the Board;

- Terms of Reference of the Committee
- Appointment of new KMPs
- Re-election of Directors
- Appointment of new Directors

Mangala Boyagoda
Chairman - Board Nomination Committee

Colombo
29th March 2019

BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

Composition of the Committee

The Board Human Resources and Remuneration Committee ("BHRRC") comprises four Non-Executive Directors, three of whom are Independent. The following Directors serve on the BHRRC;

1. V R Page - Committee Chairman (Chairman from 3rd January 2018)
   (Non Independent - Non Executive Director)
2. M O F Salieh - Member (Independent - Non Executive Director)
3. E M M Boyagoda - Member (member from 1st August 2018) (Independent - Non Executive Director)
4. Dr (Mrs). D N Weerakoon - Member (member from 1st August 2018) (Independent - Non Executive Director)
5. P S Mathavan (member from 3rd January 2018 to 1st August 2018)

Permanent Attendee

Rajendra Theagarajah
(Managing Director/CEO)
(Committee Chairman till 3rd January 2018)

Ms. Amendra de Silva - Company Secretary, functions as the Secretary of the Committee.

Profiles of the Members of the Committee are given on pages 17 to 20 of this report

Purpose of Establishing the Committee

The purpose of the Committee is to assist the Board in the discharge of its oversight role and responsibilities relating to;

- The Company's Human Resources strategy and associated policies
- The Remuneration Policy of the Bank
- The remuneration of Directors
- The performance and remuneration of the Executive Directors, including the Chief Executive Officer and Members of Key Management.
- 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) one of whom shall be a Non-Executive Independent Director.

The Committee met four (4) times during the year and all the members attended the meetings.

Activities of the Committee

The Committee considered, reviewed and recommended the following for the approval of the Board;

- The Organisation Chart of the Bank
- Terms of Reference of the Committee
- KPIs for Executive Director, CEO and the Key Management Personnel
- The Succession Plan for Corporate Management.

The Committee considered and recommended for Board approval the following policies;

1. Staff Housing Loan Policy
2. Staff Vehicle Loan Policy
3. Personal Loan Policy
4. Staff Allowances Policy

Ranjit Page
Chairman - Board HR and Remuneration Committee

Colombo
29th March 2019

BOARD STRATEGIC PLANNING COMMITTEE REPORT

Composition of the Committee

The Board Strategic Planning Committee comprises eight Directors, six of whom are Non-Executive Directors. The Committee is comprised of the following Directors of the Bank;

1. V R Page - Committee Chairman (Non Independent - Non Executive Director)
2. E M M Boyagoda - Member (Independent - Non Executive Director)
3. M O F Salieh - Member (Independent - Non Executive Director)
4. R A Ebell - Member (Independent - Non Executive Director)
5. R Theagarajah - Member (MD/CEO)
6. P S Mathavan - Member (Executive Director)
7. Mrs. W Y R Fernando - Member (Member from 1st August 2018)

   (Independent - Non Executive Director)
8. Dr (Mrs). D N Weerakoon - Member (Member from 1st August 2018) (Independent - Non Executive Director)

Ms. Amendra de Silva - Company Secretary, functions as the Secretary of the Committee.

Profiles of the Members of the Committee are given on pages 17 to 20 of this report.

Purpose of Establishing the Committee

The purpose of the Committee is to assist the Board to fulfill its larger role and responsibility in the development of an appropriate and effective strategy for the Bank's profitability, growth and long term sustainability.

In performing this role, the Committee shall inter alia:

- Ensure that the Executive Management develops a well-defined Strategic Plan for the Bank in line with the Bank's overall vision, strategic direction
- Ensure that the Bank remains responsive to changes in the competitive environment by re-aligning its strategies and action plans periodically where appropriate to strengthen its competitive position.
- Ensure that the Executive Management review and evaluate the allocation of resources to support the strategic plan.
- Review and evaluate the alignment of KPIs of all KMPs to the strategic plan and financial budgets.
- Regularly review and evaluate the key objectives and goals contained in the annual financial budget, the business plan and strategic plan with regard to performance and sustainability, and review all major business initiatives and projects prior to their submission to the Board for approval.
- Review and evaluate major initiatives and projects aimed at transforming the business and operating model and make appropriate recommendations to the Board.
- Advise the Board on strategy and direction, in carrying out the above oversight responsibilities relating to the smooth functioning of the Bank.

Frequency of Meetings and Quorum

Committee meetings are held every quarter or more frequently if required.

The quorum required at a meeting is five (5) including the MD/CEO, two of whom shall be Non-Executive Independent Directors.

The Committee met five times during the year and all the members attended the meetings.

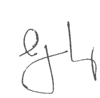
Activities of the Committee

The Committee considered the following;

- Progress on Strategic Business Plan for 2018
- Supervisory Concerns of the Statutory Examination as at 31st December 2017, coming within the remit of the Committee

Reviewed and recommended to the Board;

- Terms of Reference of the Committee
- Updated Strategic Business Plan for 2019



Ranjit Page
Chairman - Board Strategic Planning Committee

Colombo
29th March 2019

BOARD RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

Composition of the Committee

The Board Related Party Transactions Review Committee ("BRPTRC") was constituted in September 2018 and comprises three Independent Non-Executive Directors. The following Directors serve on the BRPTRC;

1. Mrs. W Y R Fernando - Committee Chairperson

   (Independent - Non Executive Director)
2. M O F Salieh - Member

   (Independent - Non Executive Director)
3. R A Ebell - Member

   (Independent - Non Executive Director)

   The Committee invites members of the Management to attend meetings to provide relevant information or data, required for matters under discussion.

Ms. Amendra de Silva - Company Secretary, functions as the Secretary of the Committee.

Profiles of the Members of the Committee are given on pages 17 to 20 of this report

Role & Responsibilities

The purpose of the Committee is to assist the Board in the discharge of its responsibilities relating to:

- Oversight of processes for identifying and capturing all related parties promptly and monitoring and capturing related party transactions("RPTs").
- Ensuring RPTs are not undertaken on more favourable terms than are available to non-related parties under similar circumstances
- Determining and recommending to the Board which RPTs may be considered as "recurrent"
- Reviewing other RPTs before they are undertaken, approving or rejecting them as it deems appropriate and where necessary, making appropriate recommendations to the Board
- Establishing Terms of Reference of the Committee and a Related Party Transactions Policy
- Performing other activities the Committee deems necessary for the performance of its duties and functions

Frequency of Meetings and Quorum

The Committee is required to meet at least four times during the Financial Year, and as and when deemed necessary.

The quorum required at a meeting is three (3).

The Committee met once during the year and all members attended the meeting.

Activities of the Committee

The Committee considered and/or reviewed and recommended the following for the approval of the Board;

- Terms of Reference of the Committee
- Agreements proposed with Related Parties

Ruvini Fernando

Mrs. Ruvini Fernando
Chairperson - Board Related Party Transactions Review Committee

Colombo
29th March 2019

BOARD CREDIT COMMITTEE REPORT

The primary role of the Board Credit Committee (BCC) is to oversee the Bank's credit and lending strategies, in order to meet the overall objectives of the Bank. The Committee will oversee the Credit Risk Management of the Bank, including reviewing internal credit policies and establishing portfolio limits, reviewing the quality and performance of the Bank's credit portfolio.

Composition
The Committee comprises four (4) members of which two (2) members are Non-Executive Independent Directors. The Head of Risk Management will be the Secretary, to the Committee.

Members
The following are the members of the Committee:

1. Mangala Boyagoda (Non-Executive Independent Director) - Chairman
2. Ranjith Page (Non-Executive Director) – Deputy Chairman
3. Faizal Salieh (Non-Executive Independent Director) till 01.08.2018
4. Ruvini Fernando (Non-Executive Independent Director) from 01.08.2018
5. Prabhu Mathavan (Executive Director)

The following Executive Management Officers will attend the "BCC" meetings as permanent invitees:

1. Managing Director/CEO
2. Chief Operating Officer
3. DGM- Retail Banking
4. Head of Corporate Banking
5. Head of SME and Middle Markets
6. Head of Financial Reporting

Role & Responsibilities

- Review the Bank's Credit risk appetite and credit policies, and make recommendations to the Board.
- Guide the management on the risk appetite of the Bank.
- Review the cost of capital in lending and the pricing of credit in order to maximize returns.
- Review the quality of risk assets and non-performing advances.
- Review the cyclical aspects of the economy and the resulting quality of the loan portfolio.
- Review the Sector exposure caps and parameters.
- Review the exposure limits and thresholds for customer groups.
- Review and recommend credit risk management policies in tandem with BIRMC.
- Review and monitor the effectiveness and application of credit risk management policies, related standards and procedures and the control environment with respect to credit decisions.
- Ensure that the systems and processes established by the Board to identify, assess, manage and monitor the bank's credit and lending operations are designed and operating effectively.
- Maintain minutes of the Committee meetings and submit the minutes at the subsequent Board meeting.

Performance

In 2018, the year under review, the committee approved credit proposals above the predetermined management limit, scrutinized and/or recommended credit proposals and the other credit reports intended for approval/perusal by the Board of Directors. These tasks were carried out by the Committee in-line with the Bank's lending policies and credit risk appetite, to ensure that the lending portfolios were managed as per the stipulated credit risk parameters.

Meetings

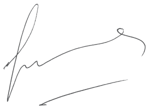
The total number of meetings held for the year is four (4) in accordance with the BCC TOR.

Reporting

The discussions and conclusions reached at the Committee meetings are recorded in the BCC minutes and are reported to the Board for information and notification. Recommendations made by the BCC 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.



Mangala Boyagoda
Chairman, Board Credit Committee

Colombo
29 March 2019

BOARD 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 comprised:
R A Ebell
(Independent Non Executive Director, as Chairman)

V R Page
(Non-Executive Director) - resigned w.e.f 01 August 2018

E M M Boyagoda
(Independent Non-Executive Director)- resigned w.e.f. 01 August 2018

M O F Salieh
(Independent Non Executive Director)- appointed w.e.f 01 August 2018

Dr (Mrs) D Weerakoon
(Independent Non Executive Director)- appointed w.e.f. 01 August 2018

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

Mr R Theagarajah, Managing Director / CEO, Mr. P S Mathavan, Executive Director, Mr R Muttiah, Chief Operating Officer, and other employees of the Bank attended meetings by invitation as required during the year, to assist BAC awareness of key issues and relevant developments, and provide briefings and responses to questions asked.

KPMG, external auditors, attend BAC meetings at their discretion.

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 other relevant areas. The profiles of BAC members are included on pages 17 to 20 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.
- The Bank's Whistle Blowing process.

Meetings of the Board Audit Committee
The Committee met nine times in 2018. Attendance at these meetings was:

R A Ebell	9 / 9 Meetings
V R Page	4/ 5 Meetings
E M M Boyagoda	5 / 5 Meetings
M O F Salieh	4 /4 Meetings
Dr (Mrs) D Weerakoon	4 / 4 Meetings

KPMG were present at all these meetings.

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 Auditor and the Internal Audit Department, as required by the Banking

BOARD AUDIT COMMITTEE REPORT

Act Direction No 11 of 2007, Corporate Governance for Licensed Commercial Banks in Sri Lanka.

A matter of particular current relevance is the transition to portfolio impairment provisioning under SLFRS 9, Financial Instruments, which became effective in 2018.

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.

The BAC commissions an annual, outsourced Information Security audit and monitors progress on the issues identified as requiring action, together with the Board Integrated Risk Management Committee (BIRMC).

The Chairman, BAC, joins the Chairman, BIRMC, in periodically meeting the Bank's Heads of Compliance,
Risk and Internal Audit to review matters of common interest to the Bank's 2nd and 3rd Lines of Defence.

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 three 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.

Communication with the Board

Minutes of the BAC's meetings are submitted to the Board. Quarterly written reports are provided also, highlighting matters of particular relevance; in addition, verbal updates are made at Board meetings as deemed necessary.

Evaluation of the Committee

Self- evaluations of the workings of the Committee were conducted in December 2017 / January 2018, and in December 2018 / January 2019. The results of these evaluations are reviewed appropriately by the BAC.

On behalf of the Audit Committee

Richard Ebell
Chairman, Board Audit Committee

Colombo

29 March 2019

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, 2018.

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 29 March 2019.

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;

	2018 Rs. '000	2017 Rs. '000
Profit before taxation	161,444	621,137
Taxation	(38,639)	(108,278)
Profit for the year	122,805	512,859
Accumulated loss brought forward	(236,882)	(725,747)
Transfer to reserve fund	(6,140)	(25,643)
Losses to be carried forward	(374,608)	(236,882)

Financial Statements

The Financial Statements of the Bank are given on pages 75 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:

	2018 Rs. '000	2017 Rs. '000
Interest income	3,903,955	2,850,581
Fees and commission income	225,672	159,196
Net gains / (losses) from trading	(14,148)	3,100
Net gains / (losses) from Financial Investments	17,934	18,760
Other income	166,830	580,176

Shareholders' Funds and Reserves

The Bank's total reserves as at 31 December 2018 stood at a negative balance of Rs. 370.4 Mn. This comprises an accumulated loss of Rs. 374.6 Mn, statutory reserve of Rs. 32.3 Mn and available-for-sale reserve negative balance of Rs. 28.2 Mn. The movement in accumulated loss and available-for-sale reserve are shown in Notes 40 and 41 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 82. They come up for re- election at the Annual General Meeting, with the recommendation of the Audit Committee and the Board of Directors.

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

Accounting Policies

The accounting policies adopted in preparation of the Financial Statements are given on page 90.

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 47 to the Financial Statements.

Directors' Remuneration

Directors' remuneration and other benefits of the Directors are given in Note 15 and 47 to the Financial Statements.

Donations

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

Directorate

The names of the Directors of the Bank during the period 1 January 2018 to date are given 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 is made 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 Independent
Prabhu Mathavan - Executive Director	Executive	Non Independent
Mangala Boyagoda - Senior Director	Non Executive	Independent
Faizal Salieh	Non Executive	Independent
Richard Ebell	Non Executive	Independent
Mrs. Ruvini Fernando	Non Executive	Independent (Appointed w.e.f. 1st August 2018)
Dr. Dushni Weerakoon	Non Executive	Independent (Appointed w.e.f. 1st August 2018)
Ms. Kamalini De Silva – Director/ Company Secretary	Executive	Non Independent (Resigned as Director w.e.f. 17th January 2018 and resigned as Company Secretary on 30th April 2018.)

In terms of Article 86 of the Articles of Association of the Bank, Mr. Ranjit Page and Mr. Richard Ebell retire by rotation and being eligible offer themselves for re-election, on the unanimous recommendation of the Board of Directors.

Mrs. Ruvini Fernando and Dr.(Mrs.) Dushni Weerakoon who were appointed during the year retire in terms of Article 92 of the Articles of Association of the Bank and being eligible offer themselves for re-appointment, on the unanimous recommendation of the Board of Directors.

Directors' Interest

Related party transactions of the Bank are disclosed in Note 47 to the Financial Statements on page 134 to 135. In addition, transactions with entities where Directors of the Bank hold directorates are disclosed on page 74. 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, is being proposed at the Annual General Meeting. Audit and audit related fees payable to KPMG for the year under review amounted to Rs. 3.1Mn (Audit - Rs. 2.3 Mn and Audit related services - Rs. 0.8 Mn). The non-audit fees payable to KPMG for the year under review amounted to Rs. 0.6 Mn.

Stated Capital

The Stated Capital of the Bank is Rs. 11,394.42 Mn, the details of which are given in Note 39 to the Financial Statements.

Internal Controls

The Board of Directors has put in place an effective and comprehensive system of internal controls covering financial operations, compliance and risk management which is 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 29 to 54 of the Annual Report.

Capital Expenditure

The Bank's expenditure on Property, Plant & Equipment at cost amounted to Rs. 306.3 Mn during 2018, details of which are given in Note 29 to the Financial Statements. Expenditure on Intangible Assets at cost amounted to Rs. 243.2 Mn during 2018, details of which are given in Note 30 to the Financial Statements.

Statutory Payments

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

Shareholding

The number of registered shareholders of the Bank as at 31 December, 2018 was 70. The schedule providing information on shareholders' analysis is on pages 164 to 165, '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 under page 29. Corporate Information

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.

Annual General Meeting

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

The Annual General Meeting will be held at the Sri Lanka Foundation, No, 100, Padanama Mawatha, Independence Square, Colombo 7 on 26 April 2019. The Notice of Meeting can be found on page 166 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
Deputy Chairman

Rajendra Theagarajah
Managing Director / CEO

Ms. Amendra de Silva
Company Secretary

Colombo
29th March 2019

DIRECTORS' INTEREST

Directors Interest

In addition to the related party transactions disclosed in note 47 in this report, 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 Director of such entities.

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

Company Name	Relationship	Accommadation Granted/Deposits	Interest paid	Interest charged	Fees & expenses charged	Balance Outstanding	
						31 Dec 2018	31 Dec 2017
			Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Sierra Construction (Pvt) Ltd	Common Directors	Loans & Advances		40,648	3,237	555,732	201,445
		Off balance sheet accommadations				281,473	201,680
		Undrawn limits				475,470	
United Hotels Company Limited	Common Directors	Loans & Advances		51,010		354,896	
Dankotuwa Porcelain PLC	Common Directors	Deposits				3,203	

Financial Statements

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 82 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 2018 and the profit of the Bank for the financial year ended on 31 December 2018 and places them before a General Meeting. The Financial Statements comprise the Statement of Financial Position as at 31 December 2018, and the Income Statement, and 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 2018; 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 29 March 2019 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. Appropriate accounting policies have been selected and applied in a consistent manner while material departures, if any, have been disclosed and explained
II. Judgements and estimates made 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. These 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 records. The results of such reviews carried out during the year ended 31 December 2018 are given on pages 78 to 79 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 80 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 considered appropriate and necessary for expressing their opinion on the Financial Statements and maintaining accounting records. They have examined the Financial Statements made available to them together with all financial records, related data and minutes of the Shareholders' and Directors' meetings and expressed their opinion which appears as reported by them on page 82 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

Amendra De Silva (Ms.)
Company Secretary

Colombo
29 March 2019

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 recognizes 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 internal controls to reflect the current banking operations during the year. Therefore, the testing carried out by the Internal Audit Department during the year was aligned with the internal controls in place. Policies and procedures for ensuring compliance with internal controls and the relevant laws and regulations are set out in operation manuals, guidelines and the directives issued by the Bank, which are updated from time to time.
- 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 and examines the status of the Bank's economical and efficient use of resources. 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.
- 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 69.

- Apart from the Audit Committee, several Board committees have been established with appropriate empowerment to ensure effective management and supervision of the Bank's core areas of business operations. These Committees include the Board Integrated Risk Management Committee, Strategic Planning Committee, Human Resource and Remuneration Committee, the Nomination Committee, the Credit Committee and the Related Party Transaction Review Committee.
- Operational committees have also been established with appropriate empowerment to ensure effective management and supervision of the Bank's core areas of business operations. These committees include the Asset and Liability Management Committee (ALCO), the Executive Credit Committee, the Executive Risk Management Committee, the Information Technology Steering Committee and the Operational Risk Management Committee.
- The Compliance Department has taken initiatives to implement a robust compliance process to address and monitor compliance with regulatory requirements.
- The Bank adopted SLFRS 9 – "Financial Instruments" with effect from 1st January 2018. SLFRS 9 replaces the "incurred loss" model as per LKAS 39 with the "expected credit loss" model. This new methodology had a significant impact on the Bank's methodology on calculating the impairment losses for loans and advances. The Bank's models to calculate Expected Credit Losses (ECL) are inherently complex and judgement is applied in determining the correct construction of the models. There are also number of key assumptions made by the Bank in applying the requirements of SLFRS 9 to the models including selection and input of forward looking information. These models were developed with the assistance of an external consultant. The Board ensured the models developed to calculate the impairment provisions due to adoption of SLFRS 9 have been adequately tested and calibrated.

The process for quantifying the necessary adjustments to the Financial Statements was based on spread sheet applications. However, the formal documentation of the process followed by the Bank for quantification of adjustments and testing of such process by the internal audit is not complete as at the date of this Report and this will be addressed on an ongoing basis in the ensuing financial year.

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 connection with the internal control system for the financial year ended 31 December 2018 will be addressed in the ensuing year.

CONFIRMATION

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide 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 31st December 2018 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 80.

Rajendra Theagarajah
Managing Director/ Chief Executive Officer

Amendra De Silva (Ms.)
Company Secretary

Colombo
29 March 2019

INDEPENDENT ASSURANCE REPORT

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

We were engaged by the Board of Directors of Cargills Bank Limited ("Bank") to provide assurance on the Directors' Statement on Internal Control ("Statement") included in the annual report for the year ended 31st December 2018.

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

(g) Obtained written representations from 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
29th March 2019

CEO'S AND CFO'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Financial Statements of Cargills Bank Limited ("the Bank") for the year ended 31 December 2018 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 the 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 2018, as required by the Banking Act Direction No. 11 of 2007, the result of which is given on page 78 to 79 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 80 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 82 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 the auditors perform their responsibilities and 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 audit and non-audit services provided by the External Auditors, Messrs KPMG, in order to ensure that the provision of such services does not impair the 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 litigation that is pending against the Bank other than disclosed in Note 43 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 2018 have been paid or where relevant provided for.

Rajendra Theagarajah
Managing Director/ Chief Executive Officer

Thamilchelvan Nagalingam
Head of Financial Reporting

Colombo
29 March 2019

INDEPENDENT AUDITORS' REPORT

KPMG

KPMG
(Chartered Accountants)
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REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Cargills Bank Limited ("the Bank"), which comprise the statement of financial position as at 31st December 2018, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies set out on pages 84 to 152 of the annual report.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31st December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditors' responsibilities for the audit of the financial statements is located at Sri Lanka Accounting and Auditing Standards website at: http://slaasc.com/auditing/auditorsresponsibility.php. This description forms part of our auditors' report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by section 163 (2) of the Companies Act No. 07 of 2007, 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 Bank.

KPMG

Chartered Accountants

Colombo
29th March 2019

INCOME STATEMENT

For the year ended 31 December	Note	2018 Rs.'000	2017 Rs.'000	Change %
Gross income		4,300,243	3,611,813	19
Interest income		3,903,955	2,850,581	37
Less: Interest expenses		1,874,648	1,369,924	37
Net interest income	7	2,029,307	1,480,657	37
Fees and commission income		225,672	159,196	42
Less: Fees and commission expenses		67,614	45,563	48
Net fees and commission income	8	158,058	113,633	39
Net gains / (losses) from Trading	9	(14,148)	3,100	(556)
Net gains from derecognition of Financial assets	10	17,934	18,760	4
Net other Operating Income	11	166,830	580,176	(71)
Total operating income		2,357,981	2,196,326	7
Less: Impairment charges for loans and other losses	12	313,937	131,675	138
Net operating income		2,044,044	2,064,651	(1)
Less: Expenses				
Personnel expenses	13	744,081	516,919	44
Depreciation and amortization expenses	14	246,583	163,278	51
Other operating expenses	15	716,794	588,876	22
Operating Profit before taxes on financial services		336,586	795,578	(58)
Less: Taxes on financial services	16	175,142	174,441	0
Profit before Income tax		161,444	621,137	(74)
Less: Income tax expenses	17	38,639	108,278	(64)
Profit for the year		122,805	512,859	(76)
Attributable to:				
Equity holders of the Bank		122,805	512,859	(76)
Profit for the year		122,805	512,859	(76)
Basic earnings per share (Rs.)	18	0.14	0.58	(76)

The notes to the Financial Statements appearing on pages 90 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	2018 Rs.'000	2017 Rs.'000	Change %
Profit for the year		122,805	512,859	(76)
Other comprehensive income, net of tax				
Items that will not be reclassified to profit or loss				
Net actuarial gains/ (loss) on defined benefit plans	37	(7,340)	2,290	(421)
Change in fair value of investment in equity measured at Fair value through other comprehensive income		1,052	-	
Deferred tax asset related to the above	31.2	2,593	(641)	505
		(3,695)	1,649	(324)
Items that will be reclassified to profit or loss				
Net gains/ (losses) on investment in financial assets measured at fair value through other comprehensive income / Available for sale		(59,881)	37,006	(262)
Deferred tax asset related to the above	31.2	16,767	(10,362)	262
		(43,114)	26,644	(262)
Total other comprehensive income / (expense) for the year, net of tax		(46,809)	28,293	(265)
Total comprehensive income for the year		75,996	541,152	(86)
Attributable to:				
Equity holders of the Bank		75,996	541,152	(86)
Total comprehensive income for the year		75,996	541,152	(86)

The notes to the Financial Statements appearing on pages 90 to 152 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	2018 Rs. '000	2017 Rs. '000	Change %
ASSETS				
Cash and cash equivalents	21	1,231,655	2,805,145	(56)
Balances with Central Bank of Sri Lanka	22	994,405	925,719	7
Placements with banks	23	-	1,916,178	(100)
Derivative financial instruments	24	24	1,272	(100)
Financial assets at amortized costs-Loans & advances to banks	25	-	44,131	(100)
Financial assets at amortized costs- Loans & advances to other customers	26	23,917,397	20,797,560	15
Financial assets at amortized costs - Debt and other Instruments	27	524,002	-	100
Financial assets measured at fair value through other comprehensive income / Available for sale	28	5,548,169	4,751,412	17
Property, plant and equipment	29	488,148	347,234	41
Intangible assets	30	474,374	340,493	39
Deferred tax assets	31	168,776	139,752	21
Other assets	32	456,170	443,815	3
Total assets		33,803,120	32,512,711	4
LIABILITIES				
Due to banks	33	1,364,712	961,253	42
Derivative financial instruments	34	15,004	1,397	974
Financial liabilities at amortized cost - Due to depositors	35	19,902,741	18,808,432	6
Financial liabilities at amortized cost - Due to other borrowers	36	662,523	742,994	(11)
Retirement benefit obligations	37	51,233	16,455	211
Other liabilities	38	782,945	787,849	(1)
Total liabilities		22,779,158	21,318,380	7

As at 31 December	Note	2018 Rs. '000	2017 Rs. '000	Change %
EQUITY				
Stated capital	39	11,394,421	11,394,421	-
Statutory reserves	40	32,386	26,246	23
Accumulated losses	41	(374,608)	(236,882)	(58)
Other Reserves	40.2	(28,237)	10,546	(368)
Total equity attributable to equity holders of the bank		11,023,962	11,194,331	(2)
Total equity and liabilities		33,803,120	32,512,711	4
Contingent liabilities & commitments	42	17,891,677	18,751,069	(5)
Net asset value per share (Rs.)	44	12.48	12.68	(2)
Memorandum Information				
Number of Employees		586	451	
Number of Branches		19	17	

The notes to the Financial Statements appearing on pages 90 to 152 form an integral part of these Financial Statements.

These Financial Statements have been prepared in compliance with the 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

29 March 2019
Colombo

STATEMENT OF CHANGES IN EQUITY

	Stated Capital Rs. '000	Statutory Reserves Rs. '000	Accumulated Losses Rs. '000	Other Reserves (FVOCI Reserve /AFS Reserve) Rs. '000	Total Rs. '000
Balance as at 01 January 2017	11,394,421	603	(725,747)	(16,098)	10,653,179
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	-	-	514,508	26,644	541,152
Transactions with equity holders, recognized directly in equity					
Transfers during the year	-	25,643	(25,643)	-	-
Total transactions with equity holders	-	25,643	(25,643)	-	-
Balance as at 31 December 2017	11,394,421	26,246	(236,882)	10,546	11,194,331
Adjustment on initial application of SLFRS 09, net of tax (Note 53.1)	-	-	(249,937)	3,572	(246,365)
Adjusted Balance as at 1 January 2018	11,394,421	26,246	(486,819)	14,118	10,947,966
Comprehensive income for the year 2018					
Profit for the year	-	-	122,805	-	122,805
Other comprehensive income, net of tax	-	-	(4,454)	(42,355)	(46,809)
Total comprehensive income for the year	-	-	118,351	(42,356)	75,996
Transactions with equity holders, recognized directly in equity					
Transfers during the year	-	6,140	(6,140)	-	-
Total transactions with equity owners	-	6,140	(6,140)	-	-
Balance as at 31 December 2018	11,394,421	32,386	(374,608)	(28,237)	11,023,962

STATEMENT OF CASH FLOW

For the year ended 31 December	Note	2018 Rs. '000	2017 Rs. '000
Cash flow from operating activities			
Profit before income tax		161,444	621,137
Adjustments for:			
Non-cash items included in profit before tax	48	564,632	(192,714)
Dividend income	11	(770)	(600)
Benefits paid on defined benefit plans	37	(4,415)	(1,881)
Operating profit before changes in operating assets and liabilities		720,891	425,942
Net increase in operating assets	49	(4,294,785)	(8,595,036)
Net increase in operating liabilities	50	1,478,882	10,517,902
Cash generated from / (used in) operating activities before income tax		(2,094,972)	2,348,808
Income taxes paid		-	-
Net cash generated from / (used in) operating activities		(2,094,972)	2,348,808
Cash flow from investing activities			
Sale proceeds from disposal of investment in subsidiary		-	1,065,573
Net purchase of property, plant and equipment	29	(306,285)	(200,343)
Proceeds from sale of property, plant and equipment		1,598	3,750
Net purchase of intangible assets	30	(243,241)	(281,478)
Dividends received	11	770	600
Net cash generated from / (used in) investing activities		(547,158)	588,102
Cash flow from financing activities			
Net change in debt and other securities		(80,471)	402,292
Net cash generated from / (used in) financing activities		(80,471)	402,292
Net increase / (decrease) in cash & cash equivalents		(2,722,601)	3,339,202
Cash and cash equivalents at the beginning of the year		3,957,322	618,120
Cash and cash equivalents at the end of the year		1,234,721	3,957,322
Reconciliation of cash & cash equivalents			
Cash & cash equivalents		1,234,721	2,805,145
Placements with Banks		-	1,152,177
	21	1,234,721	3,957,322

The notes to the Financial Statements appearing on pages 90 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 2018 was 586 (2017 – 451).

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.

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 84 to 85.
- A Statement of Financial Position providing the information on the financial position of the Bank as at the year-end. Refer pages 86 to 87.
- A Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Bank. Refer page 88.
- 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 89.
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information. Refer pages 90 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 2018 were approved and authorised for issue by the Board of Directors on 29 March 2019.

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
Financial assets measured at fair value through other comprehensive income/Available-for-sale financial assets	Fair value
Net defined benefit (asset) liability	Present value of 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 Judgments 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.

2.11.1. Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the Financial Statements is included in the following notes.

Applicable to year 2018 only:

- Note 3.2.1.3: Classification of financial assets
- Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial assets are Solely Payment of Principal and Interest (SPPI) on the principal amount outstanding.
- Note 3.2.5.1 Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of Expected Credit Loss (ECL) and selection and approval models used to measure ECL.

Applicable to years 2018 and 2017
Going Concern:
The directors have made an assessment of the Bank's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, Board is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Bank. Therefore, the Financial Statements continue to be prepared on the going concern basis.

2.11.2 Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment included in the following notes.

Applicable to year 2018 only
Note 2.3.5: impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward looking information.

Applicable to years 2018 and 2017
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 3.26: recognition of deferred tax assets: availability of future taxable profit against which carried forward tax losses can be utilised.

Note 3.10: recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

Note 2.3.5: impairment of financial instruments: key assumptions used in estimating recoverable cash flows.

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.

2.13 Changes in accounting policies

The Bank has initially adopted SLFRS 9 and SLFRS 15 from 1 January 2018. Due to the transition method chosen by the Bank in applying SLFRS 9, comparative information throughout these Financial Statements has not been restated to reflect its requirements.

The adoption of SLFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Bank. Accordingly the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following:

- An increase in impairment losses recognised on financial assets
- Additional disclosures related to SLFRS 9
- Additional disclosures related to SLFRS 15

The impact on classification and measurement of Financial Assets due to the adoption of SLFRS 9 is disclosed in Note 53.

Except for the changes below, the Bank has consistently applied the accounting policies as set out in Note 2.13 to all periods presented in these Financial Statements.

2.13.1. SLFRS 9 – "Financial Instruments"

SLFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces LKAS 39 "Financial Instruments: Recognition and Measurement". The requirements of SLFRS 9 represent a significant change from LKAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As permitted by SLFRS 9, the Bank has elected to continue to apply the hedge accounting requirements of LKAS 39.

The key changes to the Bank's accounting policies resulting from its adoption of SLFRS 9 are summarised below. The full impact of adopting the standard is set out in Note 53.

Classification of Financial Assets and Financial Liabilities
SLFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). SLFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous LKAS

39 categories of held to maturity, loans and receivables and available for sale. Under SLFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Bank classifies financial assets under SLFRS 9, refer Note 3.2.1.3

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

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Bank classifies financial liabilities under SLFRS 9, refer Note 3.2.2.1

Impairment of Financial Assets

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

Under SLFRS 9, credit losses are recognised earlier than under LKAS 39. For an explanation of how the Bank applies the impairment requirements of SLFRS 9, refer Note 3.2.5.

Transition

Changes in accounting policies resulting from the adoption of SLFRS 9 have been applied retrospectively, except as described below:

- The Bank used the exemption not to restate comparatives. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of SLFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of SLFRS 9 and therefore is not comparable to the information presented for 2018 under SLFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.
- For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
- If a debt security had low credit risk at the date of initial application of SLFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

More information and details on the changes and implications resulting from the adoption of SLFRS 9 is given in Note 53.

2.13.2 SLFRS 15 – Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. New qualitative and quantitative disclosure requirements aim to enable Financial Statements users to understand the nature, amount, timing and uncertainty of revenue, and cash flows arising from contracts with customers.

Entities will apply five step model to determine when to recognise revenue and at what amount. The model specified that revenue is recognised when or as an entity transfers control of goods and services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised.

It replaces existing revenue recognition guidance, including LKAS 18 – "Revenue" and LKAS 11 – "Construction Contracts" and IFRIC 13 – "Customer Loyalty Programmes".

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.

3.2.1.3 Classification and subsequent measurement

(Policy adopted from 1 January 2018)

Financial Assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

3.2.1.3.1. Business Model Assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to Management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether Management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's Management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;

- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

3.2.1.3.2. Assessment of whether Contractual Cash Flows are Solely Payments of Principal and Interest (SPPI)

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instruments. This includes assessing whether the financial asset contains a contractual term that could change the timing or contractual cash flows such that it would not meet this condition. In making the assessment the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Bank holds a portfolio of long-term fixed-rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Policy adopted before 1 January 2018

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 - are recorded in the statement of financial position at fair value. Changes in fair value are recognised in 'Net operating income'.

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

- Loans and receivables; - After initial measurement, amounts 'Loans and advances to customers' are subsequently measured at amortised cost using the EIR, less allowance for impairment
- Held-to-maturity; - 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.
- Available-for-sale; - After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

3.2.1.4. 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.

3.2.1.5. 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.

3.2.1.6. 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.

3.2.1.7. Balances with Central Bank

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

3.2.2. Recognition and measurement of financial liabilities

Policy applicable after 1 January 2018

On initial recognition, the Bank classifies financial liabilities, other than financial guarantees and loan commitments, into one of the following categories:

- Financial liabilities at amortised cost; and
- Financial liabilities at fair value through profit or loss,

Policy applicable before 1 January 2018

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

A financial liability is measured initially at fair value plus, transaction costs that are directly attributable to its acquisition or issue. Subsequent measurement of financial liability is at fair value or amortised cost. The amortised cost of a financial liability is the amount at which the 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 and the maturity amount.

3.2.2.1. Classification and subsequent measurement of financial liabilities

The subsequent measurement of financial liabilities depends on their classification.

3.2.2.1.1. Financial liabilities at amortised cost

Financial Liabilities issued by the Bank that are not designated at fair value through profit or loss are recognised initially at fair value plus any directly attributable transaction costs, by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method. Deposit liabilities including savings deposits, current deposits, fixed/time deposits, call deposits, certificates of deposit and debentures are classified as financial liabilities measured at amortised cost.

The EIR amortisation is included in "Interest expense" in the income statement. Gains and losses too are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

3.2.2.1.2. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include derivative liabilities held for risk management purposes.

Deposits and borrowings

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

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.

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.

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 consolidated Statement of Financial Position as an asset with a corresponding obligation to return it as a liability under 'Securities sold under repurchase agreements', reflecting the transaction's economic substance as a loan to the Bank.

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.

3.2.3 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 and Liabilities
Policy applicable after 1 January 2018
Financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the Bank's changes its objective of the business model for managing such financial assets. Financial Liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

Policy applicable before 1 January 2018
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

(Policy adopted from 1 January 2018)

3.2.5.1. Recognition of ECL

The Bank recognises allowances for Expected Credit Losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- undrawn credit commitments.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the definition of "investment grade". The Bank does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as "Stage 1 financial instruments".

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as "Stage 2 financial instruments".

3.2.5.2. Measurement of ECL

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

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

Management overlay and post model adjustments

Techniques used to compute impairment amounts, use models which analyze historical repayment and default rates over a time horizon. Where various models are used, judgment is required to analyze the available information provided and select the appropriate model or combination of models to use. Expert credit judgment is also applied to determine whether any post-model adjustments are required for credit risk elements which are not captured by the models.

The operation of the Bank was commenced during the year ended 31st December 2014 and bank had only 2 years of historical default data for majority of its products as at the date of the transition to SLFRS 9. Accordingly, in order to address the limitations in the banks impairment model due to short historical input data, the bank made a management overlay adjustment (maturity adjustment) to the ECL model by using average provisioning cover of three peer banks with matured portfolios. Such adjustment resulted in recognition of additional expected credit loss of Rs. 222 Mn as at the date of the transition. In the absence of observable proxy probability of defaults of peer banks, such approach is expected to address the requirement of applying a proxy probability of defaults as per the circular No. 04 of 2018 issued by Central Bank of Sri Lanka.

Limitations in the Bank's impairment models or input data may be identified through the on-going assessment and validation of the output of the models. In these circumstances, management make appropriate adjustments to the Bank's allowance for impairment losses. These adjustments are generally modelled taking into account the particular attributes of the exposure which have not been adequately captured by the primary impairment models. As at 31st December 2018, post-model adjustment was made to the management overlay adjustment (maturity adjustment) recognized as at 31st December 2017 to reflect the loss experience relative to the increase in portfolio maturity from 31st December 2017 to 31st December 2018.

3.2.5.3. Restructured Financial Assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

3.2.5.4. Credit-Impaired Financial Assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as "Stage 3 financial assets"). A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data: – significant financial difficulty of the borrower or issuer

- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is past due for a period more than 90 days or classified as non-performing under CBSL Direction No. 03 of 2008 is considered credit-impaired.

3.2.5.5. Presentation of Allowance for ECL in the Statement of Financial Position

Loss allowances for ECL are presented in the Statement of Financial Position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: as a provision under other liabilities;
- debt instruments measured at FVOCI: no loss allowance is recognised in the Statement of Financial Position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

3.2.5.6. Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in "impairment losses on financial instruments" in the Statement of Profit or Loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Policy adopted before 1 January 2018
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.

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'.

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.

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.

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

3.2.7 Modification of Financial assets and Financial Liabilities

Policy adopted from 1 January 2018
Financial Assets
If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (refer write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial Liabilities
The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

3.2.8 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 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
Building	-

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

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.

3.4 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.

3.8 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.

3.9 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 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.

3.10 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.

3.11 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.

3.12 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.

3.14 Stated Capital and Reserves

3.14.1 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.

3.14.2 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.

3.14.3 Reserves

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

3.15 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.

3.16 Fiduciary Assets

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

RECOGNITION OF INCOME AND EXPENSES

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

3.17 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.

3.18 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.

3.19 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.

3.20 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.

3.21 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.

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

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.

3.23 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.

3.25 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.

3.26 Taxation

3.26.1 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.

3.26.2 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.

3.26.3 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.

3.26.4 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.

3.26.5 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.

6. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards (SLFRSs/ LKASs) which will become applicable financial periods beginning or after 1 January 2019. Accordingly the Bank has not applied the following new standards in preparing these Financial Statements.

SLFRS 16 - "Leases"

SLFRS 16 requires lessees to recognise all leases on their Statement of Financial Position as lease liabilities, with the corresponding right-of-use assets.

The profit or loss recognition pattern for recognised leases will be similar to existing finance lease accounting, with interest and depreciation expense recognised separately in the profit or loss.

Based on the high level impact assessment performed, the Bank is not expecting a significant impact on SLFRS 16 adoption, except for the capitalization of operating lease commitments.

For the year ended 31 December	2018 Rs. '000	2017 Rs. '000

7 NET INTEREST INCOME

Interest income (Note 7.1)	3,903,955	2,850,581
Less: Interest expenses (Note 7.2)	1,874,648	1,369,924
Net interest income	2,029,307	1,480,657

7.1 Interest income

Cash & cash equivalents	28,224	35,315
Placements with banks	43,868	137,929
Financial assets measured at amortized cost- Loans and advances to banks	-	54,873
Financial assets measured at amortized cost- Loans and advances to customers	3,334,436	2,343,040
Financial assets measured at amortized costs - Debt and other instruments	5,397	-
Financial investments measured at fair value through other comprehensive income/ Available for sale	492,030	279,424
Total interest income	3,903,955	2,850,581

7.2 Interest expenses

Due to banks	88,657	27,416
Derivative financial instruments	-	-
Financial liabilities measured at amortized cost - Due to depositors	1,723,445	1,314,056
Financial liabilities measured at amortized cost - Due to other borrowers	62,546	28,452
Total interest expenses	1,874,648	1,369,924

7.3 Net interest income from Sri Lanka Government Securities

Interest income	478,928	315,476
Less : Interest expenses	62,546	28,452
Net interest income from Sri Lanka Government Securities	416,382	287,024

The Inland Revenue Act No. 10 of 2006, effective up to 31.03.2018 and the amendment thereto, provide that a company which derives net interest income from the secondary market transactions on Government Securities 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.

However, as per the provision of the Inland Revenue Act No 24 of 2017 effective from 1 April 2018, interest income from Government Securities are excluded from WHT. Hence, notional tax credit claimed by the bank was discontinued from 1 April 2018.

Accordingly, net interest income earned by the Bank from the secondary market transactions in Government Securities for the period up to 31 March 2018, has been grossed up in these Financial Statements and the resulting notional tax credit amounted to Rs. 10.8 Mn. (2017-Rs. 28.7 Mn).

For the year ended 31 December	2018 Rs.'000	2017 Rs.'000
8 NET FEES AND COMMISSION INCOME		
Fee and commission income (Note 8.1)	225,672	159,196
Less: Fee and commission expenses (Note 8.2)	67,614	45,563
Net fees and commission income	158,058	113,633
Comprising		
8.1 Fee and commission income		
Loans and advances	45,692	36,542
Debit and Credit cards	38,285	6,053
Trade and remittances	43,964	48,492
Deposits	20,576	15,081
Guarantees	56,735	40,607
Other financial services	20,420	12,421
Total fee and commission income	225,672	159,196
8.2 Fee and commission expenses		
Loans and advances	-	-
Debit and Credit cards	31,715	14,528
Trade and remittances	4,456	1,227
Other financial services	31,443	29,808
Total fee and commission expenses	67,614	45,563
9 NET GAINS / (LOSSES) FROM TRADING		
Derivative financial instruments		
From banks and other customers	(14,148)	3,100
Total net gains / (losses) from trading	(14,148)	3,100
10 NET GAINS FROM DERECOGNITION OF FINANCIAL ASSETS		
Financial investments measured at fair value through other comprehensive income / Available for sale		
Government securities	17,934	18,760
Total net gains/(losses) from derecognition of financial assets	17,934	18,760
11 NET OTHER OPERATING INCOME		
Gain on sale of property, plant and equipment and other assets	249	3,750
Gains on revaluation of foreign exchange	153,955	74,091
Dividend income	770	600
Rent and other income	11,856	21,078
Gain on disposal of subsidiary	-	480,657
Total Net other operating income	166,830	580,176

For the year ended 31 December	2018 Rs. '000	2017 Rs. '000

12 IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES

Financial assets at amortized cost - Loans and advances to banks (Note 25.1)	(221)	-
Financial assets at amortized cost - Loans and advances (Note 26.2)	298,382	132,863
Financial assets at amortized costs - Debt and other Instruments (Note 27.2)	2,500	-
Cash and cash equivalents (Note 21.1)	(8,972)	-
Placements with banks (Note 23.1)	(9,581)	-
Financial investments measured at fair value through other comprehensive income / Available for sale	-	(4,809)
Contingent Liabilities and Commitments (Note 42.1.1)	21,078	-
Total Impairment Charges	303,186	128,054
Direct write-offs	15	192
Reversal of impairment- investment in subsidiary	-	(8,000)
Property, plant and equipment (write off)	10,725	9,456
Write-off other assets	10	1,973
Total Impairment charges for loans and other losses	313,937	131,675

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
12.1 Impairment charges for year 2018				
Financial assets at amortized cost - Loans and advances to banks	(221)	-	-	(221)
Financial assets at amortized cost - Loans and advances	(74,236)	147,473	225,145	298,382
Financial assets at amortized costs - Debt and other Instruments	2,500	-	-	2,500
Cash and Cash Equivelants	(8,972)	-	-	(8,972)
Placements with Banks	(9,581)	-	-	(9,581)
Contingent Liabilities and Commitements	(469)	(1,951)	23,498	21,078
Total Impairment Charges	(90,979)	145,522	248,643	303,186

For the year ended 31 December	2018 Rs. '000	2017 Rs. '000

13 PERSONNEL EXPENSES

Salary and bonus (Note 13.1)	566,720	401,541
Contributions to defined contribution plans	75,669	55,023
Provision to defined benefit obligations	15,508	8,907
Other staff related expenses	86,184	51,448
Total Personnel expenses	744,081	516,919

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

For the year ended 31 December	2018 Rs. '000	2017 Rs. '000
14 DEPRECIATION AND AMORTIZATION EXPENSES		
Depreciation of property, plant and equipment (Note 29)	134,937	98,329
Amortisation of intangible assets (Note 30)	111,646	64,949
Total Depreciation and amortization expenses	246,583	163,278
15 OTHER OPERATING EXPENSES		
Directors' emoluments (Note 15.1)	16,125	13,158
Auditors' remunerations	3,822	7,390
Audit fee and expenses	2,300	1,500
Audit related fee and expenses	875	5,315
Non-audit fee and expenses	647	575
Professional and legal expenses	18,602	25,251
Sri Lanka Deposit Insurance scheme contribution	14,302	9,727
Office administration and establishment expenses	663,943	533,350
	716,794	588,876

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

16 TAXES ON FINANCIAL SERVICES		
Value Added Tax (VAT) on financial services	139,324	153,918
Nation Building Tax (NBT) on financial services	17,997	20,523
Debt Repayment Levy (DRL)	17,821	-
	175,142	174,441
17 INCOME TAX EXPENSES		
Current tax expense		
Income tax on current year profit	10,989	58,673
Under /(over) provision in respect of previous years	-	
Deferred tax expense		
Origination and reversal of temporary differences (Note 31)	27,650	49,605
Total income tax expenses	38,639	108,278

17.1 Reconciliation of the accounting profit to income tax expense

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

	2018 Rs.'000	%	2017 Rs.'000	%
Accounting profit before tax from operations	161,444	100	621,137	100
Tax effect at the statutory income tax rate	45,204	28	173,918	28
Tax effect of exempt income	(4,336)	(3)	(139,610)	(22)
Tax effect of non-deductible expenses	206,201	128	122,202	20
Tax effect of deductible expenses	(111,043)	(69)	(66,244)	(11)
Qualifying Payments				
Taxable profit/ (loss) on disposal of fixed assets	(4,855)	(3)	-	-
Tax losses utilized during the year	(120,182)	(74)	(31,593)	(5)
(Over) / under provision in respect of prior years	-	-	-	-
Deferred tax expense/ (reversal)	27,650	17	49,605	8
Tax credits for which deferred tax asset was not recognized	-	-	-	-
Income tax expense	38,639	23.93	108,278	17

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

	2018 Rs.'000	2017 Rs.'000
17.3 Tax expenses recognized in Other Comprehensive Income		
Deferred tax on net actuarial gains/ (losses) on defined benefit plans	2,593	(641)
Deferred tax on net gains/ (losses) on invesment in financial assets measured at fair value through other comprehensive income / Available for sale	16,767	(10,362)
	19,360	(11,003)
17.4 Tax losses/ credits carried forward		
Tax losses brought forward	1,185,661	1,298,493
Add: Tax losses for the year	-	-
Less: Tax losses utilized during the year	(429,223)	(112,832)
Unutilized Tax losses/ credits carried forward	756,438	1,185,661

18 EARNINGS PER SHARE

18.1 Basic EPS

Amount used as the numerator		
Profit after tax attributable for equity holders of the bank	122,805	512,859
Amount used as the denominator		
Weighted average number of ordinary shares in issue during the year (Refer Note 18.1.1)	883,142,858	883,142,858
Basic earnning per share (Rs.)	0.14	0.58

	2018 Rs. '000	2017 Rs. '000
18.1.1 Weighted average number of ordinary shares		
Issued ordinary shares as at 1 January	883,142,858	883,142,858
Weighted average number of ordinary shares as at 31 December	883,142,858	883,142,858

18.2 Diluted EPS

There was no dilution of ordinary shares outstanding. Therefore, diluted earnings per share is the same as basic earnings per share as shown in Note 18.1.

19 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

19.1 (a) 2018

	Note	Fair value through P/L Rs. '000	Fair Value through OCI Rs. '000	Amortized Cost Rs. '000	Total Rs. '000
Financial assets					
Cash and cash equivalents	21	-	-	1,231,655	1,231,655
Balances with Central Bank of Sri Lanka	22	-	-	994,405	994,405
Placements with banks	23	-	-	-	-
Derivative financial instruments	24	24	-	-	24
Financial assets at amortized costs-Loans and advances to banks	25	-	-	-	-
Financial assets at amortized costs- Loans and advances to other customers	26	-	-	23,917,397	23,917,397
Financial assets at amortized costs - Debt and other instruments	27	-	-	524,002	524,002
Financial assets -at fair value through other comprehensive income	28	-	5,536,273	-	5,536,273
Equity instruments	28.1	-	11,896	-	11,896
Other assets	32	-	-	121,287	121,287
Total financial assets		24	5,548,169	26,788,746	32,336,939
Financial liabilities					
Due to banks	33	-	-	1,364,712	1,364,712
Derivative financial instruments	34	15,004	-	-	15,004
Financial liabilities at amortized cost - Due to depositors	35	-	-	19,902,741	19,902,741
Financial liabilities at amortized cost - Due to other borrowers	36	-	-	662,523	662,523
Other liabilities	38	-	-	521,289	521,289
Total financial liabilities		15,004	-	22,451,265	22,466,269

19 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES CONTD.

19.1 (b) 2017

		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	21	-	-	685,652	-	-	685,652
Balance with Central Bank of Sri Lanka	22	-	-	925,719	-	-	925,719
Placements with banks	23	-	-	4,035,671	-	-	4,035,671
Derivative financial instruments	24	1,272	-	-	-	-	1,272
Financial assets at Amortized costs-Loans and Advances to Banks	25	-	-	44,131	-	-	44,131
Financial assets at Amortized costs- Loans and Advances to other customers	26	-	-	20,797,560	-	-	20,797,560
Financial assets -at fair value through other comprehensive income	28	-	-	-	4,751,412	-	4,751,412
Other assets	32	-	-	139,172	-	-	139,172
Total financial assets		1,272	-	26,627,905	4,751,412	-	31,380,589
Financial liabilities							
Due to banks	33	-	-	-	-	961,253	961,253
Derivative financial instruments	34	1,397	-	-	-	-	1,397
Financial liabilities at amortized cost - Due to depositors	35	-	-	-	-	18,808,432	18,808,432
Financial liabilities at amortized cost - Due to other borrowers	36	-	-	-	-	742,994	742,994
Other liabilities	38	-	-	-	-	391,406	391,406
Total financial liabilities		1,397	-	-	-	20,904,085	20,905,482

	Note	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000

20 FAIR VALUES OF FINANCIAL INSTRUMENTS

20.1 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 2018					
Financial Assets					
Derivative financial instruments	24	-	24	-	24
Financial assets measured at fair value through other comprehensive income	28				
Government securities		5,536,273			5,536,273
Equity Securities		-		11,896	11,896
Total assets at fair value		5,536,273	24	11,896	5,548,193
Liabilities					
Derivative financial instruments	34	-	15,004	-	15,004
Total liabilities at fair value		-	15,004	-	15,004
As at 31 December 2017					
Financial Assets					
Derivative financial instruments	24	-	1,272	-	1,272
Financial assets measured at fair value through other comprehensive income	28	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	34	-	1,397	-	1,397
Total liabilities at fair value		-	1,397	-	1,397

20.2 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 20.1 above

Type of Financial Instruments	Fair Value as at 31 December 2018 (Rs.'000)	Valuation Technique	Significant Valuation inputs
Derivative Financial Assets	24	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	15,004		
Unquoted equities	11,896	Fair value is based on net assets per share as per latest audited Financial Statements of these companies as at following dates. Credit Information Bureau of Sri Lanka - 31 December 2017 Lanka Clear (Pvt) Limited - 31 March 2018	

20.3 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 2018					
Assets					
Cash and cash equivalents	21	-	1,231,655	-	1,231,655
Balance with Central Bank of Sri Lanka	22	-	994,405	-	994,405
Placements with banks	23	-	-	-	-
Financial assets at Amortized costs-Loans & Advances to Banks	25	-	-	-	-
Financial assets at Amortized costs- Loans & Advances to other customers	26	-	-	23,917,397	23,917,397
Financial assets at Amortized costs - Debt and other instruments	27	-	-	524,002	524,002
Other assets	32	-	-	456,169	456,169
Total financial assets not at fair value		-	2,226,060	24,897,568	27,123,628

	Note	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Carrying Amount Rs. '000
20.3 Fair value of financial instruments not carried at fair value Contd.					
Liabilities					
Due to banks	33	-	1,364,712	-	1,364,712
Financial liabilities at amortized cost - Due to depositors	35	-	-	19,902,741	19,902,741
Financial liabilities at amortized cost - Due to other borrowers	36	-	662,523	-	662,523
Other liabilities	38	-	-	782,945	782,945
Total financial liabilities not at fair value		-	2,027,235	20,685,686	22,712,921
As at 31 December 2017					
Assets					
Cash and cash equivalents	21	-	685,652	-	685,652
Balance with Central Bank of Sri Lanka	22	-	925,719	-	925,719
Placements with banks	23	-	4,035,671	-	4,035,671
Financial assets at Amortized costs-Loans & Advances to Banks	25	-	44,131	-	44,131
Financial assets at Amortized costs- Loans & Advances to other customers	26	-	-	20,797,560	20,797,560
Other assets	32	-	-	139,172	139,172
Total financial assets not at fair value		-	5,691,173	20,936,732	26,627,905
Liabilities					
Due to banks	33	-	961,253	-	961,253
Financial liabilities at amortized cost - Due to depositors	35	-	-	18,808,432	18,808,432
Financial liabilities at amortized cost - Due to other borrowers	36	-	742,994	-	742,994
Other liabilities	38	-	-	391,406	391,406
Total financial liabilities not at fair value		-	1,704,247	19,199,838	20,904,085

As at 31 December	2018 Rs. '000	2017 Rs. '000
21 CASH AND CASH EQUIVALENTS		
Cash in hand		
Coins and notes held in local currency	556,734	374,219
Coins and notes held in foreign currency	25,398	22,870
Balances with banks	374,406	2,119,493
Money at call and short notice	278,183	288,563
Gross Cash and cash equivalents for the purpose of Cash Flow Statement	1,234,721	2,805,145
Less: Provision for Impairment (Note 21.1)	(3,066)	-
Total Cash and cash equivalents	1,231,655	2,805,145

As at 31 December	2018 Rs. '000	2017 Rs. '000

21.1 Movement in provision for impairment

Stage 01		
Balance as at 01 January	-	-
Adjustment of initial application of SLFRS 09 (Note 53.1)	12,038	-
Adjusted balance as at 01 January 2018	12,038	-
Charge/ (write back) to income statement (Note 12)	(8,972)	-
Balance as at 31 December	3,066	-

22 BALANCES WITH CENTRAL BANK OF SRI LANKA

Statutory balances with central banks		
Central Bank of Sri Lanka	994,405	925,719
Total Balances with Central Bank of Sri Lanka	994,405	925,719

22.1 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 2018, the minimum cash reserve requirement was 6% (7.5% upto 15 November 2018) of the rupee deposit liabilities.

23 PLACEMENTS WITH BANKS

Placements - within Sri Lanka	-	1,916,178
Placements - outside Sri Lanka	-	-
Gross placements with banks	-	1,916,178
Less: provision for Impairment (Note 23.1)	-	-
Total Placements with banks	-	1,916,178

23.1 Movement in impairment

Stage 01		
Balance as at 01 January	-	-
Adjustment of initial application of SLFRS 09 (Note 53.1)	9,581	-
Adjusted balance as at 01 January 2018	9,581	-
Charge/ (write back) to income statement (Note 12)	(9,581)	-
Balance as at 31 December	-	-

24 DERIVATIVE FINANCIAL INSTRUMENTS

Foreign currency derivatives		
Forward foreign exchange contracts	24	1,272
Total Derivative financial instruments	24	1,272

As at 31 December	2018 Rs. '000	2017 Rs. '000
25 FINANCIAL ASSETS AT AMORTIZED COSTS-LOANS & ADVANCES TO BANKS		
Gross loans & advances	-	44,131
Less : Provision for impairment (Note 25.1)	-	
Net loans and advances	-	44,131
25.1 Movement in impairment		
Stage 01		
Balance as at 01 January	-	-
Adjustment of initial application of SLFRS 09 (Note 53.1)	221	-
Adjusted balance as at 01 January 2018	221	-
Charge/ (write back) to income statement (Note 12)	(221)	-
Balance as at 31 December	-	-
25.2 Analysis		
25.2.1 By product		
Short-term loans	-	44,131
Total	-	44,131
25.2.2 By currency		
Sri Lankan Rupee	-	44,131
Total	-	44,131

26 FINANCIAL ASSETS AT AMORTIZED COSTS- LOANS AND ADVANCES TO OTHER CUSTOMERS

	2018 Rs. '000	2017 Rs. '000
Gross loans and advances		
Stage 1	18,458,332	
Stage 2	4,644,834	
Stage 3	1,621,535	
Total gross loans and advances	24,724,701	21,067,586
Less: Provision for Impairment (Note 26.2)		
Stage 1	172,103	
Stage 2	226,003	
Stage 3	409,198	
Individual impairment		155,731
Collective impairment		114,295
Total impairment for loans and advances	807,304	270,026
Net loans and advances	23,917,397	20,797,560

As at 31 December	2018 Rs.'000	2017 Rs.'000

26.1 Analysis of loans and advances

26.1.1 By product

Overdrafts	4,615,421	4,582,050
Trade finance	2,567,828	2,701,997
Housing loans	1,088,493	708,152
Personal loans	3,639,919	3,267,366
Staff loans	168,882	143,811
Term loans	7,043,608	5,645,102
Loans against Property	1,140,647	165,126
Agriculture loans	517,022	530,880
Money market loans	3,713,544	3,282,341
Vehicle loans	53,065	32,867
Bills of exchange	226	7,894
Credit Cards	136,931	-
Micro Finance	39,115	-
Total gross loans and advances	24,724,701	21,067,586

26.1.2 By currency

Sri Lankan Rupee	22,380,986	19,828,102
United States Dollar	2,308,493	1,239,484
Singapore Dollars	35,222	-
Total gross loans and advances	24,724,701	21,067,586

26.1.3 By industry

Agriculture & fishing	2,186,271	1,673,936
Manufacturing	1,971,496	2,395,203
Tourism	1,854,625	716,206
Transport	359,463	166,414
Construction	3,880,984	2,726,252
Traders	4,981,424	3,513,375
New economy	315,270	175,211
Financial & business services	2,536,040	2,649,592
Infrastructure	31,081	32,535
Other services	1,265,145	1,750,609
Other customers	5,342,902	5,268,253
Total gross loans and advances	24,724,701	21,067,586

As at 31 December	2018 Rs.'000	2017 Rs.'000
26.2 Movement in provision for impairment during the year (under SLFRS 09)		
Balance as at 01 January	-	-
Adjustment on initial application of SLFRS 09	508,922	-
Adjusted balance as at 01 January 2018	508,922	-
Charge/ (write back) to income statement (Note 12.1)	298,382	-
Balance as at 31 December	807,304	-
Stage 01		
Balance as at 01 January	-	-
Adjustment on initial application of SLFRS 09	246,339	-
Adjusted balance as at 01 January 2018	246,339	-
Charge/ (write back) to income statement (Note 12.1)	(74,236)	-
Balance as at 31 December	172,103	-
Stage 02		
Balance as at 01 January	-	-
Adjustment on initial application of SLFRS 09	78,530	-
Adjusted balance as at 01 January 2018	78,530	-
Charge/ (write back) to income statement (Note 12.1)	147,473	-
Balance as at 31 December	226,003	-
Stage 03		
Balance as at 01 January	-	-
Adjustment on initial application of SLFRS 09	184,053	-
Adjusted balance as at 01 January 2018	184,053	-
Charge/ (write back) to income statement (Note 12.1)	225,145	-
Balance as at 31 December	409,198	-
Total Impairment Provision	807,304	-
Movement in provision for impairment during the year (under LKAS 39)		
Movement in provision for individual impairment		
Opening balance	-	68,949
Charge to the income statement	-	86,782
Write - off against provision	-	-
Closing balance	-	155,731
Movement in provision for collective impairment		
Opening balance	-	68,189
Charge to the income statement	-	46,081
Exchange rate variance on foreign currency provisions	-	25
Closing balance	-	114,295

As at 31 December	2018 Rs. '000	2017 Rs. '000

27 FINANCIAL ASSETS AT AMORTIZED COSTS - DEBT AND OTHER INSTRUMENTS

Sri Lanka Development Bonds	376,176	-
Trust Certificates (Note 27.1)	150,326	-
Total Financial assets measured at amortized cost	526,502	-
Less: Provision for Impairment (Note 27.2)	(2,500)	-
Total Financial assets measured at amortized cost - Net	524,002	-

27.1 Trust Certificate

Asset Securitization trust certificates		
Trade Finance and Investment PLC	150,326	-
Total Trust Certificates	150,326	-

27.2 Movement in impairment during the year

Stage 01		
Balance as at 01 January	-	-
Adjustment on initial application of SLFRS 09	-	-
Adjusted balance as at 01 January 2018	-	-
Charge/ (write back) to income statement	2,500	
Balance as at 31 December	2,500	

28 FINANCIAL ASSETS -MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME / AVAILABLE FOR SALE

Government securities		
Treasury bills	1,847,230	4,225,307
Treasury bonds	3,689,043	520,222
Total Government securities	5,536,273	4,745,529
Equity securities (Note 28.1)		
Quoted shares	-	-
Unquoted shares	11,896	5,883
Total Equity securities	11,896	5,883
Financial assets -at fair value through other comprehensive income / Available for sale	5,548,169	4,751,412

28.1 Unquoted shares

	2018 No. of Shares Rs. '000	2018 Market Value Rs. '000	2018 Cost Rs. '000	2017 Cost Rs. '000
Lanka Clear (Pvt) Ltd.	50,000	6,289	3,500	3,500
Credit Information Bureau of Sri Lanka	300	5,607	2,383	2,383
Total		11,896	5,883	5,883

29 PROPERTY, PLANT AND EQUIPMENT

	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 2018 Rs. '000	Total 2017 Rs. '000
Cost								
Balance as at 01 January	131,696	383,760	152,428	24,098	69,691	12,210	**773,883**	557,362
Additions during the year	18,251	187,874	73,130	-	27,030	-	**306,285**	200,343
Disposals during the year	-	(2,665)	(102)	-	(2,580)	-	**(5,347)**	(4,950)
Transfers/ Adjustments	(3,279)	5,371	(1,992)	-	(6,250)	(12,210)	**(18,360)**	41,424
Write - Off	(28,288)	(17,226)	(25,974)	-	(9,865)	-	**(81,353)**	(20,296)
Balance as at 31 December	118,380	557,114	197,490	24,098	78,026	-	**975,108**	773,883
Accumulated Depreciation								
Balance as at 01 January	41,562	209,718	84,127	22,953	51,029	-	**409,389**	326,849
Charge for the year	14,162	83,360	30,480	624	10,538	-	**139,164**	98,329
Disposals during the year	-	(2,665)	(42)	-	(1,290)	-	**(3,997)**	(4,950)
Transfers/ Adjustments	(725)	2,034	(2,457)	-	(3,081)	-	**(4,229)**	-
Write - Off	(6,162)	(16,828)	(21,112)	-	(9,854)	-	**(53,956)**	(10,839)
Balance as at 31 December	48,837	275,619	90,996	23,577	47,342	-	**486,371**	409,389
Less: Impairment								
Balance as at 01 January	13,913	-	3,347	-	-	-	**17,260**	17,260
Charge/(Write back) to income statement	-	-	(550)	-	-	-	**(550)**	-
Net write-off during the year	(13,913)	-	(2,208)	-	-	-	**(16,121)**	-
Balance as at 31 December	-	-	589	-	-	-	**589**	17,260
Carrying Value								
31 December 2018	69,543	281,495	105,905	521	30,684	-	**488,148**	
31 December 2017	76,221	174,042	64,954	1,145	18,662	12,210		347,234

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

29.2 During the year net book value of Rs. 27 Mn of assets which are not in usable conditions were written off. This includes Rs. 16Mn previously identified as impaired.

29.3 Title restriction on property, plant and equipment

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

29.4 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.

29.5 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	2018 Rs. '000	2017 Rs. '000
Computer hardware	144,176	114,508
Office Equipment, Furniture & Fittings	37,838	17,405
Machinery	24,486	18,554
Motor vehicles	21,600	21,600
Computer Software	80,783	37,647
Total	308,883	209,714

30 INTANGIBLE ASSETS

Computer software	474,374	340,493
Total	474,374	340,493

30.1 Computer software

Cost		
Opening balance	538,168	299,454
Additions during the year	243,241	281,478
Transfers/ adjustments	2,286	(42,764)
Closing balance	783,695	538,168
Accumulated amortisation		
Opening balance	197,675	132,726
Charge for the year	111,646	64,949
Disposals during the year	-	-
Transfers/ adjustments	-	-
Closing balance	309,321	197,675
Carrying Value	474,374	340,493

31 DEFERRED TAX ASSETS/(LIABILITIES)

31.1 Summary of Net Deferred Tax Asset

	2018		2017	
	Temporary Difference Rs. '000	Tax Effect Rs. '000	Temporary Difference Rs. '000	Tax Effect Rs. '000
Opening Balance as at 01 January	499,112	139,752	715,571	200,360
Adjustment of initial application of SLFRS 09 (Note 53.1)	133,264	37,314	-	
Adjusted balance as at 01 January	632,376	177,066	715,571	200,360
Recognized in profit or loss				
Charge for the year	(98,750)	(27,650)	(177,164)	(49,605)
Recognized in other comprehensive income				
Effect on actuarial losses on defined benefit plans	10,311	2,887	(39,295)	(11,003)
Effect on fair value losses/(gains) on financial investments measured at FVOCI	59,884	16,767	-	-
Effect on fair value losses/(gains) on equity instruments measured at FVOCI	(1,052)	(294)	-	-
Closing Balance as at 31 December	602,769	168,776	499,112	139,752

	Statement of Financial Position		Income Statement		Statement of Profit or Loss and Other Comprehensive Income	
For the year ended/as at 31 December	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
31.2 Reconciliation of Net Deferred Tax Asset						
Deferred Tax Assets on:						
Defined benefit plans	12,290	5,440	6,850	1,967	-	-
Actuarial losses on defined benefit plans	2,055	-	-	-	2,055	-
Unrealized loss on Financial assets measured at fair value through OCI	12,666	-	-	-	16,767	(6,260)
Carried forward tax losses	83,509	203,409	(119,900)	(31,592)	-	-
Impairment Provision	128,880	-	90,178	-		
	239,400	208,849	(22,872)	(29,625)	18,822	(6,260)
Deferred Tax Liabilities on:						
Accelerated depreciation for tax purposes	68,940	64,163	4,778	19,980	-	-
Tax effect on actuarial gains on defined benefit plans	-	832	-	-	(832)	641
Unrealised gains on Financial assets measured at fair value through OCI	1,684	4,102	-	-	294	4,102
	70,624	69,097	4,778	19,980	(538)	4,743
Deferred tax effect on profit or loss and other comprehensive income			(27,650)	(49,605)	19,360	(11,003)
Net deferred tax liability as at 31 December	168,776	139,752				

31.3 The total temporary differences arising from tax losses and tax credits amounted to Rs. 756.4 Mn. has amounted to a deferred tax asset of Rs. 212 Mn. as at 31 December 2018. Based on the internal assessment carried out by the Board of directors, the recognition of deferred tax asset has been limited to Rs. 84 Mn. The unrecognized deferred tax asset as at 31 December 2018 was Rs 128 Mn. (2017- Rs.128 Mn)

As at 31 December	2018 Rs. '000	2017 Rs. '000
32 OTHER ASSETS		
Deposits and prepayments	122,595	175,202
Other Receivables	121,287	129,376
Pre paid staff cost	38,529	-
Tax recoverable (Refer Note 32.1)	173,759	139,237
Total other assets	456,170	443,815
32.1 Tax recoverable		
Withholding Tax recoverable	70,811	68,624
Economic Service Charge recoverable	31,375	10,048
Notional tax recoverable	71,573	60,565
	173,759	139,237
33 DUE TO BANKS		
Borrowings		
Local currency borrowings	704,533	961,253
Foreign currency borrowings	660,179	-
Total Due to banks	1,364,712	961,253
34 DERIVATIVE FINANCIAL LIABILITIES		
Forward foreign exchange contracts	15,004	1,397
Total	15,004	1,397
35 FINANCIAL LIABILITIES AT AMORTIZED COST - DUE TO DEPOSITORS		
Local currency deposits	18,674,194	14,292,106
Foreign currency deposits	1,228,547	4,516,326
Total Due to depositors	19,902,741	18,808,432
35.1 Analysis of due to customers		
35.1.1 By product		
Current account deposits	990,859	494,826
Savings deposits	2,299,220	3,574,500
Time deposits	15,620,818	13,958,390
Certificate of deposits	860,905	764,467
Margin deposits	130,939	16,249
Total	19,902,741	18,808,432

As at 31 December	2018 Rs. '000	2017 Rs. '000
35.1.2 By currency		
Sri Lanka Rupees	18,674,194	14,292,106
United States Dollars	1,059,044	3,202,340
Great Britain Pound	56,222	387,876
Euro	112,864	921,566
Singapore Dollars	417	4,544
Other currencies	-	-
Total	19,902,741	18,808,432

36 FINANCIAL LIABILITIES AT AMORTIZED COST - DUE TO OTHER BORROWERS

Securities sold under repurchase (repo) agreements	662,523	742,994
Total due to other borrowers	662,523	742,994

37 RETIREMENT BENEFIT OBLIGATIONS

Balance as at 1 January	16,455	11,719
Provision for transferred employees	16,345	-
Expenses recognized in the Income statement (Note 37.1)	15,508	8,907
Amounts paid during the year	(4,415)	(1,881)
Actuarial (gains)/ losses recognized in OCI	7,340	(2,290)
Balance as at 31 December	51,233	16,455

37.1 Expense Recognised in the Income Statement – Gratuity

Current service cost	12,493	7,560
Interest cost	3,015	1,347
	15,508	8,907

37.2 Details of actuarial assumptions are as follows,

Discount rate per annum	11.5%	10.5%
Future salary increases	10%	10%
Retirement age (years)	60 Years	50 Years

An actuarial valuation of the retirement benefit obligation was carried out as at 31 December 2018 by Mr. M. Poobalanathan, AIA a firm of professional actuaries. The valuation method used by the actuaries to value the fund is the 'Project Unit Credit Method (PUC)', the method recommended by the Sri Lanka Accounting Standard LKAS 19 on 'Employee Benefits'.

The liability is not externally funded.

37.3 (c) 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,

	Sensitivity effect on defined benefit obligation	
As at 31 December	2018 Rs. '000	2017 Rs. '000
1% increase in discount rate	(1,966)	(672)
1% decrease in discount rate	2,133	728
1% increase in salary escalation rate	2,349	804
1% decrease in salary escalation rate	(2,202)	(754)

38 OTHER LIABILITIES

Accrued expenditure	234,082	173290
Cheques sent on clearing / PO issued	114,274	136,920
Impairment provision in respect of undrawn credit committements and financial gurantees (Note 42.1.1)	27,574	-
Other payables	407,015	477,639
Total other liabilities	782,945	787,849

As at 31 December	2018 Rs. '000	2017 Rs. '000

39 STATED CAPITAL

Balance as at 01 January	11,394,421	11,394,421
Issue of ordinary shares	-	-
Balance as at 31 December	11,394,421	11,394,421

39.1 Movement in number of ordinary shares

Balance as at 01 January	883,142,858	883,142,858
Issue of ordinary shares	-	-
Balance as at 31 December	883,142,858	883,142,858

40 RESERVES

40.1 Statutory Reserve

Balance as at 01 January	26,246	603
Transfers during the year	6,140	25,643
Balance as at 31 December	32,386	26,246

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

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

As at 31 December	2018 Rs. '000	2017 Rs. '000
40.2 Fair value through OCI reserve / Available for sale reserve		
Balance as at 01 January	10,546	(16,098)
Adjustment of initial application of SLFRS 09 (Note 53.1)	3,572	
Other comprehensive income for the year	(42,356)	26,644
Balance as at 31 December	(28,238)	10,546

41 ACCUMULATED LOSSES

Balance as at 01 January	(236,882)	(725,747)
Adjustment of initial application of SLFRS 09 (Note 53.1)	(249,937)	-
Adjusted balance as at 01 January 2018	(486,819)	(725,747)
Total comprehensive income		
Profit for the year	122,805	512,859
Other comprehensive income	(4,454)	1,649
Transfer to statutory reserves	(6,140)	(25,643)
Balance as at 31 December	(374,608)	(236,882)

42 CONTINGENT LIABILITIES & COMMITMENTS

42.1 Contingent liabilities

Guarantees	5,614,445	5,750,578
Documentary credits	898,000	757,027
Bills for collection	315,668	639,257
Forward exchange purchases	754,110	941,427
Spot exchange purchases	92,418	-
Total contingent liabilities	7,674,641	8,088,289

42.2 Commitments

Undrawn commitments	10,164,901	10,621,619
Capital commitments		
Commitments in relation to property, plant & equipment	34,855	35,457
Commitments in relation to intangible assets	17,280	5,704
Total Capital Commitements	52,135	41,161
Total commitments	10,217,036	10,662,780
Total commitments and contingencies	17,891,677	18,751,069

As at 31 December	2018 Rs. '000	2017 Rs. '000
42.1.1 Movement in provision for impairment during the year		
Stage 01		
Balance as at 01 January	-	-
Adjustment of initial application of SLFRS 09	6,496	-
Adjusted balance as at 01 January 2018	6,496	-
Charge/ (write back) to income statement	21,078	-
Balance as at 31 December	27,574	-

43 LITIGATION AGAINST THE BANK

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The bank has established mechanism for dealing with such legal claims.

There are no pending litigations of a material nature against the bank as at the reporting date.

43.1 Tax matters

Income Tax - Year of Assessment 2013/2014

The Commissioner General of Inland Revenue (CGIR) issued a Notice of Assessment for Rs. 120 Mn the year of assessment 2013/2014 disallowing some expenses and capital allowances claimed by the Bank, on the basis that it was not in commercial operation at the time and could not therefore make these deductions in arriving at Taxable Income for that year of assessment.

Having sought professional advice, the Bank is confident that the expenses and allowances claimed as deductible in arriving at Taxable Income as per Inland Revenue Act No. 24 of 2006 and amendments thereto and accordingly has appealed to the Tax Appeals Commission of which hearing of the appeal is awaited at the time of approval of these Financial Statements by the Board of Directors.

Accordingly, no provision has been made in the Financial Statements in this respect.

As at 31 December	2018 Rs. '000	2017 Rs. '000
44 NET ASSET VALUE PER SHARE		
Amount used as the numerator		
Shareholders' funds (Rs. '000)	11,023,962	11,194,331
Amount used as the denominator		
Total no. of shares	883,142,858	883,142,858
Net assets value per ordinary share (Rs.)	12.48	12.68

45 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The table below summarizes the maturity profile of the un-discounted cash flows of the Company's financial assets and liabilities as at 31 December 2018

	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-18 Rs. '000	Total as at 31-Dec-17 Rs. '000
Interest earning assets							
Cash and cash equivalents	276,792	-	-	-	-	276,792	288,563
Placements with Banks	-	-	-	-	-	-	1,916,178
Derivative financial instruments	24	-	-	-	-	24	1,272
Financial assets at amortized cost - Loans & advances to Banks	-	-	-	-	-	-	44,131
Financial assets at amortized cost - Loans & advances to other customers	11,068,578	3,146,247	5,338,994	2,668,473	1,695,105	23,917,397	20,797,560
Financial assets at amortized cost - Debt and other instruments	10,315	42,738	470,949	-	-	524,002	
Financial assets measured at fair value through other comprehensive income / available for sale	84,236	4,535,876	916,161	-	-	5,536,273	4,745,529
Total interest earning assets	11,438,911	7,724,861	6,726,104	2,668,473	1,695,105	30,254,488	27,793,232
Non-interest earning assets							
Cash and cash equivalents	954,862	-	-	-	-	954,862	397,089
Balances With Central Bank	397,887	441,230	15,458	139,830	-	994,405	925,719
Placements with Banks	-	-	-	-	-	-	2,119,494
Financial assets measured at fair value through other comprehensive income / available for sale	-	-	-	-	11,896	11,896	5,883
Property, plant and equipment	-	-	-	-	488,148	488,148	347,234
Intangible assets	-	-	-	-	474,374	474,374	340,493
Deferred tax assets	168,776	-	-	-	-	168,776	139,752
Other assets	456,170	-	-	-	-	456,170	443,815
Total non-interest earning assets	1,977,694	441,230	15,458	139,830	974,419	3,548,632	4,719,479
Total assets	13,417,639	8,166,091	6,741,562	2,808,303	2,669,524	33,803,120	32,512,711

	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-18 Rs. '000	Total as at 31-Dec-17 Rs. '000
Interest bearing liabilities							
Due to banks	1,137,319	118,274	104,917	4,202	-	1,364,712	961,253
Financial liabilities at amortized cost - Due to other customers	7,963,598	8,831,106	309,388	2,798,649	-	19,902,741	18,808,432
Financial liabilities at amortized cost - Due to other borrowers	662,523	-	-	-	-	662,523	742,994
Total interest bearing liabilities	9,763,440	8,949,380	414,305	2,802,851	-	21,929,976	20,512,679
Non-interest bearing liabilities							
Derivative financial instruments	15,004	-	-	-	-	15,004	1,397
Other liabilities	782,945	-	-	-	51,233	834,178	804,304
Stated capital	-	-	-	-	11,394,421	11,394,421	11,394,421
Statutory reserves	-	-	-	-	32,386	32,386	26,246
Accumulated losses	-	-	-	-	(374,608)	(374,608)	(236,882)
Other Reserves	-	-	-	-	(28,238)	(28,238)	10,546
Non controlling interest	-	-	-	-	-	-	-
Total non-interest bearing liabilities	797,949	-	-	-	11,075,195	11,873,144	12,000,032
Total liabilities and equity	10,561,389	8,949,380	414,305	2,802,851	11,075,195	33,803,120	32,512,711

46 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, 2018.

	Banking		Treasury/ Investments		Unallocated		Total	
For the year ended 31 December	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Net interest income	1,652,730	1,080,303	376,577	400,354	-	-	2,029,307	1,480,657
Foreign exchange profit	(58,554)	7,791	212,509	66,300	-	-	153,955	74,091
Net fees and commission income	170,640	119,356	(12,582)	(5,723)	-	-	158,058	113,633
Other income	11,856	21,078	3,786	21,860	1,019	485,007	16,661	527,945
Operating income by segment	1,776,672	1,228,528	580,290	482,791	1,019	485,007	2,357,981	2,196,326
Impairment charges	(323,518)	(144,484)	9,581	4,809	-	8,000	(313,937)	(131,675)
Net operating income	1,453,154	1,084,044	589,871	487,600	1,019	493,007	2,044,044	2,064,651
Operating expenses	(1,457,348)	(1,103,205)	(3,527)	(2,590)	-	-	(1,460,875)	(1,105,800)
Depreciation and amortization	(426,583)	163,273	-	-	-	-	(426,583)	163,273
Operating profit by segment	(250,777)	(182,439)	586,344	485,010	1,019	493,007	336,586	795,578
VAT on financial services	-	-	-	-	(175,142)	-	(175,142)	(174,441)
Segment result	(250,777)	(182,439)	586,344	485,010	(174,123)	493,007	161,444	621,137
Income tax expense							(38,639)	(108,278)
Profit for the year							122,805	512,859
Other information								
Segment assets	26,886,846	22,798,637	6,916,274	9,714,074	-	-	33,803,120	32,512,711
Segment liabilities	22,101,631	20,573,989	677,527	744,391	-	-	22,779,158	21,318,380

47 RELATED PARTY DISCLOSURES

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

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.

47.1 Transactions with Key Management Personnel (KMP)

For the year ended 31 December	2018 Rs.'000	2017 Rs.'000
47.1.1 Compensation of directors		
Directors emoluments	16,125	19,658
Short term employee benefits	63,712	28,092
Post employee benefits	7,652	4,140
	87,489	51,890

The remuneration paid to KMP are disclosed under Notes 13 and 15.
In addition to the salaries, company also provides non cash benefits to Key Management Personnel.

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

Close Family Members (CFM) of 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.

As at 31 December	2018 Rs.'000	2017 Rs.'000
47.2.1 Statement of Financial Position		
Assets		
Loans and advances	113	-
Credit cards	1,691	-
Total	1,804	-
Liabilities		
Deposits	249,002	437,706
Total	249,002	437,706
47.2.2 Commitments and contingencies		
Undrawn facilities	5,878	-
Total	5,878	-
47.2.3 Net accomadation as a precentage of the Bank's regulatory capital		
Direct and indirect accomodations	0%	

As at 31 December	2018 Rs. '000	2017 Rs. '000
47.2.4 Income statement		
Interest income	15	-
Interest expense	22,254	22,936
Fee and commission income	42	2
Compensation to KMP	87,489	51,890
	109,800	74,828
47.2.5 Shareholdings of KMP and CFM		
Number of shares		
Shareholding %	1,100,000	1,100,000
	0.12%	0.12%

47.3 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.

As at 31 December	2018 Rs. '000	2017 Rs. '000
47.3.1 Statement of Financial Position		
Assets		
Loans and advances	24	37
Other receivables	48,923	-
Total	48,947	37
Liabilities		
Deposits	1,706,886	2,028,010
Securities sold under repurchase agreements	-	623,000
Other payables	19,502	50,318
Total	1,726,388	2,701,328
47.3.2 Commitments and contingencies		
Off balance sheet	160,636	364,203
Undrawn facilities	108,000	-
Total	268,636	364,203
47.3.3 Net accommodation as a percentage of the Bank's regulatory capital		
Direct and indirect accommodations	0%	

As at 31 December	2018 Rs. '000	2017 Rs. '000
47.3.4 Income statement		
Interest income	-	664
Interest expense	168,330	185,902
Fee and commission income	4,769	649
Fee and commission expense	1,633	-
Rent Expense	66,932	37,306
Other Expense	4,375	67,838
Total	173,099	296,315
47.3.5 Shareholdings of KMP and CFM		
Number of shares		
Shareholding %	574,042,858	574,042,858
	65%	65%

48 NON-CASH ITEMS INCLUDED IN PROFIT BEFORE TAX

	2018 Rs. '000	2017 Rs. '000
Depreciation of property, plant and equipment	134,936	98,329
Amortisation of intangible assets	111,647	64,949
Disposal profit on fixed assets	(249)	(3,750)
Disposal profit on subsidiary	-	(480,657)
Provisions for contingencies	-	(10,000)
Impairment losses on loans and advances	298,161	132,863
Impairment losses on other financial instruments	5,026	(4,809)
Impairment losses on investment in subsidiary	-	(8,000)
Other Income	(11,122)	-
Impairment losses on property, plant & equipment	10,750	9,456
Charge for defined benefit plans	15,508	8,907
	564,657	(192,712)

49 CHANGE IN OPERATING ASSETS

	2018 Rs. '000	2017 Rs. '000
Change in balances with Central Banks	(68,686)	(508,558)
Change in placements with banks	764,000	1,345,463
Change in Derivative financial instruments	1,248	(1,272)
Change in securities purchased under re-sale agreements	-	1,350,759
Change in loans and advances to banks	44,131	114,236
Change in loans and advances to other customers	(3,657,115)	(7,506,385)
Change in debt and other instruments	(526,502)	-
Change in Financial assets at fair value through OCI / AFS	(850,625)	(3,139,875)
Change in deposits and pre payments	52,607	(103,626)
Change in other assets	(53,843)	(154,778)
	(4,294,785)	(8,595,036)

As at 31 December	2018 Rs. '000	2017 Rs. '000

50 CHANGE IN OPERATING LIABILITIES

Change in derivative financial instruments	13,607	(1,518)
Change in deposits from banks, customers and debt securities issued	1,497,768	10,052,061
Change in accruals and deferred income	60,792	58,827
Change in other liabilities	(93,285)	408,532
	1,478,882	10,517,902

51 OPERATING LEASE COMMITMENTS

51.1 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:

As at 31 December	2018 Rs. '000	2017 Rs. '000
Less than one year	84,276	68,077
Between one and five years	379,194	300,809
More than five years	49,429	149,074
Total Operating lease commitments (payables)	512,899	517,960

52 EVENTS AFTER THE REPORTING DATE

No circumstances have arisen since the reporting date which would require adjustments to or disclosure in the Financial Statements.

53 IMPACT ON ADOPTING SLFRS 9 – "FINANCIAL INSTRUMENTS"

53.1 Impact On Adopting SLFRS 9 – "Financial Instruments" on fair value through other Comprehensive Income Reserves and Accumulated Losses

The bank initially adopted SLFRS 9 from 1 January 2018. As permitted by the transitional provision of SLFRS 9, the impact of adopting SLFRS 9 is considered as an adjustment to equity on 1 January 2018, without restating the comparative information.

The following table shows the impact on transition of SLFRS 9 - "Financial Instruments" on fair value through other comprehensive income reserves and accumulated losses as at 1 January 2018.

	Accumulated Losses Rs. '000	Fair value through other comprehensive income reserve Rs. '000
Balance as per LKAS 39 as at 31 December 2017	(236,882)	10,546
Impact on reclassification and remeasurements		
Fair value of unquoted equity securities previously accounted at cost	-	4,962
Impact on recognition of expected credit loss allowance;		
Expected credit loss allowance under SLFRS 9 for		
Cash and cash equivelents	(12,038)	
Financial assets at amortised cost – loans and advances to banks	(221)	
Financial assets at amortised cost – loans and advances other customers	(260,304)	
Financial assets at amortised cost – debt and other instruments	-	
Placements with banks	(9,581)	
Undrawn credit commitments and financial guarantees	(6,497)	
Impact on recognition of deferred tax;		
Deferred tax on fair value through other comprehensive income	-	(1,390)
Deferred tax on expected credit loss allowance	38,704	-
Total impact on adopting SLFRS 9 "Financial Instruments"	(249,937)	3,572
Balance as per SLFRS 9 as at 1 January 2018	(486,819)	14,118

53.2 Classification of financial assets and financial liabilities on the date of initial application of SLFRS 9

The following table shows the original measurement categories in accordance with LKAS 39 and the new measurement categories under SLFRS 9 for the Bank's financial assets and financial liabilities as at 1 January 2018.

As permitted by the transitional provision, the re-measurement impact of adopting SLFRS 9 is considered as an adjustment on 1 January 2018, without restating the comparative information.

Financial instrument	Note	Classification Based on LKAS 39	Classification Based on SLFRS 9	Carrying amount as at 31 December 2017 based on LKAS 39 Rs.'000	Remeasurement Rs.'000	Carrying amount as at 1 January 2018 based on SLFRS 9 Rs.'000
Financial Assets						
Cash and cash equivalents	21	L&R	Amortized cost	2,805,145	(12,038)	2,793,107
Balances with Central Bank of Sri Lanka	22	L&R	Amortized cost	925,719	-	925,719
Placements with Banks	23	L&R	Amortized cost	1,916,178	(9,581)	1,906,597
Derivative financial instruments	24	FVTPL	FVTPL	1,272	-	1,272
Financial assets measured at Amortized costs - Loans and Advances						
Loans & Advances to Banks	25	L&R	Amortized cost	44,131	(221)	43,910
Loans & Advances to other customers	26	L&R	Amortized cost	20,797,560	(260,304)	20,537,256
Financial assets measured at fair value through other comprehensive income/ Available for sale	28					
Government securities -Treasury bills		AFS	FVOCI	4,225,307	-	4,225,307
Government securities -Treasury bonds		AFS	FVOCI	520,222	-	520,222
Unquoted equity shares		AFS	FVOCI	5,883	-	5,883
Financial Liabilities						
Due to banks	33	Amortized cost	Amortized cost	961,253	-	961,253
Derivative financial instruments	34	FVTPL	FVTPL	1,397	-	1,397
Financial liabilities at amortized cost - Due to depositors	35	Amortized cost	Amortized cost	18,808,432	-	18,808,432
Financial liabilities at amortized cost - Due to other borrowers	36	Amortized cost	Amortized cost	742,994	-	742,994
Other liabilities		Amortized cost	Amortized cost	787,849	6,497	794,346

The following reconciles the carrying amounts of financial assets as per LKAS 39 to the carrying amounts as per SLFRS 9 on transition to SLFRS 9 on 1 January 2018.

a. Cash and cash equivalents

Under LKAS 39, cash and cash equivalents were categorised as loans and receivables and measured at amortised cost. These assets are classified as financial assets measured at amortised cost under SLFRS 9. as per SLFRS 9, financial assets measured at amortised cost are subject to expected credit loss. Therefore Bank has recognised 12 months expected credit losses for nostro balances and call money balance.

Carrying amount as at 31 December 2017 based on LKAS 39	2,805,145
Remeasurement: Expected credit loss allowance for nostro and call money balances	(12,038)
Carrying amount as at 1 January 2018 based on SLFRS 9	2,793,107

b. Placements with banks and finance companies

Under LKAS 39, placements with banks and finance companies were categorised as loans and receivables and measured at amortised cost. These assets are classified as financial assets measured at amortised cost under SLFRS 9. As per SLFRS 9, financial assets measured at amortised cost are subject to expected credit loss. Therefore bank has recognised 12 months expected credit losses for placements with banks.

Carrying amount as at 31 December 2017 based on LKAS 39	1,916,178
Remeasurement: Expected credit loss allowance for placements with banks	(9,581)
Carrying amount as at 1 January 2018 based on SLFRS 9	1,906,597

c. Financial assets at amortised cost – loans and advances to banks

Under LKAS 39, loans and advances were categorised as loans and receivables and measured at amortised cost. These assets are classified as financial assets measured at amortised cost under SLFRS 9. As per SLFRS 9, financial assets measured at amortised cost are subject to expected credit loss. Therefore bank has recognised expected credit losses for loans and advances.

Carrying amount as at 31 December 2017 based on LKAS 39	44,131
Remeasurement: Expected credit loss allowance for loans and advances	(221)
Carrying amount as at 1 January 2018 based on SLFRS 9	43,910

c. Financial assets at amortised cost – loans and advances to other cutomers

Under LKAS 39, loans and advances were categorised as loans and receivables and measured at amortised cost. These assets are classified as financial assets measured at amortised cost under SLFRS 9. As per SLFRS 9, financial assets measured at amortised cost are subject to expected credit loss. Therefore bank has recognised expected credit losses for loans and advances.

Carrying amount as at 31 December 2017 based on LKAS 39	20,797,560
Remeasurement: Expected credit loss allowance for loans and advances	(260,304)
Carrying amount as at 1 January 2018 based on SLFRS 9	20,537,256

d. Other financial liabilities

The Bank recognised expected credit loss on undrawn credit commitments and financial guarantees in accordance with SLFRS 9

Carrying amount as at 31 December 2017 based on LKAS 39	787,849
Remeasurement: Expected credit loss allowance for undrawn credit commitments and financial guarantees	6,497
Carrying amount as at 1 January 2018 based on SLFRS 9	749,346

54 "FINANCIAL RISK MANAGEMENT"

54.1 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.

54.2 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.

54.2.1 Credit quality analysis

As at 31 December			2018		2017
	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000	Total Rs. '000
Financial assets at amortised cost : loans and advances					
Grade 0 – 2 performing loans	18,458,332	4,644,834	22,354	23,125,520	20,268,063
Grade 3: NPA special mention			1,015,166	1,015,166	644,460
Grade 4: NPA substandard			406,815	406,815	52,160
Grade 5: NPA doubtful			56,896	56,896	9,260
Grade 6: NPA loss			120,304	120,304	93,643
Total gross loans and advances	18,458,332	4,644,834	1,621,535	24,724,701	21,067,586
Expected credit loss allowance/impairments	(172,103)	(226,003)	(409,198)	(807,304)	(270,026)
Total net loans and advances	18,286,229	4,418,831	1,212,337	23,917,397	20,797,560
Financial assets at amortised cost : debt and other instruments					
Sri Lanka Development bonds	376,176	-	-	376,176	-
Trust Certificates	150,326	-	-	150,326	-
Total debt and other instruments	526,502	-	-	526,502	-
Expected credit loss allowance/impairments	(2,500)	-	-	(2,500)	-
Net debt and other instruments	524,002	-	-	524,002	-

54.2.1 Credit quality analysis Contd.

As at 31 December	2018				2017
	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000	Total Rs. '000
Cash and cash equivalents (balances with Banks)					
Balances with Local Banks	19,836	-	-	19,836	31,149
Balances with Foreign Banks	354,570	-	-	354,570	2,088,345
Money at call and short notice	278,183	-	-	278,183	288,563
Total balances with Banks	652,589	-	-	652,589	2,408,057
Expected credit loss allowance	(3,067)	-	-	(3,067)	(10,597)
Net balances with Banks	649,522	-	-	649,522	2,397,460

Measurement of expected credit losses (ECL)

Inputs, assumptions and techniques used for estimating impairment under SLFRS 9 is disclosed under accounting policies note 3.2.5

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information. The Bank uses a backstop of 30 days past due for determining whether there is a significant increase in credit risk.

Incorporation of forward looking Information

The bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.
The bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables and credit risk and credit losses.
The key drivers for credit risk are GDP growth, unemployment rates, inflation, exchange rates and interest rates.
The bank formulates multiple economic scenarios to reflect base case, best case and worst case.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following
Variables:
Probability of default (PD);
Loss given default (LGD); and
Exposure at default (EAD).

ECL for exposures in stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD. LGD is the magnitude of the likely loss if there is a default. The bank used 45% of LGD in absence of history of recovery rates.

EAD represents the expected exposure in the event of a default. The bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract. The Bank used credit conversion factors mentioned in the regulatory guidelines. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are Banked on the basis of shared risk characteristics.

The Bankings are subject to regular review to ensure that exposures within a particular Bank remain appropriately homogeneous.

Management overlay and post model adjustments

Techniques used to compute impairment amounts, use models which analyze historical repayment and default rates over a time horizon. Where various models are used, judgment is required to analyze the available information provided and select the appropriate model or combination of models to use. Expert credit judgment is also applied to determine whether any post-model adjustments are required for credit risk elements which are not captured by the models.

The operation of the Bank was commenced during the year ended 31st December 2014 and bank had only 2 years of historical default data for majority of its products as at the date of the transition to SLFRS 9. Accordingly, in order to address the limitations in the banks impairment model due to short historical input data, the bank made a management overlay adjustment (maturity adjustment) to the ECL model by using average provisioning cover of three peer banks with matured portfolios. Such adjustment resulted in recognition of additional expected credit loss of Rs. 222 Mn as at the date of the transition. In the absence of observable proxy probability of defaults of peer banks, such approach is expected to address the requirement of applying a proxy probability of defaults as per the circular No. 04 of 2018 issued by Central Bank of Sri Lanka.

Limitations in the Bank's impairment models or input data may be identified through the on-going assessment and validation of the output of the models. In these circumstances, management make appropriate adjustments to the Bank's allowance for impairment losses. These adjustments are generally modelled taking into account the particular attributes of the exposure which have not been adequately captured by the primary impairment models. As at 31st December 2018, post-model adjustment was made to the management overlay adjustment (maturity adjustment) recognized as at 31st December 2017 to reflect the loss experience relative to the increase in portfolio maturity from 31st December 2017 to 31st December 2018.

Collateral held and other Credit enhancement

The bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are updated regularly. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities.

54.2.3 Concentrations of Credit Risk

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

The maximum exposure to credit risk to the components of financial assets in the Statement of Financial Position as at 31 December 2018, broken down by industry sector financial assets are given below:

As at 31 December 2018	Agriculture & fishing	Manufacturing	Tourism	Transport	Construction	Traders	New economy	Financial & business services	Government	Infrastructure	Other services	Other customers	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets													
Cash and cash equivalents	-	-	-	-	-	-	-	1,234,721	-	-	-	-	1,234,721
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-	-	994,405	-	-	-	994,405
Derivative financial instruments	-	-	-	-	-	-	-	24	-	-	-	-	24
Financial assets at Amortized costs- Loans & Advances to other customers	2,186,271	1,971,496	1,854,625	359,463	3,880,984	4,981,424	315,270	2,536,040	-	31,081	1,265,145	5,342,902	24,724,701
Financial assets at Amortized costs Debt and other Instruments	-	-	-	-	-	-	-	150,326	376,176	-	-	-	526,502
Financial assets - measured at fair value through other comprehensive income / Available for sale	-	-	-	-	-	-	-	11,896	5,536,273	-	-	-	5,548,169
Total	2,186,271	1,971,496	1,854,625	359,463	3,880,984	4,981,424	315,270	3,933,008	6,906,854	31,081	1,265,145	5,342,902	33,028,523

As at 31 December 2017	Agriculture & fishing	Manufacturing	Tourism	Transport	Construction	Traders	New economy	Financial & business services	Government	Infrastructure	Other services	Other customers	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets													
Cash and cash equivalents	-	-	-	-	-	-	-	2,805,145	-	-	-	-	2,805,145
Balance with Central Bank of Sri Lanka	-	-	-	-	-	-	-	-	925,719	-	-	-	925,719
Placements with banks	-	-	-	-	-	-	-	1,916,177	-	-	-	-	1,916,177
Derivative financial instruments	-	-	-	-	-	-	-	1,272	-	-	-	-	1,272
Financial assets at amortized costs- Loans & Advances to banks	-	-	-	-	-	-	-	44,131	-	-	-	-	44,131
Financial assets at amortized costs- Loans & Advances 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	20,797,559
Financial assets measured at fair value through other comprehensive income / 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

(*) Industry wise loans and receivables appearing in the Note 26.1.3 on page 121 do not agree due to the impairment.

54.3 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.

54.3.1 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	2018 %	2017 %
As at 31 December	23.34	43.99
Average for the period	32.26	44.82
Maximum for the period	43.81	67.12
Minimum for the period	23.34	36.98
Statutory minimum requirement	20.00	20.00

As at 31 December Break up of liquid assets	2018 Rs. '000	2017 Rs. '000
Cash	544,290	374,467
Money at call in Sri Lanka	-	2,864,491
Treasury Bills and Securities issued or guaranteed by the government of Sri Lanka	1,724,768	4,226,848
Balances with licensed commercial banks	74,959	-
Balances with banks abroad	273,661	797,633
Treasury Bonds	2,708,786	-
Sri Lanka Development bonds	365,860	-
Total	5,692,324	8,263,439

54.3.2 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 2018

	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-18 Rs. '000	Total as at 31-Dec-17 Rs. '000
Interest earning assets							
Cash and cash equivalents	276,792	-	-	-	-	276,792	288,563
Placements with Banks	-	-	-	-	-	-	1,916,177
Derivative financial instruments	24	-	-	-	-	24	1,272
Financial assets at Amortized costs -Loans & Advances to Banks	-	-	-	-	-	-	44,131
Financial assets at Amortized costs - Loans & Advances to other customers	11,068,578	3,146,247	5,338,994	2,668,473	1,695,105	23,917,397	20,797,560
Financial assets at Amortized costs - Debt and other Instruments	10,315	42,738	470,949	-	-	524,002	-
Financial assets -measured at fair value through other comprehensive income / Available for sale	84,236	4,535,876	916,161	-	-	5,536,273	4,745,529
Total interest earning assets	11,439,945	7,724,861	6,726,104	2,668,473	1,695,105	30,254,488	27,793,232
Non-interest earning assets	1,974,369	441,230	15,458	139,830	974,419	3,548,632	4,719,479
Total assets	13,414,315	8,166,091	6,741,562	2,808,303	2,669,524	33,803,120	32,512,711
Interest bearing liabilities							
Due to banks	1,137,319	118,274	104,917	4,202	-	1,364,712	961,253
Derivative financial instruments	15,004	-	-	-	-	15,004	-
Financial assets at Amortized costs - Due to other customers	7,963,598	8,831,106	309,388	2,798,649	-	19,902,741	18,808,432
Financial assets at Amortized costs - Due to other borrowers	662,523	-	-	-	-	662,523	742,994
Total interest bearing liabilities	9,778,444	8,949,380	414,305	2,802,851	-	21,944,980	20,512,679
Non-interest bearing liabilities	782,945	-	-	-	11,075,195	11,858,140	12,000,032
Total liabilities	10,561,389	8,949,380	414,305	2,802,851	11,075,195	33,803,120	32,512,711

54.4 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 Bank's market risk management is to manage and control market risk exposures within acceptable levels in order to ensure the Bank's solvency while maximizing the returns.

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

54.4.1 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		2018			2017		
		Market Risk Measurement			Market Risk Measurement		
	Note	Carrying Amount Rs. '000	Trading Portfolios Rs. '000	Non-Trading Portfolios Rs. '000	Carrying Amount Rs. '000	Trading Portfolios Rs. '000	Non-Trading Portfolios Rs. '000
Assets Subject to Market Risk							
Cash and cash equivalents	21	278,183	-	278,183	288,563	-	288,563
Placements with banks	23	-	-	-	1,916,177	-	1,916,177
Derivative financial instruments	24	24	24	-	1,272	1,272	-
Financial assets at Amortized costs -Loans & Advances to Banks	25	-	-	-	44,131	-	44,131
Financial assets at Amortized costs - Loans & Advances to other customers	26	23,917,397	-	23,917,397	20,797,560	-	20,797,560
Financial assets -measured at fair value through other comprehensive income / Available for sale	28	5,548,169	-	5,548,169	4,751,412	-	4,751,412
		29,743,773	24	29,743,749	27,799,115	1,272	27,797,843
Liabilities Subject to Market Risk							
Due to banks	33	1,364,712	-	1,364,712	961,253	-	961,253
Derivative financial liabilities	34	15,004	15,004	-	1,397	1,397	-
Financial assets at Amortized costs Due to other customers	35	19,902,741	-	19,902,741	18,808,432	-	18,808,432
Financial assets at Amortized costs Due to other Borrowers		662,523	-	662,523	742,994	-	742,994
		21,944,980	15,004	21,929,976	20,514,076	1,397	20,512,679

54.4.2 Exposure to interest rate risk– Sensitivity Analysis

54.4.2 (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 2018	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 31.12.2018 Rs. '000
Financial Assets							
Cash and Cash Equivalents	276,792	-	-	-	-	954,863	1,231,655
Balance with central banks	-	-	-	-	-	994,405	994,405
Placements with banks	-	-	-	-	-	-	-
Derivative financial instruments	24	-	-	-	-	-	24
Financial assets at Amortized costs -Loans & Advances to Banks	-	-	-	-	-	-	-
Financial assets at Amortized costs - Loans & Advances to other customers	18,950,593	4,270,240	289,484	132,530	51,184	223,366	23,917,397
Financial assets at Amortized costs - Debt and other Instruments	9,565	42,738	471,699	-	-	-	524,002
Financial assets -measured at fair value through other comprehensive income / Available for sale	84,236	4,535,876	-	916,161	-	11,896	5,548,169
Other assets	-	-	-	-	-	456,170	456,170
Total Financial Assets	19,321,211	8,848,854	761,183	1,048,691	51,184	2,640,699	32,671,821
Financial Liabilities							
Due to banks	1,117,930	118,274	104,917	4,202	-	19,389	1,364,712
Derivative Financial Instruments	15,004	-	-	-	-	-	15,004
Financial assets at Amortized costs Due to other customers	6,684,626	8,503,503	296,237	2,494,190	-	1,924,185	19,902,741
Financial assets at Amortized costs Due to other Borrowers	662,523	-	-	-	-	-	662,523
Other liabilities	-	-	-	-	-	782,945	782,945
Total Financial Liabilities	8,480,083	8,621,777	401,154	2,498,392	-	2,726,519	22,727,925
Interest rate sensitivity gap	10,841,128	227,077	360,029	(1,449,701)	51,184	(85,820)	9,943,896
1% increase	108,411	2,271	3,600	(14,497)	512	-	100,297
1% decrease	(108,411)	(2,271)	(3,600)	14,497	(512)	-	(100,297)

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 Rs. '000
Financial Assets							
Cash and Cash Equivalents	288,563	-	-	-	-	2,516,583	2,805,146
Balance with central banks	-	-	-	-	-	925,719	925,719
Placements with banks	1,916,177	-	-	-	-	-	1,916,177
Derivative financial instruments	1,272	-	-	-	-	-	1,272
Financial assets at Amortized costs -Loans & Advances to Banks	44,131	-	-	-	-	-	44,131
Financial assets at Amortized costs - Loans & Advances to other customers	18,526,693	2,270,867	-	-	-	-	20,797,560
Financial assets -measured at fair value through other comprehensive income / 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	31,380,588
Financial Liabilities							
Due to banks	625,420	-	304,224	31,609	-	-	961,253
Derivative Financial Instruments	1,397	-	-	-	-	-	1,397
Financial liabilities at Amortized costs due to other customers	9,057,103	7,353,923	111,026	1,775,303	-	511,077	18,808,432
Financial liabilities at Amortized costs due to other borrowers	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	(807,403)	54,625	(1,806,912)	-	2,684,874	10,475,106
1% increase	103,499	(8,074)	546	(18,069)	-	-	77,902
1% decrease	(103,499)	8,074	(546)	18,069	-	-	(77,902)

As at 31 December	2018 Rs.'000	2017 Rs.'000

54.4.2 (b)Exposure to interest rate risk

Savings deposits	2,299,220	3,574,500
Time deposits	15,620,818	13,958,390
Certificate of deposits	860,905	764,467
Total	18,780,943	18,297,357

54.4.3 Exposure to currency risk

As at 31 December	2018 Rs.'000	2017 Rs.'000
Foreign exchange position - USD	1,968,343	1,630,259
Foreign exchange position - AUD	3,964	3,355
Foreign exchange position - AED	-	500
Foreign exchange position - EUR	(15,711)	(912)
Foreign exchange position - THB	(5,640)	1,000
Foreign exchange position - SGD	173	2,306
Foreign exchange position - GBP	(21)	(1,279)
Foreign exchange position - JPY	1,396,703	415,871
Foreign exchange position - CAD	200	1,320
Foreign exchange position - ZAR	-	7,500
Foreign exchange position - CHF	-	500
Foreign exchange position - KWD	85	85
Foreign exchange position - CNY	-	300
Foreign exchange position - MYR	1,000	10
Foreign exchange position - QAR	1,750	-
Foreign exchange position - INR	21,038	-

54.5 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.

54.6 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.

54.7 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 5.75% with common equity 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	2018 Rs. '000	2017 Rs. '000
Common Equity Tier1 (CET 1) Capital		
Paid-up ordinary shares/Common stock/Assigned capital++	11,394,421	11,394,421
Statutory reserve fund	32,386	26,246
Published retained profits/(accumulated losses)(+/-)	(374,608)	(236,882)
General and other reserves	(28,238)	10,546
Minority interests (consistent with the above capital constituents)	-	-
	11,023,962	11,194,331
Deductions/Adjustments		
Net Deferred Tax Assets	168,776	139,752
Other intangible assets	474,374	340,493
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	-	-
50% Investments in the capital of other banks and financial institutions	-	-
Total Tier 1 Capital	10,380,812	10,714,086
Tier II Capital		
Revaluation reserves (as approved by Central Bank of Sri Lanka)	-	-
General provisions	117,790	114,295
Approved subordinated term debt	-	-
Deductions/Adjustments		
50% of investments in unconsolidated banking and financial subsidiary companies	-	-
50% investments in the capital of other banks and financial institutions	-	-
Total Tier II Capital	117,790	114,295
Total Capital	10,489,496	10,828,381
Capital Adequacy ratios		
Common Equity Tier 1 Capital Ratio	32.27	34.4
Tier 1 Capital Ratio	32.27	34.4
Total Capital Ratio	32.62	34.77

SUPPLEMENTARY INFORMATION

BASEL III - MARKET DISCIPLINE - MINIMUM DISCLOSURE REQUIREMENT UNDER PILLAR 3 AS PER THE BANKING ACT DIRECTION NO. 1 OF 2016.

TEMPLATE 01

Key Regulatory Ratios – Capital and Liquidity

Item	31-Dec-18	31-Dec-17
Regulatory Capital (LKR '000)		
Common Equity Tier 1	10,380,811	10,714,086
Tier 1 Capital	10,380,811	10,714,086
Total Capital	10,865,272	10,828,381
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio (Minimum Requirement – 6.375)		
Tier 1 Capital Ratio (Minimum Requirement – 7.875)	31.289	34.398
Total Capital Ratio (Minimum Requirement – 11.875)	32.749	34.765
Leverage Ratio (Minimum Requirement - 3)	-	-
Regulatory Liquidity		
Statutory Liquid Assets (LKR '000)	5,692,324	8,263,439
Statutory Liquid Ratio (Minimum Requirement – 20)		
Domestic Banking Unit (%)	23.34	43.99
Off-Shore Banking Unit (%)	54.61	4,150
Liquidity Coverage Ratio (%) – Rupee (Minimum Requirement – 90)	195.01	375.29
Liquidity Coverage Ratio (%) – All Currency (Minimum Requirement – 90)	151.04	295.48

TEMPLATE 02

Basel III Computation of Capital Ratios

Item	Amount (LKR '000) 31-Dec-18	31-Dec-17
Common Equity Tier 1 (CET1) Capital after Adjustment	10,380,811	10,714,086
Common Equity Tier 1 (CET1) Capital	11,023,961	11,194,331
Equity Capital (Stated Capital)/ Assigned Capital	11,394,421	11,394,421
Reserve Fund	32,386	26,246
Published Retained Earnings/ (Accumulated Retained Losses)	(374,608)	(236,882)
Published Accumulated Other Comprehensive Income (OCI)	(28,238)	10,546
General and other Disclosed Reserves	-	-
Unpublished Current Year's Profit/Loss and Gains reflected in OCI	-	-
Ordinary Shares issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to CET1 Capital	643,150	480,245
Goodwill (net)	-	-
Intangible Assets (net)	474,373	340,493
Others (specify) – Deferred tax asset	168,776	139,752
Additional Tier 1 (AT1) Capital after Adjustments	-	-
Additional Tier 1 (AT1) 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	-	-
Others (Specify)	-	-
Tier 2 Capital after Adjustments	484,446	114,295
Tier 2 Capital	484,446	114,295
Qualifying Tier 2 Capital Instruments	-	-
Revaluation Gains	-	-
Loan Loss Provisions	484,446	114,295
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to Tier 2	-	-
Investment in Own Shares	-	-
Others (Specify)	-	-
CET1 Capital	11,023,961	11,194,331
Total Tier 1 Capital	10,380,811	10,714,086
Total Capital	10,865,272	10,828,381

Item	Amount (LKR '000)	
	31-Dec-18	31-Dec-17
Total Risk Weighted Assets (RWA)		
RWAs for Credit Risk	**29,983,494**	28,734,861
RWAs for Market Risk	**1,006,855**	795,556
RWAs for Operational Risk	**2,187,309**	1,617,289
CET1 Capital Ratio (Including Capital Conservative Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)		
Of which: Capital Conservative Buffer (%)	-	-
Of which: Countercyclical Buffer (%)	-	-
Of which: Capital Surcharge on D-SIBs (%)	-	-
Total Tier 1 Capital Ratio	**31.289**	34.398
Total Capital Ratio (Including Capital Conservative Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)		
Of which: Capital Conservative Buffer (%)	-	-
Of which: Countercyclical Buffer (%)	-	-
Of which: Capital Surcharge on D-SIBs (%)	-	-

TEMPLATE 04

Basel III Computation of Liquidity Coverage Ratio (Rupee)

Item	Amount (LKR '000)			
	31-Dec-18		31-Dec-17	
	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
Total Stock of High Quality Liquid Assets (HQLA)	5,246,066	5,246,066	4,361,907	4,361,907
Total Adjusted Level 1 Assets	5,223,555	5,223,555	4,363,537	4,363,537
Level 1 Assets	5,246,066	5,246,066	4,361,907	4,361,907
Total Adjusted Level 2A Assets	-	-	-	-
Level 2 Assets	-	-	-	-
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	28,803,572	5,143,423	32,185,379	3,623,382
Deposits	12,869,886	1,286,989	9,965,540	996,554
Unsecured Wholesale Funding	5,485,396	2,652,821	3,886,320	2,023,509
Secured Funding Transactions	-	-	741,555	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	10,448,290	1,203,613	17,591,964	603,319
Additional Requirements	-	-	-	-
Total Cash Inflows	3,524,552	2,453,285	3,661,430	2,461,099
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	3,524,552	2,453,285	3,661,430	2,461,099
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		195.01		375.29

TEMPLATE 04

Basel III Computation of Liquidity Coverage Ratio (All Currency)

Item	Amount (LKR '000)			
	31-Dec-18		31-Dec-17	
	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
Total Stock of High Quality Liquid Assets (HQLA)	5,637,324	5,637,324	4,384,777	4,384,777
Total Adjusted Level 1 Assets	5,614,813	5,614,813	4,386,407	4,386,407
Level 1 Assets	5,637,324	5,637,324	4,384,777	4,384,777
Total Adjusted Level 2A Assets	-	-	-	-
Level 2 Assets	-	-	-	-
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	36,914,472	6,410,896	36,660,715	3,623,382
Deposits	13,325,825	1,332,583	12,312,184	996,554
Unsecured Wholesale Funding	6,911,302	3,836,320	6,015,012	2,023,509
Secured Funding Transactions	-	-	741,555	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	16,677,345	1,241,993	17,591,964	603,319
Additional Requirements	-	-	-	-
Total Cash Inflows	4,312,902	2,678,461	6,324,242	5,035,893
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	3,958,332	2,678,461	6,324,242	5,035,893
Operational Deposits	354,570.00	-	-	-
Other Cash Inflows	-	-	-	-
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/ Total Net Cash Outflows over the Next 30 Calendar Days) * 100		151.04		295.48

TEMPLATE 07

Credit Risk under Standardised Approach – Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

	Amount (LKR '000) as at 31 December 2018					
	Exposure before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA & RWA Density (%)	
Asset Class	On-Balance Sheet Amount	Off-Balance Sheet Amount	On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density
Claims on Central Government and CBSL	6,917,000	-	74,885	-	74,885	1.08%
Claims on Foreign Sovereigns and Their Central Banks	-	-	-	-	-	0.00%
Claims on Public Sector Entities	-	-	-	-	-	0.00%
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	0.00%
Claims on Banks Exposures	372,730	846,550	313,768	11,316	325,084	26.66%
Claims on Financial Institutions	2,962,408	116,893	1,767,010	116,893	1,883,903	61.18%
Claims on Corporates	7,143,907	5,733,719	7,143,907	4,627,873	11,771,780	91.41%
Retail Claims	11,647,106	661,806	11,647,106	484,610	12,131,716	98.56%
Claims Secured by Residential Property	1,159,468	-	1,004,316	-	1,154,563	99.58%
Claims Secured by Commercial Real Estate	-	-	-	-	-	0.00%
Non-Performing Assets (NPAs)	1,193,268	-	1,847,486	-	1,697,239	142.23%
High-risk Categories	-	-	-	-	-	0.00%
Cash Items and Other Assets	1,526,456	-	944,324	-	944,324	61.86%
Total	32,922,343	7,358,968	24,742,802	5,240,692	29,983,494	74.44%

TEMPLATE 08

Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights

	Amount (LKR '000) as at 31 December 2018 (Post CCF and CRM)							
Risk Weight	0%	20%	50%	75%	100%	150%	>150%	Total Credit Exposure Amount
Asset Classes								
Claims on Central Government and CBSL	6,542,574	374,426	-	-	-	-	-	6,917,000
Claims on Foreign Sovereigns and Their Central Banks	-	-	-		-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-	-	-
Claims on Banks Exposures	-	76,188	7,254	-	306,219	-	-	389,661
Claims on Financial Institutions	-	276,792	1,947,928	-	854,581	-	-	3,079,301
Claims on Corporates	-	-	884,533	-	11,329,513	-	-	12,214,046
Retail Claims	-	-	-	-	12,131,716	-	-	12,131,716
Claims Secured by Residential Property	-	-	-	-	1,004,316	-	-	1,004,316
Claims Secured by Commercial Real Estate	-	-	-	-	-	-	-	-
Non-Performing Assets (NPAs)	-	-	9,810	-	330,668	1,007,942		1,348,420
High-risk Categories	-	-	-	-	-	-	-	-
Cash Items and Other Assets	582,132	-	-	-	944,324	-	-	1,526,456
Total	7,124,706	727,406	2,849,525	-	26,901,337	1,007,942	-	38,610,916

TEMPLATE 09

Market Risk under Standardised Measurement Method

Item	RWA Amount (LKR' 000) As at 31 December 2018
(a) RWA for Interest Rate Risk	1,006,855
General Interest Rate Risk	
i. Net Long or Short Position	69,600
ii. Horizontal Disallowance	-
iii. Vertical Disallowance	-
iv. Options	-
Specific Interest Rate Risk	-
(b) RWA for Equity	-
i. General Equity Risk	-
ii. Specific Equity Risk	-
(c) RWA for Foreign Exchange & Gold	49,964
Capital Charge for Market Risk [(a) + (b) + (c)] * CAR	119,564

TEMPLATE 10

Operational Risk under Basic Indicator Approach/ The Standardised Approach/ The Alternative Standardised Approach

Business Lines	Capital Charge Factor	Fixed Factor	Gross Income		
			1st Year	2nd Year	3rd Year
Basic Indicator Approach	15%		2,408,011	1,689,769	1,097,071
The Standardised Approach			-	-	-
Corporate Finance	18%		-	-	-
Trading and Sales	18%		-	-	-
Payment and Settlement	18%		-	-	-
Agency Services	15%		-	-	-
Asset Management	12%		-	-	-
Retail Brokerage	12%		-	-	-
Retail Banking	12%		-	-	-
Commercial Banking	15%		-	-	-
The Alternative Standardised Approach			-	-	-
Corporate Finance	18%		-	-	-
Trading and Sales	18%		-	-	-
Payment and Settlement	18%		-	-	-
Agency Services	15%		-	-	-
Asset Management	12%		-	-	-
Retail Brokerage	12%		-	-	-
Retail Banking	12%	0.035	-	-	-
Commercial Banking	15%	0.035	-	-	-
Capital Charge for Operational Risk (LKR' 000)					
The Basic Indicator Approach	259,743				
The Standardised Approach	-				
The Alternative Standardised Approach	-				
Risk Weighted Amount for Operational Risk (LKR '000)					
The Basic Indicator Approach	2,187,309				
The Standardised Approach	-				
The Alternative Standardised Approach	-				

TEMPLATE 11

Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories - Bank Only

Item	Amount (LKR '000) as at 31 December 2018				
	a Carrying Values as Reported in Published Financial Statements	b Values under Scope of Regulatory Reporting	c Credit Risk Framework	d Market Risk Framework	e Capital Requirements or Subject to Deduction from Capital
Assets					
Cash and Cash Equivalents					
Balances with Central Banks	1,231,655	582,132	582,132		
Placements with Banks	994,405	994,405	994,405		
Derivative Financial Instruments	-	372,730	372,730		
Financial Assets Designated at Fair Value through Profit or Loss	24	24		24	
Loans and Receivables to Banks	-	-			
Loans and Receivables to Other Customers	-	-			
Financial Investments - Available-For-Sale	23,917,397	23,917,387	23,917,387		13,620,493
Financial Investments - Held-To-Maturity	5,548,169	5,548,169	5,548,169	5,548,169	
Investments in Subsidiaries	524,002	800,794	800,794	-	
Investments in Associates and Joint Ventures	-	-			
Property, Plant and Equipment	-	-			
Investment Properties	488,148	962,520	962,520		
Goodwill and Intangible Assets	-	-			
Deferred Tax Assets	474,374	-			
Other Assets	168,776	168,776			
Liabilities					
Due to Banks	456,169	456,178	456,178		
Derivative Financial Instruments	1,364,712	198,197			
Other Financial Liabilities Held-For-Trading	15,004	15,004			
Financial Liabilities Designated at Fair Value Through Profit or Loss	-	-			
Due to Other Customers	-	-			
Other Borrowings	19,902,741	19,704,534			
Debt Securities Issued	662,523	2,027,235			
Current Tax Liabilities	-	-			
Deferred Tax Liabilities	-	-			
Other Provisions	-	-			
Other Liabilities	51,233	51,233			
Due to Subsidiaries	782,945	782,962			
Subordinated Term Debts	-	-			

Item	Amount (LKR '000) as at 31 December 2018				
	a Carrying Values as Reported in Published Financial Statements	b Values under Scope of Regulatory Reporting	c Credit Risk Framework	d Market Risk Framework	e Capital Requirements or Subject to Deduction from Capital
Off-Balance Sheet Liabilities	-	-			
Guarantees					
Performance Bonds	5,614,445	5,614,445	5,614,445		
Letters of Credit	-	-			
Other Contingent Items	898,000	898,000	898,000		
Undrawn Loan Commitments	1,162,196	1,162,196	1,162,196		
Other Commitments	10,164,901	10,164,901	10,164,901		
Shareholders' Equity	52,135	52,135			
Equity Capital (Stated Capital)/Assigned Capital					
of which Amount Eligible for CET1	11,394,421	11,394,421			
of which Amount Eligible for AT1	11,394,421	11,394,421			
Retained Earnings	11,394,421	11,394,421			
Accumulated Other Comprehensive Income	(374,608)	(374,608)			
Other Reserves	(28,238)	(28,238)			
Total Shareholders' Equity	32,386	32,386			
	11,023,962	11,023,961			

INVESTOR RELATIONS

TOP 23 SHAREHOLDERS

As at 31 December		2018		2017	
No	Shareholder Name	Shareholding	Ratio	Shareholding	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.	Softlogic Life Insurance PLC *(Formerly known as Asian Alliance Insurance PLC)*	26,600,000	3.01%	26,600,000	3.01%
7.	MAS Amaliya (Pvt) Limited	22,000,000	2.49%	-	-
	MAS Capital (Private) Limited	-	-	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.	Ishara Chinthaka Nanayakkara	4,400,000	0.50%	-	-
	Rajah Mahinda Nanayakkara			4,400,000	0.50%
23.	Lalan Rubber Holdings (Pvt) Ltd	4,400,000	0.50%	4,400,000	0.50%
		847,831,858	96.01%	847,831,858	96.01%
	Others	35,311,000	3.99%	35,311,000	3.99%
	Total No. of Shares Issued	883,142,858	100.00%	883,142,858	100.00%

*No voting rights will be exercised by Cargills (Ceylon) PLC and C T Holdings PLC on any shares held in excess of 30% of the issued capital of the Bank carrying voting rights.

COMPOSITION OF SHAREHOLDERS

As at 31 December	2018		2017	
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%	10,260,000	1.16%
Shares held by Institutions	232,140,000	26.29%	232,140,000	26.29%
Balance held by Public	63,400,000	7.18%	63,400,000	7.18%
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 MEETING

NOTICE IS HEREBY GIVEN THAT the Seventh Annual General Meeting of Cargills Bank Limited will be held on 26th April 2019 at 2.30 p.m. at the Sri Lanka Foundation, No. 100, Padanama Mawatha, Independence Square, Colombo 07, for the following purposes;

1. To receive and consider the Annual Report of the Directors and Statement of Audited Accounts for the year ended 31st December 2018 with report of the Auditors thereon.
2. To re-elect as a Director Mr. Ranjit Page who retires by rotation in terms of Article 86 of the Articles of Association of the Bank.
3. To re-elect as a Director Mr. Richard Ebell who retires by rotation in terms of Article 86 of the Articles of Association of the Bank.
4. To re-appoint Mrs. Ruvini Fernando in terms of Article 92 of the Articles of Association of the Bank.
5. To re- appoint Dr. (Mrs.) Dushni Weerakoon in terms of Article 92 of the Articles of Association of the Bank.
6. To re-appoint M/s KPMG, Chartered Accountants as Auditors of the Bank for the ensuing financial year at a remuneration to be determined by the Directors.

By Order of the Board

Amendra de Silva

Ms. Amendra de Silva
Company Secretary

29th March 2019
Colombo

Notes:

1. A member is entitled to attend and vote at the Meeting or appoint a Proxy holder to attend and vote at the meeting instead of him/her. The Proxy holder need not be a member of the Company.
2. A form of Proxy accompanies this notice.
3. The completed form of Proxy must be deposited at the registered office of the Bank, No: 696, Galle Road, Colombo - 03 not later than 2.30 p.m. on 24th April 2019.

FORM OF PROXY

I/We...
of ....
being a Member/Members of Cargills Bank Limited hereby appoint ....
....
(holder of NIC No : ....) of ....
.... or failing him/her;

Mr. Louis R Page	of Colombo or failing him
Mr. Ranjit Page	of Colombo or failing him
Mr. R Theagarajah	of Colombo or failing him
Mr. Prabhu Mathavan	of Colombo or failing him
Mr. Mangala Boyagoda	of Colombo or failing him
Mr. Faizal Salieh	of Colombo or failing him
Mr. Richard Ebell	of Nawala or failing him
Mrs. Ruvuni Fernando	of Nugegoda or failing her
Dr. (Mrs.) Dushni Weerakoon	of Nawala

as my/our Proxy to represent me/us and to vote for on my/our behalf at the Seventh Annual General Meeting of the Bank to be held on 26th April 2019 and at any adjournment thereof and at every poll which may be taken in consequence thereof (Please indicate your preference with "√");

		For	Against
1	To receive and consider the Annual Report of the Directors and Statement of Audited Accounts for the year ended 31st December 2018 with report of the Auditors thereon.		
2	To re-elect as a Director Mr. Ranjit Page who retires by rotation in terms of Article 86 of the Articles of Association of the Bank.		
3	To re-elect as a Director Mr. Richard Ebell who retires by rotation in terms of Article 86 of the Articles of Association of the Bank.		
4	To re-appoint Mrs. Ruvini Fernando in terms of Article 92 of the Articles of Association of the Bank.		
5	To re-appoint Dr. (Mrs.) Dushni Weerakoon in terms of Article 92 of the Articles of Association of the Bank.		
6	To re-appoint M/s KPMG, Chartered Accountants as Auditors of the Bank for the ensuing financial year at a remuneration to be determined by the Directors.		

Signed on this .... day of 2019

....

Signature/s of Shareholder/s NIC/PP/ Co. Reg. No. of Shareholder/s

NOTE:
1. A Proxy holder need not be a member of the Company
2. Instructions as to completion of this form are given overleaf

INSTRUCTIONS AS TO COMPLETION OF THE PROXY FORM

1. Please perfect the form of Proxy by filling legibly your full name and address, by signing in the space provided and filling in the date of signature.

2. The completed form of Proxy should be deposited at the registered office of the Bank, No: 696, Galle Road, Colombo - 03 not later than 48 hours before the time appointed for holding of the Meeting.

3. 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 Bank.

4. If the appointer is a Company or Corporation, this form must be executed under the Common Seal or in such other manner prescribed by its Articles of Association or other constitutional documents.

5. In the case of joint holders, only one need to 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 company incorporated in
Sri Lanka on 3 November 2011 under the Companies Act No. 7 of 2007.
A licensed Commercial Bank under the Banking Act No. 30 of 1988.

REGISTRATION NUMBER
PB 4847

ACCOUNTING YEAR-END
December 31

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

TELEPHONE
011 - 7 640 000

FACSIMILE
011 - 2 055 575

SWIFT CODE
CGRBLKLX

E-MAIL
info@cargillsbank.com

WEB PAGE
www.cargillsbank.com

TAX PAYER IDENTIFICATION NUMBER (TIN)
134 048 476

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
Ms. Amendra de Silva

BOARD OF DIRECTORS
Louis Rajkumar Page - Chairman (Non-Executive Director)
Ranjit Page - Deputy Chairman (Non-Executive Director)
Rajendra Theagarajah - Managing Director /CEO
Prabhu Mathavan - Executive Director
Mangala Boyagoda - Senior Director (Independent Non-Executive Director)
Faizal Salieh - Independent Non-Executive Director
Richard Ebell - Independent Non-Executive Director
Dr. Dushni Weerakoon - Independent Non-Executive Director
(Appointed w.e.f. 01/08/2018)
Mrs. Ruvini Fernando - Independent Non-Executive Director
(Appointed w.e.f. 01/08/2018)

BOARD SUB-COMMITTEES

Board Human Resources & Remuneration Committee
Ranjit Page - Committee Chairman
Mangala Boyagoda
Faizal Salieh
Dr. Dushni Weerakoon
Ms. Amendra de Silva - Secretary

Board Integrated Risk Management Committee
Faizal Salieh - Committee Chairman
Richard Ebell
Mrs. Ruvini Fernando
R Theagarajah
Prabhu Mathavan
Alex Perera- Head of Risk
Ms. Summaiya Macan Markar - Secretary

Board Nomination Committee
Mangala Boyagoda - Committee Chairman
Ranjit Page
Faizal Salieh
Richard Ebell
Ms. Amendra de Silva - Secretary

Board Audit Committee
Richard Ebell - Committee Chairman
Faizal Salieh
Dr. Dushni Weerakoon
C Samarasinghe - Secretary

Board Credit Committee
Mangala Boyagoda - Committee Chairman
Ranjit Page
Prabhu Mathavan
Mrs. Ruvini Fernando
Alex Perera- Secretary

Board Strategic Planning Committee
Ranjit Page - Committee Chairman
Rajendra Theagarajah
Prabhu Mathavan
Mangala Boyagoda
Faizal Salieh
Richard Ebell
Dr. Dushni Weerakoon

Mrs. Ruvini Fernando
Ms. Amendra de Silva - Secretary

Board Related Party Transactions Review Committee
Mrs. Ruvini Fernando - Committee Chairperson
Faizal Salieh
Richard Ebell
Ms. Amendra de Silva - Secretary

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Cargills Bank Limited
696, Galle Road, Colombo 3.