Rising Above with Resilience

Cargills Bank Limited | Annual Report 2014

Rising Above with Resilience

It is no easy achievement building a reputation to swiftly carve a name in the banking industry. Cargills Bank is a fully-fledged, committed banking network focused on growth while excelling in the services we facilitate to our distinguished clientele.

We offer many customized and traditional banking services to corporates, SMEs and individuals from a variety of industries and to communities across the island. It is with pride that we look towards generating the aforesaid services to unprecedented heights. In a vastly competitive industry Cargills Bank has been resilient, efficient and has emphasized on providing banking facilities which are cost effective, practical and customer oriented.

We are proud to bring to you; our shareholders our debut Annual Report and as the age old idiom rings loud and true that ‘a good first impression is a lasting impression’, we look keenly to the future geared to face the challenges of a new year to soar and rise above our competition with resilience.

Vision

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

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.

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Financial Highlights

	Bank 2014 Rs. '000	Bank 2013 Rs. '000	Change %	Group 2014 Rs. '000
Operating Results				
Gross Income	362,941	492,823	(26)	434,779
Total Operating Income	330,865	392,314	(16)	370,157
Loss Before Tax	(235,054)	(88,609)	(165)	(229,063)
Taxation	(116,000)	-	-	(115,851)
Loss After Tax	(119,054)	(88,609)	(34)	(113,212)
Assets and Liabilities				
Customer Deposits	1,265,615	-	-	1,919,132
Loans and Receivables to Other Customers	2,230,418	-	-	3,085,835
Total Assets	6,751,280	5,736,040	17	7,503,029
Total Liabilities	2,203,447	1,068,651	106	2,881,778
Shareholders' Funds	4,547,833	4,667,389	(3)	4,543,654
Key Indicators				
Loss per Share (Rs.)	(0.27)	(0.27)	-	(0.26)
Net Assets Value per Share (Rs.)	10.34	10.61	(3)	10.33
Return on Assets (Rs.)	(1.76)	(1.54)	(14)	(1.51)
Return on Equity (Rs.)	(2.62)	(1.90)	(38)	(2.49)
Liquid Assets Ratio	237.10%	-	-	154.59%
Capital Adequecy				
Tier 1	90.40%	-	-	74.80%
Tier 1 & 2	85.44%	-	-	75.20%

Chairman's Message

I am pleased to present to you the first ever Annual Report of the Cargills Bank Limited. It has been a momentous year for Cargills Bank and with the commencement of business we have etched an indelible chapter in the country's financial services, becoming the 25th commercial bank in Sri Lanka. The journey started over two years ago when we first commenced the process of obtaining regulatory approvals to begin operations.

Setting up a Bank from scratch is no small feat, but with the spirit of fortitude, optimism, strength, dedicated staff and supportive shareholders and stakeholders, we continued to move forward, relying and banking on the human spirit, a value which we subscribe to wholeheartedly. It was in June 2014 that Cargills Bank opened its doors, but not without having woven a number of lessons into our story; lessons that made us stronger, sagacious and more astute in learning to operate in a competitive industry.

Our first and immediate past CEO Harris Premaratne played a pivotal role in this most trying period and we thank him for his many valuable contributions in the establishment of the Bank.

In the six months that the Bank has been in commercial operations for the year ended 2014, we had to contend with a number of issues and challenges, including changing our entire business strategy due to external restrictions being placed on our business operating model and expansion plans. However, we do believe that our appeals to remove the constrains are receiving the attention of the regulator and relevant authorities, paving the way for the Bank to operate and perform in a more conducive environment in the future.

As we look back at the macro picture, we do live in exciting times, especially in this part of the world. The World Bank contends that South Asia is now the fastest growing region in the world, with economic growth expected to accelerate to 7.4% in 2016 from the 2015 forecast of 7%. Much of this growth is dependent on India's growth acceleration, driven by business oriented reforms and improved investor sentiment. Another factor that is driving this growth paradigm is the decline in oil prices, cascading favourably to domestic prices of oil products. Coupling the cheaper oil prices with favourable food prices, the region also saw a rapid deceleration of inflation allowing authorities to maintain softer monetary policies to spur growth. Sri Lanka's interest rates now range between 5% to 9% compared to a high of 15% historically. Current Account balances too have grown stronger with international reserve buffers well in place right across the region.

Sri Lanka's 2014 GDP recorded a growth of 7.4% compared to the previous year's growth of 7.2%. This is commendable albeit slightly lower than the forecast growth of 7.8% which was mainly due to the last quarter where growth was recorded at 6.4% according to the CBSL Department of Census and Statistics. This was the lowest growth of all four quarters of 2014 as well. Nominal GDP this year therefore expanded to Rs. 9,784 Bn compared to last year's Rs. 8,674 Bn. Sri Lanka is also performing well in global indices including the Global Prosperity Index in which the country is the highest ranked in South Asia at 62, an indication that the country is well set to etch a path of progress, irrespective of external challenges or vagaries that may exist.

One of the three main pillars of the economy, the agriculture sector saw a considerable slowing down in the rate of growth to 0.3% from 4.7% last year. However, the industry sector recorded an impressive 11.4% and the services sector moved upwards by 6.5%, compared to 9.9% and 6.4% in 2013 respectively and the banking, insurance and real estate sectors grew by 14.6% against 12.4% last year. This could be due to the credit slump experienced in the last few years with lackluster demand for private credit and the relative drop seen in credit to the Government, which Standard & Poor indicates will further recover in 2015. The slow recovery of private sector growth is attributed to stickiness of market lending rates to adjust downwards, a sharp reduction of pawning activity due to fall of global gold prices and sluggish global growth. The CBSL reports that private sector credit has shown improvement in February 2015, increasing by 12.6%, which is Rs. 24.5 Bn, auguring well for credit growth in the banking sector.

Cargills Bank aims to seize the opportunity with ambitious plans that will allow us to become a key player in the banking sphere. The one year Business Plan that was mapped out to formulate a framework for our immediate journey will run concurrently with our three year Strategic Plan, which is a springboard for the Bank's medium to long term objectives. These are explained in detail in the CEO's Review of Operations, together with a synopsis of our qualitative and quantitative performance over the last six months, the timeline of this report.

As you are aware, the Cargills Bank genesis began with a capital infusion of Rs. 5 Bn funded by an influential consortium of investors. We are founded on the ethos that we will espouse every tenet in inclusive commercial banking to harness the spirit of progress for each citizen of this country. While Cargills (Ceylon) PLC and CT Holdings PLC own 40% of our shareholding, the remaining investors comprise eminent entrepreneurs and corporates, whose business acumen and expertise both in Sri Lanka and abroad is well founded and I thank them for their support and trust in us.

As Chairman I remain confident of the future prospects for the Bank and together with your Board of Directors remain committed to creating value to all stakeholders through an organisation that remains true to the basic fundamentals embedded in our values. This is an ethical and accountable organisation promoting the highest standards of compliance; it is undoubtedly an entity that remains and will remain resilient in the face of significant challenges.

We have been extremely cognizant of our compliance and governance responsibility, working towards the new benchmarks being dictated for minimum capital requirements and migration to Basel II Adequacy Framework and eventually Basel III standards. We remain compliant with all stipulated regulations as stipulated by the regulator and relevant authorities.

With the CBSL actively requiring licensed banks to acquire NBFIs within its Financial Sector Consolidation Framework, Cargills Bank made a mandatory offer to purchase the shares of Capital Alliance Finance PLC, a total of 29,660,140 shares constituting approximately 76.51 percent of its total shares for a total of Rs. 459 Mn. This acquisition was a requirement within the stipulated conditions of our license, that we acquire three finance companies. With this acquisition, we became the first bank to acquire a finance company as directed within the Financial Sector Consolidation Framework, an added challenge for a young fledgling bank.

As we move into the next year, I foresee exciting times ahead for us. We have in place a collective of top caliber banking executives whose expertise and exposure to local and international markets will garner us a definite competitive advantage. We have also been adding young blood into our team to ensure that our unique brand of customer service continues to be honed to reach newer heights. I thank our motivated team headed by the very dynamic CEO and management for weathering the storms and continuing to remain unwaveringly on the path of progress. Our customer-centric attitudes have been well entrenched into our daily workings, well evidenced by the success we have achieved in winning the confidence and trust of a growing customer portfolio.

The communities around us are well entrenched with our parent Cargills' philosophy of inclusive sustainable growth. This Bank carries that overarching philosophy as a bastion of strength, reminding us constantly that we have a heavy responsibility in ensuring economic empowerment across our people. Our product portfolio will continue to reflect our values to aspire, uplift, empower and innovate. Join me, dear Stakeholder, in banking on the human spirit, because it is this spirit that can conquer the impossible and enable us to make our vision a reality.

L R Page
Chairman

8 May 2015
Colombo

CEO's Review of Operations

Against the backdrop of a challenging environment, a competitive landscape and a new fledging bank with six months of operations under its belt, I am pleased to present Cargills Banks first CEO's review of Operations. During these last six months, the Bank has been working hard to lay the foundation for the future and the first impressions we have created are a reflection of our values, our strength, our endurance and the underlying ethos of being a bank that enjoys being stakeholder driven. We want our stakeholders to understand that whatever we give and build today is for the future; we empower them to look towards the future with confidence, knowing full well that the dynamism Cargills Bank inherently possesses, remains the firm foundation to their aspirations.

Being a brand new bank, entering a relatively mature and competitive financial services sector in Sri Lanka has significant challenges. However I see advantages as well for Cargills Bank, as a new entrant. We are not encumbered with legacy or heritage and we don't have to follow an already etched path, but we will chart our own course, mapping our own destiny. We are able to invest at higher levels, levels that others have to grow into. We have leapfrogged into the industry, created a positive first impression embedding our values, ethics and strong principles that what we do today, will be what the future can be and should be. We have the freedom to shape a new paradigm for banking.

It is with this prospect, an exciting one for me, that I bring you my review of operations for the year ended 2014, just six months into Cargills Bank being in operation.

The Genesis

As you can imagine, starting off as the fledgling in an intensely competitive industry is highly challenging. But for Cargills Bank, as intimated in the Chairman's message, this was exacerbated as we had to contend with unexpected hurdles for which we had to make changes to our business model.

The priority in our initial six months was to lay the foundation, get our basic operations established, put our teams in place and our products out into the market. Our team deserves immense commendation for the positive attitude they possess, the motivation they espouse and the amazing abilities they showcased in ensuring that Cargills Bank becomes a future formidable force in the industry. They have also shown immense resilience in being quick to respond to rapid transformations, considering that the plan rolled out was pulled from under their feet. We have since formulated a new one year operational plan, implementation of which begun in earnest in 2Q of 2015 and are also formulating a 3 year medium term plan for execution, business growth and stakeholder value creation. This setback also meant that meeting our financial targets became difficult, as targets and forecasts had been set on a completely different plan of action and set of assumptions.

Additionally, market dynamics were also transforming. Our birth was within a Sri Lankan market that had a high interest rate environment, which today has seen a sharp turnaround to much lower levels. Returns are impacted, margins have shrunk and financial resources meant to be deployed at significantly higher rates, earning high yields is no longer plausible. Hence, with the market dynamics changing, coupled with the significant set up costs which are inevitable when starting a Bank and the fact that we couldn't open our branch network as planned due to the limitations of our licensing to three branches, impacted us heavily, giving us little leeway to move forward or meet our financial targets.

Building on Our Strengths

Our strengths are many as they are diverse, but they are all strengths that continue to hold us in good stead to rework our path to progress. The fact that we have no legacy or baggage to contend with means we can start with significant investments and leapfrog the competitors who have bad debts, investments in legacy systems and operations which need funding and carry cost. Some of those investments may even be obsolete and in some cases, the capacity to write it off may not exist but yet, those investments have been made and they are encumbered with them.

On the regulatory compliance framework front as at end 2014, we were well above all minimum compliance requirements. Our capital adequacy stands at 85.44%, while our core capital adequacy ratio is 90.40%, significantly higher than mandatory requirements. Our statutory liquid assets ratio stands at 237.1% compared to the 20% minimum requirement. Although these numbers appear very impressive compared to mandatory regulatory levels, they are an indication of our nascent status. It also posts future opportunities to grow our asset book significantly to leverage on the capital. Additionally, in line with regulatory requirments of the Central Bank of Sri Lanka, we will be raising our regulatory capital to at least Rs.10 Bn before year and December 2015, which will provide opportunities and enable us to leverage on the additional capital to grow further and faster.

Another of our strengths is the brand. The 150 year old Cargills brand is well established in the marketplace and has remained at top of mind recall for over a century. It is also a brand that has been synonymous with empowering the people of Sri Lanka, being value driven and ethical. It is a brand that remains among the top ten most valuable brands in the country with a brand rating of AA+ as adjudged by Brand Finance. These are indeed positives that we can and will use to build our franchise, construct a customer base, create customer loyalty and build value for all stakeholders.

I also believe that our expansive network is an undisputed strength and remains a significant strength in the equation. However, this strength has temporarily been curbed due to the restrictions and limitations placed by our licensing provisions We remain confident that the authorities will in due course allow us to utilise the network strength to enable us to provide financial services to the wider under-banked and under-serviced community. Whilst awaiting for the restrictions to be lifted, Cargills Bank's spirit of innovation has come to the fore, developing a portfolio of products and services that suit the kinetics of the existing network, while planning for the future.

Our team, is a collective of extraordinary people who are the foundation of Cargills Bank. It is a young team, whose strength lies in quick learning, gaining exposure and progressive knowledge and skill acquisition. They are able to use their talent to push boundaries, using challenges as opportunities to think beyond the horizon, rather than as hurdles. Having head-hunted and handpicked our senior management who were then tasked with the responsibility of building a team that would make a difference in the industry, we have surely made that a reality. Focused on both age and gender diversity, our recruitment and retention practices were constructed unequivocally on meritocracy, designed to build a team that believes strongly in ownership, ethics, accountability and transparency. We know that the potential among them is yet to be maximised and it is this potential that will be the backbone in building a sustainable organisation.

Synopsis of Operations

From a financial perspective, the performance has been marginal given the battles Cargills Bank contended with during the operational six months. The Bank made a loss of Rs. 235 Mn before tax and a loss of Rs. 119 Mn post tax. Interest income for year-end stood at Rs. 343 Mn, while total operating income was Rs. 331 Mn. Net operating income, post deduction for impairment of loans and other losses was Rs. 314 Mn. A loss per share of 27 Cents.

We currently have three branches within our network; the Corporate Branch in Colombo 3, one at Old Moor Street in Colombo 12 and the other at Maitland Crescent in Colombo 7. Our intention is to expand our branch network much more aggressively in the coming year through unique access points, ensuring accessibility to all Sri Lankans, maximising on the expansive reach that our parent Cargills has around the country. With our customer centric approach where customer service excellence remains fundamental in the relationship with our stakeholders, we are honing the art of personalised financial solutions within the environment of a team that is constantly raising the bar of customer service excellence.

Our product and services portfolio offers a range of retail banking services including savings and current accounts, fixed deposits, children's savings and senior savings accounts and foreign currency accounts. We have also been concentrating on the corporate banking segment of business, given the consistent stability of income it presents. We have seen this evidenced in the current corporate and SME banking share of our business, which stands at 90%. We believe it would be prudent to collate a healthy mix of corporate, SME and retail, adding the quintessence of diversification for better results while being aligned to our vision of being the most inclusive bank harnessing the spirit of progress in every Sri Lankan.

In fact, our marketing and promotional campaigns have already begun making inroads, placing our innovations in the marketplace and being highly successful. We have introduced the Cargills Bank Enhancer (an innovative variable interest rate scheme), personal loan options for a variety of uses including assisting in higher education, purchase of vehicles or household goods and renovations or extensions on residences through the Cargills Bank Home Loan and a limited period promotion was launched during the festive season.

Our winning formula of a fusion of state-of-the-art banking technology and convenient customer service is all encompassing. This was further enhanced when Cargills Bank joined LankaPay, Sri Lanka's largest common ATM network which gives our customers islandwide access to a network of over 2,500 ATMs. Operated by LankaClear under the approval of the CBSL, LankaPay will become the enabler and the backbone infrastructure for all electronic transactions, facilitating seamless connectivity. LankaPay is the first phase in the Common Card and Payment Switch.

The Year Ahead

We are on the threshold of exciting times for Cargills Bank. I foresee a year ahead where we will undoubtedly build a strong presence, capitalise on our brand name, expand our touch points, interact more with our customers and build our team to achieve winning heights. The one year plan we conceptualised is an aggressive one, because we now live in times where we cannot be complacent, waiting for opportunities to rise. Instead, we need to take the baton and win the race. We have therefore implemented a number of concurrent initiatives and placed targets and objectives to achieve within the next year.

Our priorities for 2015 is a five pronged plan. We intend growing our customer and deposit base, growing the wallet size of existing customers, spurring small and medium SMEs as well as personal lending, increasing non-funded income and arresting the loss making environment which we have been in for the last six months. We have targeted growing our deposit base of consumer and SME by Rs. 3.8 Bn and corporate business by Rs. 1 Bn, which is a growth of 360%, while working on a healthier more sustainable business mix. Our lending portfolio too will showcase that more astute outlook with advances mix at 55% for Corporates and 45% for SME and Consumers.

A cohesive marketing plan will run simultaneously to ensure that the quantitative targets are well supported, concentrating both on brand building and the mobilization of deposits and advances. Using both Above-the-Line and Below-the-Line communication initiatives, we will use social media much more extensively and also prompt more visibility of our brand through numerous channels.

IT will undoubtedly be the facilitator and crucial to the success of our future journey. The focus on developing our Internet banking portal will continue, while modules to enhance trade finance, decision making processes, payment solutions, better risk management and remittances for example are all being implemented. The ultimate result will be a fully fledged digital banking solution that leverages on our network, while augmenting operational efficiencies.

Innovation thus, remains the key in developing our product and services portfolio where new services, new products and IT initiatives will be used to drive sales. Internet Banking will become an imperative for both personal and corporate banking, while mobile banking units, cash deposit machines, bank branded ATMs and debit cards will also be established within 2015. Trade Finance and Treasury will also be strengthened, echoing the positive market paradigms which we would take advantage of, building our teams with the germane competencies and capabilities to maximise performance.

New product development is based on stringent evaluation and market analysis with much emphasis on the uniqueness of the product and its ability to compete effectively in the marketplace. Harnessing the quantitative advantages of the large cache of foreign remittances infused into the country is also a vital feature in our 2015 plan. By tying up with at least four remittance companies as well as Wall Street and the Doha Exchange by the Q2 of 2015, we aim to have the ability to meet our target of 60,000 transactions by end 2015.

There is also potential in the leasing business which has prompted us to enter into leasing. Using our innovative mindset, we undoubtedly also endevour to make significant inroads into this area of business, promoting leasing among key identified market segments through customised leasing solutions and building on our strength of forging and nurturing relationships, offering innovative value additions for further business development.

We do know that we have immense strengths in building and fostering relationships with our existing corporate and SME base, a strength we intend to maximise on, increasing wallet share. This is well embedded into our operational plan. This base will be further enhanced by targeting specific corporates and SMEs. We are emphatic on providing competitive exchange rates to exporters and in driving personal and consumer lending with new products. We will also be cognizant of ensuring that the dependency on large corporates will be reduced to encourage a more healthy customer mix. Additional resources will be allocated for home loans and liability management, while a separate credit administration unit has been established to streamline back office credit functions adding efficiency and productivity into the equation.

Human resources is a crucial pillar in the success of our business plan for the next year and beyond. It requires a highly competent, capable and well equipped team. Human Resources will establish manpower planning and employee resourcing, augmented by comprehensive training and development initiatives. Building a knowledge gaining culture within the organisation, we will also imbue performance management and rewards initiatives, hone employee relations and welfare and ensure that all HR practices and processes are on par with best practices and standards prevalent in the industry.

With Heartfelt Thanks

We have continued to build on the relationships we have forged in this short time since our inception and remain very appreciative of the unwavering loyalty and confidence our customers have displayed in us. Our investors too have stood beside us through some of our most challenging times and deserve much appreciation for the assurance they have placed in us.

A team built on fortitude and one that deserves absolute commendation is the Cargills Bank team, who remain unique and a featured strength in the Bank's journey ahead.

We look forward to further enhancing and building upon the cordial professional relationship we have developed and built with the regulator and officials of the Central Bank of Sri Lanka and look forward to their further support, guidance and counsel for our plans ahead.

While appreciating the advise and direction of the Chairman and Board of Directors have given me in spearheading the journey of Cargills Bank, my team and I look forward to assuring you that the first impression you have of your bank as being one of a stable entity, built on a solid foundation of values, ethics, innovation and trust is undoubtedly the reason that you are working with the bank of the future which will rise with resilience.

Prem Kumar
Managing Director/CEO

8 May 2015
Colombo

Board of Directors

Louis Page

Chairman (Non - Executive Director)

Louis R Page is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and a Fellow Member of the Chartered Institute of Management Accountants (UK). He is the Chairman of the CT Holdings Group of Companies. He has also held a number of Board and Senior Management positions at highest levels in overseas Public Companies and Public Institutions.

Ranjit Page

Deputy Chairman (Non - Executive Director)

Ranjit Page possesses over 29 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 also serves on the Boards of several other companies, and is the Managing Director of the parent company, C T Holdings PLC.

Prem Kumar

Managing Director / Chief Executive Officer (Executive Director)
Prem Kumar was first appointed to the Board on 26 March 2015.

Prem Kumar has over thirty years of result oriented international experience in financial services. He has worked extensively within the HSBC Group for 29 years including having served as Area Chief Financial Officer in Thailand, Indonesia and New Zealand. He was also Head of Finance Information Systems for HSBC Asia Pacific in Hong Kong. Mr. Prem Kumar was Chief Financial Officer at Bank International Indonesia in Jakarta for five years before serving at ICB Financial Holdings Group as Group Chief Executive Officer.

Prem Kumar holds a Master of Business Administration in International Management, New Zealand. He is an Associate Member of the Australian Institute of Bankers-New Zealand, and an Associate of New Zealand Institute of Management.

Prabhu Mathavan

Deputy Managing Director / Chief Financial Officer (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 22 years of experience in the fields of Finance, Auditing, Accounting and Taxation. He serves on the Boards of several other companies of Cargills Group including Cargills (Ceylon) PLC.

Deva Rodrigo

Non - Executive Independent Director

Deva Rodrigo, a chartered accountant, had a career with the international accounting and consulting firm PricewaterhouseCoopers, joining the firm in East Africa in 1974 and serving in its London offices in 1980. He was a Founder Partner when PricewaterhouseCoopers established its Sri Lankan firm in 1981, and held the position of senior partner from 1992 to 2006, when he retired from the firm. He was the Chairman of the Ceylon Chamber of Commerce from 2004 to 2006. He has previously held public office as a director of People's Bank from 1999 to early 2003 and as a member of the Telecommunication Regulatory Commission from May 1997 to January 2002. Deva was also a member of the Monetary Board of the Central Bank of Sri Lanka from 2003 to 2006 and a member of the National Council for Administration from 2004 to 2006. He is a director of Chevron Lubricants Lanka PLC.

Mangala Boyagoda

Non - Executive Independent Director

Mangala Boyagoda is a Senior Banker, possessing over 35 years' experience holding key positions in the filed of Financial Services. He is the former CEO of Standard Chartered Bank. He is the present Chairman of Wealth Lanka Management (Pvt) Ltd., Director SAFE Holdings (Pvt) Ltd., Wealth Trust Securities Ltd., Asset Trust Management (Pvt) Ltd., Ceylon Hotels Corporation PLC, Sierra Constructions (Pvt) Ltd., Ceylon Leather Products PLC, Dankotuwa Porcelain PLC, Sri Lanka Gateway Industries (Pvt) Ltd., CA Crushing (Pvt) Ltd., Ceylinco Insurance General (Pvt) Ltd., Maskeliya Plantation PLC, Capital Alliance Finance PLC, Royal Fernwood Porcelain (Pvt) Ltd., Faber Capital (Pvt) Ltd. & Virginia International Investments Ltd.

He has served as a Consultant to the Asian Development Bank (ADB), the World Bank, the Central Bank of Sri Lanka & the Securities and Exchange Commissions of Sri Lanka & Bangladesh. He also serves as a Committee member of the Financial Reform Task Force and is a former President of the FOREX Association of Sri Lanka.

He holds a Master's Degree in Business Administration from the Irish International University (European Union).

Ms. Kamalini De Silva

Non - Executive Independent Director

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

Ms. De Silva a lawyer by profession joined the Justice Ministry as an Assistant Secretary in 1984. During her career at the Justice Ministry she showed a commitment to the process of dispute resolution by mediation and was greatly responsible for making mediation an effective dispute resolution mechanism in Sri Lanka.

Ms. de Silva has over the years also contributed to the conduct of legal literacy programmes for children and has worked specifically on child rights and protection issues. She has also negotiated on behalf of the Government of Sri Lanka on mutual legal assistance with several foreign governments.

She is presently a member of the Legal Aid Commission, National Child Protection Authority, National Tobacco and Alcohol Authority, Prisons Licence Board and the National Task Force on Trafficking Human Beings.

Faizal Salieh

Non - Executive Independent Director
Faizal Salieh was first appointed to the Board on 30 March 2015.

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 on Faizal had led the formation of NDB Housing Bank, the country's first private sector housing bank and was its CEO and Board Director.

Faizal has well over three decades of extensive experience in commercial and development banking both in Sri Lanka and overseas; has held top management positions in global and local banks such as Grindlays Bank, ANZ Bank and National Development Bank; Board Director of several companies in the business of banking, finance, insurance, fund management, stockbroking, manufacturing, trading, and education; has served on State University Boards, and several Government and Non-Governmental Committees in the fields of finance, economic affairs, housing, construction and tertiary education.

He is an active member of the Main Committee of The Ceylon Chamber of Commerce, the premier Trade Chamber in Sri Lanka, and serves on the Chamber's Finance, Banking, and Capital Markets Steering Committee, National Integration Steering Committee and Ethics Steering Committee. In addition, he 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 Distance Learning Center Limited. He also serves on the Board of HNB General Insurance Limited as a Non-Executive Independent Director and is a Visiting Lecturer on the MBA program at the Postgraduate Institute of Management of the University of Sri Jayewardenepura. He is also a Director on the Board and Council of the Sri Lanka Institute of Directors.

Faizal 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.

Corporate Governance

Corporate Governance is the system by which companies are directed and controlled in the proper manner. As stated in the Principles of Corporate Governance published by the Organisation for Economic Development, corporate governance involves a set of relationships between a company's management, its Board, its shareholders, and other stakeholders and it also provides the structure through which the objectives are set, and the means of attaining those objectives and performance monitoring are determined.

The Central Bank of Sri Lanka (CBSL) has issued a set of Directions on Corporate Governance to enhance effective Governance in Banks. The Bank's Board of Directors and the Key Management Personnel was approved by the Central Bank of Sri Lanka to ensure they have the skill sets and are propriety and fit to lead the Banks Business.

Further, the following Board Committees have been appointed to cover the main areas of Governance,

- Board Audit Committee
- Board Integrated Risk Management Committee
- Board Human Resource and Remuneration Committee
- Board Nomination Committee
- Board Credit Committee

All the Committees present their reports to the Board of Directors.

Our external auditors, KPMG, under took and performed an agreed upon procedures on the Corporate Governance Principles from 3 (1) to 3 (9) specified in Banking Act Direction No.11 of 2007 and Amendments thereto on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Central Bank of Sri Lanka. A factual findings report addressed to the Board was issued by KPMG.

The Bank being in Business operation for only 6 months, the Board of Directors are fully aware of the requirements under the Corporate Governance Directions issued by the Central Bank and are in the process of actively ensuring full compliance in all relevant areas.

Annual Corporate Governance Report of Cargills Bank Limited ('the Bank') for the Year ended 31 December 2014 is given below.

In terms of Section 46 (1) of the Banking Act No. 30 of 1988, subsequently amended, the Monetary Board has been empowered to issue Directions to the Licensed Commercial Banks, regarding the manner in which the business of such banks is to be conducted, in order to ensure the soundness of the Banking System. In the exercise of the powers conferred by the above Section, the Monetary Board has issued Banking Act Direction No. 7 of 2007 on 'Corporate Governance for Licensed Commercial Bank in Sri Lanka'.

The below mentioned numbering is used to coincide with the "Section 3" of the Banking Act Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka, the 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. The Board has approved the Business Plan for the 2015, 2016 and 2017. Approving, overseeing and monitoring the execution of the strategic objectives, corporate values, overall business strategy and policies are handled directly by the Board. The Board's views relating to the above are communicated throughout the Bank.
	b) Approve the overall business strategy of the Bank	Complied with. The Board has approved the Business Plan for the 2015, 2016 and 2017. The overall business strategy was approved by the Board in September 2014, after deciding the related issues in detail with the Corporate Management. 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 has established the Board Integrated Risk Management Committee on 27 February 2014. The Board Integrated Risk Management Committee is responsible for identification of principal risks, approving overall risk policy and risk management procedures.

No.	Rule	Degree of Compliance
	d) Policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers	Not complied with. The Board has not approved and implemented a formal policy of communication with all stakeholders.
	e) Review the Bank's internal control systems and management information systems	Complied with. Internal Control system has been reviewed on a regular basis and findings reported to the Board by the Board Audit Committee. The internal audit division of the Bank has carried out regular reviews on the internal control system and has reported directly to the Board Audit Committee.
	f) Identify and designate Key Management Personnel	Complied with. Key Management Personnel ("KMP") have been identified by the Board of Directors in accordance with LKAS 24 - "Related Party Disclosures" which states that the key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the entity. The Board of Directors and their close family members have been defined as Key Management Personnel of the Bank.
	g) Define the area of authority and key responsibilities for the Board Directors themselves and for the Key Management Personnel	Complied with. Authority and responsibility of the Board of Directors and corporate management are included in their respective job descriptions which are approved by the Board as evidenced by the Board minutes and resolution for each director appointment.
	h) Ensure appropriate oversight of the affairs of the Bank by Key Management Personnel	Complied with. The Board has formulated sub committees to exercise appropriate oversight of the affairs of the Bank. • Board Credit Committee • Board Integrated Risk Management Committee • Board Audit Committee • Board Strategic Planning Committee

No.	Rule	Degree of Compliance
	i) Periodically assess the effectiveness of the Board of Directors' own governance practices	Not applicable. As this is the first year of operations, this is being developed.
	j) Ensure an appropriate succession plan for Key Management Personnel	Not applicable. As this is the first year of operation, this is being developed.
	k) Regular meetings with the Key Management Personnel	Complied with. The members of the corporate management regularly make presentations and take part in discussions on their areas and responsibility and to monitor progress made towards achieving corporate objectives at Board meetings.
	l) Understand the regulatory environment	Complied with.
	m) Exercise due diligence in the hiring and oversight of external auditors	Complied with. The Audit Committee has the primary responsibility for making the recommendation on the appointment, re-appointment or removal of the external auditors in line with the professional standards and regulatory requirements. In addition to this, external auditors submit a statement annually confirming their independence as required by Section 163(3) of the Companies Act No.7 of 2007 in connection with the external audit.
3(1)(ii)	The Board shall appoint the Chairman and the Chief Executive Officer (CEO)	Complied with. The Board has approved the appointment of the Chairman and the Chief Executive Officer. The two positions are separated. The functions and responsibilities of the Chairman and CEO are in line with Direction 3(5).
3(1)(iii)	The Board shall meet regularly	Complied with. The Company obtained the Commercial Banking License on January 2014 and commenced banking activities in April 2014. The Board had held 9 meetings during the year 2014.

No.	Rule	Degree of Compliance
3(1)(iv)	The Board shall ensure arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings	Complied with. All Board members are given equal opportunity to include matters and proposals in the agenda. The Directors are given adequate time and notice of regular Board meetings. The agenda and particulars of such meetings are given at the same time allowing time for the Directors to provide their views, observations and proposals.
3(1)(v)	The Board shall ensure that notice of at least 7 days for a regular Board meeting and for all other Board meetings, notice may be given	Partially Complied with. The Directors are given adequate time and usually at least five days' notice is given for regular Board meetings and agenda and particulars of such meetings are given at the same time allowing time for the Directors to provide their views, observations and proposals.
3(1)(vi)	Action on Directors who have not attended at least two-thirds of the meetings	Complied with. All Directors have attended every meeting held during 2014.
3(1)(vii)	Appoint a company secretary and setting responsibilities	Complied with. As per the letter of appointment approved by the Board a company secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988 has been appointed. The Company Secretary's primary responsibility is to handle the secretarial services of the Board, shareholder meetings and carry out other functions specified in the statutes and other regulations.
3(1)(viii)	All Directors to have access to advice and services of the Company Secretary	Complied with. The Directors have direct access to the Company Secretary at all working hours of the bank as per the compliance requirements.
3(1)(ix) and (x)	Maintain the minutes of Board meetings with sufficient detail and serve as a reference for regulators and supervisory authorities	Complied with. The Company Secretary maintains the minutes of the Board meetings and they are available for inspection by all directors. The Company Secretary records the minutes of the Board meeting with sufficient detail to satisfy all the requirements of this Direction. The minutes are also read together with the corresponding Board papers, which supplements the information in the minutes.

No.	Rule	Degree of Compliance
3(1)(xi)	Seeking independent professional advice in appropriate circumstances	Complied with. Board members are allowed to obtain independent advice with the concurrence of the Board of Directors when necessary.
3(1)(xii)	Avoid conflicts of interests, or the appearance of conflicts of interest due to other commitments to other organizations and related parties	Complied with. The Bank follows Directions issued by the Director Bank Supervision with regard to related party transactions. The Board is conscious of its obligations to ensure that directors avoid conflicts of interest (both real and apparent) between their duty to the Bank and their other interests. There is a process in place to ensure directors do not participate in discussions on matters, in which they have an interest and avoid conflict of interest in activities of the Bank. The Board has taken steps to ensure that conflicts and potential conflicts of interest of directors are disclosed to the Board by way of a self-declaration.
3(1)(xiii)	Formal schedule of matters to ensure the direction and control of the bank.	Complied with. Pre-set agenda of meetings ensuring the direction and control of the bank is firmly under the Boards control and authority.
3(1)(xiv)	Inform the Director of Bank Supervision in a possible insolvency	Not applicable. No such situation has arisen.
3(1)(xv)	The Board shall ensure the Bank is capitalized at levels as required by the Monetary board	Complied with. Regulatory capital requirement and the capital adequacy ratios are above the requirements as at 31 December 2014.
3(1)(xvi)	Publish corporate governance report	Complied with. This report serves the said requirement.
3(1) (xvii)	Adopt a scheme of self-assessment of Directors	Not complied with. No formal self-assessment has been carried out.

No.	Rule	Degree of Compliance
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 7 directors on the Board as at 31 December 2014.
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. Based on the dates of appointment of the Directors, the service of any director does not exceed 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. The Board consists of seven Directors of which two are Executive Directors and others are Non-Executive Directors.
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. The Board consists of seven Directors of which three are Independent Non-Executive Directors. The names of the Independent Non-executive Directors are as follows: 1. E M M Boyagoda 2. W K F De Silva 3. P D Rodrigo
3(2)(v)	Alternate director is appointed to represent an independent director	No such situation has arisen.
3(2)(vi)	The bank shall have a process for appointing independent Directors	Complied with. Appointment of independent directors is considered at the Board meetings.
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. Five Non-executive Directors out of seven.

<table>
<tr><th>No.</th><th>Rule</th><th>Degree of Compliance</th></tr>
<tr><td>3(2)(viii)</td><td>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</td><td>Complied with.

This report serves the said requirement.

The composition of the Board as at 31 December 2014 is as follows:<table><tr><td>L R Page</td><td>Chairman/ NED</td></tr><tr><td>V R Page</td><td>Deputy Chairman/ NED</td></tr><tr><td>P D Rodrigo</td><td>INED</td></tr><tr><td>E M M Boyagoda</td><td>INED</td></tr><tr><td>W K F De Silva</td><td>INED</td></tr><tr><td>G L H Premaratne</td><td>ED</td></tr><tr><td>P S Mathavan</td><td>ED</td></tr></table></td></tr>
<tr><td>3(2)(ix)</td><td>The procedure for the appointment of new Directors to the Board</td><td>Complied with.

Appointment of new directors is considered at the Board meetings on the basis of recommendations made by the Nomination Committee.</td></tr>
<tr><td>3(2)(x)</td><td>All Directors appointed to fill a casual vacancy is subject to election by shareholders at the first general meeting after their appointment</td><td>Complied with.

Directors appointed to fill a casual vacancy have been subject to election by shareholders at the previous general meeting, as per the annual general meeting minutes, with that being the first general meeting after their appointment</td></tr>
<tr><td>3(2)(xi)</td><td>Proper procedure to be followed for resignation or removal of a Director</td><td>Not applicable

No such situation has arisen.</td></tr>
<tr><td>3(2)(xii)</td><td>A process to identify whether a director or an employee of the Bank is appointed, elected or nominated as a director of another bank</td><td>Complied with.

None of the present Directors of the Bank act as a director of another bank.</td></tr>
</table>

No.	Rule	Degree of Compliance
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 over 70 years as per the records maintained by the Company Secretary.
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 that 20 companies/ entities/ institution inclusive of subsidiaries or associate companies of the Bank.
3(4)	**Management functions delegated by the Board**	
3(4)(i)	The Directors shall understand the delegation arrangements in place	Complied with. Delegation of authority approved by the Board of Directors.
3(4)(ii)	Extent of delegation to be within appropriate limits	Complied with. As per the Articles of Association of the Bank, the Board may entrust to and confer upon any Executive Director any of the powers exercisable by the Board upon such terms and conditions and with such restrictions as the Board may think fit.
3(4)(iii)	The Board shall review the delegation processes in place on a periodic basis	Complied with. The delegation arrangements are reviewed by the Board based on Business Requirements.
3(5)	**The Chairman and CEO**	
3(5)(i)	The roles of Chairman and CEO shall be separate and not be performed by the same individual	Complied with. Roles of the Chairman and CEO are separate functions and not performed by the same individual.
3(5)(ii)	The Chairman is a non-executive director. In the case where the Chairman is not an independent director, the Board shall designate an independent director as the senior director with suitably documented terms of reference	Complied with. The Chairman is a Non-executive Non-independent Director. Therefore, the Board has appointed an independent director as the Senior Director.

No.	Rule	Degree of Compliance
3(5)(iii)	Disclose relationships, if any, between the Chairman and the CEO and Board members and the nature of any relationships including among members of the Board	Complied with. This report serves the purpose. The Board is aware that there is a family relationship including financial and business between the Chairman and the Deputy Chairman.
3(5)(iv), (vii) and (viii)	The role of Chairman to be in line with the duties and responsibilities set out in the Directive	The Chairman directs the Board effectively. However, a formal evaluation process has now been implemented.
3(5)(v)	The Chairman shall approve the formal agenda of Board meetings	Complied with. The Company Secretary circulates the formal agenda for the Board meetings after obtaining approval from the Chairman.
3(5)(vi)	The Chairman shall ensure, through timely submission that all Directors are properly briefed on issues arising at Board meetings	Complied with. The Board meeting schedule for the year has been given at the beginning of the year and the Board papers have been circulated at least 5 days before the meeting.
3(5)(ix)	The Chairman shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever	Complied with. The Chairman does not engage in activities involving direct supervision of key management personnel or any other executive duties what soever.
3(5)(x)	The Chairman shall ensure effective communication with shareholders and that the views of shareholders are communicated to the Board	Complied with. Effective communication with shareholders is maintained at the annual general meetings and extraordinary general meetings. There have been no extraordinary general meetings during the year.
3(5)(xi)	The CEO to function as the apex executive-in charge of the day-to-day management of the Bank's operations and business	Complied with. The CEO functions as the apex executive in charge of the day-to-day management of the bank as per approved organizational structure.

No.	Rule	Degree of Compliance
3(6)	Board appointed committees	
3(6)(i)	Each bank shall have at least four board committees	Complied with. The Board has appointed the following Board Committees. • Audit Committee • Nominations Committee • Human Resource and Remuneration Committee • Strategic Planning Committee • Integrated Risk Management Committee • Board Credit Committee
3(6)(ii)	*Audit Committee:*	
	a) The Chairman of the committee shall be an independent non-executive director (INED) and possesses qualifications and related experience b) all members of the committee shall be non-executive Directors	Complied with. The Audit Committee consists of the following directors. P D Rodrigo – Chairman/ INED E M M Boyagoda – INED V R Page – NED The Chairman of the Committee is an Independent Non-executive Director (INED)and all members of the committee are Non-executive Directors.
	c) Make recommendations on matters in connection with the external auditor, Central Bank guidelines, the relevant accounting standards, and the service period, audit fee and any resignation or dismissal of the auditor	Complied with. The Committee has recommended re-appointment of the external auditors, implementation of the Central Bank guidelines, the application of the relevant accounting standards and audit fee as per the Audit Committee meeting minutes.
	d) Review and monitor the external auditor's on their independence, and objectivity and effectiveness of the audit processes	Complied with. The Audit Committee had discussed with the external auditors about scope, nature of the audit, independence of the auditors and conducted the audit in accordance with SLAuS. In addition the External Auditor submits a statement annually confirming their independence as required by Section 163(3) of the Companies Act No.7 of 2007 in connection with the external audit.

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. The terms of reference of the committee has provision for the engagement of an external auditor to provide non-audit services in accordance with relevant regulations.
	f)	Discuss and finalize the nature and scope of the audit, with the external auditors	Complied with. The Committee has discussed and finalized the nature and scope of the audit, with the External Auditors in accordance with SLAuS before the audit commenced.
	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. Monthly financial accounts are presented to the Audit Committee and reviewed by the Audit Committee of the bank, in order to monitor the integrity of the financial statements of the bank, its annual report, accounts and quarterly reports prepared for disclosure, and a process is in place to receive from the CFO major judgmental areas, any changes in accounting policies and practices,the going concern assumptions, compliance with relevant accounting standards and other legal requirements,in respect of the annual financial statements and for any significant adjustments arising from the 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 has met the External Auditors in the absence of the Executive Management with relation to the audit on 27 February 2014 and 17 July 2014.
	i)	Review the external auditor's management letter and the management's response thereto	Complied with. The Audit Committee has reviewed the management letter relating to 2014 and management responses thereto.

No.	Rule	Degree of Compliance
	j) Review the adequacy of the scope, functions and resources of the internal audit department	Complied with. As per the Audit Committee meeting minutes, the internal audit scope, functions, resources availability has been reviewed and internal audit plan has been approved by the Audit Committee. The Audit Committee has received the internal audit reports and ensures that necessary action is taken. It provides its report to the Board. The Audit Committee has reviewed the performance of the Head and Senior Staff of Internal audit and Internal audit is independent of the business units.
	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 meeting minutes.
	l) The committee to have at least two meetings with the external auditors without the executive Directors being present	Complied with. Two meetings were held during the year.
	m) Terms of reference of the Committee	Complied with. Terms of reference applicable to the Audit Committee complies with the requirements.
	n) Regular committee meetings	Complied with. The Company obtained the Commercial Banking License on January 2014 and commenced banking activities in April 2014. The Audit Committee met three times during the year.

No.	Rule	Degree of Compliance
	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. All directors have participated in all meetings held. Refer 'Board Audit Committee Report' on page 36 and 37.
	p) The Secretary of the Committee may be the Company Secretary or the Head of the Internal Audit function	Complied with. According to the Audit Committee meeting minutes the Head of Internal Audit is the Secretary to the Audit Committee.
	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	Partially complied with. The Company does not have a separate whistle blower policy. However, the process is being covered as part of the Integrated Risk Management Policy. The Bank is in the process of developing a separate policy for whistle blower.
3(6)(iii)	*Human Resources and Remuneration Committee:*	
	a) The Committee shall have a policy to determine the remuneration relating to Directors, CEO and key management personnel of the Bank.	Not complied with. There have been no meetings of the Human Resources and Remuneration Committee.
	b) The Committee shall set documented goals and targets for the Directors, CEO and the key management personnel	Complied with. Goals and targets for CEO and senior executives have been set (Strategic plan).
	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	Not complied with. There have been no meetings of the Human Resources and Remuneration Committee. However, according to the Board minutes, the Board itself has reviewed the evaluations of the performance of the CEO and the senior executives and determined their benefits.
	d) The CEO shall be present at meetings of the committee, except when matters relating to the CEO are being discussed	Not applicable. There have been no meetings of the Human Resources and Remuneration Committee.

No.	Rule	Degree of Compliance
3(6)(iv)	*Nomination Committee:*	
	a) Implement a procedure to select/appoint new directors, CEO and key management personnel	Not complied with. No formal procedure is implemented to select/appoint new directors, CEO and key management personnel.
	b) Consider and recommend (or not recommend) the re-election of current Directors	Not complied with There have been no meetings of the Nomination Committee during the year.
	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	Not complied with. 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 (No formal procedure has been documented but the Nomination Committee consider these facts when a decision is taken).
	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 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	Not complied with. There is no formal succession plan policy in place for the retiring Directors and Key Management Personnel.
	f) The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors	Not Complied with. The Committee is chaired by a Non-executive director, but not independent. Committee consists 5 members Including Chairman and Deputy Chairman. Out of that three members are NED.

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	Not complied with. The Committee consists of seven members. Out of that two directors are Non-executive. Since reconstituted and presently three Non-executive Directors are in the Committee.
	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.	Not Complied with. The IRMC has not had any meetings during the year. However, the Assets and Liabilities Committee (ALCO) reviews all risk matters and relevant papers are submitted to the Board by the Senior Management. The Board reviews and puts in place the processes to mitigate the potential risk factors.
	c) Review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset-Liability Committee	Not Complied with. The IRMC has not held any meetings during the year. However, the Assets and Liabilities Committee (ALCO) reviews all risk matters and relevant papers are submitted to the Board by the senior management. The Board reviews and puts in place the processes to mitigate the potential risk factors.
	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	Not Complied with. The IRMC has not held any meeting during the year. However, specific quantitative and qualitative risk limits for all management level committees have been set.
	e) Meet at least quarterly to assess all aspects of risk management including updated business continuity plans	Not complied with. The IRMC has not had any meetings during the year.
	f) Take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions	Not complied with. The IRMC has not had any meetings during the year.

No.	Rule	Degree of Compliance
	g) Submit a risk assessment report within a week of each meeting to the Board	Not complied with. The IRMC has not had any meetings during the year.
	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. There is a Risk and Compliance officer to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations of the Bank and report to the Audit Committee and Board.
3(7)	**Related party transactions**	
3(7)(i) and (ii)	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the bank with any person	Complied with. The self-declarations and affidavits of the Board directors are collected and monitored by the Company Secretary. This process is been strengthened by introducing a formal process by which the Company Secretary circulates details of the related entities to the Finance Department and the Credit Committee. The Executive Credit Committee collects the information and makes recommendations to the Board level Sub-committee. Detail procedures are documented in the Related Party Policy manual.
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 favorable treatment" than that accorded to other constituents of the bank carrying on the same business	Complied with. No such situation had arisen. The Executive Credit Committee collects the information and makes recommendations to the Board level Sub-committee. Detail procedures are documented in the Related Party Policy manual.
3(7)(iv)	A bank shall not grant any accommodation to any of its directors or to a close relation of such director unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of directors other than the Director concerned, voting in favour of such accommodation	Complied with. No such situation had arisen. The Executive Credit Committee collects the information and makes recommendations to the Board level Sub-committee. Detail procedures are documented in the Related Party Policy manual.

No.	Rule	Degree of Compliance
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.
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 42 and 46.
	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 43.
	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 45.

No.	Rule	Degree of Compliance
	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 page 9 to 10. Directors transactions with the Bank and their remunerations have been disclosed in the Note 46 to the Financial Statements.
	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. Accommodation granted to the related parties is given in the Note 46 to the Financial Statements.
	f) The aggregate values of remuneration paid by the bank to its key management personnel and the aggregate values of the transactions of the bank with its key management personnel	Complied with. The remuneration package for the Bank's Key Management Personnel and the transactions with the Bank's key management personnel have been disclosed in Note 46 to the Financial Statements.
	g) External auditor's report on compliance with Corporate Governance Directions	Complied with. The Factual Finding Report from the External Auditors' has been obtained to comply with the requirements of these Directions.
	h) A report setting out details of compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances	Complied with. Refer statement of "Directors' Responsibility for Financial Reporting" on page 42.
	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	Not Applicable There were no significant supervisory concerns on lapses in the Bank's risk management or non-compliance with this Direction that have been pointed out by the Director of Bank Supervision of the Central Bank of Sri Lanka and requested by the Monetary Board to be disclosed to the public.
3(9)	Transitional and Other General Provisions	
3(9)(i)-(iv)	Transitional and Other General Provisions	The Bank has complied with this requirement.

Managing Risk at Cargills Bank

Introduction

Risk is an integral part of banking business. Cargills Bank aims at delivering superior shareholder value by achieving an appropriate trade-off between risk and returns based on a clear understanding of various risks, disciplined risk assessment and measurement procedures and continuous monitoring. The Bank is making steady progress on compliance with ICAAP regulations despite being in business operations for only 6 months.

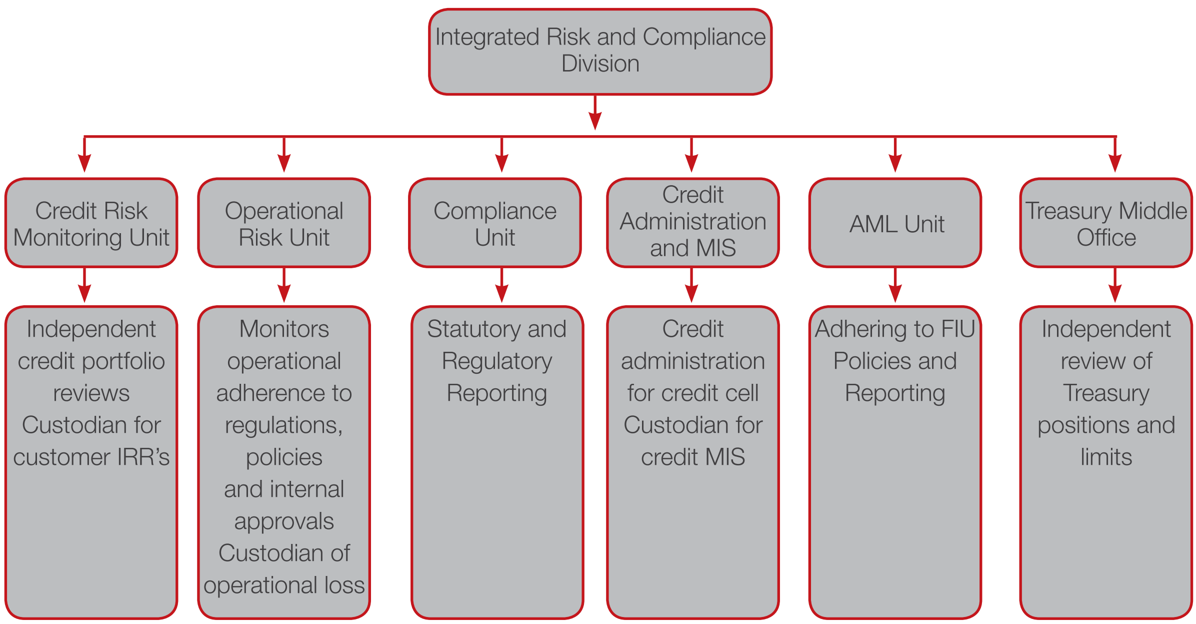
The purpose of risk management is that the Bank and the group properly identifies, measures and mitigates risk so that the extent of risks assumed have been compensated with adequate returns.

The Bank and the group company have established mechanisms, which ensure the ongoing assessment of relevant risk types on an individual basis and of the overall risk position of the Bank.

More specifically, the Board Integrated Risk Management Committee (BIRMC) is responsible for ensuring

- Integrity and adequacy of the risk management function of the Bank.
- Adequacy of the Bank's capital.
- Risk exposures and risk profiles of the Bank are within acceptable parameters to make recommendations to the Board of Directors on any action required.
- The compliance of the Company's operations with relevant laws, regulations, directions and standards.

The BIRMC is supported by the Asset and Liability Committee (ALCO), Credit Risk Committee and the Audit Committee. ALCO manages the Bank's overall liquidity position, and is responsible for Liquidity Risk and Interest Rate Risk Management of the Bank and implementation of liquidity management policies, procedures and practices approved by the Board of Directors. This is achieved through proper representation of key business heads, frequent ALCO meetings and continuous monitoring of the liquidity position of the Bank through reports submitted by the Finance Department and Treasury Middle Office. The Credit Risk Committee supported BIRMC to manage the credit risk of the Bank and the Audit Committee ensured that operational risk of the Bank was monitored and contained. Regular reporting to the Board was undertaken by these committees.



Cargills Bank's three lines of Defence Framework

Governance Tone at the Top

BOARD OF DIRECTORS
Board Integrated Risk Management Committee/ Board Audit Committee
• Risk Assessment of Internal Control Environment
• Risk Assessment of Policies developed by the Board

Performance Risk Management

CHIEF FINANCIAL OFFICER	AGM – RISK AND COMPLIANCE	HEAD OF INTERNAL AUDIT
1st Line of Defence. Business Line Operations Real time focus • Enables risk management framework and sound risk management practices into standard operating procedures • Monitors risk management performance • Accountable for effectiveness of risk management • Exercises approval authorities in accordance with delegated authorities	2nd Line of Defence. Risk Management Unit Real time review focus • Develops and implements risk management frameworks, Policies,systems, processes, tools • Ensures framework encompasses -recent identification -risk assessment -risk measurement -risk response -control activities -information & communication -mentoring and -reporting	3rd Line Defence. Internal Audit (Reporting Directly) Review Focus • Reviews effectiveness of risk management practices • Confirms level of compliance • Recommends improvements and enforces corrective actions where necessary External Audit (Reporting to the shareholders) • Issue an opinion on the true and fair view of the financial statements • Review the internal controls over financial reporting process

The Bank is primarily exposed to credit risk, market risk, liquidity risk, operational risk, strategic risk and regulatory risk.

Credit risk

Credit risk is the risk of financial loss to the Bank and Group if a customer or counter-party to a financial instrument fails to meet its contractual obligations. The risk arises principally from the Group's loans and advances to customers and other banks.

The Bank measures, monitors and manages credit risk for each borrower and also at portfolio level, whilst adopting standardized credit approval processes, including a well established procedure for comprehensive credit appraisal and rating. The Bank use internal credit rating methodologies for Large Corporates, Middle Corporates, Financial Institutions and Medium & Small Enterprise customers. The rating factors include quantitative and qualitative criteria and credit enhancement features specific to the transaction. The rating for every borrower will be reviewed at least annually. Industry knowledge will consistently be updated through field visits and interactions with clients, regulatory bodies and industry experts. The rating serves as an input in the approval as well as post-approval credit processes.

The Bank uses credit rating models for Corporate, Mid Corporates and Financial Institutions to evaluate credit proposals and a Credit Scoring Model for Medium and Small Enterprise customers. Executive Credit Committee, with insight into Credit Risk Management, peruses all credit proposals.

Each credit facility beyond a threshold of Rs. 25 Mn, includes an independent risk review and endorsement with no revenue targets to ensure business development, risk and credit administration functions are clearly segregated.

Impairment assessment

The Bank adheres to guidelines by the CBSL for the recognition of credit losses on impaired financial assets. The losses are recognised, though there are no current NPLs, when objective evidence of a specific loss event has been observed. This includes,

- Significant financial difficulty of the customer.
- A breach of contract such as a default of payment.
- It becomes probable that the customer will enter bankruptcy or other financial reorganisation.
- Observable data that suggests that there is a decrease in the estimated future cash flow from the loans.

Liquidity risk and fund management

Liquidity risk is the risk of inadequate resources to meet financial obligations in time and in full, at an acceptable cost.

Liquidity risk can pose serious threats to the existence of financial institutions. The Bank understands the importance of a robust liquidity risk management policy and constantly monitors the liquidity position of the Bank.

Liquidity risk arises from an inability of the bank to meet its payment obligations when they fall due under both normal and stress circumstances. To limit the risk, management has arranged diversified funding sources in addition to its core deposit base, and adopts a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis.

Market risk

Market risk is the risk of potential losses accruing through adverse fluctuation in market interest rates, equity prices and exchange rates. Of these markets risks, the more frequent and most likely is the risk of adverse fluctuation of interest rates and exchange rates. The effect of such adverse movements could have an immediate and direct bearing on the Bank. Interest rate risk is the risk of loss in the net interest income of the Bank due to adverse changes in market interest rates. The Bank regularly assesses its assets and liability profile in terms of interest rate risk and depending on this assessment, necessary realignments in the assets and liability structure are undertaken.

A comprehensive Board approved Treasury Policy is in place and will be regularly updated to reflect regulatory developments. Cargills Bank's Treasury does limited trading on its own account; does not offer derivative products and only carries a small Treasury Bills & Bonds available for sale portfolio. Consequently the relative exposure to market risk from these areas will be low. We limit our exposure to exchange rate risk by stipulating position limits. The focus is mainly on Interest rate risk arising from the conduct of normal business. Given the criticality of this area in the current environment a key priority is to further improve our infrastructure to ascertain re-pricing gap analysis and duration analysis with a view to ensuring adequate liquidity at all times through systematic funds planning and maintenance of liquid investments.

The Treasury Middle Office will monitor the asset-liability position under the supervision of the ALCO. It oversees Treasury activities and adherence to regulatory / internal policy guidelines. The Treasury Middle Office is responsible for monitoring, processing of treasury transactions, tracking the daily funds position and complying with all treasury-related management and regulatory reporting requirements.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks in the Bank will be managed through a comprehensive internal control framework.

The Bank has a process of continuous internal audit and an external audit utilising the services of Messrs. KPMG, Chartered Accountants.

An Operational Risk Policy is in place comprising risk identification, assessment of controls to mitigate these risks, risks measurement, risks monitoring and mitigation. The Operational Risk Unit will facilitate its implementation through internally defined Operational Risk Guidelines and Operational Risk Meetings conducted across the network.

Cargills Bank has a Loss tracking database analyzed by business function and loss incident as per BASEL requirements. A high level Operational Risk Dashboard will be developed during the year to keep Senior Management apprised of key operational losses on a monthly basis and an effective feedback loop will be in place to ensure that learning from loss incidents is effectively disseminated across the network to prevent / minimise recurrence.

Cargills Bank's Operational Risk is mainly mitigated by Insurance. The consequent adequacy and effectiveness of insurance will be evaluated during the year and suitable recommendations made.

Regulatory risk

The Compliance Officer is supported and assisted by the Bank's Risk Managers, Internal Auditors, External Auditors who also report on any issues of non-compliance, with both internal and external regulations. Compliance with regulatory requirements is also documented through formal procedure manuals for each business unit.

The Board expects Cargills Bank's business to be conducted in accordance with the laws, and regulations and has zero tolerance for failure to identify and escalate breaches of these obligations.

The Compliance Unit is accountable for designing a compliance program that allows Cargills Bank to meet its regulatory obligations and each division has responsibility for embedding the compliance framework into its business operations.

Key principles of the Compliance Framework are to foster an integrated approach where, staff are responsible and accountable for compliance, either within their job role or within their area of influence.

A comprehensive Board approved AML Policy / Procedure is in place and regularly updated to reflect regulatory developments. The last review of AML Policy / Procedure was done in November 2014 and the approval of the Board was obtained.

The FIU created a web based reporting system (LankaFIN) and requires all reporting institutions to up-load mandatory reports to LankaFIN every fortnight from August 2009. Cargills Bank is complying with this requirement.

Strategic risk

Strategic risk is a function of the compatibility of a bank's strategic objectives, business decisions developed to achieve those goals, resources deployment and the quality of implementation.

In pursuing its strategic goals and business objectives, Bank has established clear communication channels at all levels and has incorporated the necessary controls to keep the risk within the risk appetite level of the Bank.

Reputation risk

Reputation risk is the risk to Bank's standing and its brand equity which can impact customer sentiments causing business losses. A Bank's reputation is a valuable business asset in its own right, essential to optimizing shareholder value. Reputation risk cannot be managed in isolation from other forms of risks, since all risks can have an impact on reputation, which in turn can impact the brand, profitability and capital. Credit, liquidity, interest rate, operational, and regulatory risk are managed effectively in order to safeguard the Bank's reputation.

Capital adequacy and management

Central Bank of Sri Lanka requires banks to maintain prudential level of capital. The Capital Adequacy Ratio (CAR) guidelines require Banks to maintain minimum tier one capital ratio of at least 5% and minimum total capital of at least 10%. Capital adequacy measures the Bank's aggregate capital in relation to the risk, which may arise from its assets and off balance sheet transactions, its dealing operations, its operational activities, technology and other risks within the Bank's operations including Credit, Market and Operational Risks under Basel 2 requirements. The Bank had a healthy Capital Adequacy Ratio of 85.44%.

Capital and risk weighted assets

	Minimum Requirement	2014
Core capital	5.00%	90.40%
Total capital base	10.00%	85.44%

The Central Bank of Sri Lanka requires all Licensed Commercial Banks to increase their minimum regulatory capital to Rs. 10 Bn by the end of December 2015. Cargills Bank will comply with this requirement within the time frame prescribed.

Financial Reports

Audit Committee Report

The Board Audit Committee (BAC) assists the Board in carrying out its responsibilities in relation to financial reporting requirements, internal auditing and the assessment of internal controls.

The BAC comprises the following members;

P D Rodrigo (Chairman)
V R Page (Non-Executive Director)
E M M Boyagoda (Non-Executive Director)
V R S P Ranjith Amarasinghe (Secretary)

The Managing Director Mr. Prem Kumar and the Deputy Managing Director Mr. P S Mathavan attend meetings by invitation.

External Auditors meet with the Committee at least twice a year. Persons responsible for management of the Bank attend certain meetings to enhance BAC awareness of key issues and developments in the business which are relevant to the Board Audit Committee in the performance of its role.

Regulatory Compliance

The Roles and functions of the BAC are regulated by the Banking Act Direction No. 11 of 2007, the mandatory Code of Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka, the Rules on Corporate Governance as per section 7.10 for Listed Companies issued by the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission (SEC).

Qualifications

The Chairman of BAC, Mr. P D Rodrigo is a chartered accountant, with a career at the international accounting and consulting firm PricewaterhouseCoopers (PWC). He held the position of senior partner of PWC from 1992 to 2006. He was also the Chairman of the Ceylon Chamber of Commerce from 2004 to 2006. He has previously held public office as a Director of People's Bank from 1999 to early 2003 and as a member of the Monetary Board of the Central Bank of Sri Lanka from 2003 to 2006. He is presently a Non-executive Director of Chevron Lubricants Lanka PLC. The other members of BAC have in depth experience in finance, investment banking or in large business organizations at chief executive level.

Duties and Role of the Board Audit Committee

The BAC has oversight responsibility for:

- The integrity of the financial statements of the Bank, including its annual report and accounts and quarterly financial statements issued for publications.
- The appropriateness of accounting policies and practices.
- The effectiveness of the performance of internal audit.
- Assessing the independence and performance of the External Auditor and recommend their reappointment and fees.
- The effectiveness of the Bank's systems of internal control over financial reporting.
- Monitor compliance with laws, rules and regulations.

During the year ended 31 December 2014 the principal activities of the BAC were as follows:

Performance

Meetings of the Board Audit Committee

The committee had three (03) meetings during the year ended 31 December 2014. The Managing Director, Deputy Managing Director/Chief Financial Officer and the External Auditors also attended these meetings by invitation.

Internal Controls Over Financial Reporting

The Bank is required to comply with section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007 on Corporate Governance issued by Central Bank of Sri Lanka and assess the effectiveness of internal control over financial reporting. The Bank assessed the effectiveness of its internal control over financial reporting as a part of duties and functions of the internal audit division. The Bank's assessment was based on processes documented by the respective process owners.

Based on assessments made by the Internal Audit and External Auditors, Board has concluded that the Bank's Internal Control over Financial Reporting was effective. "Directors' report on the Bank's Internal Controls Over Financial Reporting" is provided on page 43 to 44. External Auditor's Report on the Bank's Internal Control Over Financial Reporting is provided on page 45.

Annual Corporate Governance Report

As required by the directions issued by the Central Bank of Sri Lanka (CBSL) on Corporate Governance for Licensed Commercial Banks, section 3(8)(ii)(g) of the Banking Act Direction No. 11 of 2007, the External Auditor of the Bank should report on the Bank's compliance with the Corporate Governance Directions in the Corporate Governance Reports published by the Bank. A factual finding report addressed to the Board was issued by KPMG. The Annual Corporate Governance Report for 2014 is provided on pages 11 to 29.

Internal Audit

The BAC monitored and reviewed, the scope, extent and effectiveness of the Bank's Internal Audit function. The BAC had regular interactions with the AGM Internal Audit who also functions as its Secretary. During the year, BAC reviewed the internal audit plan and monitored the progress and results of its reviews.

External Auditors

The BAC reviewed and monitored the independence of the External Auditors and the objectivity and effectiveness of the audit process and provided the Board of Directors with its recommendation to the shareholders on the reappointment of the auditors, KPMG. The BAC recommended the fees for audit and approved permitted non-audit services provided by KPMG. The Committee had 03 meetings with the external auditors including two meetings without the presence of any officials of the Bank to ensure that they have had unhindered access to all information, records and staff and have had no pressure or influence in reporting their findings.

The Committee has 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 within the meaning of the Code of Conduct and Ethics of the Institute of Chartered Accountants of Sri Lanka. The Committee reviewed the external audit plan as well as management letters and followed up on issues raised.

On behalf of the Audit Committee

P D Rodrigo
Chairman of Audit Committee

Colombo
8 May 2015

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

Your Directors have pleasure in presenting to the members their report together with the Audited Financial Statements for the year ended 31 December, 2014.

The details set out herein provide the pertinent information required by the Companies Act No. 7 of 2007 and 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 a public limited liability company and a Licensed Commercial Bank, was incorporated in Sri Lanka on 3 November 2011 as "Cargills Agriculture and Commercial Bank Limited" under the Companies Act No. 7 of 2007 and approved as a Licensed Commercial Bank under the Banking Act No. 30 of 1988 on 21 January 2014.

The Report of the Board of Directors and the Financial Statements were approved by the Board of Directors on 8 May 2015.

Principal Activities

The Bank's principal business activities are Commercial Banking and related financial services.

Profit and Appropriations

The Bank's profit and appropriations were as follows;

	Bank		Group
	2014	2013	2014
	Rs. '000	Rs. '000	Rs. '000
Loss Before Taxation	(235,054)	(88,609)	(229,063)
Taxation	116,000	-	115,851
Loss for the Year	(119,054)	(88,609)	(113,212)
Other Comprehensive Income	(502)	-	(502)
Accumulated Loss Brought Forward	(301,461)	(212,852)	(301,461)
Transfer to Available for sale reserve	502	-	502
Goodwill on changing shareholding	-	-	(8,649)
Dividends Paid	-	-	-
Non-controlling interest	-	-	(1,372)
Loss to be carried Forward	(420,515)	(301,461)	(424,694)

Financial Statements

The Financial Statements of the Bank are given on pages 48 to 99 of this Annual Report.

Income

The Bank's main income consists of Interest on Loans and Advances, interest on other interest earning assets and Fee based income. The summarised income could be shown between the years as follows:

	Bank		Group
	2014	2013	2014
	Rs. '000	Rs. '000	Rs. '000
Interest income	343,436	492,320	409,717
Fees and commission income	12,317	-	13,549
Net gains / (losses) from trading	4,461	-	4,461
Net gains / (losses) from financial instruments at fair value through profit & loss	-	-	676
Net gains / (losses) from financial investments	2,074	-	2,074
Other income	653	503	4,302

Shareholders' Funds and Reserves

The Bank's total reserves as at 31 December 2014 stood at a negative balance of Rs. 421 Mn. This comprises an accumulated loss of Rs. 420.5 Mn and Available for Sale Reserve of Rs. 0.5 Mn. The movement in Accumulated loss and Available for Sale Reserve are shown in Notes 37 and 38 to the Financial Statements.

The Group's total reserves as at 31 December 2014 stood at a negative balance of Rs. 425 Mn. This comprises an accumulated loss of Rs. 424.6 Mn and Available for Sale Reserve of Rs. 0.5 Mn. The movement in Accumulated loss and Available for Sale Reserve are shown in Notes 37 and 38 to the Financial Statements.

Auditors' Report

The auditors of the Bank are KPMG, Chartered Accountants. Their report on the Financial Statements is given on page 47 They come up for re-election at the Annual General Meeting, with the approval of the Audit Committee and the Board of Directors.

Accounting Policies

The accounting policies adopted in preparation of the Financial Statements are given on pages 53 to 68.

Directors' Interest Register

Under the Provisions of Section 192 of the Companies Act No. 7 of 2007, the Interest Register is maintained by the Bank. The Directors have made the necessary declarations which are recorded in the Interest register and are available for inspection in terms of the Act. The Directors dealings with the Bank during the accounting period is given in Note 46.2 and 46.3 to the Financial Statements.

Directors' Remuneration

Directors' remuneration and other benefits of the Directors are given in Note 46.1 to the Financial Statements.

Donations

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

Directorate

The names of the Directors of the Bank during the period 1 January 2014 to date are given below with changes that occurred in the composition of the Board during the period under review. The classification of Directors into Executive, Non-Executive and Non-Executive Independent Directors are given against the names as per the Central Bank mandatory rules on Corporate Governance under the Banking Act directions.

Name of Director	Executive/ Non-Executive Status	Independence/ Non-Independence Status
L R Page - Chairman	Non-Executive	Non-Independent
V R Page - Deputy Chairman	Non-Executive	Non-Independent
G L H Premaratne - Managing Director/ CEO	Executive	Non-Independent (Resigned from the Board on 30 January 2015)
Prem Kumar - Managing Director/ CEO	Executive	Non-Independent (Appointed to the Board on 26 March 2015)
P S Mathavan - Deputy Managing Director/ CFO	Executive	Non-Independent
P D Rodrigo - Senior Director	Non-Executive	Independent
E M M Boyagoda	Non-Executive	Independent
W K F De Silva (Ms.)	Non-Executive	Independent
M O F Salieh	Non-Executive	Independent (Appointed to the Board on 30 March 2015)
K H Halbertsma	Non-Executive	Non-Independent (Resigned from the Board on 7 July 2014)

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

Mr. M O F Salieh who retires in terms of Article 92 of the Articles of Association of the Bank, being eligible offers himself for re-appointment.

Directors' Interest

Related party transactions of the Bank are disclosed in Note 46 to the Financial Statements on page 97. The Directors have no direct or indirect interest or proposed contract other than those disclosed.

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

Auditors

In accordance with the Companies Act No. 7 of 2007, a resolution for the re-appointment of M/s KPMG, Chartered Accountants, to the Bank is being proposed at the Annual General Meeting. Audit related fees and Non-audit fees payable to KPMG for the year under review amounted to Rs. 1.9 Mn and Rs. 0.2 Mn respectively.

Stated Capital

The Stated Capital of the Bank is Rs. 4,968.85 Mn the details are given in Note 36 to the Financial Statements.

Internal Controls

The Board of Directors have put in place an effective and comprehensive system of internal controls covering financial operations, compliance and risk management which are required to carry on the business of banking prudently and ensure as far as possible, accuracy and reliability of records.

Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of Financial Statements of the Bank to reflect a true and fair view of the state of its affairs. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards and Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, 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 given on page 11 to 29.

Capital Expenditure

The Bank's expenditure on Property, Plant & Equipment at cost amounted to Rs. 53.5 Mn during 2014, details of which are given in Note 29.1 to the Financial Statements. Expenditure on Intangible Assets at cost amounted to Rs. 36.5 Mn during 2014, details of which are given in Note 30 to the Financial Statements.

The Group's expenditure on Property, Plant & Equipment at cost amounted to Rs. 54.2 Mn during 2014, details of which are given in Note 29.2 to the Financial Statements. Expenditure on Intangible Assets at cost amounted to Rs. 36.5 Mn during 2014, 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, 2014 was 69 compared to 70 as at 31 December 2013. The schedule indicating the shareholders' analysis is on page 100.

Register of Directors & Secretaries

The Bank maintains a Register of Directors and Secretaries which contains the relevant information of the Board of Directors and the Company Secretary.

Board Committees

In keeping in line with the Corporate Governance rules, transparency and accountability, the Board has appointed the required Board Committees and the composition is given in the Governance report.

New Branches

3 branches were opened during the year under review.

Provision for Taxation

Total taxable profit was charged at 28% in accordance with income tax legislations. Deferred tax was calculated based on the Balance Sheet Liability Method in accordance with Sri Lanka Accounting Standards (LKAS/ SLFRS).

Annual General Meeting

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

The Annual General Meeting will be held at the Institute of Chartered Accountants of Sri Lanka on 26 June 2015. The Notice of Meeting can be found on page 101.

Going Concern

The Directors after making necessary inquiries and reviews including reviews of the Bank's ensuing year budget for capital expenditure requirements, future prospects and risk and cash flows have a reasonable expectation that the Bank has adequate resources to continue operations in the foreseeable future.

For and on behalf of the Board of Directors,

L R Page
Chairman

V R Page
Deputy Chairman

Prem Kumar
Managing Director/CEO

Ms. S M Dunuwille
Company Secretary

Colombo
8 May 2015

Directors' Responsibility for Financial Reporting

The responsibility of the Directors in relation to the Financial Statements of 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 47 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 the Financial Statements that gives a true and fair view of the state of affairs of the Bank as at the date of the Statement of Financial Position and the profit of the Bank for the financial year ended on the date of the Statement of Financial Position and place them before a general meeting. The Financial Statements comprise the Statement of Financial Position as at 31 December 2014, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flow for the year then ended and notes thereto.

Accordingly, the Directors confirm that the Financial Statements of the Bank and the Group give a true and fair view of;

a) the financial position of the Bank and the Group as at 31 December 2014; and

b) the financial performance of the Bank and the Group for the financial year then ended.

The Financial Statements of the Bank have been certified by the Bank's Manager - Finance, 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 8 May 2015 as required by the 150 (1) of the Companies Act.

Under 148 (1) of the Companies Act, it is the overall responsibility of the Directors to oversee and ensure to keep proper accounting records which correctly record and explain the Bank's transactions with reasonable accuracy at any time and to enable the Directors to prepare Financial Statements, in accordance with the said Act and also to enable the Financial Statements to be readily and properly audited.

The Directors in preparing these Financial Statements are required to ensure that;

(i) The appropriate accounting policies have been selected and applied in a consistent manner and material departures if any have been disclosed and explained

(ii) Make judgments and estimates that are reasonable and prudent.

(iii) All applicable accounting standards, as relevant, have been followed.

The Directors are also required to ensure that the Bank has adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements. The Financial statements prepared and presented in the report are consistent with the underlying books of account and are in conformity with the requirements of Sri Lanka Accounting Standards, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act of No. 15 of 1995, Banking Act No. 30 of 1988 and amendments thereto and the Continuing Listing Rules issued by the Colombo Stock Exchange.

The Directors have taken adequate measures on inspecting financial reporting systems through Audit Committee Meetings and granting approvals for issuing of Interim Financial Statements. The Directors have also instituted effective and comprehensive systems of internal controls. This comprises internal checks, internal audit and the whole system of financial and other controls required to carry on the banking business in an orderly manner, safeguard assets, prevent and detect frauds and other irregularities and secure as far as practicable the accuracy and reliability of the records. The results of such reviews carried out during the year ended 31 December 2014 is given on page 43 to 44 of the Annual Report, "Directors' Statement on Internal Controls Over Financial Reporting". External Auditors' Assurance Report on the Bank's Internal Controls Over Financial Reporting is given on page 45 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 47 of this Annual Report.

The Directors are satisfied that all statutory payments in relation to all regulatory and statutory authorities which were due and payable by the Bank were paid or where relevant provided for.

The Directors of the Bank are of the view that they have discharged their responsibilities as set out in this statement.

By Order of the Board

Ms. S M Dunuwille
Company Secretary

Colombo
8 May 2015

Directors' Statement on Internal Controls Over Financial Reporting

In line with the Banking Act Direction No. 11. of 2007, section 3(8)(ii)(b), the Board of Directors present this report on Internal Controls.

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at Cargills Bank Limited, ("the Bank"). In considering such adequacy and effectiveness, the Board recognises that the business of banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlighting any deviations from the limits and indicators which comprise the risk appetite of the Bank. In this light, the system of internal controls can only provide reasonable, but not absolute assurance, against material misstatement of financial information and records or against financial losses or fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls over financial reporting as and when there are changes to the business environment or regulatory guidelines. The process is regularly reviewed by the Board and is in accordance with the Guidance for Directors of Banks on the Directors' Statement on Internal Controls issued by the Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal controls over financial reporting taking into account principles for the assessment of internal controls system as given in that guidance.

The Board is of the view that the system of internal controls over financial reporting in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements. The Management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

Key Features of the Process Adopted in Applying 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.
- Internal Audit Department 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 highlight significant findings in respect of any non compliance. Further, Internal Audit Department evaluates the appropriateness & adequacy of procedures in place to ensure compliance with local and international laws and regulations, examine the reliability and integrity of financial and other operating information, examine the status of Bank's economical and efficient use of resources, report to management about asset utilization and recommended changes in operations and financial activities. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual internal audit plan is reviewed and approved by the Board Audit Committee. The frequency of audit of branches/units is determined by the level of risk assessed. Findings of the Internal Audit Department are submitted to the Board Audit Committee for review at their periodic meetings.
- The Board Audit Committee of the Bank reviews internal control issues identified by the Internal Audit Department, the External Auditors, Regulatory Authorities and the Management: and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of the same. The minutes of the Board Audit Committee meetings are forwarded to the Board on a periodic basis. Further details of the activities undertaken by the Board Audit Committee of the Bank are set out in the Audit Committee Report on pages 36 to 37.

- In assessing the internal control system over financial reporting, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. These in turn were observed and checked by the Internal Audit Department for suitability of design and effectiveness on an ongoing basis.
- The Bank adopted the New Sri Lanka Accounting Standards comprising LKAS and SLFRS in 2012. The processes and procedures initially applied to adopt the aforementioned Accounting Standards were further strengthened during the year 2014 when the bank commenced banking operations. The Bank is in the process of updating relevant procedure manuals pertaining to these regulatory requirements. Continuous monitoring is in progress to ensure effective implementation of the required process. The Bank has also recognised the need to introduce an automated financial reporting process in order to comply with the requirements of recognition, measurement,classification and disclosure of the financial instruments more effectively and efficiently.
- The Comments made by the External Auditors in connection with the internal control system over financial reporting in previous years were reviewed during the year and appropriate steps have been taken to rectify them. The recommendations made by the External Auditors in 2014 in connection with the internal control system over financial reporting will be dealt with in the future.

Confirmation

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide a reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

Review of the Statement by External Auditors

The External Auditors, Messrs KPMG, have reviewed the above Directors Statement on Internal Controls over Financial Reporting included in the Annual Report of the Bank for the year ended 31 December 2014 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal controls over financial reporting of the Bank.

The Assurance Report of the External Auditors in connection with Internal Controls over Financial Reporting is on page 45.

Prem Kumar
Managing Director/CEO

Ms. S M Dunuwille
Company Secretary

Colombo
8 May 2015

Independent Assurance Report to the Board of Directors of Cargills Bank Limited

KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300,
Sri Lanka.

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Internet : www.lk.kpmg.com

We were engaged by the Management of Cargills Bank Limited("Bank") to provide assurance on the accompanying Management's Statement on Internal Control ("Statement") for the year ended 31 December 2014.

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 Bank 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 Management 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 the Management and appropriately reflects the process the Management has adopted in reviewing the system of internal control for the Bank.

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

(a) Enquired the Management to obtain an understanding of the process defined by the Management for their review of the design and effectiveness of internal control and compared their understanding to the accompanying Statement made by the Management.

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

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

(d) Reviewed the minutes of the meetings of the relevant Management Committees.

(e) Considered whether the Management'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 Management on matters material to the Statement on Internal Control where other sufficient appropriate audit evidence cannot reasonably be expected to exist.

SLSAE 3050 does not require us to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

Our conclusion

In assessing the internal control system, all procedures and controls that are connected with significant accounts and disclosures of the financial statements of the Bank were collected by the respective supervisor/ appointed officer and is counter verified by the Banking Services Manager/Deputy Banking Services Manager independently for suitability of design and effectiveness on an ongoing basis.

Based on the procedures performed, nothing has come to our attention,which causes us to believe that the accompanying Statement is inconsistent with our understanding of the process the Management has adopted in the review of the design and effectiveness of internal control system over the financial reporting of the Bank.

Chartered Accountants

Colombo
8 May 2015

CEO's & CFO's Responsibility for Financial Reporting

The Financial Statements of the Cargills Bank Limited ("the Bank") for the year ended 31 December 2014 are prepared and presented in compliance with the 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, the Banking Act No. 30 of 1988 and amendments thereto and the Directions, Determinations, and Guidelines issued by the Central Bank of Sri Lanka, and the Listing Rules of the Colombo Stock Exchange. 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.

The significant accounting policies and estimates that involved a high degree of judgment and complexity were discussed with the Audit Committee and External Auditors. The Board of Directors and the Management of the Bank accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgments relating to the Financial Statements were made on a prudent and reasonable basis; in order that the Financial Statements reflect in a true and fair manner, the form and substance of transactions and that the 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 control and accounting records, for safeguarding assets and for 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 2014, as required by the Banking Act Direction No. 11 of 2007, result of which is given on pages 43 to 44 in the Annual Report, "Directors' Statement on Internal Controls Over Financial Reporting". "External Auditors' Assurance Report on the Bank's Internal Controls Over Financial Reporting" is given on page 45 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 97 of the Annual Report. The Audit Committee of the Bank meets periodically with the Internal Audit team and the independent External Auditor to review their audit plans, assess the manner in which these auditors are performing their responsibilities and to discuss their reports on internal controls and financial reporting issues. To ensure complete independence, the External Auditor and the Internal Auditor have full and free access to the members of the Audit Committee to discuss any matter of substance. The Audit Committee approves the audit and non-audit services provided by External Auditors, Messrs KPMG, in order to ensure that the provision of such services does not impair independence of the external auditors and does not contravene the guidelines issued by the Central Bank of Sri Lanka on permitted non-audit services.

We confirm to the best of our knowledge;

- prudential requirements and there are no material litigations that are pending against the Bank other than those disclosed in the Note 49 to the Financial Statements.
- all contributions, levies and taxes paid on behalf of and in respect of the employees of the Bank as at the Statement of Financial Position date have been paid or where relevant provided for.

Prem Kumar
Managing Director / CEO

P S Mathavan
Deputy Managing Director / CFO

Colombo

8 May 2015

Independent Auditors' Report

KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
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To the Shareholders of Cargills Bank Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Cargills Bank Limited, ("the Company"), and the consolidated financial statements of the Company and its subsidiary ("Group"), which comprise the statement of financial position as at December 31, 2014, and the income statement, statements of profit or loss and other comprehensive income, changes in equity and, cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information set out on page 48 to 99 of the Annual Report.

Board's Responsibility for the Financial Statements

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

Auditors' Responsibility,

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2014, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 7 of 2007, we state the following:

a) The basis of opinion and scope and limitations of the audit are as stated above

b) In our opinion:

- We have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.
- The financial statements of the Company give a true and fair view of its financial position as at December 31, 2014, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
- The financial statements of the Company, and the Group comply with the requirements of sections 151 and 153 of the Companies Act No. 7 of 2007.

KPMG

Chartered Accountants

Colombo
8 May 2015

Income Statement

For the year ended 31 December	Note	Bank 2014 Rs. '000	Bank 2013 Rs. '000	Change %	Group 2014 Rs. '000
Interest income		343,436	492,320	(30)	409,717
Interest expenses		(30,875)	(100,509)	69	(63,302)
Net interest income	7	312,561	391,811	(20)	346,415
Fees and commission income		12,317	-	-	13,549
Fees and commission expenses		(1,201)	-	-	(1,320)
Net fees and commission income	8	11,116	-	-	12,229
Net gains / (losses) from trading	9	4,461	-	-	4,461
Net gains / (losses) from financial instruments at fair value through profit or loss	10	-	-	-	676
Net gains / (losses) from financial investments	11	2,074	-	-	2,074
Other income	12	653	503	30	4,302
Total operating income		330,865	392,314	(16)	370,157
Impairment for loans and other losses	13	(16,764)	(35,842)	53	(15,920)
Net operating income		314,101	356,472	(12)	354,237
Less: Expenses					
Personnel expenses	14	197,549	166,510	19	212,639
Other expenses	15	349,319	278,571	25	366,875
Operating loss before Value Added Tax (VAT)		(232,767)	(88,609)	(163)	(225,277)
Less: Value Added Tax (VAT) on financial services		2,287	-	-	3,786
Loss before tax		(235,054)	(88,609)	(165)	(229,063)
Less: Income tax expenses	16	(116,000)	-	-	(115,851)
Loss for the year		(119,054)	(88,609)	(34)	(113,212)
Attributable to:					
Equity holders of the Bank		(119,054)	(88,609)	(34)	(114,584)
Non-controlling interest		-	-	-	1,372
Loss for the year		(119,054)	(88,609)	(34)	(113,212)
Basic loss per share (Rs.)	17	(0.27)	(0.27)	-	(0.26)

The annexed notes to the Financial Statements form an integral part of these Financial Statements.

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December	Note	Bank 2014 Rs. '000	2013 Rs. '000	Change %	Group 2014 Rs. '000
Loss for the year		(119,054)	(88,609)	(34)	(113,212)
Other comprehensive income, net of tax					
Items that will never be reclassified to profit or loss					
Net actuarial gains / (losses) on defined benefit plans		-	-	-	-
Items that are or may be reclassified to profit or loss					
Net gains / (losses) on re-measuring available for sale financial assets					
Sri Lanka government securities		(697)	-	-	(697)
Deferred tax asset on available for sale reserve		195	-	-	195
Other comprehensive income for the year, net of tax		(502)	-	-	(502)
Total comprehensive income for the year		(119,556)	(88,609)	(35)	(113,714)
Attributable to:					
Equity holders of the Bank		(119,556)	(88,609)	(35)	(115,086)
Non controlling interest		-	-	-	1,372
Total comprehensive income for the year		(119,556)	(88,609)	(35)	(113,714)

The annexed notes to the Financial Statements form an integral part of these Financial Statements.

Statement of Financial Position

As at 31 December	Note	Bank 2014 Rs. '000	Bank 2013 Rs. '000	Change %	Group 2014 Rs. '000
ASSETS					
Cash and cash equivalents	20	39,039	5,146,345	(99)	61,239
Balances with Central Bank of Sri Lanka	21	55,886	-	-	55,886
Placements with Banks	22	1,718,737	-	-	1,718,737
Other financial instruments held for trading	23	-	-	-	4,199
Loans & receivables to Banks	24	503,425	-	-	511,425
Loans & receivables to other customers	25	2,230,418	-	-	3,085,835
Financial investments available for sale	26	1,034,026	-	-	1,034,372
Financial investments held to maturity	27	-	-	-	25,415
Investment in subsidiary	28	459,200	-	-	-
Property, plant and equipment	29	252,354	279,682	(10)	309,492
Intangible assets	30	223,245	217,085	3	434,841
Deferred tax assets	16	116,195	-	-	116,195
Other assets	31	118,755	92,928	28	145,393
Total assets		6,751,280	5,736,040	17	7,503,029
LIABILITIES					
Due to banks	32	279,242	4,626	5,936	279,242
Due to other customers	33	1,265,615	-	-	1,919,132
Other borrowings	34	551,083	1,001,784	(45)	551,083
Deferred tax liabilities	16	-	-	-	5,028
Other liabilities	35	107,507	62,241	73	127,293
Total liabilities		2,203,447	1,068,651	105	2,881,778
EQUITY					
Stated capital	36	4,968,850	4,968,850	-	4,968,850
Statutory reserves	-	-	-	-	
Accumulated losses	37	(420,515)	(301,461)	(39)	(424,694)
Other Reserves	38	(502)	-	-	(502)
Total equity attributable to equity holders of the Bank		4,547,833	4,667,389	(3)	4,543,654
Non-controlling interest		-	-	-	77,597
Total equity		4,547,833	4,667,389	(3)	4,621,251
Total equity and liabilities		6,751,280	5,736,040	17	7,503,029
Contingent liabilities & commitments	39	2,634,621	-	-	2,634,621
Net asset value per share (Rs.)	40	10.34	10.61	(3)	10.33

The annexed notes to the Financial Statements form an integral part of these Financial Statements.

Certification
These Financial Statements have been prepared with in compliance with requirements of the Companies Act No. 7 of 2007.

V S Premawardana
Manager - Finance

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

P S Mathavan
Deputy Managing Director / Chief Financial Officer

Prem Kumar
Managing Director / Chief Executive Officer

8 May 2015
Colombo

Statement of Changes in Equity

	Stated Capital Rs. '000	Statutory Reserves Rs. '000	Accumulated Losses Rs. '000	Other Reserves (Available for Sale Reserve) Rs. '000	Total Rs. '000
Bank					
Balance as at 1 January 2013	-	-	(212,852)	-	(212,852)
Total comprehensive income for the year 2013					
Loss for the year	-	-	(88,609)	-	(88,609)
Other comprehensive income, net of tax	-	-	-	-	-
Total comprehensive income for the year 2013	-	-	(88,609)	-	(88,609)
Transactions with owners of the bank					
Contributions and distributions					
Issue of shares	4,968,850	-	-	-	4,968,850
Total transactions with equity owners	4,968,850	-	-	-	4,968,850
Balance as at 31 December 2013	4,968,850	-	(301,461)	-	4,667,389
Balance as at 1 January 2014	4,968,850	-	(301,461)	-	4,667,389
Total comprehensive income for the year 2014					
Loss for the year	-	-	(119,054)	-	(119,054)
Other comprehensive income, net of tax	-	-	-	(502)	(502)
Total comprehensive income for the year 2014	-	-	(119,054)	(502)	(119,556)
Balance as at 31 December 2014	4,968,850	-	(420,515)	(502)	4,547,833

	Note	Stated Capital Rs. '000	Statutory Reserves Rs. '000	Accumulated Losses Rs. '000	Other Reserves (Available for Sale Reserve) Rs. '000	Attributable to Owners of the Company Rs. '000	Non Controlling Interest Rs. '000	Total Rs. '000
Group								
Balance as at 1 January 2014 (Note 1)		4,968,850	-	(301,461)	-	4,667,389	-	4,667,389
Total comprehensive income for the year 2014								
Loss for the year		-	-	(114,584)	-	(114,584)	1,372	(113,212)
Other comprehensive income, net of tax		-	-	-	(502)	(502)	-	(502)
Total comprehensive income for the year 2014		-	-	(114,584)	(502)	(115,086)	1,372	(113,714)
Transactions with owners of the bank								
Contributions and distributions								
Non-controlling interest on acquisition		-	-	-	-	-	86,317	86,317
Acquisition of non-controlling interest		-	-	-	-	-	(10,092)	(10,092)
Goodwill on change in shareholding	28	-	-	(8,649)	-	(8,649)	-	(8,649)
Total transactions with equity owners		-	-	(8,649)	-	(8,649)	76,225	67,576
Balance as at 31 December 2014		4,968,850	-	(424,694)	(502)	4,543,654	77,597	4,621,251

Note: 1. Opening balance related only to the Bank balances as the Group structure was established during the year 2014.
2. The freehold land and building of the subsidiary was revalued on acquisition date (05 August 2014) and revaluation reserve attributable to group had been netted-off against investment cost. Accordingly no revaluation reserve is carried under reserves.

Statement of Cash Flows

For the year ended 31 December	Note	Bank 2014 Rs. '000	Bank 2013 Rs. '000	Group 2014 Rs. '000
Cash flows from operating activities				
Loss before tax		(235,054)	(88,609)	(229,063)
Adjustments for:				
Non-cash items included in loss before tax	41	126,812	103,243	128,348
Change in operating assets	42	(5,580,126)	(65,086)	(5,547,675)
Change in operating liabilities	43	1,581,030	6,725	1,585,117
Charges fees on acquisition of subsidiary		3,045	-	3,045
Net gains from investing activities		-	-	(4,436)
Dividend income	12	(79)	-	(93)
Income taxes paid		-	-	-
Net cash used in operating activities		(4,104,372)	(43,727)	(4,064,757)
Cash flows from investing activities				
Net purchase of property, plant and equipment	29	(53,516)	(181,867)	(54,207)
Proceeds from sale and maturity of financial investments		-	-	90,911
Net purchase of intangible assets	30	(36,551)	(111,184)	(36,551)
Net cash flow from acquisition of investment in subsidiary	28	(462,245)	-	(462,245)
Dividends received	12	79	-	93
Net cash used in investing activities		(552,233)	(293,051)	(461,999)
Cash flows from financing activities				
Net proceeds from the issue of ordinary share capital		-	4,968,850	-
Borrowing obtained during the year		-	516,677	-
Borrowing paid during the year		(450,701)	(3,231)	(605,570)
Net cash (used in)/ generated from financing activities		(450,701)	5,482,296	(605,570)
Net increase/(decrease) in cash & cash equivalents		(5,107,306)	5,145,518	(5,132,326)
Cash and cash equivalents at the beginning of the year		5,146,345	827	5,193,565
Cash and cash equivalents at the end of the year	20	39,039	5,146,345	61,239

The annexed notes to the Financial Statements form an integral part of these Financial Statements.

Notes to the Financial Statements

1. REPORTING ENTITY

1.1 Domicile and Legal Form

Cargills Bank Limited, ("the Bank") is a Public Limited Company incorporated on 3 November 2011 and domiciled in Sri Lanka under the Companies Act No. 7 of 2007 for the purpose of carry out banking activities in Sri Lanka. It is a licensed commercial bank registered under the Banking Act No. 30 of 1988 and amendmends thereto. The registered office of the Bank is located at No. 696, Galle Road, Colombo 03.

1.2 Consolidated Financial Statements

The Consolidated Financial Statements as at and for the year ended 31 December 2014, comprise the Bank (Parent Company) and its Subsidiary Capital Alliance Finance PLC (together referred to as the 'Group' and individually as 'Group entities').

The Bank does not have an identifiable Parent of its own.

The Company acquired its subsidiary Capital Alliance Finance PLC on 5 August 2014 and the Group structure was established on that date. Accordingly the consolidated financial statements do not have comparatives.

1.3 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 to carry on domestic banking business and off-shore banking business.

The principal activities of subsidiary are acceptance of Deposits, granting Lease facilities, Hire Purchase, Margin Trading, Mortgage Loans, Demand Loans and other credit facilities.

1.4 Number of Employees

The total number of employees of the Bank as at 31 December 2014 was 141 (2013 – 175). The total number of employees of the Group was 188.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Consolidated Financial Statements of the Group and the separate Financial Statements of the Bank, have been prepared and presented in accordance with the Sri Lanka Accounting Standards (LKAS/SLFRS) laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 7 of 2007 and the Banking Act No. 30 of 1988 and amendments thereto.

The formats used in the preparation of the Financial Statements and the Disclosures made therein also comply with the specified format prescribed by the Central Bank of Sri Lanka for the preparation, presentation and publication of Annual Audited Financial Statements of Licensed Commercial Banks.

2.2 Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of these Financial Statements as per the provisions of the Companies Act No. 7 of 2007 and the Sri Lanka Accounting Standards.

The Board of Directors acknowledges their responsibility for Financial Statements as set out in the 'Annual Report of the Board of Directors on the Affairs of the Bank', 'Directors Responsibility for Financial Reporting' and the certification on the 'Statement of Financial Position' on pages 38, 42 and 50 respectively.

2.3 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Group and the Bank for the year ended 31 December 2014 were approved and authorised for issue by the Board of Directors on 8 May 2015.

2.4 Basis of Measurement

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

Items	Measurement Basis
Held for Trading Financial Instruments	Fair Value
Available for Sale Financial Instruments	Fair Value
Freehold Land	At Valuation
Define benefit liability	At Present Value based on actuarial valuation

2.5 Functional and Presentation Currency

Items included in the Financial Statements of the Group and the Bank are measured using the currency of the primary economic environment in which the Bank operates (the Functional Currency). These Financial Statements are presented in Sri Lankan Rupees, the Group's Functional and Presentation Currency.

2.6 Comparative Information

The previous year figures and phrases have been reclassified whenever necessary to conform to current year presentation.

There were no comparative information presented for the Group as the Group structure was established only on 5 August 2014.

2.7 Presentation of Financial Statements

The assets and liabilities of the Bank/Group presented in its Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements.

Financial assets and financial liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the Income Statement unless required or permitted by an Accounting Standard or interpretation and as specifically disclosed in the Accounting Policies of the Bank.

2.8 Rounding

The amount 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 01 on “Presentation of Financial Statements”.

2.9 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’

2.10 Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Financial Statements of the Bank in conformity with Sri Lanka Financial Reporting Standards (SLFRSs) requires management to make judgments, estimates and assumptions that affect the application of Accounting Policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2014 is set out below in relation to the impairment of financial instruments and in the following notes in relation to other areas.

2.10.1 Going Concern

The management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank’s ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

2.10.2 Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

2.10.3 Impairment Losses on Loans and Advances

The Group reviews its individually significant loans and advances at each statement of reporting date to assess whether an impairment loss should be recorded in the Profit or Loss. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found to be impaired have been provide for. All individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

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

2.10.4 Impairment of Available-for-sale Investments

The Group records impairment charges on available–for–sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

2.10.5 Impairment Losses on Other Assets

The Group assesses whether there are any indicators of impairment for an asset or a cash-generating unit at each Reporting date or more frequently, if events or changes in circumstances necessitate to do so. This requires the estimation of the 'value in use' of such individual assets or the cash-generating units. Estimating value in use requires management to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Group to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

2.10.6 Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

2.10.7 Current Taxation

The Bank and its subsidiary is subject to income taxes and other taxes including VAT on financial services. Significant judgment was required to determine the total provision for current, deferred and other taxes and the taxable profit for the purpose of imposition of taxes. The Group recognised assets and liabilities for current, deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the profit or loss.

2.10.8 Defined Benefit plan

The cost of the defined benefit plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, Salary Increment Rate, Age of Retirement, and Mortality Rates. Due to the long–term nature of these plans, such estimates are subject to significant uncertainty.

2.10.9 Useful life-time of Property, Plant and Equipment

The Bank reviews the residual values, useful lives and methods of depreciation of assets as at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

2.10.10 Commitments and Contingencies

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be readily measured as defined in the Sri Lanka Accounting Standard - LKAS 37 on 'Provisions, Contingent Liabilities and Contingent Assets'.

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote.

Operating lease commitments of the Bank (as a lessor and as a lessee) and pending legal claims against the Bank too form part of the commitments of the Bank.

2.11 Events after the Reporting Period

Events after the Reporting Period are those events, favorable and unfavorable, that occur between the Reporting date and the date when the Financial Statements are authorised for issue.

In this regard, all material and important events that occurred after the reporting period are considered and appropriate disclosures are made where necessary.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of Consolidation

The Group's Financial Statements comprise consolidation of the Financial Statements of the Bank, its Subsidiary in terms of the Sri Lanka Accounting Standard - LKAS 27 on 'Consolidated and Separate Financial Statements'.

3.1.1 Business Combinations

Business combinations are accounted for using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

3.1.2 Non-controlling interests ("NCI")

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

3.1.3 Subsidiaries

Subsidiaries are entities controlled by the Group. The Financial Statements of Subsidiary are fully consolidated from the date on which control is transferred to the Bank and continue to be consolidated until the date when such control ceases. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

The Financial Statements of the Bank's Subsidiary are prepared for the same reporting year, using consistent accounting policies.

There are no significant restrictions on the ability of Subsidiary to transfer funds to the Parent (the Bank) in the form of cash dividend or repayment of loans and advances.

3.1.4 Loss of Control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

3.1.5 Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Foreign Currency Transactions and Balances

Foreign currency transactions are translated into the Functional Currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the dates of the transactions. In this regard, the Group's practice is to use the middle rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the Reporting date are retranslated to the Functional Currency at the middle exchange rate of the Functional Currency Ruling at the Reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the Functional Currency at the beginning of the year adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the Reporting date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the Functional Currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or qualifying cash flow hedges, which are recognised in Other Comprehensive Income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

ASSETS, LIABILITIES AND BASES OF THEIR VALUATION

3.3 Financial instruments

3.3.1 Initial Recognition and Subsequent Measurement

3.3.1.1 Date of recognition

All financial assets and liabilities are initially recognized on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

3.3.1.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or losses per the Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments Recognition & Measurement'.

3.3.1.3 Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

(i) Financial assets or financial liabilities held–for–trading

Financial assets or financial liabilities held–for–trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in 'Net operating income'. Interest and dividend income or expense is recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established. Included in this classification are equities.

(ii) Financial assets and financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities classified in this category are those that have been designated by management on initial recognition. Management designates an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.
- The assets and liabilities are part of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial assets and liabilities designated at fair value through profit or losses. Interest is earned or incurred is accrued in 'Interest Income' or 'Interest expense', respectively, using the effective interest rate (EIR), while dividend income is Recorded in 'Other operating income' when the right to the payment has been established.

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

(iii) 'Day 1' profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value ('Day 1' profit or loss) in 'Net operating income'. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

(iv) Held–to–maturity financial investments

Held–to–maturity financial investments are non–derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, held–to–maturity financial investments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest and similar income' in the income statement. The losses arising from impairment of such investments are recognised in the income statement line 'Impairment for loans and other losses'. If the Bank were to sell or reclassify more than an insignificant amount of held–to–maturity investments before maturity (other than in certain specific circumstances permitted in the Sri Lanka Accounting Standard LKAS 39 on 'Financial Instruments: Recognition & Measurement'), the entire category would be tainted and would have to be reclassified as available–for–sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

Included in this classification is Government securities – Treasury Bills & Treasury Bonds

(v) Loans and advances to customers (Loans and Receivables)
'Loans and advances to customers' include non–derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Bank intends to sell immediately or in the near term and those that the Bank upon initial recognition designates as at fair value through profit or loss.
- Those that the Bank, upon initial recognition, designates as available for sale.
- Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, amounts 'Loans and advances to customers' are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the comprehensive income. The losses arising from impairment are recognized in the comprehensive income in 'Impairment expenses for loans and advances and other losses'.

Included in this classification are Leases, Hire purchase, Margin trading receivable & Other loans and advances.

(vi) Debt issued and other borrowed funds
Financial instruments issued by the Bank, that are not designated at fair value through profit or loss, are classified as liabilities under 'Deposits from customers and Other borrowings', where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt issued and other borrowings are subsequently measured at amortized cost using the EIR. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

(vii) Available-for-sale financial investments
Available–for–sale investments include equity and debt securities. Equity investments classified as available–for–sale are those which are neither classified as held–for–trading nor designated at fair value through profit or loss. The Bank has not designated any loans or receivables as available–for–sale. After initial measurement, available–for–sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in equity in the 'Available-for-sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognised in the income statement in 'Other operating income'. Where the Bank holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Dividends earned whilst holding available-for-sale financial investments are recognised in the income statement as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the income statement in 'Impairment losses on financial investments' and removed from the 'Available–for–sale reserve'.

3.3.2 Determination of fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

Fair Value Measurement Hierarchy
The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1
Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

A market is regarded as active, if quoted prices are readily and regularly available and represent actual and regularly occurs market transactions on an arm's length basis.

Level 2
Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that

are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3

Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 19.

3.3.3 Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is considered as an objective evidence of impairment. In general, the Group considers a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may be appropriate.

3.3.3.1 Impairment of Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as loans and advances to customers as well as held–to–maturity investments), the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets's 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 foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's credit risk characteristics such as asset type, industry, geographical location, past–due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Details of impairment losses on financial assets carried at amortised cost and an analysis of the impairment provision on loans and advances by class are given in Note 25.2.

3.3.3.2 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.

3.3.3.3 Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

3.3.3.4 Collateral valuation

The Group seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as Independent valuers, audited financial statements.

3.3.4 Derecognition of financial assets and financial liabilities

3.3.4.1 Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized 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 Company 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 Company's continuing involvement in the asset. In that case, the Company 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 Company 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 Company could be required to repay.

3.3.4.2 Financial liabilities

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

3.3.5 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in statement of financial position.

3.4 Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Company retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'repurchase agreements', reflecting the transaction's economic substance as a loan to the Company. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or re - pledge the securities, the Company reclassifies those securities in its statement of financial position to 'Financial assets held–for–trading pledged as collateral' or to 'Financial investments available–for–sale pledged as collateral', as appropriate. Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within 'reverse repurchase agreements', reflecting the transaction's economic substance as a loan by the Company.

3.5 Leases

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

3.5.1 Operating Leases - Group as a lessor

Leases where the Company does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Contingent rents are recognised as revenue in the period in which they are earned.

3.5.2 Finance Leases – Group as a lessor

Assets leased to customers whom transfer substantially all the risks and rewards associated with ownership Other than legal title, are classified as 'Finance Leases'. Amounts receivable under finance leases are included under 'Loans and Advances' in the Statement of Financial Position after deduction of initial rentals received, unearned lease income and the accumulated impairment losses. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as unearned finance income, which is allocated to accounting periods reflect a constant periodic rate of return.

3.6 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 Group in the management of its short-term commitments.

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

3.7 Balances With Central Banks

The Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain a statutory reserve equal to 6% on all deposit liabilities denominated in Sri Lankan Rupees.

Balances with Central Banks are carried at amortised cost in the Statement of Financial Position.

3.8 Property, Plant and Equipment

The Group applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 on 'Property, Plant & Equipment' in accounting for its owned assets (including buildings under operating leases where the Bank is the lessee) which are held for and use in the provision of services, for rental to others or for administrative purposes and are expected to be used for more than one year.

3.8.1 Basis of Recognition

Property, Plant & Equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Group and cost of the asset can be reliably measured.

3.8.2 Basis of Measurement

An item of Property, Plant & Equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs (excluding the costs of day-to-day servicing). The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software which is integral to the functionality of the related equipment is capitalised as part of Computer Equipment.

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

3.8.2.1 Cost Model

The Group applies the Cost Model to all Property, Plant & Equipment except freehold land and records at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

3.8.2.2 Revaluation Model

The Group applies the Revaluation Model for the entire class of freehold land for measurement after initial recognition. Such properties are carried at revalued amounts, being their fair value at the date of revaluation, less any accumulated impairment losses charged subsequent to the date of valuation. Freehold land of the Group is revalued every three years or more frequently if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ from the fair values at the Reporting date.

On revaluation of an asset, any increase in the carrying amount is recognised in Other Comprehensive Income and presented in Revaluation Reserve in Equity or used to reverse a previous loss on revaluation of the same asset, which was charged to the Income Statement. In this circumstance, the increase is recognised as income only to the extent of the previous write down in value. Any decrease in the carrying amount is recognised as an expense in the Income Statement or charged in Other Comprehensive Income and presented in Revaluation Reserve in equity only to the extent of any credit balance existing in the Revaluation Reserve in respect of that asset. Any balance remaining in the Revaluation Reserve in respect of an asset, is transferred directly to Retained Earnings on retirement or disposal of the asset.

3.8.3 Subsequent Cost

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

3.8.4 Derecognition

An item of Property, Plant & Equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset), is recognised in 'Other Income/Expenses' in profit or loss in the year the asset is derecognised.

When replacement costs are recognised in the carrying amount of an item of Property, Plant & Equipment, the remaining carrying amount of the replaced part is derecognised as required by the Sri Lanka Accounting Standard - LKAS 16 on 'Property, Plant & Equipment'.

3.8.5 Capital Work-in-Progress
These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. These are stated in the Statement of Financial Position at cost.

3.8.6 Depreciation
Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

The estimated useful lives are as follows:

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

Depreciation is provided proportionately from the date of purchase up to the date of disposal of property, plant and equipment.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

3.8.7 Impairment of non–financial assets
The Bank/Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash–generating units (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement

3.9 Intangible Assets
Computer software costs incurred and licensed for use by the Bank, which are not integrally related to associate hardware, and can be clearly identified, reliably measured and it is probable that they will lead to future economic benefits are included in the statement of financial position under the category intangible assets and carried at cost less accumulated amortisation and accumulated impairment losses if any.

An Intangible Asset is recognised, if it is probable future economic benefits that are attributable to the asset that will flow to the entity and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard – LKAS 38 on 'Intangible Assets'.

3.9.1 Subsequent Expenditure
Expenditure incurred on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

3.9.2 Amortisation
Intangible assets are amortised on a straight line basis over a period of 4-8 years in the profit or loss from the date when the asset is available for use, over the best estimate of its useful economic life.

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

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development.

The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

3.10 Deposits, Borrowings, Debt Securities Issued and Subordinated Liabilities

Deposits, borrowings debt securities issued and subordinated liabilities are the Group's sources of debt funding.

3.11 Due to Banks and Other Financial Institutions

These represents refinance borrowings, call money borrowings, credit balances in Nostro Accounts and borrowings from financial institutions. Subsequent to initial recognition deposits are measured at their amortised cost using the EIR method. Interest paid/payable on these borrowings is recognised in profit or loss.

3.12 Due to Customers

These include non-interest-bearing deposits, savings deposits, term deposits, deposits payable at call and certificates of deposit. Subsequent to initial recognition deposits are measured at their amortised cost using the EIR method, except where the Group designates liabilities at fair value through profit or loss. Interest paid/payable on these deposits is recognised in profit or loss.

3.13 Securities Sold Under Repurchase Agreements (Repos)

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (Repo), the arrangement is accounted for as a financial liability, and the underlying asset continues to be recognised in the Group's Financial Statements as the Group retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated Statement of Financial Position as an asset with a corresponding obligation to return it as a liability under 'Securities sold under repurchase agreements', reflecting the transaction's economic substance as a loan to the Group.

Subsequent to initial recognition, these securities sold are measured at their amortised cost using the EIR method with the corresponding interest payable is recognised as interest expense in profit or loss.

3.14 Other Liabilities

Other Liabilities include interest, fees and expenses and other provisions. These liabilities are recorded at amounts expected to be payable at the reporting date.

3.15 Provisions

A provision is recognised in the Statement of Financial Position when the Bank has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the provision can be measured reliably in accordance with the SriLanka Accounting Standard - LKAS 37 on 'Provisions, Contingent Liabilities and Contingent Assets'. The amount recognised is the best estimate of the consideration required to settle the present obligation at the Reporting date, taking into account the risks and uncertainties surrounding the obligation at that date.

3.16 Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Financial guarantees and commitments to provide a loan at a below-market interest rate are included within other liabilities.

3.17 Employee Benefits

3.17.1 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.

3.17.2 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 three years 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 unrecognized 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 Company 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 statement of income.

3.17.3 Short-Term Employee Benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.18 Earnings Per Share

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period.

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.

3.19 Interest and Similar Income and Expense

For all financial instruments measured at amortized cost, interest bearing financial assets classified as available–for–sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest and similar income'. However, for a reclassified financial asset for which the Company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an Impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.20 Fee and Commission Income

The Bank/Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- Fee income earned from services that are provided over a certain period of time
- Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

3.21 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.

3.22 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.

3.23 Lease Income

In terms of the provisions of the Sri Lanka Accounting Standard - LKAS 17 on 'Leases', the recognition of finance income on leasing is accounted, based on a pattern reflecting a constant periodic rate of return on capital outstanding.

The excess of aggregate lease rentals receivable over the cost of the leased assets constitutes the total unearned finance income at the commencement of a lease. The unearned finance income included in the lease rentals receivable is recognised in profit or loss over the term of the lease commencing from the month in which the lease is executed using EIR.

3.24 Lease Payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest expense on the remaining balance of the liability.

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

3.25 Rental Income and Expense

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

3.26 Borrowing Costs

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

3.27 Expenditure Recognition

Expenditure is recognized in the financial statements as they are incurred and recognized 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.

3.28 Current Taxation

Current tax' comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Accordingly, provision for taxation is made on the basis of the accounting profit for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto, at the rates specified.

3.29 Deferred Taxation

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Group has not rebutted this presumption.

Additional taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised. These amounts are generally recognised in profit or loss because they generally relate to income arising from transactions that were originally recognised in profit or loss.

3.30 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 01, 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

3.31 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.

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. SEGMENT REPORTING

A segment is a distinguishable component of the Company that is engaged in providing services (Business Segments) or in providing services within a particular economic environment (Geographical Segment) which is subject to risks and rewards that are different from those of other segments.

In accordance with the Sri Lankan Accounting Standard SLFRS 8- 'Segmental Reporting', segmental information is presented in respect of the Company based on company management and internal reporting structure.

The Company's segmental reporting is based on the following operating segments.

- Banking
- Leasing and Hire Purchase
- Treasury and Investments
- Unallocated

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss of respective segment.

6. NEW ACCOUNTING STANDARDS

6.1 New Accounting Standards Applied Effective from January 01, 2014

New Accounting Standards	Objective of the Accounting Standard
SLFRS 10 Consolidated Financial Statements	Establishing principals for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.
SLFRS 12 Disclosure of Interest in Other Entities	Requiring the entity to disclose information that enables users of its Financial statements to evaluate the nature of, and risks associated with its interests in other entities; and the effects of those interests on its financial position, financial performance and cash flows.
SLFRS 13 Fair Value Measurement	Defining fair value in a single SLFRS, a framework for measuring fair value; and disclosures about fair value measurements.

6.2 New Accounting Standards Issued but not Effective as at Reporting Date

A number of new standards and amendments to standards which have been issued but not yet effective as at the Reporting date have not been applied in preparing these Consolidated Financial Statements.. Accordingly, these Accounting Standards have not been applied in preparing these financial statements.

New or amended standards	Summary of the requirements	Possible impact on consolidated financial statements
SLFS 9 Financial Instruments	SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39. Effective date of IFRS 9 has been deferred till January 01 2018.	The Bank/Group is assessing the potential impact on its consolidated financial statements resulting from the application of SLFRS 9. Given the nature of the Bank/Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances.
SLRS 15 Revenue from Contracts with Customers	SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, and LKAS 11 Construction Contracts. SLFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018.	The Bank/Group is assessing the potential impact on its consolidated financial statements resulting from the application of SLFRS 15.

The following new accounting standards are not expected to have an impact of the Bank/Group's financial statements.

Agriculture: Bearer Plants (Amendments to LKAS 16 and LKAS 41) - Effective date January 1, 2016

Regulatory Deferral Assets (SLFRS 14) - Effective date January 1, 2016

For the year ended 31 December	Bank 2014 Rs. '000	Bank 2013 Rs. '000	Group 2014 Rs. '000

7. NET INTEREST INCOME

Interest income			
Cash & cash equivalents	118,847	491,950	118,847
Placements with other banks	55,954	-	55,954
Loans & receivable to banks	83,066	370	84,602
Loans & receivables to other customers	47,224	-	110,871
Financial investments available for sale	38,345	-	38,345
Other interest income	-	-	1,098
Total interest income	343,436	492,320	409,717
Interest expenses			
Due to banks	1,347	28	1,347
Due to other customers	18,504	-	45,996
Other borrowings	11,024	100,481	15,959
Total interest expenses	30,875	100,509	63,302
Net interest income	312,561	391,811	346,415

7.1 Net interest income from Sri Lanka Government Securities

Interest income	121,411	370	122,509
Less : Interest expenses	2,162	-	2,162
Sub total	119,249	370	120,347

The Inland Revenue Act No. 10 of 2006 and the amendment thereto, provide that a company which derives net interest income from the secondary market transactions on Government Securities (on or after April 1, 2002) would be entitled to a notional tax credit (being one-ninth of the net interest income), provided such interest income forms part of statutory income of the Company for that year of assessment.

Accordingly, net interest income earned by the Bank and the Group from the secondary market transactions in Government Securities for the year, has been grossed up in these financial statements and the resulting notional tax credit amounted to Rs. 11.92 Mn. for the Bank and Rs. 12.03 Mn. for the Group.

For the year ended 31 December	Bank 2014 Rs. '000	Bank 2013 Rs. '000	Group 2014 Rs. '000

8. NET FEES AND COMMISSION INCOME

Fees and commission income (Note 8.1)	12,317	-	13,549
Less: Fees and commission expenses (Note 8.2)	1,201	-	1,320
	11,116	-	12,229

8.1 Fees and commission income

Loans & advances related services	582	-	1,343
Debit cards related services	74	-	74
Trade & remittances related services	6,193	-	6,193
Guarantees related services	2,562	-	2,562
Deposits related services	2,089	-	2,089
Other financial services	817	-	1,288
Total commission income	12,317	-	13,549

8.2 Fees and commission expenses

Other financial services	1,201	-	1,320
Total fee & commission expenses	1,201	-	1,320

9. NET GAINS / (LOSSES) FROM TRADING

Foreign exchange			
From banks	4,461	-	4,461
Total	4,461	-	4,461

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

Financial assets at fair value through profit or loss	-	-	676
Total	-	-	676

11. NET GAINS / (LOSSES) FROM FINANCIAL INVESTMENTS

Government securities			
Treasury bonds	2,074	-	2,074
Total	2,074	-	2,074

12. OTHER INCOME

Gains / (losses) on revaluation of foreign exchange	11	-	11
Reversal of impairment charges and loans written-off	-	-	92
Dividends received	79	-	93
Rental & other income	563	503	4,106
Total	653	503	4,302

For the year ended 31 December	Bank 2014 Rs. '000	Bank 2013 Rs. '000	Group 2014 Rs. '000

13. IMPAIRMENT FOR LOANS & OTHER LOSSES

Loans & receivables to other customers			
Charge to the income statement on individual impairment (Refer note 25.2)	-	-	7,388
Charge to the income statement on collective impairment (Refer note 25.2)	11,110	-	2,878
Property, plant and equipment (Refer Note 29.1)	5,654	35,842	5,654
Total	16,764	35,842	15,920

14. PERSONNEL EXPENSES

Salary and bonus (Refer Note 14.1)	169,864	143,031	181,787
Contributions to defined contribution plans	21,264	17,349	23,025
Contributions to defined benefit plans	4,466	-	4,709
Contributions to defined benefit plans transferred (to) / from related companies	(1,388)	3,845	(1,388)
Others	3,343	2,285	4,506
	197,549	166,510	212,639

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

For the year ended 31 December	Bank 2014 Rs. '000	Bank 2013 Rs. '000	Group 2014 Rs. '000

15. OTHER EXPENSES

Directors' emoluments (Refer note 15.1)	9,845	7,705	10,595
Auditors' remunerations	2,100	2,354	2,413
Audit fee and expenses	550	248	738
Audit related fee and expenses	1,350	61	1,475
Non-audit fee and expenses	200	2,045	200
Professional and legal expenses	10,641	8,762	11,788
Depreciation of property, plant and equipment (Refer note 29)	75,190	59,953	76,792
Amortisation of intangible assets (Refer note 30.1)	30,391	7,448	30,928
Transaction cost of acquisition of subsidiary (Refer note 28.4)	3,045	-	3,045
Office administration and establishment expenses	218,107	192,349	231,314
	349,319	278,571	366,875

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

For the year ended 31 December	Bank 2014 Rs. '000	Bank 2013 Rs. '000	Group 2014 Rs. '000
16. INCOME TAX EXPENSES			
Current taxation on profits for the year	-	-	845
Origination/ (reversal) of temporary difference (Note 16.4)	(116,000)	-	(116,696)
	(116,000)	-	(115,851)
16.1 A reconciliation of tax expense			
Accounting loss before tax from operations	(235,054)	(88,609)	(229,063)
Tax effect at the statutory income tax rate	(65,815)	(24,811)	(64,112)
Tax effect of exempt income	(180)	(141)	(456)
Tax effect of non-deductible expenses	38,804	31,563	42,476
Tax effect of deductible expenses	(43,483)	(24,016)	(48,142)
Taxable profit/ (loss) on disposal of lease/fixed assets	-	-	867
Tax losses utilised during the year	-	-	(672)
Deferred tax expense (Note 16.4)	(116,000)	-	(116,696)
Tax effect on current year tax losses	70,674	17,405	70,884
	(116,000)	-	(115,851)

16.2 In terms of provision of Inland Revenue Act No.10 of 2006 and amendments thereto, the Bank is liable for income tax at 28%. There is no tax liability for the current financial year due to the operating losses incurred during the year 2014.

For the year ended 31 December	Bank 2014 Rs. '000	Bank 2013 Rs. '000	Group 2014 Rs. '000
16.3 Tax losses/ credits carried forward			
Tax losses brought forward	264,456	202,298	264,456
Tax losses on acquisition of subsidiary	-	-	36,533
Acquisition of subsidiary	459,200	-	459,200
Tax losses utilised during the year	-	-	(2,401)
Tax losses arise during the year	252,406	62,158	253,155
Tax losses/ credits available for utilisation	976,062	264,456	1,010,943
16.4 Deferred tax expenses			
Deferred tax asset recognised during the year	131,777	7,002	131,777
Deferred tax liability originated during the year	(15,777)	(7,002)	(15,081)
	116,000	-	116,696
16.5 Deferred Taxation			
Deferred tax assets (Refer Note 16.5.1)	116,195	-	116,195
Deferred tax liabilities (Refer Note 16.5.2)	-	-	5,028

For the year ended 31 December	Bank 2014 Rs. '000	Bank 2013 Rs. '000	Group 2014 Rs. '000

16.5.1 Deferred tax assets

Opening Balance	14,002	7,000	14,002
Originated during the year-recognised in profit or loss	131,777	7,002	131,777
Originated during the year-recognised in other comprehensive income	195	-	195
Closing Balance	145,974	14,002	145,974
Set-off against deferred tax liability	(29,779)	(14,002)	(29,779)
Balance deferred tax asset	116,195	-	116,195

16.5.2 Deferred tax liability

Opening balance	14,002	7,000	14,002
On acquisition of subsidiary	-	-	5,724
Originated during the year - recognised in profit or loss	15,777	7,002	15,081
Closing balance	29,779	14,002	34,807
Set off against deferred tax asset	(29,779)	(14,002)	(29,779)
Balance deferred tax liability	-	-	5,028

16.5.3 Reconciliation of deferred tax assets/liabilities

	Bank 2014 Temporary Difference	Bank 2014 Tax effect	Bank 2013 Temporary Difference	Bank 2013 Tax effect	Group 2014 Temporary Difference	Group 2014 Tax effect
Deferred tax assets						
Employee benefits	4,466	1,250	-	-	4,466	1,250
Unrealised loss on available for sale portfolio	697	195	-	-	697	195
Carried forward tax losses- Bank	516,174	144,529	50,008	14,002	516,173	144,529
	521,337	145,974	50,008	14,002	521,336	145,974
Deferred tax liabilities						
Property plant & equipment	106,354	29,779	50,008	14,002	132,399	37,072
Finance leases	-	-	-	-	59,496	16,659
Carried forward disallowed bad debt provision	-	-	-	-	(22,240)	(6,227)
Current period tax loss on leasing business	-	-	-	-	(34,881)	(9,767)
Current period tax loss on hire purchase & others	-	-	-	-	(8,134)	(2,278)
Employee benefits	-	-	-	-	(2,328)	(652)
	106,354	29,779	50,008	14,002	124,312	34,807

The total temporary differences arising from tax losses and tax credits amounted to Rs. 976 Mn resulting in a deferred tax asset of Rs. 274 Mn as at 31 December 2014. Based on the 5 years forecast prepared by the Management and internal assessment carried out by the Board of Directors, the recognition of deferred tax asset has been limited to Rs. 146 Mn The unrecognised deferred tax assets as at 31 December 2014 was Rs. 128 Mn.

For the year ended 31 December	Bank 2014	Bank 2013	Group 2014
17. BASIC LOSS PER SHARE			
Amount used as the numerator			
Loss for the year (Rs. '000)	(119,054)	(88,609)	(114,584)
Amount used as the denominator			
Weighted average number of ordinary shares in issue during the year	440,000,000	322,666,667	440,000,000
Basic Loss per share (Rs.)	(0.27)	(0.27)	(0.26)

18. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

18.1 Bank

As at 31 December 2014

	Note	Held for Trading Rs. '000	Held to Maturity Rs. '000	Loans and Receivables Rs. '000	Available for Sale Rs. '000	Other Amortized Cost Rs. '000	Total Rs. '000
Financial assets							
Cash and cash equivalents	20	-	-	39,039	-	-	39,039
Balance with Central Bank	21	-	-	55,886	-	-	55,886
Placements with banks	22	-	-	1,718,737	-	-	1,718,737
Loans & receivable to banks	24	-	-	503,425	-	-	503,425
Loans & receivable to other customers	25	-	-	2,230,418	-	-	2,230,418
Financial investments available for sale	26	-	-	-	1,034,026	-	1,034,026
Total financial assets		-	-	4,547,505	1,034,026	-	5,581,531
Financial liabilities							
Due to banks	32	-	-	-	-	279,242	279,242
Due to other customers	33	-	-	-	-	1,265,615	1,265,615
Other borrowings	34	-	-	-	-	551,083	551,083
Total financial liabilities		-	-	-	-	2,095,940	2,095,940

As at 31 December 2013

	Note	Held for Trading Rs. '000	Held to Maturity Rs. '000	Loans and Receivables Rs. '000	Available for Sale Rs. '000	Other Amortized Cost Rs. '000	Total Rs. '000
Financial assets							
Cash and cash equivalents	20	-	-	5,146,345	-	-	5,146,345
Total financial assets		-	-	5,146,345	-	-	5,146,345
Financial liabilities							
Due to banks	32	-	-	-	-	4,626	4,626
Other borrowings	34	-	-	-	-	1,001,784	1,001,784
Total financial liabilities		-	-	-	-	1,006,410	1,006,410

18.2 Group

As at 31 December 2014

	Note	Held for Trading Rs. '000	Held to Maturity Rs. '000	Loans and Receivables Rs. '000	Available for Sale Rs. '000	Amortized Cost Rs. '000	Total Rs. '000
Cash and cash equivalents	20	-	-	61,239	-	-	61,239
Balance with Central Bank	21	-	-	55,886	-	-	55,886
Placements with banks	22	-	-	1,718,737	-	-	1,718,737
Other financial instruments held for trading	23	4,199	-	-	-	-	4,199
Loans & receivable to banks	24	-	-	511,425	-	-	511,425
Loans & receivable to other customers	25	-	-	3,085,835	-	-	3,085,835
Financial investments available for sale	26	-	-	-	1,034,372	-	1,034,372
Financial investments held to maturity	27	-	25,415	-	-	-	25,415
Total financial assets		4,199	25,415	5,433,122	1,034,372	-	6,497,108
Financial liabilities							
Due to banks	32	-	-	-	-	279,242	279,242
Due to other customers	33	-	-	-	-	1,919,132	1,919,132
Other borrowings	34	-	-	-	-	551,083	551,083
Total financial liabilities		-	-	551,083	-	2,749,457	2,749,457

19. FAIR VALUES OF FINANCIAL INSTRUMENTS

19.1 Financial instruments measured at fair value - fair value hierarchy

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

	Bank				Group			
	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
As at December 31, 2014								
Assets								
Other financial instruments - Held-for-trading	-	-	-	-	4,199	-	-	4,199
Financial investments - Available-for-sale	1,034,026	-	-	1,034,026	1,034,372	-	-	1,034,372
Total assets at fair value	1,034,026	-	-	1,034,026	1,038,571	-	-	1,038,571
Liabilities								
Derivative financial instruments	-	-	-	-	-	-	-	-
Total liabilities at fair value	-	-	-	-	-	-	-	-
As at December 31, 2013								
Assets								
Other financial instruments - Held-for-trading	-	-	-	-	-	-	-	-
Financial investments - Available-for-sale	-	-	-	-	-	-	-	-
Total assets at fair value	-	-	-	-	-	-	-	-
Liabilities								
Derivative financial instruments	-	-	-	-	-	-	-	-
Total liabilities at fair value	-	-	-	-	-	-	-	-

19. FAIR VALUES OF FINANCIAL INSTRUMENTS CONTD.

19.2 Fair value of financial instruments not carried at fair value

Financial instruments not carried at fair value are disclosed under the category of held to maturity, loans and receivables and other amortised cost category in note 18. The carrying amounts of these financial instruments are a reasonable approximation of fair values, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near as at the reporting date.

	Bank		Group
As at 31 December	2014	2013	2014
	Rs. '000	Rs. '000	Rs. '000
20. CASH AND CASH EQUIVALENTS			
Cash in hand			
Coins and notes held in local currency	38,229	897	38,246
Coins and notes held in foreign currency	810	-	810
Balances with banks	-	5,145,448	22,183
Total	39,039	5,146,345	61,239
21. BALANCES WITH CENTRAL BANK OF SRI LANKA			
Statutory balances with Central Bank of Sri Lanka	55,886	-	55,886
Total	55,886	-	55,886

21.1 As required by the provisions of Section 93 of the Monetary Law Act, a cash balance is maintained with the Central Bank of Sri Lanka. As at 31 December 2014, the minimum cash reserve requirement was 6% of the rupee deposit liabilities.

	Bank		Group
As at 31 December	2014	2013	2014
	Rs. '000	Rs. '000	Rs. '000
22. PLACEMENTS WITH BANKS			
Placements - within Sri Lanka	1,614,862	-	1,614,862
Placements - outside Sri Lanka	103,875	-	103,875
Total	1,718,737	-	1,718,737

	Bank		Group
As at 31 December	2014	2013	2014
	Rs. '000	Rs. '000	Rs. '000
23. OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING			
Equity shares-quoted (Refer Note 23.1)	-	-	4,199
Total	-	-	4,199

As at 31 December	Bank 2014	Bank 2013	Group 2014 No. of Shares	Group 2014 Market Value Rs. '000	Group 2014 Cost Rs. '000

23.1 Equity shares-quoted

ACL Cables PLC	-	-	5,800	443	553
Balangoda Plantations PLC	-	-	22,000	583	1,472
Ceylon Hotel Copra.	-	-	4,500	104	177
Keells Hotels- JKH	-	-	32,584	554	598
Kingsbury PLC	-	-	15,000	270	437
Sunshine Holdings PLC	-	-	31,000	1,674	1,681
Tokyo Cements Company (Lanka) PLC	-	-	8,800	571	419
	-	-		4,199	5,337
Less: Mark to Market losses					1,138
Market value of equity shares					4,199

As at 31 December	Bank 2014 Rs. '000	Bank 2013 Rs. '000	Group 2014 Rs. '000

24. LOANS & RECEIVABLES TO BANKS

Gross loans & receivables	503,425	-	511,425
Less : Provision for impairment	-	-	-
Net loans and receivables	503,425	-	511,425

24.1 Analysis

24.1 (a) By product

Loans and advances			
Securities purchased under resale agreements	503,425	-	511,425
Total	503,425	-	511,425

24.1 (b) By currency

Sri Lankan Rupee	503,425	-	511,425
Total	503,425	-	511,425

As at 31 December	Bank 2014 Rs. '000	Bank 2013 Rs. '000	Group 2014 Rs. '000

25. LOANS & RECEIVABLES TO OTHER CUSTOMERS

Gross loans & receivables	2,241,528	-	3,166,635
Less : Provision for individual impairment (Note 25.2)	-	-	59,998
Provision for collective impairment (Note 25.2)	11,110	-	20,802
Net loans and receivables	2,230,418	-	3,085,835

25.1 Analysis

25.1 (a) By product

Overdrafts	1,595,653	-	1,542,415
Trade finance	470,889	-	470,889
Lease receivables (Note 25.3)	-	-	226,093
Hire purchase receivables (Note 25.4)	-	-	292,366
Housing loans	906	-	906
Personal loans	13,437	-	13,437
Term loans	160,643	-	160,643
Bills of exchange	-	-	29,138
Margin trading	-	-	72,639
Securities purchased under resale agreements	-	-	38,425
Others	-	-	319,684
Total gross loans & advances	2,241,528	-	3,166,635

25.1 (b) By currency

Sri Lankan Rupee	2,241,528	-	3,166,635
Sub total	2,241,528	-	3,166,635

25.1 (c) By industry

Agriculture & fishing	38,061	-	119,502
Manufacturing	26,674	-	233,495
Tourism	35,158	-	35,158
Transport	-	-	62,237
Construction	512,199	-	512,199
Traders	874,747	-	874,747
Financial & business services	53,238	-	38,425
Other services	450,869	-	516,281
Other customers	250,582	-	774,591
Sub total	2,241,528	-	3,166,635

As at 31 December	Bank 2014 Rs. '000	Bank 2013 Rs. '000	Group 2014 Rs. '000

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

Movement in provision for individual impairment			
Opening balance	-	-	-
On acquisition of subsidiary	-	-	63,347
Charge to the income statement	-	-	7,388
Write - off against provision	-	-	(10,737)
Closing balance	-	-	59,998

Movement in provision for collective impairment			
Opening balance	-	-	-
On acquisition of subsidiary	-	-	17,924
Charge to the income statement	11,110	-	2,878
Other movements	-	-	-
Closing balance	11,110	-	20,802

25.3 Lease receivables

The table below provides an analysis of lease receivables,

25.3 (a) Gross lease receivables

Within one year	-	-	128,549
From one to five years	-	-	154,647
Over five years	-	-	6,841
	-	-	290,037
Less : Unearned lease income	-	-	63,944
Net Lease Receivable (Note 25.3 (b))	-	-	226,093
Less: Provision for individual impairment	-	-	29,945
Provision for collective impairment	-	-	2,114
			194,034

25.3 (b) Net lease receivables

Within one year	-	-	100,109
From one to five years	-	-	119,761
Over five years	-	-	6,223
	-	-	226,093

As at 31 December	Bank 2014 Rs. '000	Bank 2013 Rs. '000	Group 2014 Rs. '000

25.4 Hire purchase receivables

The table below provides an analysis of hire purchase receivables,

25.4 (a) Gross hire purchase receivables

Within one year	-	-	166,590
From one to five years	-	-	212,036
Over five years	-	-	-
	-	-	378,626
Less : Unearned hire purchase income	-	-	86,260
Net hire purchase receivable (Note 25.4(b))	-	-	292,366
Less: Provision for individual impairment	-	-	22,617
Provision for collective impairment	-	-	3,329
	-	-	266,420

25.4 (b) Net hire purchase receivables

Within one year	-	-	124,548
From one to five years	-	-	167,818
Over five years	-	-	-
	-	-	292,366

26. FINANCIAL INVESTMENTS-AVAILABLE FOR SALE

Government securities (Refer Note 26.1)	1,028,143	-	1,028,143
Equity securities	-	-	-
Unqoted shares (Refer Note 26.2)	5,883	-	6,229
Total	1,034,026	-	1,034,372

26.1 Government securities

Treasury bills	820,324	-	820,324
Treasury bonds	207,819	-	207,819
	1,028,143	-	1,028,143

26.2 Unquoted shares

	Bank			Group	
	2014		2013	2014	
	No. of Shares	Amount Rs. '000	Amount Rs. '000	No. of Shares	Amount Rs. '000
Lanka Clear (Pvt) Ltd.	50,000	3,500	-	50,000	3,500
Credit Information Bureau of Sri Lanka	300	2,383	-	400	2,729
		5,883	-		6,229

As at 31 December	Bank 2014 Rs. '000	Bank 2013 Rs. '000	Group 2014 Rs. '000

27. FINANCIAL INVESTMENTS HELD TO MATURITY

Government securities			
Treasury bills	-	-	23,549
Treasury bonds	-	-	1,866
Total	-	-	25,415

28. INVESTMENT IN SUBSIDIARY

As at 31 December	Bank 2014 No. of Shares '000	Bank 2014 Holding %	Bank 2014 Cost Rs. '000	Bank 2013 Cost Rs. '000	Group 2014 Cost Rs. '000
28.1 Quoted					
Capital Alliance Finance PLC	29,660	76.51	459,200	-	-
Total			459,200	-	-

28.2 Acquisition of subsidiary

On 5 August 2014, the Company acquired 73.40% of Capital Alliance Finance PLC by acquiring 28,450,958 Ordinary Shares at price ranging from Rs. 15.40 to Rs. 15.50 per share.

Subsequently, with the mandatory offer (which closed on 19 September 2014) and further acquisitions, the share holding was increased to 76.51% as at 31 December 2014.

An announcement on proposal to amalgamate Cargills Bank Limited and Capital Alliance Finance was sent to the Colombo Stock Exchange on 7 October 2014, but was not proceeded with.

28.3 Consideration transferred

In thousands of Rs.	
Cost of acquisition (Refer note 28.5.1 and 28.5.2)	459,200
Transaction cost on share purchase	3,045
Total Cost of Investment	462,245

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

28. INVESTMENTS IN SUBSIDIARY (CONTD.)

28.5 Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

In thousands of Rs.	
Cash and cash equivalents	47,220
Investments	162,859
Loans and receivables	808,884
Property plant & equipment	67,906
Other assets	33,106
Deposits	(566,188)
Borrowings	(208,107)
Deferred tax liabilities	(5,724)
Other liabilities	(15,456)
Total identifiable net assets acquired	324,500

28.5.1 Goodwill

Initial Investment made on 5 August 2014	440,459
Net assets acquired on 5 August 2014 (73.4%)	(238,183)
Good will on acquisition	202,276

Goodwill arising on initial acquisition has been recognised as an asset. Refer note 30 - Intangible assets.

28.5.2 Goodwill arising from further investment

Additional investment up to 31 December 2014	18,741
Acquisition of non-controlling interest	(10,092)
Goodwill arising on additional investment	8,649

Total cost of Investment as at 31 December 2014 was Rs. 459.2 Mn.

Goodwill arising on additional investment have been accounted for as an equity transaction and recognised directly in equity.

Market value of the quoted subsidiary investment as at 31 December 2014, as quoted by the Colombo Stock Exchange amounted to Rs. 459.7 Mn.

28.6 Non-controlling interests

The following subsidiary has material non-controlling interest

Name	Principal Place of Business	Operating Segment	Ownership Interests Held by NCI (%)
Capital Alliance Finance PLC	Sri Lanka	Finance	23.49

The following is the summarised financial information of Capital Alliance Finance PLC, amended for fair value adjustments on acquisition and differences in the Group's accounting policies. The information provided below is before inter-company eliminations of inter company transactions in the Group.

For the 5 months ended 31 December,	2014 Rs. '000
Net operating income	40,136
Profit	5,842
Profit attributable to non-controlling interests	1,372
Other comprehensive income	-
Total comprehensive income	5,842
Total comprehensive income attributable to non-controlling interests	1,372
As at 31 December,	
Total assets	1,060,420
Liabilities	730,077
Net assets	330,343
Net assets attributable to non-controlling interests	77,597
For the 5 months ended 31 December,	
Cash flows from operating activities	17,909
Cash flows from investing activities	317,133
Cash flows from financing activities	(390,643)
Net decrease in cash and cash equivalents	(55,601)

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

29. PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 December

29.1 Bank

	Freehold Land Rs. '000	Freehold Buildings Rs. '000	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 2014 Rs. '000	Total 2013 Rs. '000
Cost										
Balance as at 01 January	-	-	115,593	145,880	64,329	26,550	34,323	3,474	390,149	208,282
Additions during the year	-	-	10,522	16,319	10,010	-	14,575	2,090	53,516	181,867
Disposals during the year	-	-	-	-	-	-	-	-	-	-
Transfers/ Adjustments	-	-	2,016	-	3,548	-	-	(5,564)	-	-
Balance as at 31 December	-	-	128,131	162,199	77,887	26,550	48,898	-	443,665	390,149
Accumulated Depreciation										
Balance as at 01 January	-	-	4,867	41,600	10,053	10,763	7,342	-	74,625	14,672
Charge for the year	-	-	8,264	37,856	13,713	6,638	8,719	-	75,190	59,953
Transfers/ Adjustments	-	-	-	-	-	-	-	-	-	-
Balance as at 31 December	-	-	13,131	79,456	23,766	17,401	16,061	-	149,815	74,625
Less: Impairment (Note 29.1.1)										
Balance as at 01 January	-	-	29,449	-	6,393	-	-	-	35,842	-
Charge to profit or loss	-	-	5,309	-	345	-	-	-	5,654	35,842
Balance as at 31 December	-	-	34,758	-	6,738	-	-	-	41,496	35,842
Net Book Value										
31 December 2014	-	-	80,242	82,743	47,383	9,149	32,837	-	252,354	
31 December 2013	-	-	110,726	104,280	54,276	15,787	26,981	3,474	279,682	

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

29.2 Group

For the year ended 31 December

	Freehold Land Rs. '000	Freehold Buildings Rs. '000	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 2014 Rs. '000
Cost									
Balance as at 01 January	-	-	115,593	145,880	64,329	26,550	34,323	3,474	390,149
Acquisition of subsidiary	22,500	21,188	-	8,505	13,823	647	5,929	-	72,592
Additions during the year	-	-	10,522	16,904	10,044	-	14,647	2,090	54,207
Transfers/ Adjustments	-	-	-	-	-	-	-	-	-
Balance as at 31 December	22,500	21,188	126,115	171,289	88,196	27,197	54,899	5,564	516,948
Accumulated Depreciation									
Balance as at 01 January	-	-	4,867	41,600	10,053	10,763	7,342	-	74,625
Acquisition of subsidiary	-	2,688	-	3,914	3,787	472	3,682	-	14,543
Charge for the year	-	311	8,264	38,707	14,092	6,659	8,759	-	76,792
Transfers/ Adjustments	-	-	-	-	-	-	-	-	-
Balance as at 31 December	-	2,999	13,131	84,221	27,932	17,894	19,783	-	165,960
Less: Impairment (Note 29.1.1)									
Balance as at 01 January	-	-	29,449	-	6,393	-	-	-	35,842
Charge to profit or loss	-	-	5,309	-	345	-	-	-	5,654
Balance as at 31 December	-	-	34,758	-	6,738	-	-	-	41,496
Net Book Value									
31 December 2014	22,500	18,189	78,226	87,068	53,526	9,303	35,116	5,564	309,492

As at 31 December	Bank 2014 Rs. '000	Bank 2013 Rs. '000	Group 2014 Rs. '000

30. INTANGIBLE ASSETS

Computer software (Refer note 30.1 and 30.2)	223,245	217,085	232,565
Goodwill (Refer note 30.3)	-	-	202,276
Total	223,245	217,085	434,841

30.1 Computer software

Cost			
Opening balance	32,947	3,050	32,947
Acquisition of subsidiary	-	-	10,286
Additions during the year	36,551	29,897	36,551
Transfers/ adjustments	183,963	-	183,963
Closing balance	253,461	32,947	263,747
Accumulated amortisation			
Opening balance	7,732	284	7,732
Acquisition of subsidiary	-	-	429
Charge for the year	30,391	7,448	30,928
Disposals during the year	-	-	-
Transfers/ adjustments	-	-	-
Closing balance	38,123	7,732	39,089
Net Book Value	215,338	25,215	224,658

30.2 Software under development

Cost			
Opening balance	191,870	110,583	191,870
Additions during the year	-	81,287	-
Disposals during the year	-	-	-
Transfers/ adjustments	(183,963)	-	(183,963)
Closing balance	7,907	191,870	7,907
Total carrying value (Note 30.1 and 30.2)	223,245	217,085	232,565

30.3 This represents the goodwill arisen on acqusition of subsidiary during the year (Refer note 28.5.1).

As at 31 December	Bank 2014 Rs. '000	Bank 2013 Rs. '000	Group 2014 Rs. '000

31. OTHER ASSETS

Income receivable	680	344	680
Deposits and prepayments	41,168	42,009	48,744
Tax recoverable	75,594	49,232	84,258
Other accounts	1,313	1,343	11,711
Total	118,755	92,928	145,393

As at 31 December	Bank 2014 Rs. '000	Bank 2013 Rs. '000	Group 2014 Rs. '000

32. DUE TO BANKS

Borrowings			
Local currency borrowings	-	4,626	-
Foreign currency borrowings	279,242	-	279,242
Total	279,242	4,626	279,242

33. DUE TO OTHER CUSTOMERS

Local currency deposits	1,232,208	-	1,885,725
Foreign currency deposits	33,407	-	33,407
Total	1,265,615	-	1,919,132

33.1 Analysis of due to customers

33.1 (a) By product

Current account deposits	216,209	-	216,209
Savings deposits	146,715	-	146,715
Time deposits	681,902	-	1,335,419
Certificate of deposits	220,789	-	220,789
Total	1,265,615	-	1,919,132

33.1 (b) By currency

Sri Lanka Rupees	1,232,208	-	1,885,725
United States Dollars	33,407	-	33,407
Total	1,265,615	-	1,919,132

34. OTHER BORROWINGS

Borrowings from Cargills (Ceylon) PLC	-	1,001,784	-
Securities sold under repurchase (repo) agreements	551,083	-	551,083
Total	551,083	1,001,784	551,083

As at 31 December	Bank 2014 Rs. '000	Bank 2013 Rs. '000	Group 2014 Rs. '000

35. OTHER LIABILITIES

Accrued expenditure	65,497	38,422	72,203
Provision for gratuity payable (note 35.1)	4,466	-	6,794
Other payables	37,544	23,819	48,296
Total	107,507	62,241	127,293

35.1 Provision for gratuity payable

At the beginning of the year	-	-	-
Acquisition of subsidiary	-	-	2,085
Amount charged during the year	4,466	-	4,709
Current service cost	-	-	-
Interest cost	-	-	-
Benefits paid	-	-	-
Actuarial (gains)/ losses	-	-	-
At the end of the year	4,466	-	6,794

As at 31 December	Bank 2014	Bank 2013	Group 2014

35.1 (a) Details of actuarial assumptions are as follows

Discount rate per annum	9.5%	-	9.5% - 10%
Future salary increases	7%	-	7% - 10%
Retirement age (years)	55 or 60 Years	-	55 or 60 Years

An actuarial valuation of the retirement benefit obligation was carried out as at 31 December 2014 by Mr. M. Poobalanathan, AIA of Actuarial and Management Consultants (Private) Limited. 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'.

Interest cost, current service cost, actuarial gain/loss cannot be estimated as this is the first year of the actuarial valuation of the gratuity liabilities of the Company.

The liability is not externally funded.

35.1 (b) Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below,

As at 31 December 2014

	Sensitivity effect on Defined benefit obligation Rs. '000
1% increase in discount rate	(405)
1% decrease in discount rate	475
1% increase in salary escalation rate	498
1% decrease in salary escalation rate	(430)

As at 31 December	Bank 2014 Rs. '000	Bank 2013 Rs. '000	Group 2014 Rs. '000

36. STATED CAPITAL

Opening balance	4,968,850	-	4,968,850
Issue of ordinary shares	-	4,968,850	-
Closing balance	4,968,850	4,968,850	4,968,850

As at 31 December	Bank 2014	Bank 2013	Group 2014

36.1 Movement in number of ordinary shares

Opening balance	440,000,000	2	440,000,000
Issue of ordinary shares	-	439,999,998	-
Closing balance	440,000,000	440,000,000	440,000,000

As at 31 December	Bank 2014 Rs. '000	Bank 2013 Rs. '000	Group 2014 Rs. '000

37. ACCUMULATED LOSSES

Opening balance	(301,461)	(212,852)	(301,461)
Loss for the year	(119,054)	(88,609)	(114,584)
Goodwill arising on subsequent acquisition of subsidiary (Note 28.5.2)	-	-	(8,649)
Closing balance	(420,515)	(301,461)	(424,694)

38. OTHER RESERVES

38.1 Available for sale reserve

Opening balance	-	-	-
Other comprehensive income for the year	(502)	-	(502)
Closing balance	(502)	-	(502)

39. CONTINGENT LIABILITIES & COMMITMENTS

39.1 Contingent liabilities

Guarantees	846,145	-	846,145
Documentary credits	264,057	-	264,057
Bills for collection	225,640	-	225,640
Total contingent liabilities	1,335,842	-	1,335,842

39.2 Commitments

39.2.1 Direct and indirect advances

Undrawn commitments	1,283,914	-	1,283,914
	1,283,914	-	1,283,914

As at 31 December	Bank 2014 Rs. '000	Bank 2013 Rs. '000	Group 2014 Rs. '000
39.2.2 Capital commitments			
39.2.2 (a) Capital expenditure commitments in relation to property, plant & equipment			
Approved and contracted for	840	-	840
	840	-	840
39.2.2 (b) Capital expenditure commitments in relation to intangible assets			
Approved and contracted for	14,025	-	14,025
	14,025	-	14,025
Total capital commitments	14,865	-	14,865
Total commitments	1,298,779	-	1,298,779
Total commitments and contingencies	2,634,621	-	2,634,621

40. NET ASSET VALUE PER SHARE

As at 31 December	Bank 2014	Bank 2013	Group 2014
Amount used as the numerator			
Shareholders' funds (Rs. '000)	4,547,833	4,667,389	4,543,654
Amount used as the denominator			
Total no. of shares	440,000,000	440,000,000	440,000,000
Net assets value per ordinary share (Rs.)	10.34	10.61	10.33

41. Non-cash items included in loss before tax

For the year ended 31 December	Bank 2014 Rs. '000	Bank 2013 Rs. '000	Group 2014 Rs. '000
Depreciation of property, plant and equipment	75,190	59,953	76,791
Amortisation of intangible assets	30,391	7,448	30,928
Impairment losses on loans and advances	11,110	-	10,266
Impairment losses on property, plant & equipment	5,654	35,842	5,654
Charge for defined benefit plans	4,466	-	4,709
	126,812	103,243	128,348

For the year ended 31 December	Bank 2014 Rs. '000	Bank 2013 Rs. '000	Group 2014 Rs. '000

42. CHANGE IN OPERATING ASSETS

Change in balances with Central banks	55,886	-	55,886
Change in placements with banks	1,718,737	-	1,718,737
Change in loans and receivables to banks	503,425	-	503,425
Change in loans and receivables to other customers	2,241,528	-	2,302,029
Change in financial investments available-for-sale	1,034,723	-	1,034,723
Change in deposits & pre-payments	(841)	14,168	(88,169)
Change in other assets	26,668	50,918	21,044
	5,580,126	65,086	5,547,675

43. CHANGE IN OPERATING LIABILITIES

Change in deposits from banks, customers and debt securities issued	1,540,231	-	1,540,231
Change in accruals and deferred income	27,075	16,311	27,075
Change in other liabilities	13,724	(9,586)	17,811
	1,581,030	6,725	1,585,117

44. OPERATING SEGMENTS

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

The following table presents the income, profit and asset and liability information on the Group's business segments for the year ended December 31, 2014.

For the year ended 31 December 2014	Banking Rs. '000	Leasing & Hire purchase Rs. '000	Treasury/ Investments Rs. '000	Unallocated Rs. '000	Total Rs. '000
Net interest income	37,247	16,972	289,804	2,392	346,415
Foreign exchange profit	792	-	3,669	-	4,461
Net fees and commission income	11,627	761	(511)	352	12,229
Other income	11	3,716	2,765	560	7,052
Operating income by segment	49,677	21,449	295,727	3,304	370,157
Credit loss expenses	(11,110)	2,644	-	(1,800)	(10,266)
Net operating income	38,567	24,093	295,727	1,504	359,891
Operating expenses	(22,008)	(14,239)	(11,936)	(536,985)	(585,168)
Operating profit by segment	16,559	9,854	283,791	(535,481)	(225,277)
VAT on financial services	-	-	-	(3,786)	(3,786)
Segment profit before tax	16,559	9,854	283,791	(539,267)	(229,063)
Income tax expense					(115,851)
Non-controlling interest					1,372
Net profit for the year, attributable to equity holders of the parent					(114,584)
Other information					
Segment assets	2,507,184	460,453	3,400,635	1,134,758	7,503,029
Segment liabilities	1,278,796	318,138	883,160	401,684	2,881,778

45. FINANCIAL RISK MANAGEMENT

45.1 Introduction

The changing nature of today's business environment is increasing both the scope and potential impact of the risks banks face in day-to-day operations. Managing risks therefore constantly requires innovation and constitutes an integral part in the role of banking operations and also in the areas of strategic decisions of Cargills Bank. Despite being in operations for 6 months the Bank and the group company have established mechanisms, which ensure the ongoing assessment of relevant risk types on an individual basis and of the overall risk position of the bank.

Formulated and advanced under the Integrated Risk Management Direction (2011) of the Central Bank of Sri Lanka (CBSL), Cargills Bank's risk management framework is focused on supporting the day to day business activities of the Bank by building and strengthening its risk management processes at all levels of the bank.

The Bank has identified credit, market and operational as its main risk areas. The Bank also monitors liquidity risk on a regular basis.

45.2 Credit risk

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.

45.2.1 Credit Quality Analysis

45.2.1 (a) Bank

	Loans and Advances to Other Customers		Loans and Advances to Banks	
As at 31 December	2014 Rs.'000	2013 Rs.'000	2014 Rs.'000	2013 Rs.'000
Maximum exposure to credit risk				
Carrying amount	2,241,528	-	503,425	-
Amount committed/ guaranteed	-	-	-	-
At amortised cost				
Current	2,241,528	-	503,425	-
Special mentioned	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Total gross amount	2,241,528	-	503,425	-
Allowance for impairment (Individual and collective)	11,110	-	-	-
Net carrying amount	2,230,418	-	503,425	-

45.2.1 (b) Group

As at 31 December	Loans and Advances to Other Customers 2014 Rs.'000	2013 Rs.'000	Loans and Advances to Banks 2014 Rs.'000	2013 Rs.'000
Maximum exposure to credit risk				
Carrying amount	3,166,635	-	511,425	-
Amount committed/ guaranteed	-	-	-	-
At amortised cost				
Current	2,994,838	-	511,425	-
Special mentioned	-	-	-	-
Substandard	69,849	-	-	-
Doubtful	6,033	-	-	-
Loss	95,915	-	-	-
Total gross amount	3,166,635	-	511,425	-
Allowance for impairment (Individual and collective)	80,800	-	-	-
Net carrying amount	3,085,835	-	511,425	-

45.3 Liquidity risk and fund management

Liquidity risk arises when the Bank cannot maintain or generate sufficient funds to meet its payment obligations as they fall due or can only do so at a material loss. This can arise when counterparties who provide funding to the Bank withdraw or do not roll over a line of funding or as a result of a general disruption in financial markets which lead to normal liquid assets becoming illiquid.

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.

45.3.1 Statutory liquid assets ratio

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.

As at 31 December 2014 the bank maintained Statutory Liquid Asset ratio at 237.10%

	Rs. '000
Cash	38,750
Money at call in Sri Lanka	1,183,534
Treasury Bills and Securities issued or guaranteed by the government of Sri Lanka	1,402,539
Balances with banks abroad	65,333
Treasury Bonds	190,715
Total	2,880,871

45.3.2 Analysis of financial assets and liabilities by remaining contractual maturities

45.3.2 (a) Bank

The table below summarises the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 2014.

	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-14 Rs.'000	Total as at 31-Dec-13 Rs.'000
Interest earning assets							
Cash and cash equivalents	-	-	-	-	-	-	5,145,387
Placements with Banks	1,718,737	-	-	-	-	1,718,737	-
Loans & receivables to Banks	503,425	-	-	-	-	503,425	-
Loans & receivables to other customers	1,777,402	287,993	100,000	40,419	24,604	2,230,418	-
Financial investments available for sale	-	820,324	-	207,819	-	1,028,143	-
Total interest earning assets	3,999,564	1,108,317	100,000	248,238	24,604	5,480,723	5,145,387
Non-interest earning assets							
Cash and cash equivalents	39,039	-	-	-	-	39,039	958
Balances with Central Bank	55,886	-	-	-	-	55,886	-
Financial investments available for sale	-	-	-	-	5,883	5,883	-
Investment in subsidiaries	-	-	-	-	459,200	459,200	-
Property, plant and equipment	-	-	-	-	252,354	252,354	279,682
Intangible assets	-	-	-	-	223,245	223,245	217,085
Deferred tax assets	-	-	-	-	116,195	116,195	-
Other assets	24,492	10,309	7,050	2,827	74,077	118,755	92,928
Total non-interest earning assets	119,417	10,309	7,050	2,827	1,130,954	1,270,557	590,653
Total assets	4,118,981	1,118,626	107,050	251,065	1,155,558	6,751,280	5,736,040
Interest bearing liabilities							
Due to banks	279,242	-	-	-	-	279,242	4,626
Due to other customers	1,114,527	149,018	2,019	51	-	1,265,615	-
Other borrowings	551,083	-	-	-	-	551,083	1,001,784
Total interest bearing liabilities	1,944,852	149,018	2,019	51	-	2,095,940	1,006,410
Non-interest bearing liabilities							
Other liabilities	38,949	68,558	-	-	-	107,507	62,241
Stated capital	-	-	-	-	4,968,850	4,968,850	4,968,850
Statutory reserves	-	-	-	-	-	-	-
Accumulated losses	-	-	-	-	(420,515)	(420,515)	(301,461)
Other Reserves	-	-	-	-	(502)	(502)	-
Total non-interest bearing liabilities	38,949	68,558	-	-	4,547,833	4,655,340	4,729,630
Total liabilities and equity	1,983,801	217,576	2,019	51	4,547,833	6,751,280	5,736,040

45.3.2 (b) Group

The table below summarises the maturity profile of the undiscounted cash flows of the Group's financial assets and liabilities as at 31 December 2014.

	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-14 Rs.'000
Interest earning assets						
Cash and cash equivalents	22,200	-	-	-	-	22,200
Placements with Banks	1,718,737	-	-	-	-	1,718,737
Other financial instruments held for trading	4,199	-	-	-	-	4,199
Loans & receivables to Banks	511,425	-	-	-	-	511,425
Loans & receivables to other customers	2,129,178	435,619	345,929	144,053	31,056	3,085,835
Financial investments available for sale	-	820,324	-	207,819	-	1,028,143
Financial investments held to maturity	-	23,613	-	-	1,802	25,415
Total interest earning assets	4,385,739	1,279,556	345,929	351,872	32,858	6,395,954
Non-interest earning assets						
Cash and cash equivalents	39,039	-	-	-	-	39,039
Balances with Central Bank	55,886	-	-	-	-	55,886
Financial investments available for sale	-	-	-	-	6,229	6,229
Property, plant and equipment	-	-	-	-	309,492	309,492
Intangible assets	-	-	4,669	-	430,172	434,841
Deferred tax assets	-	-	-	-	116,195	116,195
Other assets	24,537	12,421	22,574	11,783	74,078	145,393
Total non-interest earning assets	119,462	12,421	27,243	11,783	936,166	1,107,075
Total assets	4,505,201	1,291,977	373,172	363,655	969,024	7,503,029
Interest bearing liabilities						
Due to banks	279,242	-	-	-	-	279,242
Due to other customers	1,378,005	392,993	139,474	8,660	-	1,919,132
Other borrowings	551,083	-	-	-	-	551,083
Total interest bearing liabilities	2,208,330	392,993	139,474	8,660	-	2,749,457
Non-interest bearing liabilities						
Deferred tax liabilities	-	-	-	-	5,028	5,028
Other liabilities	45,915	69,798	9,252	-	2,328	127,293
Stated capital	-	-	-	-	4,968,850	4,968,850
Statutory reserves	-	-	-	-	-	-
Accumulated losses	-	-	-	-	(424,694)	(424,694)
Other Reserves	-	-	-	-	(502)	(502)
Non-controlling interest	-	-	-	-	77,597	77,597
Total non-interest bearing liabilities	45,915	69,798	9,252	-	4,628,607	4,753,572
Total liabilities and equity	2,254,245	462,791	148,726	8,660	4,628,607	7,503,029

45.4 Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads will affect the Bank's income or the value of its holdings of financial instruments. The main objective of the Cargills Bank's market risk management is to manage and control market risk exposures within acceptable levels in order to ensure the Bank's solvency while maximising the returns.

Since Cargills Bank started its operations 6 months back the relative exposures lies at a very low level. However, The Bank regularly assesses its assets and liability profile in terms of interest rate and other risks and depending on this assessment, necessary realignments in the assets and liability structure are undertaken.

45.4.1 Exposure to market risk as at 31 December 2014

	Bank Rs. '000	Group Rs. '000
Financial investments-available for sale		
Treasury bills	820,324	820,324
Treasury bonds	207,819	207,819
Total	1,028,143	1,028,143
Financial investments -held to maturity		
Government Securities		
Treasury bills	-	23,549
Treasury bonds	-	1,866
Total	-	25,415
Financial investments -held for trading		
Equity shares	-	4,199
Total	-	4,199

45.4.2 Exposure to interest rate risk as at 31 December 2014

	Bank Rs. '000	Group Rs. '000
Deposits		
Savings deposits	146,715	146,715
Time deposits	681,902	1,335,419
Certificate of deposits	220,789	220,789
Total	1,049,406	1,702,923

45.4.3 Exposure to currency risk as at 31 December 2014

Currency	Amount
Foreign Exchange Position USD	326,247
Foreign Exchange Position AUD	310
Foreign Exchange Position CNY	150
Foreign Exchange Position EUR	81,272
Foreign Exchange Position SAR	500
Foreign Exchange Position SGD	581
Foreign Exchange Position GBP	530

45.5 Operational risk

Operational Risk is the risk of losses incurring due to human errors, inadequate or failed internal processes or systems or external events including legal risk. Legal risk arises when the Bank's business is not conducted in accordance with applicable laws.

The Bank has a process of continuous internal audit and an external audit utilising the services of KPMG, Chartered Accountants and also working in combination with business unit managers, the bank has developed tools to assist in identifying, measuring, monitoring and reporting operational risk on a continuous basis.

46. RELATED PARTY DISCLOSURES

The Bank and Group carry 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.

46.1 Transactions with Key Management Personnel (KMP)

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 Company's KMP include the Board of Directors (including Executive and Non-Executive Directors).

	Bank		Group
For the year ended 31 December	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000
(a) Compensation of directors			
Short term employee benefits	57,005	52,150	57,755
Post employee benefits	1,321	1,515	1,321
	58,326	53,665	59,076

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

	Bank	
As at 31 December	2014	2013
(b) Directors' shareholdings		
Number of shares	10,189,000	10,189,000
Shareholding %	2.32%	2.32%

46.2 Transactions with subsidiary

	Interest Charged Rs. '000	Fees Charged Rs. '000	Accommodation Granted / Deposits	Balance as at 31-Dec-2014 Rs. '000
Capital Alliance Finance PLC	1,125	16	Loans & advances	53,238

Net accommodation as a percentage of the Bank's regulatory capital was 1.4%

46.3 (a) Transactions with related companies-Bank

Company Name	Relationship	Interest Paid Rs. '000	Interest Charged Rs. '000	Fees Charged Rs. '000	Accommodation Granted / Deposits	Balance as at 31-Dec-2014 Rs. '000
C T Holdings PLC	Shareholding - 20%	-	-	1	Deposits	99
Cargills (Ceylon) PLC	Shareholding - 20%	-	-	96	Deposits	1,262
Kotmale Holdings PLC	Common Directors	-	-	13	Deposits	987
Cargills Foods Company (Pvt) Ltd	Common Directors	797	172	646	Deposits	15
Cargills Quality Foods Ltd	Common Directors	-	24	106	Deposits	3,963
C T CLSA Holdings Ltd	Common Directors	-	-	1	Deposits	99
Sierra Construction PLC	Common Directors	-	3,585	3,349	Loans & advances	181,898
Asiri Hospital Holdings PLC	Common Directors	-	469	8	Loans & advances	54,483
Asiri Surgical Hospital PLC	Common Directors	-	1,213	226	Loans & advances	190,409
Cargills Agrifoods Ltd	Common Directors	-	32	99	Deposits	2,406
Cargills Food Processors (Pvt) Ltd	Common Directors	-	35	109	Deposits	19,775
Cargills Food Services (Pvt) Ltd	Common Directors	-	10	67	Deposits	1,804
Cargills Quality Dairies (Pvt) Ltd	Common Directors	507	11	421	Deposits	1,436
Millers Ltd	Common Directors	130	-	183	Deposits	1,338

Net accommodation as a percentage of the Bank's regulatory capital was 10.4%

46.3 (b) Transactions with related companies-Group

Company Name	Relationship	Interest Paid Rs. '000	Interest Charged Rs. '000	Fees Charged Rs. '000	Accommodation Granted / Deposits	Balance as at 31-Dec-2014 Rs. '000
C T Holdings PLC	Common Directors	-	-	1	Deposits	99
Cargills (Ceylon) PLC	Common Directors	-	-	96	Deposits	1,262
Kotmale Holdings PLC	Common Directors	-	-	13	Deposits	987
Cargills Foods Company (Pvt) Ltd	Common Directors	797	172	646	Deposits	15
Cargills Quality Foods Ltd	Common Directors	-	24	106	Deposits	3,963
C T CLSA Holdings Ltd	Common Directors	-	-	1	Deposits	99
Sierra Construction PLC	Common Directors	-	3,585	3,349	Loans & advances	181,898
Asiri Hospital Holdings PLC	Common Directors	-	469	8	Loans & advances	54,483
Asiri Surgical Hospital PLC	Common Directors	-	1,213	226	Loans & advances	190,409
Cargills Agrifoods Ltd	Common Directors	-	32	99	Deposits	2,406
Cargills Food Processors (Pvt) Ltd	Common Directors	-	35	109	Deposits	19,775
Cargills Food Services (Pvt) Ltd	Common Directors	-	10	67	Deposits	1,804
Cargills Quality Dairies (Pvt) Ltd	Common Directors	507	11	421	Deposits	1,436
Millers Ltd	Common Directors	130	-	183	Deposits	1,338
Capital Alliance Limited	Common Directors	-	1,713	-	Treasury bills & Repo	62,327

Company Name	Relationship	Interest Paid Rs. '000	Interest Charged Rs. '000	Fees Charged Rs. '000	Accommodation Granted / Deposits	Balance as at 31-Dec-2014 Rs. '000
Capital Alliance Securities Limited	Common Directors	-	7,325	-	Margin trading	72,639
Capital Alliance High Yield Fund	Common Directors	12,996	-	-	Commercial papers	-
Ceylon Tea Brokers PLC	Common Directors	-	482	-	Loans & advances	5,082
Shift Solutions Pvt Ltd	Common Directors	-	595	-	Loans & advances	6,051
Kotagala Plantation PLC	Common Directors	-	515	-	Loans & advances	5,830

47. OPERATING LEASE COMMITMENTS

47.1 Operating Lease Commitments (Payables)

The Group has leased a number of office premises under operating leases. These leases have an average life of between ten to fifteen years. Lease agreements include clauses to enable upward revision of the rental payments on a periodic basis to reflect market conditions. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals payable under operating leases are as follows:

	Bank		Group
As at 31 December	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000
Less than one year	58,683	53,373	58,683
Between one and five years	267,099	252,506	267,099
More than five years	380,975	454,251	380,975
Total	706,757	760,130	706,757

48. EVENTS AFTER THE REPORTING DATE

Change in directorate: Mr. G L H Premarathne resigned w.e.f. 30 January 2015 and Mr. Prem Kumar appointed to the Board w.e.f. 26 March 2015 as Managing Director/CEO. Further, Mr. M O F Salieh appointed as Independent Non-executive Director w.e.f. 30 March 2015.

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

49. LITIGATION AND CLAIMS

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

50. COMPARATIVE INFORMATION

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

51. DIRECTORS RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Board of Directors is responsible for the preparation and presentation of these Financial Statements in accordance with SLAS laid down by the Institute of Chartered Accountants of Sri Lanka. This is more fully described under the relevant clause in the Directors' Report.

Cargills Bank Limited (Ordinary Shares)

Top 20 Shareholders as at 31 December 2014

	Shareholder Name	No. of Shares holding	Shareholding Ratio
1	Cargills (Ceylon) PLC	88,000,000	20.00%
2	CT Holdings PLC	88,000,000	20.00%
3	Monetary Board of Sri Lanka – On behalf of EPF	44,000,000	10.00%
4	Mulitex Investment Limited	30,800,000	7.00%
5	MJF Foundation Investments (Pvt) Ltd	28,000,000	6.36%
6	Phoenix Ventures Limited	13,200,000	3.00%
7	Aindri Holdings Pte Ltd	11,000,000	2.50%
8	MAS Capital (Private) Limited	11,000,000	2.50%
9	A I A Holdings Lanka (Pvt) Ltd	11,000,000	2.50%
10	Softlogic Holdings PLC	10,000,000	2.27%
11	Gardiya Lokuge Harris Premaratne	9,089,000	2.07%
12	Rosewood (Pvt) Ltd	8,000,000	1.82%
13	Merrill Joseph Fernando	7,800,000	1.77%
14	Rajah Mahinda Nanayakkara	4,400,000	1.00%
15	Lalan Rubber Holdings (Pvt) Ltd	4,400,000	1.00%
16	Periyasamipillai Bharathakumar	4,400,000	1.00%
17	Periyasamipillai Muruganandhan	4,400,000	1.00%
18	Periyasamipillai Anantharajah	4,400,000	1.00%
19	Periyasamipillai Thevarajah	4,400,000	1.00%
20	Periyasamipillai Bharathamanickkam	4,400,000	1.00%
		390,689,000	88.79%
	Total No. of Shares Issued	440,000,000	100.00%

Composition of Shareholders

Shares held by Directors	10,189,000	2.32%
Shares held by Other Related Parties	190,200,000	43.23%
Shares held by Group Staff Members	14,960,000	3.40%
Shares held by Institutions	175,040,000	39.78%
Balance held by Public	49,611,000	11.28%
Total	440,000,000	100.00%

Shares held by Resident	393,389,000	89.41%
Shares held by Non-Resident	46,611,000	10.59%
Total	440,000,000	100.00%

Notice of Annual General Meeting

Notice is hereby given that the Third Annual General Meeting of Cargills Bank Limited will be held on 26 June 2015 at 2.30 p.m. at the Institute of Chartered Accountants of Sri Lanka, No. 30A, Malalasekara Mawatha, Colombo 07.

for the following purposes ;

1) To consider and adopt the statement of accounts for the year ended 31 December 2014 with the report of the Auditors thereon.
2) To re-elect the following Directors
   a) Mr. L R Page who retires by rotation in terms of Article 86 of the Articles of Association of the Company being eligible offers himself for re-appointment.
   b) Mr. V R Page who retires by rotation in terms of Article 86 of the Articles of Association of the Company being eligible offers himself for re-appointment.
3) To re-elect Mr. M O F Salieh who retires in terms of Article 92 of the Articles of Association of the Company being eligible offers himself for re-appointment.
4) To authorize the Directors to determine the remuneration of the Auditors Messrs. KPMG who are deemed re-appointed as Auditors at the Annual General Meeting of the Company in terms of Section 158 of the Companies Act No.7of 2007.

By Order of the Board

Ms. S M Dunuwille
Company Secretary

8 May 2015

Notes:
1) A member is entitled to appoint a proxy to attend and vote at the meeting in his or her stead and the proxy need not be a member of the Company.
2) A form of proxy is enclosed for this purpose.
3) The instrument appointing a proxy must be completed and deposited at the registered office of the Company not less than 48 hours before the time fixed for the meeting.

Notes

Form of Proxy

I/We.. of

....

being a Member/Members of ....

hereby appoint ....

of ....

whom failing ....of

.... or failing him/her,
the Chairman of the Meeting as my/our Proxy to represent me/us and to vote for on my/our behalf at the Second Annual General Meeting of the Company to be held on 26 June 2015 and at any adjournment thereof and at every Poll which may be taken in consequent thereof in the manner indicated below.

Ordinary Resolutions					
Resolution Number	1	2		3	4
		(a)	(b)		
For					
Against					

....
Date

....
Signature of Member(s)

NOTES:

(a) Strike out whichever is not desired.

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

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

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

INSTRUCTIONS AS TO COMPLETION OF THE PROXY FORM

1. To be valid, the completed Form of Proxy should be deposited at the Registered Office of the Company at No. 696, Galle Road, Colombo 3, not less than 48 hours before the time appointed for the holding of the Meeting.

2. In perfecting the form, please ensure that all details are legible. If you wish to appoint a person other than the Chairman as your Proxy, please fill in your full name and address, the name and address of the Proxy holder and sign in the space provided and fill in the date of signature.

3. The instrument appointing a Proxy shall, in the case of an individual, be signed by the appointer or by his Attorney and in the case of a Corporation must be executed under its Common Seal or in such other manner prescribed by its Articles of Association or other constitutional documents.

4. If the Proxy Form is signed by an Attorney, the relevant Power of Attorney or a notarially certified copy thereof, should also accompany the completed Form of Proxy, if it has not already been registered with the Company.

5. In the case of joint holders, only one need sign. The votes of the senior holder who tenders a vote will alone be counted.

6. In the case of non-resident Shareholders, the stamping will be attended to upon return of the completed form of proxy to Sri Lanka.

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
+94-11-76 40 000

Facsimile
+94-11-76 40 606

SWIFT Code
CGRBLKLX

E-mail
info@cargillsbank.com

Web Address
www.cargillsbank.com

Tax Payer Identification Number (TIN)
134 048 476

Subsidiary Companies
Name of the Company : Capital Alliance Finance PLC
Holding : 76.51%

Nature of Business : Finance Company

Auditors
KPMG
Chartered Accountants,
No. 31 A, Sir Mohammed Macan Markar Mw, Colombo 03.

Lawyers
Julius & Creasy
No. 41, Janadhipathi Mawatha, Colombo 01.

Compliance Officer
A R M I Sanjeewanie (Ms.)

Company Secretary
S M Dunuwille (Ms.)

Board of Directors
L R Page - Chairman
V R Page - Deputy Chairman
Prem Kumar - Managing Director / CEO (appointed w.e.f. 26 March 2015)
P S Mathavan - Deputy Managing Director / CFO
P D Rodrigo - Senior Director
E M M Boyagoda
W K F De Silva (Ms.)
M O F Salieh (appointed w.e.f. 30 March 2015)

Board Sub-Committees

Board Integrated Risk Management Committee
E M M Boyagoda - Chairman
P D Rodrigo - Senior Director
W K F De Silva (Ms.)
Prem Kumar - Managing Director / CEO
P S Mathavan - Deputy Managing Director / CFO
S M Dunuwille (Ms.) - AGM Legal / Company Secretary
Premasiri Rathnayake - AGM Risk
Hilary Fernando - Head of Treasury (back office)
Shashika Ranasinghe - Head of Treasury (front office)

Board Human Resources & Remuneration Committee
V R Page - Chairman
P D Rodrigo - Senior Director
Prem Kumar - Managing Director / CEO
P S Mathavan - Deputy Managing Director / CFO
Rohan Dassanayake - AGM Human Resource
S M Dunuwille (Ms.) - AGM Legal / Company Secretary

Board Nomination Committee
L R Page - Chairman
V R Page
P D Rodrigo - Senior Director
Prem Kumar - Managing Director / CEO
P S Mathavan - Deputy Managing Director / CFO

Board Audit Committee
P D Rodrigo - Chairman
V R Page
E M M Boyagoda
Prem Kumar - Managing Director / CEO
P S Mathavan - Deputy Managing Director / CFO
R Amarasinghe - Secretary

Board Credit Committee
V R Page - Chairman
E M M Boyagoda
Prem Kumar - Managing Director / CEO
P S Mathavan- Deputy Managing Director / CFO

Board Strategic Planning Committee
L R Page - Chairman
V R Page - Deputy Chairman
Prem Kumar - Managing Director / CEO
P S Mathavan - Deputy Managing Director / CFO
P D Rodrigo - Senior Director
E M M Boyagoda
W K F De Silva (Ms.)

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CargillsBank

Banking on the Human Spirit

Cargills Bank Limited No. 696, Galle Road, Colombo 03