

## Review of performance for the nine months ended 30 September 2017

- Net interest income grew by LKR 425Mn to LKR 1,050 Mn
- Net fee and commission income grew by LKR 35Mn to LKR 80Mn
- Total other income increased by LKR 54Mn to LKR 87Mn\*
- Improvement in operating income by LKR 514Mn to LKR 1,221Mn\*
- Operating expenses increased by LKR 214Mn to LKR 954Mn
- Impairment charges increased by LKR 32 Mn to LKR 73Mn
- Total assets grew by LKR 11Bn to LKR 32Bn.

\*Excluding the gain on disposal of subsidiary

The profit after tax of the Bank (including the gain on disposal of subsidiary amounting to LKR 480Mn) for the nine months ended 30 September 2017 was LKR 527Mn compared to the loss of LKR 100Mn for the corresponding nine months in 2016. The profit from core business operations excluding this one-off gain amounted to LKR 46Mn for the nine months against a loss of LKR 100Mn in 2016. Although the nine months performance on a cumulative basis reflects improvement, the third quarter in fact reflected a loss of LKR 16Mn, largely attributable to collective impairment charges. The NPA ratio increased to 2.65% from the previous year's 0.6%.

The net interest income of LKR 1,050Mn compared with LKR 624Mn in the comparative period last year. Higher interest rates coupled with growth in loans and advances portfolio enabled the Bank to boost interest income for the period under review. The net interest margins was lower than anticipated and the Bank would work towards improving yields. Customer deposits stood at LKR18.5Bn as at 30 September 2017. The Bank carried out a few promotional fixed deposits campaigns and its one year and five year deposits were well received in the market.

Net fee and commission income of LKR 80Mn recorded growth of 77% for the period under review benefiting from the growth in core banking activities and higher trade volumes.

Total other income of the Bank recorded improvement of LKR 534Mn largely due to the one-off gain of LKR 480Mn resulting from the disposal of its only subsidiary in order to focus effort and energy solely on core banking activities. The Bank divested its 80.34% controlling interest in Colombo Trust Finance PLC (CTF) on 12 September 2017 for a consideration of LKR 1,072 million.

The Bank's operating expenses of LKR 954Mn increased by LKR 214Mn compared to the previous year. The expansion in business activities and the expenditure on launch of cards caused these increased operating costs. The cost to income ratio of the Bank decreased to 78.19% from 104.66% due to higher net interest income. Operating expenses would be continuously monitored to ensure that the cost to income ratio is lowered.

The Bank recorded a total asset growth of LKR 11Bn for the period under review, with the total asset base at 30 September 2017 being LKR 32Bn. To accelerate further growth in advances, the Bank would adopt a Consumer, SME and Agri centric thrust leveraging on its competitive advantages in these areas. Several initiatives in this focus areas will be rolled out in the coming quarter. In addition to new products previously launched such as Loans against Property (LAP), Housing Loans, Loans for Professionals, Educational Loans, the Bank also rolled out in the month of August, the first ever Smart MasterCard Debit Card in the country with Chip, PIN, Contactless and EMV compliant technology. The Bank is optimistic of the future for this product and is on course to launch its credit card shortly. Several other projects are in the pipeline to leverage opportunities in the evolving digital sphere with the confidence that digitalization is the future of the banking industry.

In order to provide easier access to banking for a larger clientele, the Bank under the agency banking model has made available touch points for customers at over 300 Cargill's Food City supermarkets across the island. Customers can now deposit, withdraw, remit cash and make payments for goods purchased at all Food City supermarkets using the Cargills Cash app on their mobile phones. This initiative is part of the Bank's digital journey where digital technology, easy accessibility and quick turnaround times would be made available to our customer base.

At end-September the Bank network comprised 15 branches of which 7 were "instore" branches. The Bank opened a new branch in Wattala during the period under review and in October, a Ratnapura branch was added to the existing network taking the total number of branches to 16 at the date of this report. The employee head count at 30 September was 419.

The Bank expects the fourth quarter to reflect an improvement in performance while a more ambitious plan is being prepared for 2018 and beyond.

(Sgd.)

**Louis R Page**

Chairman

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*\*Please access [www.cargillsbank.com](http://www.cargillsbank.com) for the financial statements for the nine months ended 30 September 2017.*

*<https://www.cargillsbank.com/wp-content/uploads/2017/11/Interim-Financial-Statement-as-of-30-09-2017.pdf>*