

Dear Shareholder,

CARGILLS BANK NINE MONTHS' PERFORMANCE FOR 2018 REFLECTS ITS GROWTH IN ACTIVITY

Performance Highlights

- Net Interest Income (NII) of LKR 1,530Mn shows growth of 46% for the 9 months compared with the previous year
- Total Operating Income of LKR 1,756Mn is higher by 44% for the 9 months (when exceptional gain in the previous year is excluded)
- Impairment Charges of LKR 236Mn show an increase of 223% for the 9 months
- Profit of LKR 71Mn still shows growth of 56% for the 9 months (when exceptional gain in the previous year is excluded)

Performance and Profitability

The Bank recorded a modest post-tax profit of LKR 71Mn for the 9 months ended 30 Sep 2018. This reflects a growth of 56% over the corresponding period of last year, after discounting the one- off gain of Rs 481 Mn from the disposal of its subsidiary.

Net Interest Income of LKR 1,530Mn improved by 46%, reflecting increased income from a larger loan portfolio, interest rate benefits from currency swaps and the impact of the inflow of LKR 1Bn from the disposal referred to.

Net Fee- based Income of LKR 115Mn for the 9 months reflected an increase of 43%. Most of this was attributable to income from growth in the loan portfolio and to higher guarantee commissions. This income would have been substantially higher if not for the delay in the launch of credit cards.

Other Income for the 9 months grew 23% when the exceptional gain in 2017 is excluded, an important contributor being increased earnings on foreign exchange.

Impairment Charges increased by 223% from LKR 73Mn in 2017 to LKR 237Mn in 2018. Growth in the loan portfolio, non-performance by some large customers and delayed settlements on other loans contributed to this. The Bank's NPA ratio increased from 3.55% at 31 Dec 2017 to 5.78% at 30 Sep 2018. This is receiving close attention; management considers the increase is temporary. The Bank stringently assesses credit quality and strengthens monitoring and recovery to contain NPAs at an acceptable level.

Sri Lanka Accounting Standard SLFRS 9 on "Financial Instruments", which replaces LKAS 39 on "Financial Instruments: Recognition and Measurement" is effective for annual reporting periods beginning on or after January 01, 2018, and its impact will be reflected in the financial statements for 2018. The Bank has completed assessment of the impact on its Financial Statements for the year ended December 31, 2016 with assistance of an external consultant. Based on those and other assessments which are yet to be audited, the additional loan loss provision on application of SLFRS 9 in the Financial Statements at December 31, 2017, is expected to be 40%-45% of the impairment provision reflected there.

Operating expenses increased by 27% for the 9 months. Higher depreciation costs and personnel expenses accounted for most of this increase. The employee head count at 30 Sep 2018 was 524 against 418 at 30 Sep 2017.

Financial Position

The LKR 24.5Bn loan portfolio of the Bank at 30 Sep 2018 was 18% higher than at 31 Dec 2017. Credit growth was moderated by a shift in focus to secured lending, an exit from large low yielding facilities and a re- deployment of funds in the SME segment. Growth was slower than expected given the prevailing macroeconomic environment.

The Bank's deposit base, at LKR 18Bn at 30 Sep 2018, remained flat compared to the base at 31 Dec 2017. Rupee denominated deposits grew by a modest LKR 2Bn, which was cancelled out by outflows in foreign currency deposits. Bank commenced, during the 3rd quarter, a deposit campaign targeting 6 month, 1 year and 5 year deposits. This promotion has been well received and we are seeing a steady inflow of deposits. The Bank also unveiled its new 'Podihitiyo' Children's

Savings Account on World Children's Day, offering an attractive interest rates for children's savings accounts to help create a culture of savings in the community. Targeted promotions to attract deposits will continue. The Bank's CASA ratio stood at 16% at 30 Sep 2018.

Capital Management

The Capital Adequacy Ratio of Cargills Bank continued to be well above the minimum regulatory requirement during the period. As at 30 Sep 2018, the Tier I Capital Ratio was 32.3% and the Total Capital Adequacy Ratio was 32.7%. The Bank remains focused on the need to productively deploy the capital buffer it presently carries.

The Future

The Bank won three awards at the recently concluded LankaPay Technovations Awards 2018, demonstrating the success of its thrust in technological innovation and operational excellence. The event was organised by Lanka Clear Ltd. to recognise banks, non-banking financial institutions and fintechs for their excellence and commitment to digital adoption.

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 marketing arrangement is now in place for Flemingo to offer customised and targeted shopping offers to Chinese passengers using Alipay.

The Bank entered into several new partnerships with remittance agencies and is gradually expanding its number of partners. The growth in business volumes is expected to bring more fee income and currency conversion income. Expanding its remittance network, the Bank recently joined 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. Our customers now have more than 360 access points to collect their remittances from, and the convenience and service we provide here is unmatched.

The Bank has invested in a state- of- the- art Card Management System which is now fully operational, with cards now being marketed. Implementation of the Card Management System was delayed by some months and, as such, customer acquisition was significantly lower than expected. A steady income stream from this line of business is expected in the future.

Cargills Cash, the Bank's agency banking arrangement at Cargills Food City, and "Bank in a Box" Kiosk machines, have seen increased usage, and the Bank will focus on this low- cost customer touch point to increase retail banking penetration.

The Bank is confident that its early initiatives in the Retail, SME and Agri segments will develop strongly; combined with technological innovation, the future augurs well.

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.

(Sgd.)

Louis R Page

Chairman

02 November 2018

**Please access www.cargillsbank.com for the financial statements for the nine months ended 30 Sep 2018*