

All about  
**Passion &  
Progress**

Annual Report 2023



All about

# Passion & Progress

Over the past few years, in the face of challenging external conditions, Cargills Bank has maintained a steady growth trajectory. The key to our stability and continuous progress stems from the trust and loyalty of our customers, our community and all our stakeholders.

Cargills Bank credits this commendable performance to its dynamic and result oriented team who strive to raise the bar on a daily basis. Their passion and motivation is in sync with the core values of the bank which is to support our rural community and promote financial inclusivity across the country. Cargills Bank is determined to fuel this passion to ensure not just the company's progress, but to further strengthen the country's economy.



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"There was admirable growth in the Bank's Deposit and Loan portfolios at year-end, when we achieved the targets set out in our business plan."

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We are uniquely positioned to leverage the integrated value chain of the Cargills Group, connecting stakeholders from Farm to Home to drive local community development and enhance financial inclusivity. Accordingly, we collaborate with and serve diverse stakeholders within the Cargills ecosystem. We are driven by a compelling vision to become Sri Lanka's most inclusive bank, powered by digital innovation to deliver state-of-the-art banking solutions.

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# About Our Report



**WE ARE PLEASED TO PRESENT OUR FIRST INTEGRATED ANNUAL REPORT. THIS REPORT PROVIDES A CONCISE AND BALANCED REVIEW OF OUR STRATEGY, GOVERNANCE STRUCTURE, AND PERFORMANCE.**

## Forward-looking statements

This Report contains certain forward-looking statements about the Bank's performance, financial position, and operations. These statements involve risks and uncertainty as they relate to events that occur in the future. These factors could cause actual results to differ from those expressed/implied by such forward-looking statements.

## Navigating the report

The Report focuses about how value create to its stakeholders and value creation is discussed in the business model presented in this report (pages 34 and 35).

## Our approach to reporting

This Report covers the operations of Cargills Bank PLC ("Cargills Bank"). The Annual Report 2023 covers the 12 months from 1 January to 31 December 2023 and is consistent with the annual financial and sustainability reporting cycle. The most recent Annual Report covered the 12 months ended 31 December 2022 and is available on the Bank's website, <https://www.cargillsbank.com/investor-relations/annual-reports>. There are no material major restatements of non-financial information reported in 2023.

## Reporting frameworks

We have aligned our reporting with global best practices in corporate reporting and comply with internationally accepted reporting frameworks as listed below:

- Companies Act No. 7 of 2007
- Sri Lanka Financial Reporting Standards/ Sri Lanka Accounting Standards
- Integrated Reporting Framework of the International Integrated Reporting Council (<IR>) Framework
- Listing Rules of Colombo Stock Exchange
- Relevant directions/ circulars issued on reporting formats of the Central Bank of Sri Lanka
- GRI Standards (2021)

## Assurance of the Financial Statements

Internal Assurance	External Assurance
Internal Audit Reporting to Audit Committee and Board of Directors	Independent Auditors' Report by Messrs. KPMG, Chartered Accountants



**Scan to view this report online**



<https://www.cargillsbank.com/investor-relations/annual-reports>

# About Our Report



## Board Responsibility Statement

Cargills Bank’s Board of Directors have reviewed the 2023 Annual Report prepared by the Corporate Management in line with the guidance provided in the Integrated Reporting Framework and hereby confirms that it addresses all relevant material matters and fairly represents the Bank’s integrated performance.

Signed on behalf of the Board.

Senarath Bandara  
 Managing Director/  
 Chief Executive Officer

Richard Ebell  
 Chairman

Colombo  
 26 March 2024

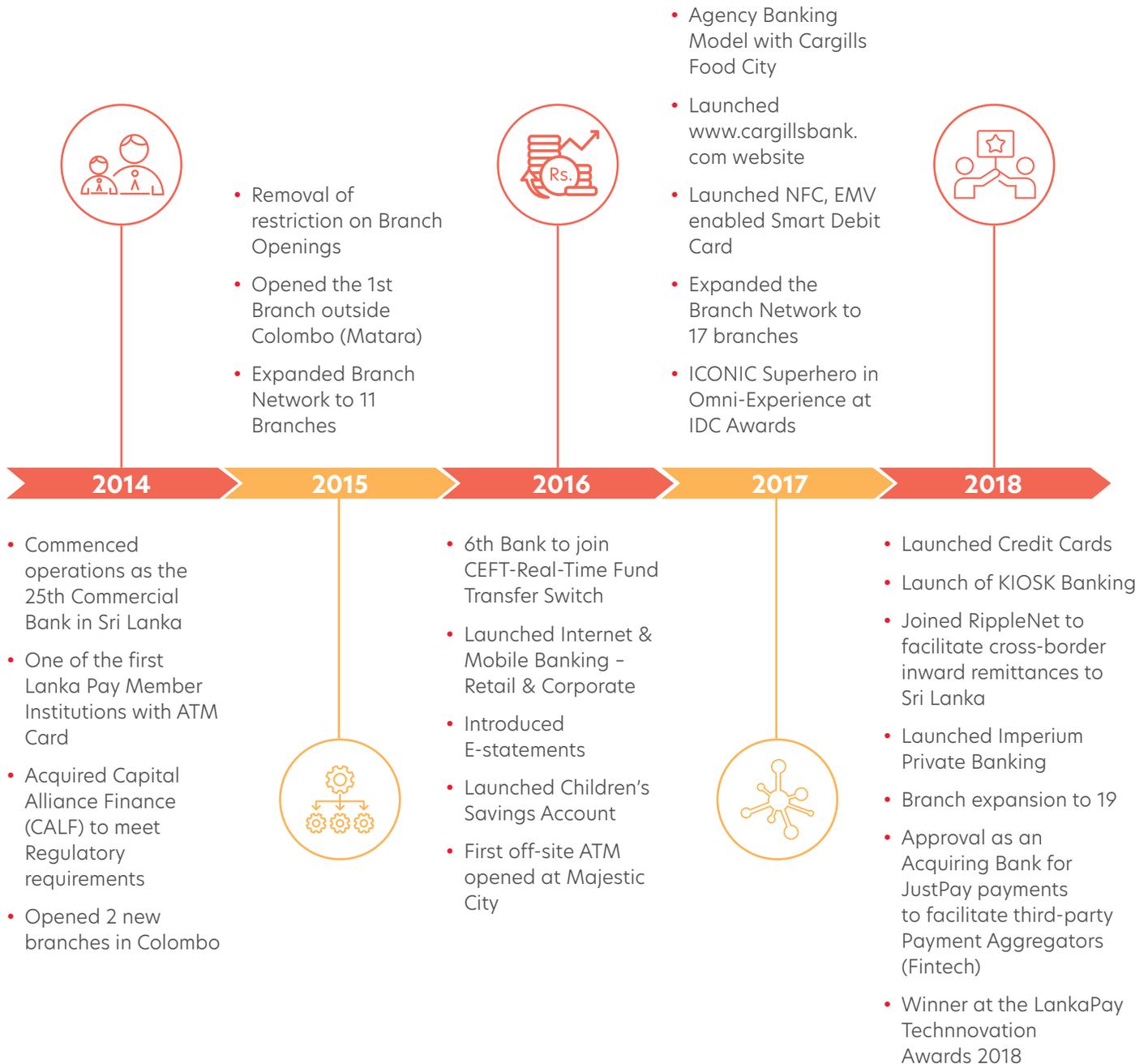


## Feedback

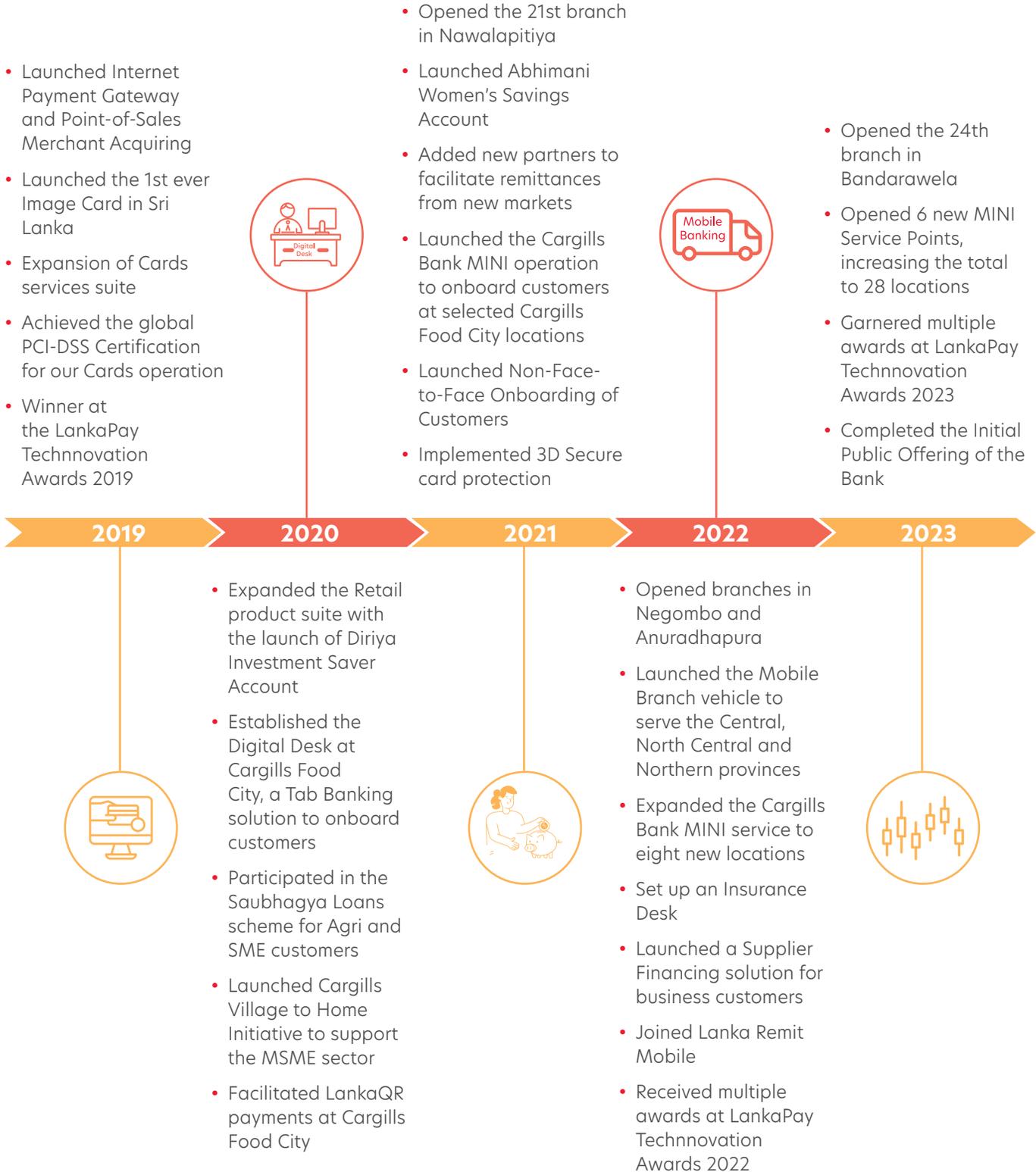
We understand integrated reporting is a journey of continuous improvement and we are committed to consistently enhancing the quality and readability of our Report. We welcome your suggestions and comments on this Report. Please direct your feedback to:

Mrs. Dilhani Gajanayaka  
 Head of Finance  
 Cargills Bank PLC, No. 696, Galle Road, Colombo 03, Sri Lanka.  
 Email: dilhani.g@cargillsbank.com  
 Tel: +94 11 764 0140

## Our Timeline in Context



# Our Timeline in Context



# Our Strategic Report

## Who We Are

Cargills Bank PLC is a licensed commercial bank incorporated in Sri Lanka on 3 November 2011 as “Cargills Agriculture and Commercial Bank Limited”. The Bank changed its name to “Cargills Bank Limited” in January 2014. The Bank gained approval as a Licensed Commercial Bank under the Banking Act No. 30 of 1988 on 21 January 2014 and commenced business operations on 30 June 2014. The ordinary shares of the Bank are listed on the Main Board of the Colombo Stock Exchange.

Headquartered in Colombo 03, we operate a network of 24 branches throughout Sri Lanka across 15 Districts. Our extensive product portfolio includes savings and current accounts, investment planners, credit and debit card offerings, consumer loans, agriculture and micro-financing, SME and business banking solutions, trade facilities, treasury operations, inward remittances, and a range of user-friendly and adaptable digital banking services.

We are uniquely positioned to leverage the integrated value chain of the Cargills Group, connecting stakeholders from Farm to Home to drive local community development and enhance financial inclusivity. Accordingly, we collaborate with and serve diverse stakeholders within the Cargills ecosystem. We are driven by a compelling vision to become Sri Lanka’s most inclusive bank, powered by digital innovation to deliver state-of-the-art banking solutions.



### Our Vision

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



### Our Mission

- We aim to directly engage every customer at their convenience through a unique and far-reaching network, through efficient and innovative technology.
- To facilitate and empower small and medium entrepreneurs, and enhance industry standards through a highly motivated team of innovative bankers.
- Create sustainable value for our investors through sound financial performance embedded in transparency and accountability.

**2023**

**10 Years**

In Operations

**+200,000**

Customers Onboarded

**+500**

Touchpoints

**600+**

Employees

**A (Ika);  
Outlook Negative**

Fitch Rating

*Many years before the Bank was envisioned, during a chance encounter with agricultural farmers in rural Sri Lanka, I was personally impacted after listening to the challenges they were facing in sustaining their livelihoods. This encounter changed the Cargills Group and its philosophy, from a traditional retailer to a brand with a larger purpose - one which focuses on serving the needs of the community.*

*In late 2009 when Sri Lanka was embarking on a new chapter, we were invited for a discussion on rebuilding the country with key public sector officials. At the time, we had limited engagement with the agriculture and dairy farming communities. Understanding the need of the country, we decided to invest more aggressively in building infrastructure to support the agriculture and dairy farming communities and sought a banking license to support the ecosystem we were building. We applied for a license under the banner of Cargills Agriculture & Commercial Bank, reflecting our vision to be the most inclusive bank by improving financial access for underserved communities across Sri Lanka.*

**Ranjit Page**  
Former Chairman, Cargills Bank

# Our Strategic Report

## Our Strategic Focus

Having stabilised our operation within a challenging economic environment, we have embarked on a growth-oriented business plan to expand our asset base.

This is based on three strategic focus areas.



### Drive growth from a position of stability

- Develop our market presence and build lasting customer relationships
- Expand customer base by leveraging ecosystem opportunities, offering value-added products and services, and implementing targeted customer acquisition strategies
- Develop a sustainable and profitable customer base
- Develop innovative financial products and services
- Capture market attention, leading to higher customer engagement



### Pursue ecosystem growth opportunities

- Deliver financial services through multiple touchpoints affiliated with the Cargills brand
- Provide tailored offerings to capture the potential customer base of the Cargills ecosystem
- Extend reach to new territories through a low-cost operating model
- Promote financial inclusion and develop the agriculture and dairy customer base



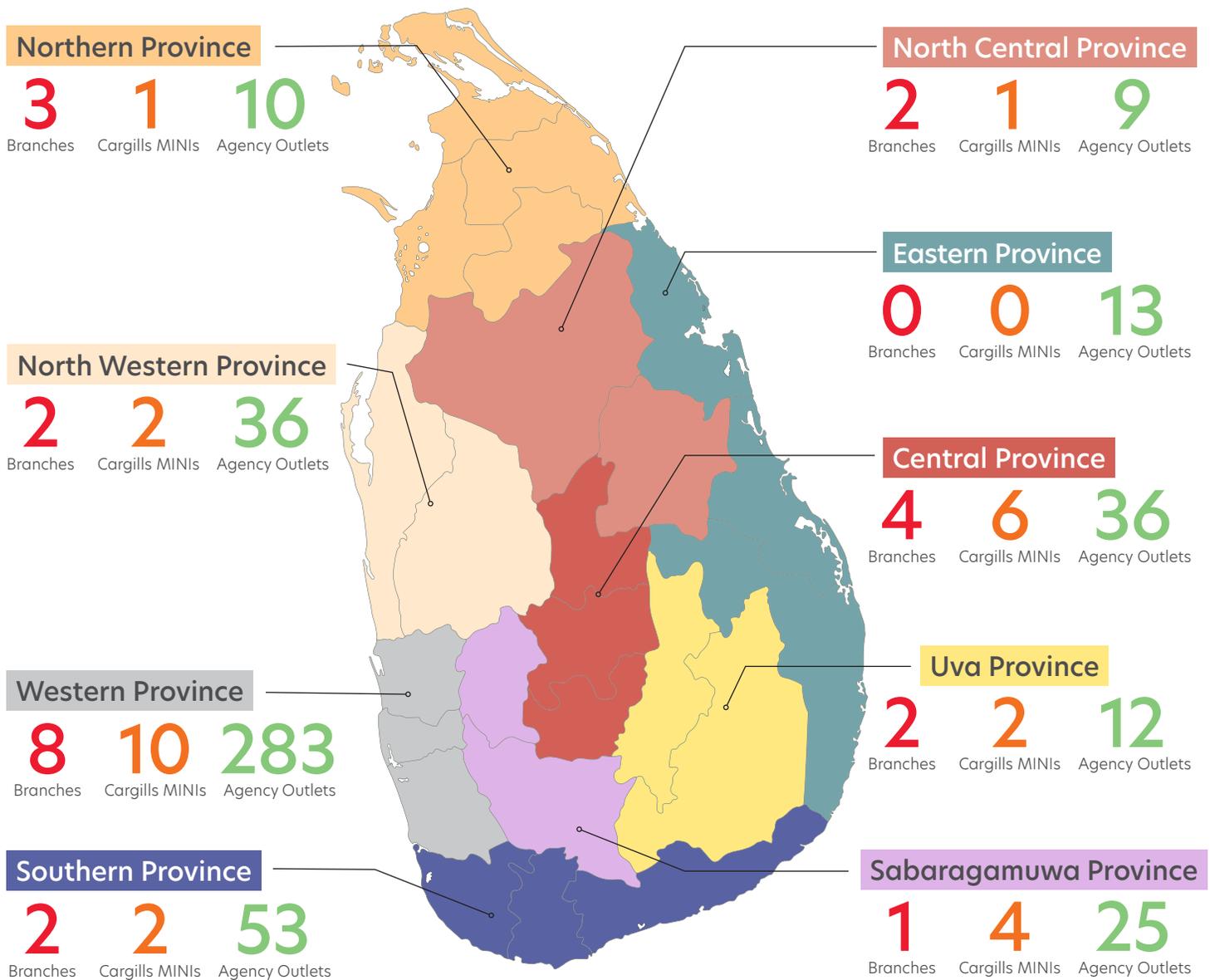
### Upgrade digital solutions to facilitate a customer-centric approach

- Expand market share by improving accessibility and convenience of banking services
- Continuous development and refinement of digital banking solutions (Mobile Banking, Internet Banking, Banking services at Cargills retail outlets and digital onboarding) to enhance customer count and usage
- Marketing support to drive conversion and usage
- Enhance customer service through AI-driven chatbot solutions
- Enhance the security of digital payment apps supported by the bank which will enhance digital inclusivity further

# Our Strategic Report

## Our Reach

Adopting a "Hub and Spoke" model as a cost-effective expansion strategy, we utilise the strength of the Cargills Retail network to expand our presence across Sri Lanka to serve our customers better. In addition to our 24 branch locations, we operate 28 Cargills Bank MINIs, located in Cargills Food City outlets across the country. The Bank is also connected to 477 Cargills Retail locations (Cargills Food City, Cargills Express and Cargills Food Hall) that allow deposit, withdrawal, bill settlement, cash collection and domestic and foreign remittance collections at the cashier counters of the retail outlet.



## Our Socioeconomic Impact

### Economic Value Generated and Distributed

Information on the creation and distribution of economic value provides manner in which the Bank has created wealth for its stakeholders;

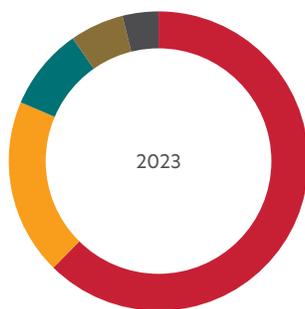
Economic Value Addition	2023 (Rs. '000)	2022 (Rs. '000)	%
<b>Direct Economic Value Generated</b>			
Interest income	10,929,050	8,002,096	37
Commission income	1,283,432	1,272,446	1
Other income	694,935	214,068	225
	12,907,417	9,488,610	36
<b>Economic Value Distributed</b>			
<b>To Depositors and Lenders</b>			
Interest expense	7,078,009	4,629,587	53
<b>Operating Costs</b>			
Depreciation and amortisation	331,904	437,014	(24)
Fee and commission expense	484,664	410,078	18
Other operating expense	1,475,858	1,002,185	47
	2,292,426	1,849,277	24
<b>To Employees</b>			
Salaries	767,980	681,341	13
Other Benefits	304,819	233,944	30
	1,072,799	915,285	17
<b>Payments to Government</b>			
Income tax expense	289,856	-	-
Value added tax on financial services	347,417	241,338	44
Social security contribution levy	57,412	14,943	284
Crop insurance levy	11,036	-	-
	705,721	256,281	175
<b>Payments to Providers of Capital</b>			
Interest to debt security holders	469,650	168,258	179
<b>Economic Value Distributed</b>	<b>11,618,605</b>	<b>7,818,688</b>	<b>49</b>
<b>Economic Value Retained</b>	<b>1,288,813</b>	<b>1,669,222</b>	<b>(23)</b>

# Our Socioeconomic Impact

## Economic Value Generated and Distributed

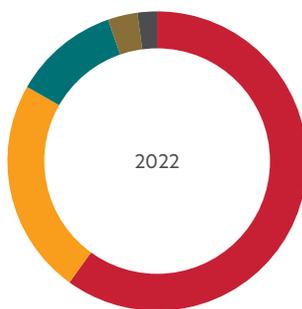
	2023 Rs. Mn	2022 Rs. Mn
<b>Economic Value Distributed</b>		
To Depositors and Lenders	7,078	4,630
Operating Costs	2,292	1,820
To Employees	1,073	915
Payments to Government	706	256
Payments to Providers of Capital	470	168
	<b>11,619</b>	<b>7,789</b>
<b>Direct Economic Value Generated</b>		
Interest income	10,929	8,002
Commission income	1,283	1,272
Other income	695	214
	<b>12,907</b>	<b>9,488</b>

Direct Economic Value Distributed - 2023



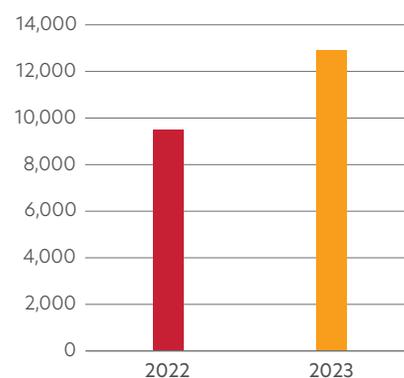
To Depositors and Lenders	61%
Operating Costs	20%
To Employees	9%
Payments to Government	6%
Payments to Providers of Capital	4%

Direct Economic Value Distributed - 2022



To Depositors and Lenders	59%
Operating Costs	23%
To Employees	12%
Payments to Government	3%
Payments to Providers of Capital	2%

Economic Value Generated (Rs. Mn)



# Our Performance Highlights

## Financial Overview

Operating Results (Rs. '000)	2023	2022	Change %
Gross income	12,907,417	9,488,610	36
Net interest income	3,381,391	3,204,251	6
Net fees and other income	1,493,703	1,076,436	39
Total operating income	4,875,094	4,280,687	14
Operating profit before taxes on financial services	1,134,705	462,718	145
Profit before income tax	729,876	206,437	254
Profit for the year	440,020	487,764	(10)
<b>Assets and Liabilities (Rs. '000)</b>			
Loans and advances	40,559,438	35,960,080	13
Due to depositors	50,728,853	37,802,680	34
Total assets	69,736,295	53,752,809	30
Total liabilities	57,793,512	44,032,504	31
Shareholder's funds	11,942,783	9,720,305	23
<b>Key Indicators</b>			
Earnings per share (Rs.)	0.50	0.55	
Net asset value per share (Rs.)	12.63	11.01	
Net interest margin (%)	5.61	5.99	
Return on assets (before income tax) (%)	1.10	0.36	
Return on equity (%)	4.12	5.28	
<b>Asset Quality</b>			
Stage 3 Loans (Net of Stage 3 Impairment) to Total Loans (%)	8.63	4.85	
Stage 3 Loan Impairment to Stage 3 Loans (Stage 3 Provision Cover) (%)	46.69	51.15	
<b>Regulatory Ratios</b>			
Common Equity Tier 1 Capital Ratio (%)	19.89	18.95	
Tier 1 Capital Ratio (%)	22.63	22.32	
Total Capital Ratio (%)	23.15	22.85	
Statutory Liquid Asset Ratio - Total Bank (%)	39.82	27.00	
Liquidity Coverage Ratio - All Currency (%)	289.04	140.51	

# Our Performance Highlights

## Social Performance

### Value Creation Highlights

Capitals	Measurement	Unit	2023	2022
Human Capital	No. of employees	Nos.	623	598
	Investment in training and development	Rs. Mn	3.0	2.1
	Average training hours per employee	Hours	18.89	7.62
Intellectual and Manufactured Capitals	Investment in IT - Hardware	Rs. Mn	73.6	39.8
	Investment in IT - Software	Rs. Mn	79.7	193.6
	Number of branches	Nos.	24	23
Natural Capital	Energy consumption	kWh	1,044,906	929,499
	Water consumption	Cu.ft	5,579	4,490
Social and Relationship Capitals	No. of customers (onboarded)	Nos.	215,034	190,047
	Low-interest loans for MSME development	Nos.	192	244
	No. of training programmes for farmers	Nos.	12	14

## Financial Capital



↑ **Rs. 12,907 Mn**

Gross Income (+36%)



**4.1%**

Return on Equity (-1%)



↑ **Rs. 730 Mn**

Pre-Tax Profit (+254%)



**Rs. 0.5**

Earnings Per Share (-9%)



**289%**

Liquidity Coverage Ratio (+149%)

# Our Performance Highlights

## Human Capital



**158% YoY**

Total Training Hours Increased



**48%**

Female Representation



**125**

Staff Promotions

## Natural Capital



**Formulated**

ESG Policy



**Rs. 4,694 Mn**

Sustainable Lending Portfolio



**6,096 Kg**

Paper Consumption

## Social and Relationship Capital



**Rs. 6,698 Mn**

Interest paid  
to depositors



**+500**

Touchpoints



**16**

Branches outside  
the Western Province

# Executive Reviews

## Chairman's Message

I am pleased to introduce the Bank's Annual Report and Audited Financial Statements for 2023, its first as a publicly listed entity.

This statement presents an overview; other content in this Report will supplement it to provide readers with a complete picture.

### The environment in which we work

The year saw the beginning of a recovery from the prospect of an imploded economy. The Government must be given credit for this.

Steps being taken to instill discipline in national governance and management of the Sri Lankan economy must also be appreciated. We hope they will grow in intensity, speed, and effect. We believe disciplined action responding to areas identified in the International Monetary Fund's Governance Diagnostic for Sri Lanka is absolutely essential.

Credit is due to the Central Bank for the tough but appropriate steps they have taken, and their commitment to staying with these.

The environment remains fragile, though-

#### At a national level-

- Debt restructuring, worryingly delayed, needs very swift completion.
- Although inflation has been reined in, prices and the cost of everyday living remain extremely high, with no signs of abating. The burdens imposed on less affluent citizens must be urgently addressed through targeted reliefs.

#### At enterprise level-

- Escalated costs and shrunken internal (and in some areas, external) demand, have continued to place businesses under great

stress; many have collapsed under the strain.

- Continued migration of Sri Lankans has eroded skill bases and caused significant concern, particularly in service businesses.

The recent changes in Value Added Tax have caused concern due to the further impact they will have on the cost of living. Given the prevailing conditions, higher taxation is, however unpleasant, inevitable, but the Government has to ensure tax revenues are well-directed and must enlarge the tax net to spread the tax burden more equitably.

Sri Lanka faces a hard road to full recovery, but it is one that cannot be bypassed and one on which pitfalls will continue to be found.

### Our performance

There was admirable growth in the Bank's Deposit and Loan portfolios at year-end, when we achieved the targets set out in our business plan. We have supported our customers through the challenges they faced over the last few years while pursuing our plans. The work we have done has enabled us to navigate the turbulence Sri Lanka has been through.

The Bank experienced an erosion of interest margins in the later part of the year, with pressure on banks to reduce lending rates, a lagged reduction of deposit rates and investments in treasury instruments remaining attractive to depositors. This put significant pressure on its bottom line and was a major reason for the result in the last quarter of 2023 being very modest. Nevertheless, our focus on developing our portfolio and improving our technology and processes has continued.

Careful management of credit exposures continued to be important. This was done well, with encouraging



**There was admirable growth in the Bank's Deposit and Loan portfolios at year-end, when we achieved the targets set out in our business plan. We have supported our customers through the challenges they faced over the last few years while pursuing our plans.**

## Executive Reviews

recoveries made on some accounts. Substantial impairment provisioning became necessary in the last quarter, impacting significantly on the results of that quarter.

We have during the year added a branch at Bandarawela and six Mini-units within Cargills Retail outlets, to our existing customer touchpoints.

Employee attrition and the resulting loss of expertise and experience continue to pose a challenge to the banking sector. Our focus on staff engagement initiatives aims to curb this, but the issue is not easily resolved. We take comfort still, from the many competent and committed individuals in our team who remain with us.

### The listing

We achieved our target of listing on the Colombo Stock Exchange (CSE) by Initial Public Offering at the end of 2023. We thank our core team, our Joint Issue Managers, the CSE, and applicants to the IPO, for enabling this. Regulatory Capital needs augmentation to the level of Rs. 20 Bn. by the end of 2025. We intend that the retention of profits, the issue of new shares, and the issue of AT 1-compliant debentures, will help us achieve this.

As a newly listed company, we are focused on complying with the expanded Corporate Governance provisions in the CSEs Listing Rules and have taken appropriate steps in this direction.

We now have 2000+ new shareholders. They would have quite different perspectives and expectations on their shareholdings. Although conditions remain very volatile and challenges will continue to be thrown at us, we commit to staying focused on growing our Bank and increasing shareholder value.

We hope our new shareholders will find their association with the Bank rewarding. We also hope shareholders who have been with us through testing times, and whose perseverance we appreciate, will see the value of remaining as shareholders of the Bank.

### The future

We shall deepen our interactions with the Cargills ecosystem, which has provided many benefits but offers more on which we can build.

We shall continue to build our business based on our hub-and-spoke model, expanding our customer touchpoints through Cargills Retail outlets, Mini-units, and branches.

On the digital front, we are focused on the improvement of customer experiences. The implementation of an enhanced Core Banking System in the near-term, is also an important focus.

We are giving sustainability attention in our activities and the grant of new customer facilities. This focus goes beyond compliance with regulations that apply and opens up the prospect of lower-cost funding support on some of our lending to specific sectors.

### Thanks

We thank officials of the Central Bank with whom we have interacted and continue to interact, for the support they have always extended to us.

We thank the Cargills Group, who envisioned the Bank taking financial inclusivity to all parts of Sri Lanka, for their continuing support. Their activity continues to provide a unique platform for us to build our business on.

I thank my accomplished colleagues on the Board of Directors for their support and valued contributions in directing the Bank. Ms Ruvini Fernando relinquished her position

on the Board during the year due to professional commitments; we thank her for her enthusiastic engagement at all times. Three new Directors - Mr Ravindra Jayawardena, Mrs Shanti Gnanapragasam, and Mr Arjuna Herath have been appointed since the issue of our last Annual Report; the profiles contained in this report set out their impressive credentials. We welcome them to the Board and thank them for the contributions they have already made.

Shareholders should already know that the Board approved the appointment of Mr Asoka Pieris as Deputy Chairman of the Bank effective 1 April 2024. I am sure they will join me in wishing Mr Pieris well in that role.

I sincerely thank the Bank's vibrant management team led excellently by our Managing Director Mr Senarath Bandara, who has remained a solid and stabilizing presence during these challenging times. The commitment of our team to what we do encourages us enormously and has enabled us to stay close to our customers and responsive to their needs.



Richard Ebell  
Chairman

Colombo  
26 March 2024

## Executive Reviews

### CEO's Message

Fostering progress for all Sri Lankans across our Nation through financial inclusivity. This is the primary focus of Cargills Bank, and what sets us apart in the financial services industry. In keeping with our vision, however, we recognise the significance of commercial banking operations in creating the environment, through growth and profitability, to allow our Bank to work towards its development-oriented vision. Therefore, we are a full-service bank, catering to the needs of all customers, from Retail customers to Micro, Small & Medium Enterprises and leading Corporates.

Demonstrating our resolve and focus on converting growth opportunities, we navigated through macroeconomic challenges, including exchange rate fluctuations and a volatile interest rate environment, to deliver commendable results during the period. We remained agile to the shifting macroeconomic conditions, continuously assessing likely impacts to make prompt adjustment to our strategies. This approach positioned us reasonably well to deliver steady performance during the year. The experience and knowledge of our Board and the management team played a crucial role in returning this outcome.

#### Navigating a turbulent 2023

Operating in a challenging economic landscape such as in the past year, I am humbled to report that we created sustainable value for our stakeholders, leading to the Bank recording our highest-ever operational profit of Rs. 1,135 Mn, and achieving 30% growth in total assets in FY2023. Our agility, focus, and prudent management

of liquidity and portfolio quality, supported by the extensive network and the opportunities embedded within the Cargills ecosystem, have stabilised our course and strategically positioned the Bank to capitalize on future growth opportunities.

Amid the high interest rate environment and economic uncertainty, especially in the 1H of 2023, we adopted a conservative lending approach, focusing on supporting the working capital needs of our SME and Corporate customers and continuing agricultural lending. However, following the government's negotiations with the International Monetary Fund (IMF), we saw the potential for a resurgence in the economy and adapted our lending approach, leading us to surpass our initial targets for advances and deposits during the year.

During periods of rising interest rates, we prudently refrained from increasing lending rates sharply so as not to overly burden our customers. While this measure impacted our interest margins, it also endeared the Bank to its customers and strengthened our relationship to improve future business. Meanwhile, our focus on short-term deposits and a well-managed government security portfolio helped to optimise our position amid changing interest rate scenarios.

Pressure remained on asset quality in 2023 due to the depressed market conditions, but our concerted recovery efforts continued throughout the year. We closely engaged with our customers to understand their difficulties and provided feasible solutions such as new repayment



**I am humbled to report that we created sustainable value for our stakeholders, leading to the Bank recording our highest-ever operational profit of Rs. 1,135 Mn, and achieving 30% growth in total assets in FY2023.**

## Executive Reviews

plans aligned with their cash flows, deferment of capital payments if required, pricing at reasonable interest rates, and a unique 60:40 recovery model to lighten their interest burden.

Prudent management of costs, aligned with the country's situation, contributed to enhancing the bottom line. All business lines participated to ensure that the significant increase in operating cost during the year was managed to limit the impact on profitability. Our unique business model linked to the Cargills ecosystem, underpinned by the agency banking operation with Cargills supermarkets, allowed the Bank to reach new geographies without significant capital expenditure or the need for new branches. This low-cost channel operation continues to facilitate efficient service delivery to a wider customer base.

We were also mindful of the stresses facing our team in dealing with the sharp increase in the cost of living and erosion of purchasing power. The Bank initiated a number of activities to foster team bonding, including the recognition of star performers at the Bank's first Awards Night. We also looked at supporting the communities we work with and undertook a number of community development programs during the year. As the Banking sector is facing increased staff attrition, we strengthened our training programs to ensure that staff members are given the right skills to perform their duties. These measures contributed immeasurably towards our progress during the financial year.

### A resilient performance

The economic conditions and challenges experienced last year showed signs of moderation, due to the resolute efforts of policymakers and regulatory authorities focused on economic recovery. We acknowledge and appreciate their steadfast approach, and the resilience of the Sri Lankan people without which such a recovery would not have materialized.

Building on the turnaround in profitability over the past two years, the Bank's profit before tax increased by 254% YoY to Rs. 730 Mn in FY 2023 compared to Rs. 206 Mn in FY 2022. This is attributed to the commitment of our team, the successful execution of our strategy, and the resilience and adaptability of our approach.

Net interest income grew 6% to Rs. 3,381 Mn. The Bank managed the volatile interest rate environment and negative impact on interest margins through directing the Bank's resources towards higher-yielding assets and prudent management of the funding mix and deposit maturities.

Total operating expenses increased by 23% YoY from Rs. 2,354 Mn last year to Rs. 2,891 Mn in FY 2023 mainly due to the 48% increase in Other Operating Expenses due to increased cost of utilities, and repair and maintenance of IT assets. Meanwhile, personnel expenses increased 17% YoY to Rs.1,073 Mn as a result of salary adjustments and welfare benefits considering increased costs of living and market conditions. Impairment charges reflected a reduction of 42% due to focused and proactive management

of delinquencies and commendable efforts of the Cargills Bank team. VAT on Financial Services, Social Security Contribution Levy and income tax expenses increased substantially due to growth in profits and the increased corporate income tax rate effective 1 October 2022, which resulted in a one-off tax write back in FY 2022.

Our Capital Adequacy and Liquid Assets Ratios were well above the minimum requirements prescribed by the Central Bank of Sri Lanka (CBSL). We achieved a deposit growth of 34% YoY, supported in no small part by our ability to diversify our customer base through the agency model, prioritising small-ticket deposits, and offering competitive interest rates. We also focused on developing the Bank's CASA base, with initiatives such as a 10% bonus interest for our Abhimani savings account tailored for women, to foster savings and offset rising living costs.

The loan book grew moderately from Rs. 36.0 Bn to Rs. 40.6 Bn as of 31 December 2023, with the Bank focused on maintaining lending quality amidst a challenging high-interest rate environment. In the latter part of the FY, we initiated a strategic shift aimed at rebuilding the lending momentum.

In October 2023, Fitch Ratings affirmed Cargills Bank's National Long-Term Rating at 'A(lka)' with a Negative Outlook. Fitch Ratings stated the Negative Outlook on the Bank "reflects downside risks from its increasing size relative to that of its ultimate parent, CT Holdings PLC (CTH), which could constrain

# Executive Reviews

## CEO's Message

the parent's ability to provide extraordinary support in times of need. At end-1H23, the bank's assets accounted for 193% of group equity and 51% of group assets." The Bank's rating is supported by the rating of the promoter.

### Supporting our stakeholders

By supporting our communities and helping our customers achieve their financial goals, we contributed to economic growth and sustainability. As a Bank focused on financial inclusivity, we are keenly focused on helping our customers to tide over the difficult economic context and manage their businesses. Accordingly, our support was extended in the form of restructuring the impacted businesses and offering vital support to overcome the financial issues from previous years. Through close engagement and a deep understanding of customers' difficulties, we provided feasible solutions that aligned with their cash flows, and allowed them to continue operations and recover from their present difficulties. Despite a rise in our Stage 3 loans portfolio we effectively managed and contained non-performing advances within reasonable levels, with adequate provision cover. Consequently, we reported a Stage 3 portfolio (net of provisioning) of 8.63%, with a provision coverage of 46.69%, above sector levels. The Stage 3 portfolio (net of provisioning) was 4.85% in 2022, with a provision coverage of 51.15%.

Investors benefit from our focus on elevating the Bank's profitability and stability. With business partners, we set guidelines for operating

while adhering to global principles, provide constructive feedback to enhance operations and prioritise timely payments to ease their cash flows. Our commitment extends to supporting government initiatives, ensuring timely payment of taxes, strong governance, and compliance with regulatory requirements. In the communities, we strive to uplift agriculture and dairy farmers and micro, small and medium enterprises, enhancing their living standards. The Village to Home initiative is one such initiative where the respective strengths within the Cargills group are harnessed for the benefit of micro small and medium enterprise (MSME) entrepreneurs. Through the group, entrepreneurs are given a space to sell their products at leading supermarkets, awareness is raised through social media channels, training is provided on financial management, production techniques, packaging, etc. and entrepreneurs are equipped with payment facilities such as card and QR to complete the sale.

### Our winning team

Our team is the foundation of our business and the architects of our future success. For our dedicated team, we ensured job security, increased benefits, and salaries, invested in training and development, and recognised and appreciated the top performers. Our team culture is empowering and inclusive where everyone is appreciated and respected. Embracing an open-door policy, our employees are encouraged to directly communicate with the senior management. Furthermore, we follow a bottom-up approach in our business planning process,

ensuring diverse perspectives of our employees, and adopting a participatory decision-making process, promoting a collaborative and inclusive environment. Additionally, we are committed to non-discrimination, celebrating our multicultural workforce, and respecting the differences that make our team unique and more vibrant.

### Advancing our digital journey

Digitalisation is an ongoing journey for us, and encompasses multiple aspects such as service delivery, process improvement and business expansion.

Prioritising the digitisation of processes, we introduced new workflows to enhance operational efficiency and also took steps to expand paperless banking operations covering account opening, deposits and withdrawals. We also commenced development of new mobile banking solutions to further elevate our digital offerings and the overall customer experience. Additionally, we focused on reinforcing our IT infrastructure, prioritising system security and information integrity.

Our commitment to the advancement of fintech in Sri Lanka is evident through our position as the largest acquirer on the JustPay platform, actively collaborating with six fintech partners to advance digital payments in Sri Lanka. The Bank was recognised at the LankaPay Technnovation Awards 2023 by being awarded the Gold Award for Bank of the Year for Financial Inclusivity Category C, the Gold Award for Bank of the Year for Excellence in Customer Convenience

## Executive Reviews

Category B, and a Merit Award for the Acquirer Bank for the Best Mobile Application for Retail Payments via JustPay.

### Listing on the CSE

The volatile operating environment posed a significant challenge as the Bank planned towards meeting the CBSL requirement to list on the Colombo Stock Exchange (CSE) in 2023. Facing depressed market conditions that were especially reflected in the valuations of the banking sector, we were mindful to recognise the contributions and support of our existing shareholders and priced the offer at a premium to the sector multiples, while maintaining a 20% discount to the independent valuation. Successfully completing the initial public offering (IPO) with an oversubscription by nearly 3X underscored the trust and confidence of the investors in our growth trajectory and leadership. We are humbled by the positive response, reinforcing our confidence in our vision and delivery capabilities. Following the listing, our capital base was augmented to Rs. 11.9 Bn, while an additional 2,000 shareholders were added to our shareholder base.

### A look to the future

We aim to accelerate our positive trajectory in the upcoming years. Accordingly, we will focus on expanding our customer base, fostering inclusivity, and reaching a broader customer segment. We also aim to increase the proportion of Current Account and Savings Account (CASA) deposits, as these form the bedrock of stable and low-cost funding for our operations.

Moreover, we recognise the importance of Environmental, Social, and Governance (ESG) considerations in today's business landscape. To underline our commitment to responsible business practices, we have introduced an Environmental and Social Management System (ESMS) policy in the Bank, aligning our operations with the highest standards of ethical, environmental, and social responsibility.

Business growth, fortifying our balance sheet, and profitability remain key focus areas to create lasting value for our stakeholders. Furthermore, we will continue to elevate customer experience through seamless, secure, and convenient digital services that surpass their expectations.

### Appreciation

Our 2023 performance affirms the effectiveness of our current strategy in enhancing returns. We remain optimistic in its sustained delivery of favourable returns for shareholders in the future.

In conclusion, I express my deep gratitude to the Chairman and the Board of Directors for their invaluable insights and guidance during a challenging year. My appreciation is extended to the senior management team and staff for their remarkable efforts and unwavering dedication, and energy in delivering a seamless service to our customers and the communities that we serve. I extend

my appreciation to CBSL for their efforts in maintaining financial stability amidst challenging circumstances. On behalf of the Cargills family, I appreciate the trust and confidence placed in our ability, resilience, and resourcefulness by our customers and stakeholders. As we continue our mission to become the most inclusive bank in Sri Lanka, the confidence we built in navigating the challenges of 2023 inspires us. We look forward to sustainable growth, creating value for all stakeholders in the years ahead.



**Senarath Bandara**  
Managing Director / Chief Executive Officer

Colombo  
26 March 2024

# Our Board of Directors

## Richard Ebell

### *Chairman*

Non-Executive Independent

### Director since

3 July 2015

### Membership in Board Committees

- Board Strategic Planning Committee-Chairman
- Board Audit Committee
- Board Related Party Transactions Review Committee
- Board Human Resources and Remuneration Committee
- Board Nominations and Governance Committee
- Board Integrated Risk Management Committee

### Qualifications and titles

- Fellow of the Institute of Chartered Accountants of Sri Lanka
- Fellow of the Chartered Institute of Management Accountants, UK
- Diploma in Marketing from the Chartered Institute of Marketing, UK

### Other current appointments

None

### Previous appointments

- Hayleys PLC - Progressive positions ending as Finance Director
- Loadstar (Pvt) Ltd - CFO
- Dankotuwa Porcelain PLC - Director
- Finlays Colombo Ltd (then PLC) - Director
- Laugfs Capital Ltd - Executive Director
- Softlogic Holdings PLC - Director
- RIL Property PLC - Director
- Asiri Hospital Holdings PLC - Director
- HNB Assurance PLC - Director

### Expertise

Finance, Governance, and General Management

## Asoka Pieris

### *Director*

Non-Executive Non-Independent

### Director since

20 January 2023

### Membership in Board Committees

- Board Human Resources and Remuneration Committee
- Board Nominations and Governance Committee
- Board Credit Committee
- Board Strategic Planning Committee

### Qualifications and titles

- Associate Member of the Institute of Chartered Accountants of Sri Lanka
- Fellow of the Chartered Institute of Management Accountants, UK
- A Certified Global Management Accountant

### Other current appointments

- Cargills (Ceylon) PLC - Director
- Cargills Retail (Pvt) Ltd - Managing Director

## Our Board of Directors

### Previous appointments

- Ceylon Chamber of Commerce - Director
- Hatton National Bank PLC - Director
- Singer (Sri Lanka) PLC - Managing Director/Director/ Finance Director
- Singer Industries (Ceylon) PLC - Managing Director/Director
- Regnis (Lanka) PLC - Managing Director/Director
- Singer Finance Lanka PLC - Director
- Singer Bangladesh Ltd - Director
- First Capital Ltd and its subsidiaries - Director
- Commercial Leasing Company PLC - Director
- P T Singer Indonesia TBK - Director
- Singer Corporation Ltd - Director
- Bt India Ltd - Director
- Brand Trading (India) (Pvt) Ltd - Director

### Expertise

Finance, Marketing and Manufacturing

### Senarath Bandara

*Managing Director /  
Chief Executive Officer*

Executive Non-Independent

### Director since

- 8 September 2020 – 30th September 2020 - Executive Director/MD/CEO (designate)
- 1 October 2020 to date - MD/CEO

### Membership in Board Committees

- Board Integrated Risk Management Committee
- Board Strategic Planning Committee

### Qualifications and titles

- BSc - University of Kelaniya
- MBA - PIM, University of Sri Jayawardenepura
- FIB - IBSL
- Postgraduate Executive Diploma in Bank Management - IBSL
- Advance Management Program - Harvard Business School

### Other current appointments

None

### Previous appointments

- Bank of Ceylon - Progressive positions ending as General Manager/CEO
- Planning and Monitoring Unit of Mahaweli Authority - Statistician
- Regional Development Bank - Director
- Credit Information Bureau of Sri Lanka - Director
- Lanka Clear (Pvt) Ltd - Director

- Lanka Financial Services Bureau Ltd - Director
- Merchant Bank of Sri Lanka & Finance PLC - Director
- Bank of Ceylon (UK) Ltd - Director/CEO
- Ceybank Holiday Homes (Pvt) Ltd - Director
- MBSL Insurance Co. Ltd - Director
- Koladeniya Hydropower (Pvt) Ltd - Director
- BOC Travels (Pvt) Ltd - Director
- Hotels Colombo (1963) Ltd - Director
- Ceybank Asset Management Ltd - Director
- BOC Property Development & Management (Pvt) Ltd - Director
- BOC Management and Support Services (Pvt) Ltd - Director/Chairman
- Institute of Bankers of Sri Lanka - Governing Board Member
- Wayamba University - Member of the Council
- Sri Lanka Bankers Association - Vice Chairman
- Association of Professional Bankers (APB) - President (2017/18)
- Asia-Pacific Rural Agriculture Credit Association (APRACA) - Chairman (2018/2020)
- University of Kelaniya - Assistant Lecturer (Temporary)

### Expertise

- Corporate Banking, Branch Operations, International and Treasury
- Development Banking, and Project Management

## Our Board of Directors

### Ms. Marianne Page

#### Director

Non-Executive Non-Independent

#### Director since

10 October 2019

#### Membership in Board Committees

- Board Credit Committee
- Board Strategic Planning Committee

#### Qualifications and titles

Fellow of the Chartered Institute of Management Accountants, UK

#### Other current appointments

- Asiabox Consultancy Services Pte Ltd (Singapore) - Managing Director
- CT CLSA Group of Companies - Consultant

#### Previous appointments

- Lehman Brothers Asia Ltd (Hong Kong) -Senior Vice President (Institutional Sales)
- Smith New Court (Far East) Ltd (Hong Kong)- Managing Director - Indian Sub-Continent & Director - Far East
- Smith New Court (Far East) Ltd (Hong Kong) - Director South Asia -Institutional Sales
- Credit Lyonnais Securities (Asia) Ltd (Hong Kong)- Dealing Director - Emerging Markets
- Drexel, Burham & Lambert (Hong Kong)- Vice President - Arbitrage Division
- Drexel, Burham & Lambert (Hong Kong) - Trader

#### Expertise

- Asian Financial Markets with strong network of relationships with leading foreign institutional fund managers
- Promoting Sri Lanka as an investment destination to foreign institutional investors since the early 1990's

### Yudhishtan Kanagasabai

#### Director

Non-Executive Independent

#### Director since

28 October 2019

#### Membership in Board Committees

- Board Related Party Transactions Review Committee - Chairman
- Board Integrated Risk Management Committee - Chairman
- Board Strategic Planning Committee
- Board Audit Committee

#### Qualifications and titles

Fellow of the Institute of Chartered Accountants of Sri Lanka

#### Other current appointments

- Millennium IT ESP (Pvt) Limited - Director
- Eswaran Brothers Exports (Pvt) Ltd - Director
- Taprobane Capital Plus (Pvt) Ltd - Director
- MainGate (Pvt) Ltd - Director
- Ambeon Capital PLC - Director
- Colombo City Holdings PLC - Director
- Peoples Leasing and Finance Company PLC - Director

# Our Board of Directors

## Previous appointments

- Union Bank of Colombo PLC - Director
- EAP Holdings Limited - Director
- Hunter & Company PLC - Director
- Cargills (Ceylon) PLC - Director
- Cargills Retail (Pvt) Limited - Director
- Dankotuwa Porcelain PLC - Director
- South Asia Textiles (Pvt) Ltd - Director
- Lanka Canneries Limited - Director
- Ernst & Young - Cost Trainee
- Ceylon Tobacco Company PLC - Director
- Management Aids Limited - Management Trainee
- PwC - Sri Lanka - Progressive positions, including as Senior Partner/CEO
- PwC - Singapore - Manager
- Insurance Regulatory Commission of Sri Lanka - Commissioner

## Expertise

Assurance, Business Consulting, Technology Consulting, and Tax Structuring

## Buwaneka Perera

### *Director*

Non-Executive Independent

### Director since

1 July 2021

### Membership in Board Committees

- Board Nominations and Governance Committee - Chairman
- Board Credit Committee - Chairman
- Board Audit Committee
- Board Strategic Planning Committee

### Qualifications and titles

- BSc (Hon) in Financial Services from the University of Manchester, UK
- Associate of the Chartered Institute of Bankers, UK
- Post Graduate Diploma in Bank Financial Management, University of Sri Jayawardenapura
- Associate Member of the Institute of Certified Management Accountants, Sri Lanka
- Passed Finalist of the Chartered Institute of Management Accountants, UK
- Chairman - Indian Ocean Rib Business Forum [IORBF]
- Association of Professional Bankers - Sri Lanka - Past President
- Bankers Association Technical Advisory Committee -Former Chairman

## Other current appointments

- The Ceylon Chamber of Commerce - CEO/Secretary General
- Sierra Cables PLC - Director

## Previous appointments

- Sierra Construction Ltd - Deputy Chairman
- Sierra Property Development (Pvt) Ltd - Chairman
- National Development Bank PLC - Senior Vice President/Acting CEO
- Deutsche Bank AG Colombo - Manager
- Sampath Bank - Senior Executive
- Banque Indosuez - Officer
- NCC Limited - Consultant
- Edinborough Products (Pvt) Ltd - Consultant

## Expertise

Corporate Banking, Investment and Merchant Banking

## Our Board of Directors

### Ravindra Jayawardena

#### Director

Non-Executive Independent

#### Director since

1 May 2023

#### Membership in Board Committees

- Board Human Resources and Remuneration Committee
- Board Strategic Planning Committee

#### Qualifications and titles

- MBA from the Post Graduate Institute of Management, University of Sri Jayawardenapura
- Diploma in Marketing from the Chartered Institute of Marketing, UK

#### Other current appointments

- Postgraduate Institute of Management – External Director
- Maliban Biscuits Group - Group Chief Executive Officer
- Cardiff University (UK) and PIM (Sri Lanka) - Senior MBA lecturer

#### Previous appointments

- Unilever Sri Lanka - Head of Category/ Head of Modern Trade/ Head of Key Accounts
- Coca Cola Sri Lanka (Pvt) Ltd - Country Head of Sales
- Glendinning (UK) 2009 to 2014 - Consultant

#### Expertise

Human Resources, Marketing Management, Development of New Markets and General Management

### Mrs. Shanti Gnanapragasam

#### Director

Non-Executive Independent

#### Director since

21 June 2023

#### Membership in Board Committees

- Board Human Resources and Remuneration Committee - Chairperson
- Board Related Party Transactions Review Committee
- Board Integrated Risk Management Committee
- Board Credit Committee
- Board Strategic Planning Committee

#### Qualifications and titles

- BSc in Zoology - University of Madras, South India
- Fellow of the Chartered Institute of Management Accountants, UK
- Chartered Global Management Accountant
- ACI Foreign Exchange Dealer Certification from The Financial Markets Association Paris

#### Other current appointments

- Vision Fund Lanka (Pvt) Ltd - Director
- Wealth Trust Securities Ltd - Director

#### Previous appointments

- NDB Bank PLC- Chief Risk Officer/ Vice President Risk Management/ Vice President Shared Services (Centralised Operations)/ Vice President Credit/ Chief Credit Officer
- Hatton National Bank PLC - AGM Treasury /Chief Risk Officer / AGM Risk Management
- Hayleys PLC - Group Treasurer
- Peoples Bank - Deputy Head of Treasury
- American Express Bank Ltd - Director - Treasury and Country Head for Global Markets
- Hatton National Bank PLC - Chief Dealer

#### Expertise

Banking, Credit, Risk Management, Banking Operations, Treasury, and Asset & Liability Management

# Our Board of Directors

## Arjuna Herath

### Director

Non-Executive Independent

### Director since

1 November 2023

### Membership in Board Committees

- Board Audit Committee - Chairman
- Board Human Resources and Remuneration Committee
- Board Nominations and Governance Committee
- Board Integrated Risk Management Committee
- Board Strategic Planning Committee

### Qualifications and titles

- Fellow member of the Institute of Chartered Accountants of Sri Lanka
- Chartered Global Management Accountant
- BSc from the University of Colombo
- MBA from the University of Strathclyde, United Kingdom
- Master of Arts in Financial Economics from the University of Colombo

### Other current appointments

- Durdans Medical and Surgical Hospital (Pvt) Ltd - Director
- Central Depository Systems (Pvt) Limited - Director
- Colombo Stock Exchange - Director
- Synapsys Ltd - Chairman

- Senkadagala Finance PLC - Director
- Watawala Plantations PLC - Director
- Data Protection Authority of Sri Lanka - Chairman
- The Sri Lanka Institute of Directors - Director

### Previous appointments

- Ernst & Young for Sri Lanka and Maldives - Senior Partner and Head of Consulting
- Merchant Bank of Sri Lanka - Director Corporate Finance
- Ceylon Tobacco Company Ltd - Marketing Development Manager
- Sri Lanka Accounting and Auditing Standards Monitoring Board - Board Member
- Securities and Exchange Commission of Sri Lanka - Commissioner
- Company Law Advisory Commission - Member
- South Asian Federation of Accountants - Past President
- Confederation of Asia Pacific Accountants - Board Member
- The Institute of Chartered Accountants of Sri Lanka - Past President

### Expertise

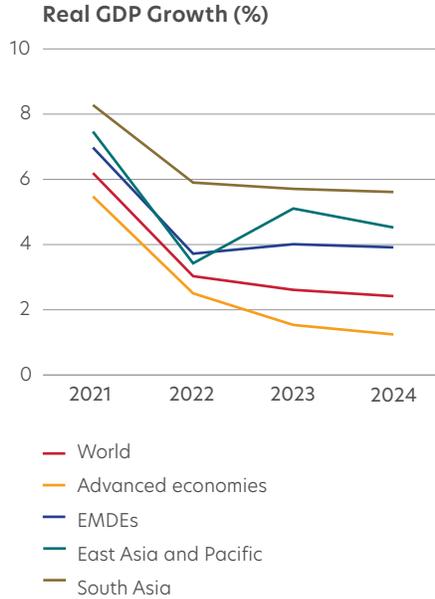
Business Consulting, Technology Consulting, and People Advisory Services

# Our Operating Context

## Global Economy

As cited by the World Bank in the Global Economic Prospects January 2024, the world economy is slowing down due to tight monetary policies, financial restrictions, and sluggish global trade. After slowing in 2022 and declining in 2023, global output growth is expected to decrease again in 2024. Geopolitical tensions in the Middle East and uncertainty in commodity markets pose risks to global growth. Additionally, the world is still dealing with the lingering effects of the COVID-19 pandemic, the Russian invasion of Ukraine, and the increase in inflation, leading to a tightening of global monetary conditions over the past four years.

Inflation worldwide has decreased since its peak in 2022, but it still exceeds targets in many advanced economies and about half of inflation-targeting Emerging Market and Developing Economies (EMDEs). Global trade growth in 2023 was the slowest in 50 years, with a contraction in goods trade due to weak global industrial production. Services trade is recovering from the pandemic, but at a slower pace than anticipated. Global trade is expected to improve to 2.3% in 2024, driven by increased demand for goods and a broader recovery in advanced-economy trade.



Source: The World Bank

The world is still dealing with the lingering effects of the COVID-19 pandemic, the Russian invasion of Ukraine, and the increase in inflation, leading to a tightening of global monetary conditions over the past four years.

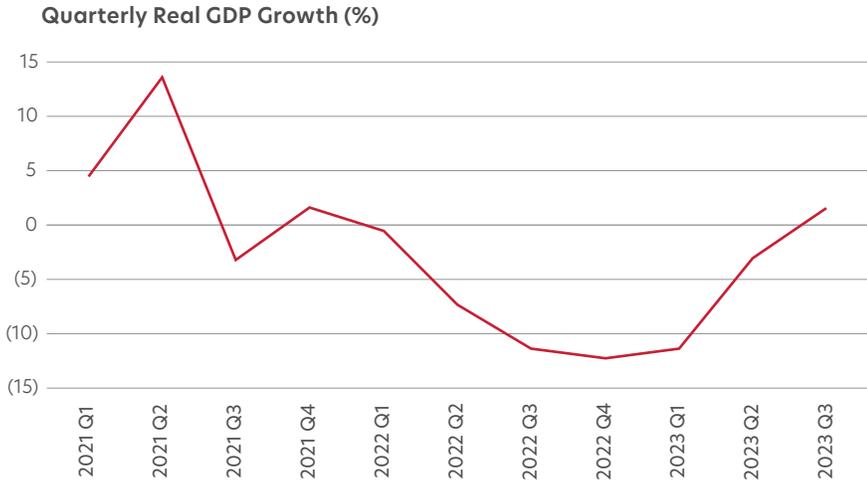
**2.3%**

Expected Global Trade Growth 2024

# Our Operating Context

## Sri Lankan Economy

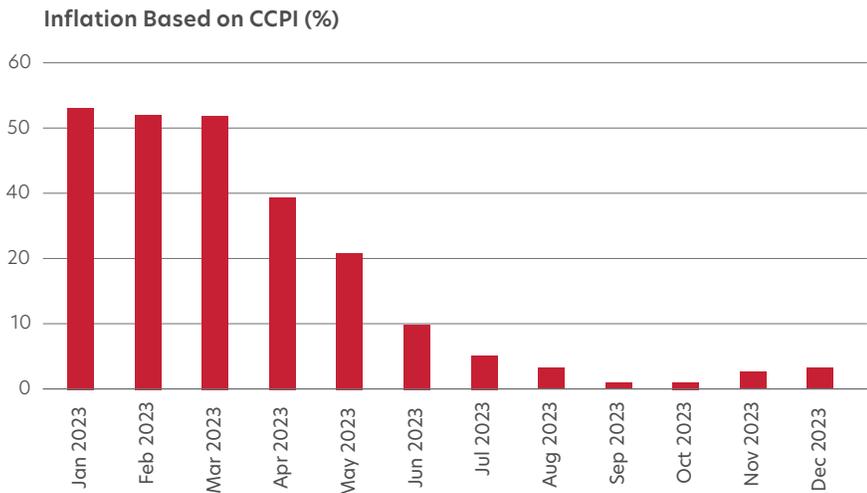
Following six consecutive quarters of contraction, the Sri Lankan economy showed signs of recovery by recording a GDP growth of 1.6% in Q3 2023. The growth was observed across all three major economic sectors.



Source: Department of Census and Statistics

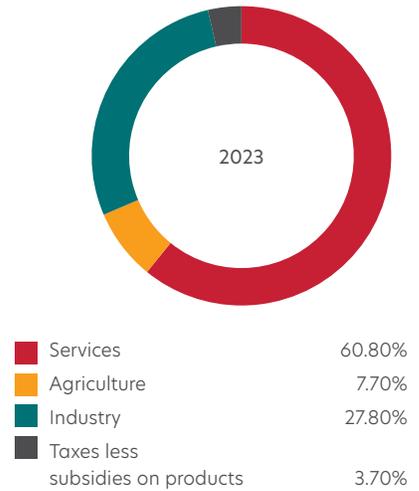
### Inflation

Headline inflation, as measured by the year-on-year (Y-o-Y) change in the Colombo Consumer Price Index (CCPI, 2021=100) rose to 4.0% in December 2023 from 3.4% in November 2023. Inflation is expected to stabilise around the targeted level of 5% over the medium term, aided by appropriate policy measures and well-anchored inflation expectations.



Source: Department of Census and Statistics

Share of GDP (%)



**1.6%**  
GDP Growth  
in Q3 2023

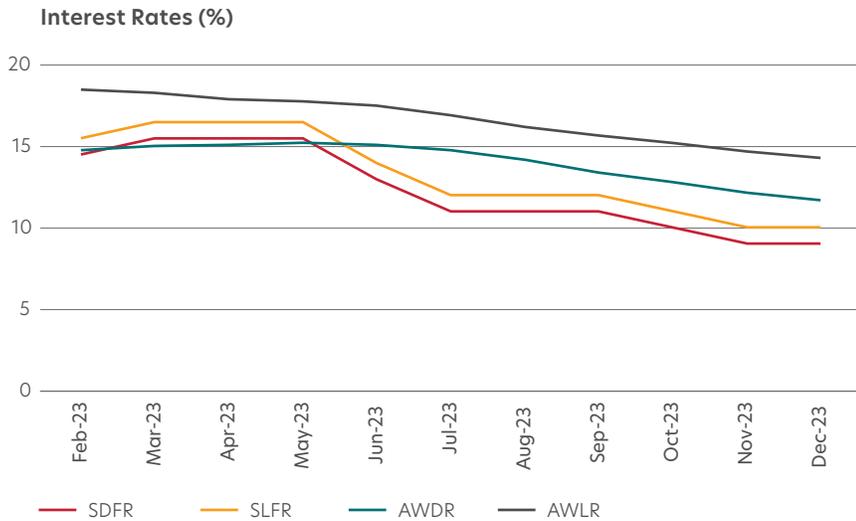
**4%**  
Headline Inflation  
in December 2023

# Our Operating Context

## Sri Lankan Economy

### Interest rates

Market interest rates continued to adjust downward with the decline in the benchmark rates. Reducing policy interest rates by 100 bps as of November 2023 is expected to create further space for market interest rates to adjust downward and normalise in the period ahead.

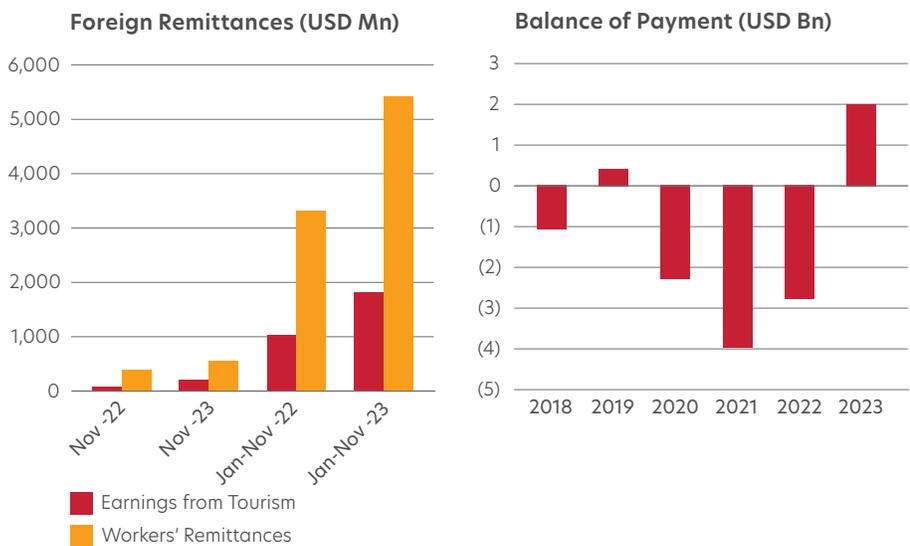


Reducing policy interest rates by 100 bps as of November 2023 is expected to create further space for market interest rates to adjust downward and normalise in the period ahead.

Source: The Central Bank of Sri Lanka (CSBL)

### External sector

The trade deficit improved in November 2023 compared to the same month in 2022 and October 2023, resulting from increased exports and reduced imports. Exports recorded a YoY growth for the first time since September 2022. Monthly workers' remittances remained consistently above USD 500 Mn. experiencing a significant increase in November 2023 YoY. Gross Official Reserves reached USD3.6 Bn. by the end of November 2023 and the Sri Lanka rupee maintained stable against the US dollar throughout November 2023.



Source: CBSL

# Our Operating Context

## Banking Sector

Financial institutions, impacted by the spillover effects of the recent economic crisis, faced challenges but showed some improvement from 2H 2023. The Banking Soundness Index (BSI) gradually improved from its lowest levels in the second half of 2022.

Liquidity, market risk, capital adequacy, and profitability sub-indices improved at the end of Q3 of 2023 compared to Q3 of 2022. However, the asset quality and efficiency sub-indices deteriorated during the same period. Amid the tight monetary policy stance adopted until the end of Q2 of 2023, loans and receivables (credit) of the banking sector contracted during the year ending Q3 of 2023. However, credit expanded during Q3 of 2023.

Total lending of the banking sector contracted by 6.2% YoY to Rs. 10.8 Tn. as of the end of Q3 of 2023, compared to a credit growth of 8.2% at the end of Q3 of 2022.

The sector's assets recorded 2.8% YoY growth at the end of Q3 of 2023 due to the deceleration in the contraction of gross loans and receivables and increased investments. Total credit of the sector expanded by 1.8% QoQ basis.

Total liabilities of the sector recorded a growth of 1.9% YoY as of the end of Q3 of 2023, mainly due to the gradual recovery in deposit growth.

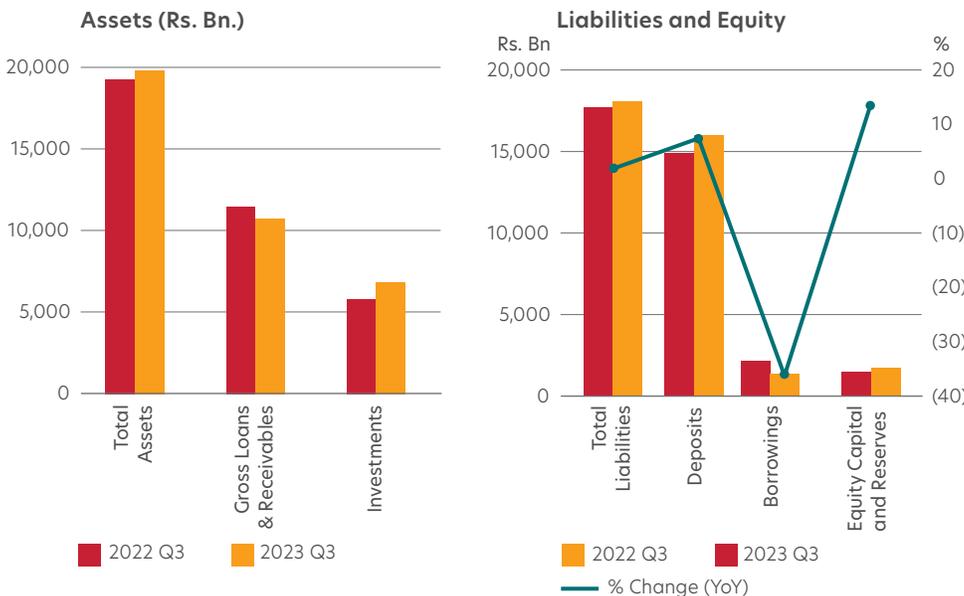
The default risk of the banking sector remained elevated, while some risk stabilisation was witnessed during Q3 of 2023. The sector's exposure to the Central Government and SOEs (sovereign exposure) continued to increase during the year ending Q3 of 2023.

**2.8% (YoY)**

**Growth in Sector Assets in Q3 2023**

**1.9% (YoY)**

**Growth in Sector Liabilities in Q3 2023**

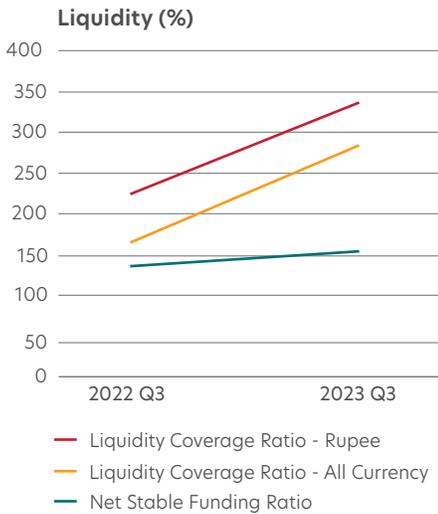


Source: CBSL

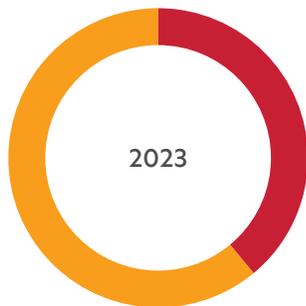
# Our Operating Context

## Banking Sector

The liquidity ratios of the banking sector improved during the period under review, as indicated by the Statutory Liquid Assets Ratio (SLAR), Net Stable Funding Ratio (NSFR) and Rupee Liquidity Coverage Ratio (LCR).



### Statutory Liquid Assets Ratio (DBUs)

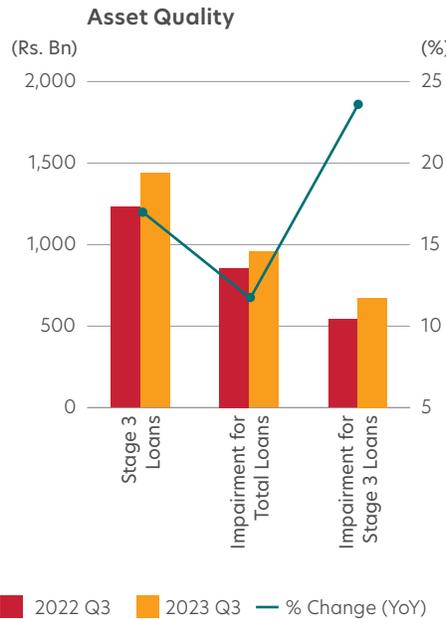


2022 Q3: 28%  
2023 Q3: 44%

Source: CBSL

## Asset Quality

Stage 3 Loans to Total Loans of the banking sector increased to 13.4% at the end of Q3 of 2023, due to the expansion in gross stage 3 loans and contraction in credit YoY.



**13.14%**

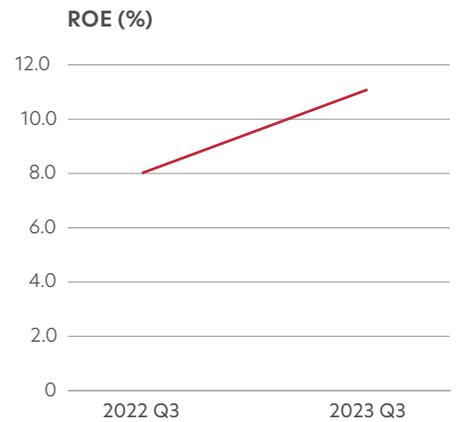
Stage 3 Loans to Total Loans - Q3 2023

**1.5%**

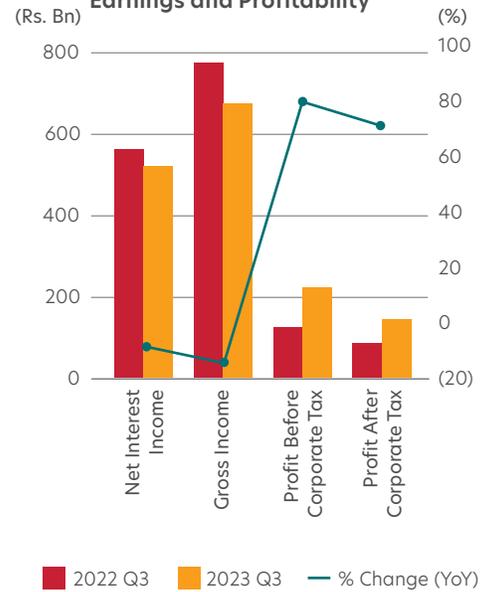
ROA - Q3 2023

## Profitability

The cumulative profit after tax of the banking sector amounted to Rs. 146.4 Bn. for the first nine months of 2023, recording an increase of 71.1% YoY. This was mainly due to the decline in new impairment allocation by banks. Accordingly, ROA and ROE improved to 1.5% and 11.2%, respectively, at the end of Q3 of 2023.



### Earnings and Profitability

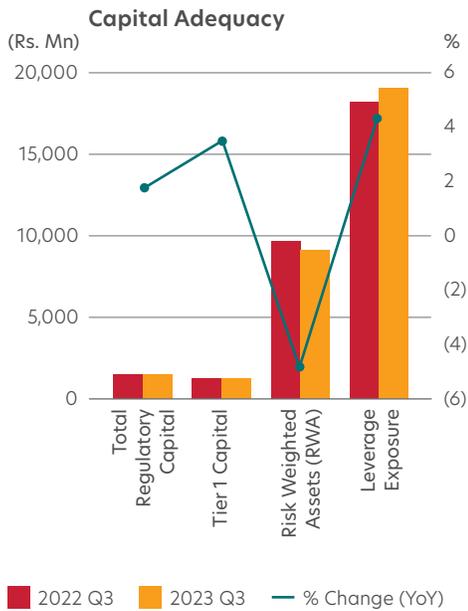


Source: CBSL

# Our Operating Context

## Capital Adequacy

The Regulatory Capital to Risk-Weighted Assets (RWA) of the banking sector improved to 16.4% at the end of Q3 of 2023 compared to 15.3% in the previous corresponding period, mainly due to the contraction in RWA, YoY.



The liquidity ratios of the banking sector improved during the period under review, as indicated by the Statutory Liquid Assets Ratio (SLAR), Net Stable Funding Ratio (NSFR) and Rupee Liquidity Coverage Ratio (LCR).

**16.4%**

Regulatory Capital to RWA - Q3 2023

Source: CBSL

# Overview of Our Business

## Our Business Model

The business model demonstrates how we created value for our stakeholders throughout the year, leveraging six key capitals.

	Our Inputs	Our Core Functions and Enablers															
 <b>Financial Capital</b>	<ul style="list-style-type: none"> <li>Shareholder's Funds <b>Rs. 11,943 Mn.</b></li> <li>Customer Deposits <b>Rs. 50,729 Mn.</b></li> <li>Other Borrowed Funds <b>Rs. 2,888 Mn.</b></li> <li>Subordinated Liabilities <b>Rs. 1,500 Mn.</b></li> </ul>	<p><b>Vision</b></p> <p><b>Strategic Priorities</b></p> <p><b>Driven by Business Activities</b></p> <table border="1" style="width: 100%; text-align: center;"> <tr> <td style="width: 33%;">                       Lending to diverse customer segments                 </td> <td style="width: 33%;">                       Deposit mobilisation leveraging the Cargills Bank network, Mini network in the Cargills Food City outlets, the Business Development team, and the digital channels                 </td> <td style="width: 33%;">   <ul style="list-style-type: none"> <li>Facilitating secure, reliable and convenient platforms to conduct</li> <li>Customer transactions</li> </ul> </td> </tr> </table> <table border="1" style="width: 100%; text-align: center;"> <thead> <tr> <th colspan="3">Enabled by</th> </tr> <tr> <th>Business Units</th> <th>Treasury</th> <th>Recoveries</th> </tr> </thead> <tbody> <tr> <td>Legal</td> <td>IT</td> <td>Credit Administration</td> </tr> <tr> <td>Trade</td> <td>Central Account Maintenance</td> <td>Digital</td> </tr> </tbody> </table> <p><b>Supported by Strong Governance and Ethics</b></p> <p><b>Risk Management</b>                      (Credit risk/Operational Risk/Market risk/Concentration risk/Counterparty risk/Liquidity risk)</p> <p><b>Focus on Sustainability</b></p>	 Lending to diverse customer segments	 Deposit mobilisation leveraging the Cargills Bank network, Mini network in the Cargills Food City outlets, the Business Development team, and the digital channels	 <ul style="list-style-type: none"> <li>Facilitating secure, reliable and convenient platforms to conduct</li> <li>Customer transactions</li> </ul>	Enabled by			Business Units	Treasury	Recoveries	Legal	IT	Credit Administration	Trade	Central Account Maintenance	Digital
 Lending to diverse customer segments	 Deposit mobilisation leveraging the Cargills Bank network, Mini network in the Cargills Food City outlets, the Business Development team, and the digital channels		 <ul style="list-style-type: none"> <li>Facilitating secure, reliable and convenient platforms to conduct</li> <li>Customer transactions</li> </ul>														
Enabled by																	
Business Units	Treasury		Recoveries														
Legal	IT		Credit Administration														
Trade	Central Account Maintenance		Digital														
 <b>Human Capital</b>	<ul style="list-style-type: none"> <li><b>623</b> Employees</li> <li>Experienced Leadership Team</li> <li>Diverse Board</li> </ul>																
 <b>Manufactured Capital</b>	Property, Plant and Equipment <b>Rs. 2,300 Mn.</b>																
 <b>Intellectual Capital</b>	<ul style="list-style-type: none"> <li>Robust Governance Structures</li> <li>Cargills Brand Loyalty</li> <li>Institutional Knowledge</li> <li>Best Practices</li> <li>Systems and Processes</li> </ul>																
 <b>Social and Relationship Capital</b>	<ul style="list-style-type: none"> <li>Customers Onboarded <b>+200,000</b></li> <li>Suppliers</li> <li>Loyal and Demographically Diverse Customer Base</li> <li>Women Empowerment</li> </ul>																
 <b>Natural Capital</b>	<ul style="list-style-type: none"> <li>Energy <b>1,044,906 kwh</b></li> <li>Water <b>5,579 cu.ft.</b></li> <li>Sustainable use of Resources</li> <li>Green Financing</li> </ul>																

# Overview of Our Business

Our Outputs	Our Outcomes	Stakeholders
<ul style="list-style-type: none"> <li>• <b>Rs. 12,907 Mn.</b> Gross income</li> <li>• <b>Rs. 45,553 Mn.</b> Gross loans and advances</li> </ul>	<ul style="list-style-type: none"> <li>• EPS <b>Rs. 0.50</b></li> <li>• NPAT <b>Rs. 440 Mn.</b></li> <li>• Tier 1 Capital base <b>12,411 Mn.</b></li> <li>• Healthy deposit retention ratio</li> </ul>	<ul style="list-style-type: none"> <li>• Employees</li> <li>• Investors</li> </ul> 
<ul style="list-style-type: none"> <li>• <b>Rs. 1,073 Mn.</b> remuneration</li> <li>• <b>Rs. 3 Mn.</b> on training and development</li> <li>• <b>48%</b> of female employees</li> </ul>	<ul style="list-style-type: none"> <li>• A trained, skilled and engaged team</li> <li>• <b>Rs. 1,073 Mn.</b> salaries and benefits</li> <li>• <b>11,769</b> Training hours</li> </ul>	<ul style="list-style-type: none"> <li>• Employees</li> </ul> 
<ul style="list-style-type: none"> <li>• <b>24</b> branches</li> <li>• <b>28</b> mini locations</li> <li>• ATMs and <b>477</b> Agency Banking Locations</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Rs. 268 Mn.</b> capital expenditure</li> <li>• <b>43%</b> digitally engaged customers</li> <li>• Island wide presence</li> </ul>	<ul style="list-style-type: none"> <li>• Employees</li> <li>• Customers</li> </ul> 
<ul style="list-style-type: none"> <li>• <b>60K+</b> total digital banking customers</li> <li>• <b>31%</b> of employees with over 5 years' service</li> </ul>	<ul style="list-style-type: none"> <li>• Culture of learning and development</li> <li>• Ethics and transparency</li> <li>• Improved digital platforms</li> <li>• Secure systems</li> </ul>	<ul style="list-style-type: none"> <li>• Employees</li> <li>• Customers</li> <li>• Regulator</li> <li>• Investors</li> </ul> 
<ul style="list-style-type: none"> <li>• <b>Rs. 45,553 Mn.</b> Gross loans and advances</li> <li>• <b>Rs. 7,548 Mn.</b> interest payments</li> </ul>	<ul style="list-style-type: none"> <li>• Convenience through digital channels</li> <li>• Increased customer base</li> <li>• Improved customer satisfaction</li> <li>• Strong business partnerships</li> </ul>	<ul style="list-style-type: none"> <li>• Customers</li> <li>• Business Partners</li> <li>• Community</li> </ul> 
<ul style="list-style-type: none"> <li>• <b>Rs. 4,694 Mn.</b> Green financing portfolio</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing efforts to minimise our impact on the environment</li> <li>• ESG policy</li> </ul>	<ul style="list-style-type: none"> <li>• Community</li> <li>• Regulator</li> </ul> 

## Overview of Our Business

### Engaging with Our Stakeholders

We build strong relationships with our stakeholders for long-term value by addressing their concerns through open and regular communication. We strive to proactively engage with our stakeholders to identify and respond to key concerns in a timely manner.

We identify stakeholders based on the impact they have on our decision-making process. To promote meaningful engagement, we have created channels of communication tailored to each stakeholder group. The communication plan and channels are designed based on the scope and scale of our relationship with each stakeholder group based on an internal analysis. This helps us to identify the degree of involvement. The following table illustrates our stakeholder groups, their key concerns, our response, methods of engagement and frequency. We strive to ensure our stakeholders consistently have access to information about the Bank to enable them to make informed decisions.

Stakeholder	Key concerns raised	Our response	Method of engagement	Frequency of engagement
 <b>Employees</b>	<ul style="list-style-type: none"> <li>Employee satisfaction</li> <li>Rewards and remuneration</li> <li>Grievance and complaint resolution</li> <li>Retention of staff</li> </ul>	<ul style="list-style-type: none"> <li>Performance management</li> <li>Reward management</li> <li>Training and development</li> <li>Work-life balance</li> <li>Retirement benefits plans</li> <li>Career development opportunities</li> <li>Stable performance of the Bank</li> <li>Safety at the workplace</li> </ul>	<ul style="list-style-type: none"> <li>Intranet</li> <li>Open door policy</li> <li>Induction programmes</li> <li>Team meetings</li> <li>Staff recreation and team-building events</li> <li>Training programmes and opportunities for career progression and skill development</li> <li>Annual appraisals</li> <li>Employee welfare and social committees</li> <li>Digital communication channels</li> <li>CSR projects</li> <li>Year-round work-life balance initiatives such as recreation and Toastmasters' Club, Periodic staff meetings (weekly management meetings, monthly regional managers meetings, business review meetings, and quarterly branch manager meetings)</li> <li>Ongoing digital engagement</li> <li>Special virtual quiz competitions</li> <li>Annual surveys including employee satisfaction, HRIS, and departmental surveys</li> </ul>	<ul style="list-style-type: none"> <li>Monthly</li> <li>Quarterly</li> <li>Biannually</li> <li>Annually</li> </ul>

## Overview of Our Business

Stakeholder	Key concerns raised	Our response	Method of engagement	Frequency of engagement
 <b>Customers</b>	<ul style="list-style-type: none"> <li>• Compatible delivery channels</li> <li>• Customer security and privacy</li> <li>• Quality services</li> <li>• Implementation of the CBSL directives</li> <li>• Access to financial services</li> <li>• Credit and support during downturn in the business cycle</li> </ul>	<ul style="list-style-type: none"> <li>• Providing non-financial services to customers</li> <li>• Differentiation of services</li> <li>• Relief for affected customers</li> <li>• Moratorium relief</li> <li>• Customer security and privacy</li> <li>• Service quality</li> <li>• Affordability of services and convenience</li> <li>• Enrollment in digital platforms</li> </ul>	<ul style="list-style-type: none"> <li>• Branch and sales network</li> <li>• Setup mini branches in Cargills Food City outlets</li> <li>• Relationship managers</li> <li>• Digital services and cyber security</li> <li>• Customer Contact Centre and dedicated customer relations page on our website</li> <li>• Print, electronic and digital media</li> <li>• Printed correspondence</li> <li>• Direct messaging</li> <li>• Corporate website</li> <li>• Press releases</li> <li>• Ongoing customer interaction at branches</li> <li>• Ongoing online and social media interactions</li> <li>• Online and mobile banking portals</li> <li>• Periodic customer satisfaction and feedback obtained via digital platforms</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing</li> <li>• As and when required</li> </ul>
 <b>Business partners</b>	<ul style="list-style-type: none"> <li>• Profitability and business growth</li> <li>• Accountability</li> <li>• Corporate governance practices</li> <li>• Sustainable business operation</li> </ul>	<ul style="list-style-type: none"> <li>• Compliance with regulatory requirements</li> <li>• Corporate governance practices</li> <li>• Engaging in fair and equitable procurement</li> <li>• Ease of doing business</li> </ul>	<ul style="list-style-type: none"> <li>• One-to-one discussions</li> <li>• Electronic correspondence</li> <li>• Periodic supplier reviews and assessments</li> <li>• Periodic meetings and written communication</li> <li>• Timely payments</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing</li> <li>• As and when required</li> </ul>

## Overview of Our Business

### Engaging with Our Stakeholders

Stakeholder	Key concerns raised	Our response	Method of engagement	Frequency of engagement
 <p><b>Regulators</b></p>	<ul style="list-style-type: none"> <li>• Compliance with directions and codes</li> <li>• Stable financial system</li> </ul>	<ul style="list-style-type: none"> <li>• Timely reporting</li> <li>• Timely payment of taxes and furnishing of tax returns</li> <li>• Compliance with labour regulations</li> <li>• Timely submission of regulatory reports</li> <li>• Support to maintain stability in money and foreign exchange markets</li> </ul>	<ul style="list-style-type: none"> <li>• Statutory Reporting</li> <li>• Meetings</li> <li>• Forums</li> <li>• Submissions</li> <li>• Directives and Circulars</li> <li>• Liaison with the regulatory bodies on matters concerning the sector</li> <li>• Ongoing engagement through industry associations</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly</li> <li>• Quarterly</li> <li>• Biannually</li> <li>• Annually</li> <li>• As and when required</li> </ul>
 <p><b>Investors</b></p>	<ul style="list-style-type: none"> <li>• Financial performance and stability of business</li> <li>• Corporate governance and best practices</li> <li>• Integrity and high standards of corporate conduct and governance</li> <li>• Effective risk management practices</li> <li>• NPCF and impairment</li> <li>• Sustainability and climate-related actions</li> <li>• Business expansion</li> <li>• Regulatory restrictions</li> </ul>	<ul style="list-style-type: none"> <li>• Comprehensive risk management and governance framework</li> <li>• Maintaining capital requirements</li> <li>• Accessing new funds for business expansion</li> <li>• Adoption of environmental and climate change</li> <li>• Liquidity management</li> <li>• Business expansion plans</li> <li>• Timely reporting</li> </ul>	<ul style="list-style-type: none"> <li>• Interim Financial Statements</li> <li>• Annual Report</li> <li>• Annual General Meeting</li> <li>• Extraordinary General Meetings</li> <li>• Corporate website</li> <li>• Press releases</li> <li>• One-to-one discussions</li> <li>• Robust risk management and governance framework</li> <li>• Maintained Capital Adequacy</li> <li>• Efficient management of foreign currency liquidity</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly</li> <li>• Quarterly</li> <li>• Biannually</li> <li>• Annually</li> <li>• As and when required</li> </ul>

## Overview of Our Business

Stakeholder	Key concerns raised	Our response	Method of engagement	Frequency of engagement
 <b>Community</b>	<ul style="list-style-type: none"> <li>• Responsible financing</li> <li>• Commitment to community</li> <li>• Environmental performance</li> <li>• Employment opportunities</li> <li>• Agri lending</li> <li>• Develop products and guidance on achieving desired community outcomes</li> </ul>	<ul style="list-style-type: none"> <li>• Offering lending facilities at concessionary rates to Smallholder agri-entrepreneurs</li> <li>• Donations</li> <li>• CSR projects</li> <li>• Responsible financing</li> <li>• Financial inclusion and career opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• Branch teams</li> <li>• Sponsorships</li> <li>• Corporate website</li> <li>• Print, electronic and digital media</li> <li>• Ongoing CSR projects, and engagement on social media</li> <li>• Creating employment opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing</li> <li>• As and when required</li> </ul>

# Overview of Our Business

## Our ESG Focus

Recognising the importance of achieving the United Nations’ Sustainable Development Goals and the imperative to transition towards a green economy, we have meticulously drafted an Environmental, Social, and Governance Policy (ESG Policy). This policy aligns with the guidelines set by the Central Bank of Sri Lanka (CBSL) and adheres to the format outlined by the International Finance Corporation (IFC). Our ESG Policy serves as a comprehensive guide, providing a clear direction for the effective management of environmental, social, and governance (ESG) risks associated with the projects the Bank finances. Additionally, it actively promotes support for businesses that embrace environmentally sustainable practices, climate-friendly initiatives, and social inclusivity. The policy has implemented a classification and measurement system for sustainable finance activities, developed collaboratively with input from all stakeholders involved.

Our policy supports Sri Lanka’s green taxonomy, aligning seamlessly with the Central Bank’s sustainable financing roadmap. Following this strategic guidance, the Central Bank has issued directives mandating commercial banks to integrate these principles into their action plans and incorporate them into their reporting. All of these directives are encompassed within our robust policy framework.

### The main objectives of the ESG Policy are:

- To identify and evaluate the social and environmental impacts stemming from the Bank’s activities. This process is designed to deepen the Bank’s understanding of potential environmental and social risks (E&S Risks) connected to its transactions and, ultimately, to proactively mitigate these risks.
- To foster enhanced social and environmental performance in projects initiated in collaboration with our partners.
- Substantially minimise the environmental and social risks associated with the Bank’s operations by adherence to the IFC’s Performance Standards (PS) and international best practices in risk management when financing private sector activities.

### Our ESG focus

To identify and assess the Environmental, Social and Governance (ESG) impacts arising from our activities, to enhance understanding and address ESG risks associated with our transactions.



### Our Vision

To be a responsible corporate citizen protecting our planet with love and humanity for future generations.



### Our Mission

To extend our love and humanity for future generations by protecting the environment through less consumption and conserving resources for the unborn. This commitment involves embracing innovative solutions and conducting our operations responsibly, guided by our ethics and values, synergised with the expertise of our multidisciplinary team of employees.

# Overview of Our Business

## Our sustainability goals



### Environmental

- Integrate sustainability into key business decisions including financing of projects and other initiatives
- Implement an operational process to minimise the Bank's carbon footprint
- Implement responsible waste disposal systems
- Promote renewable energy



### Social

- Execute CSR initiatives strategically aligned with the Bank's focus areas, including Education, Entrepreneurship, National Heritage Protection, Livelihood Development, Healthcare Development, Environmental Development.
- Uplifting Society's most vulnerable segments
- Inculcate sustainability values internally through training and development and promote employee volunteerism and staff welfare programmes
- Maintain healthy vendor relationships
- Promote sustainability values externally through targeted awareness programmes and publicity initiatives

## Strengthening ESG across our Bank

We are strengthening our ESG aspects by focusing on the following areas:

- We work with an extensive stakeholder base within our Group's value chain. Our efforts encourage and promote economic growth through the financial empowerment of over 5,000 farmers across our nation.
- We directly support the Cargills groups' efforts to increase the per capita of micro and small businesses directly contributing to Sri Lanka's GDP growth. Our Group provides end-to-end value chain solutions from the farmer to the end buyer coupled with financial assistance through the bank.
- Collaborating with our Group as well as foreign entities, we support farmers and micro businesses to increase their productivity and adopt state-of-the-art technology including irrigation systems and farming equipment.
- We formalised our ESG Policy, providing specific guidance to increase productivity, and decent job creation, through access to financial services.
- Through our ESMS credit appraisal process, we are working to eliminate any form of forced labour, modern slavery, and human trafficking.
- Our HR policy includes procedures to secure labour rights and promote a safe and secure working environment for all our staff members. Emphasis is given to securing a work environment that is conducive for women employees.

# Overview of Our Business

## Material Matters

Materiality assessment is an important aspect of our value-creation process. We consider the emerging risks and opportunities in our operating environment, feedback received from stakeholders and our strategic aspirations in assessing materiality. Our material topics represent issues that could potentially impact our ability to create value in the short, medium and long term and are key determinants in strategy formulation and risk management. The process for determining material topics is given below.



Material topic	Relevant Capital	Level of Materiality		Relevant Stakeholder/s
		To the Bank	To Stakeholders	
1. Profitability and financial performance		H	H	
2. Macroeconomic environment		H	H	
3. Business continuity		H	H	
4. Physical channels and digitalisation		H	H	
5. Employee relations and retention		H	M	
6. Training and development		H	M	
7. Customer privacy		H	H	
8. Sales promotions, marketing, and information on the availability of Bank's products		H	M	
9. Environmental protection		H	H	
10. Regulatory aspects and compliance		H	H	
11. Market and liquidity management		H	H	

# Managing Our Capitals, Output and Outcomes



## Financial Capital

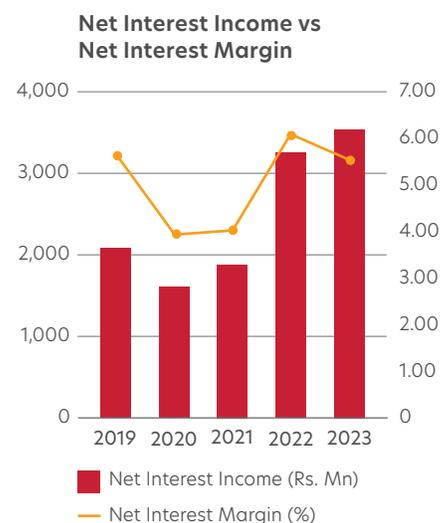
The primary objective of our financial capital is to generate tangible value for stakeholders by efficiently deploying our funds and securing our asset base for long-term stability. To achieve our objectives, we implement a range of strategic measures, encompassing risk management, market insight analysis, revenue management, cost control, as well as treasury and liquidity management. We employ a data-driven, market-sensitive approach to fund management and focus on maintaining high standards of asset quality.

Cargills Bank navigated through the challenges of the turbulent macroeconomic landscape in 2023 with resilience and prudent financial management. We take pride in sustaining momentum in profitability growth and maintaining a stable financial position. These achievements are a testament to the unwavering commitment and dedication of our team, the successful execution of our strategic initiatives, our continual focus on market trends, and adaptability to the volatile business environment.

### Statement of Profit or Loss

#### Net Interest Income (NII)

The Bank's net interest income (NII) recorded a growth of 6% YoY to Rs. 3,381 Mn. in FY 2023, by directing its resources toward higher-yielding assets, hedging interest rate risk, and prudently managing deposits. Additionally, the Bank closely monitored its lending portfolio and offered timely solutions to financially stressed customers, helping maintain a healthy NIM to date. Furthermore, the growth in loans and advances to customers by 13% and investments in government securities by 73% YoY increased interest income in FY 2023. The implementation of a strict recovery process enhanced overall income whilst the effective management of interest repricing strategies was maintained throughout the period, ensuring optimal financial performance and stability.



Interest Income	Interest Expense
<b>10,929</b> Rs. Mn 2022 - 8,002 Rs. Mn	<b>7,547</b> Rs. Mn 2022 - 4,798 Rs. Mn

	2019	2020	2021	2022	2023
Net interest income (Rs. '000)	2,043,651	1,564,775	1,839,681	3,204,251	3,381,391

#### Net fees and commission income and other income

Net fees and commission income recorded a marginal decline of 7% YoY to Rs. 799 Mn. in the FY mainly due to lower trade volumes and reduced net income from card-related services. Trade remittance income decreased significantly from Rs. 418 Mn. in FY 2022 to Rs. 274 Mn. in FY 2023, recording a decrease of Rs. 144 Mn. However, capital gains realised on the derecognition of financial assets, and higher foreign exchange income boosted other income streams by Rs. 156 Mn. and Rs. 60 Mn, respectively to reach Rs. 695 Mn. for the FY 2023.

	2019	2020	2021	2022	2023
Net fee and commission income (Rs. '000)	223,926	248,713	492,081	862,368	798,768
Other income (Rs. '000)	184,737	199,450	126,745	214,068	694,935

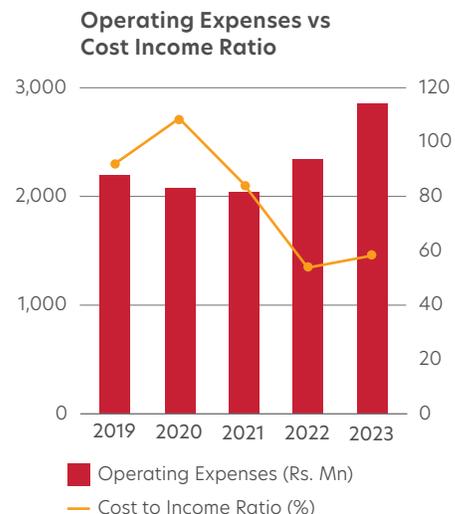
# Managing Our Capitals, Output and Outcomes

## Financial Capital

### Total operating expenses

Total operating expenses (OPEX) increased by 23% from Rs. 2,354 Mn. FY 2022 to Rs. 2,892 Mn. in FY 2023. Personnel expenses increased by 17% largely due to salary adjustments and welfare benefits on account of the increased costs of living and market conditions. Other operating expenses swelled by 48% mainly due to the impact of the increased cost of utilities, and the cost of repair and maintenance of IT assets, particularly those denominated in foreign currencies. Reflecting the moderate increase in OPEX, the cost-to-income ratio increased from 55% in FY2022 to 59.3% in FY 2023.

<p><b>OPEX</b></p> <p><b>↑ 2,892 Rs. Mn</b></p> <p>2022 - 2,354 Rs. Mn</p>	<p><b>Cost to Income Ratio</b></p> <p><b>↑ 59.3 %</b></p> <p>2022 - 55.0 %</p>
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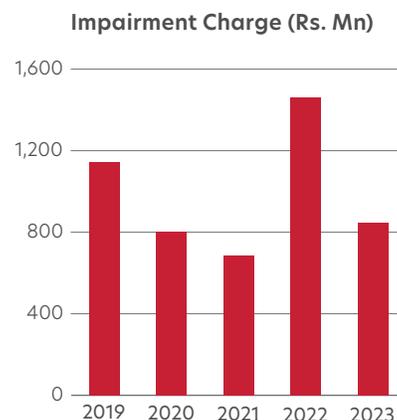


	2019	2020	2021	2022	2023
Total operating expenses (Rs. '000)	2,191,934	2,097,756	2,036,498	2,354,484	2,891,597
Cost-to-income ratio (%)	89.4%	104.2%	82.8%	55.0%	59.3%

### Impairment charges

The Bank's impairment charges were reduced by 42% to Rs. 849 Mn. due to the focused and proactive management of delinquencies and commendable efforts of the Cargills Bank team. The Bank's Stage 3 Loans (net of Stage 3 Impairment) to Total Loans Ratio stood at 8.63% while Stage 3 Provision Cover was 46.69% as of 31 December 2023. The Bank has incorporated the necessary additional impairment overlays after scrutiny of the status of the borrowers.

<p><b>Impairment Charges</b></p> <p><b>↓ 849 Rs. Mn</b></p> <p>2022 - 1,463 Rs. Mn</p>	<p><b>Stage 3 Provision Cover</b></p> <p><b>↓ 46.69 %</b></p> <p>2022 - 51.15 %</p>
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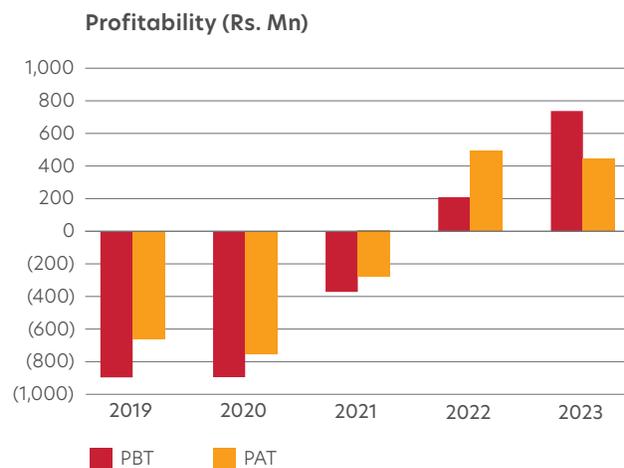
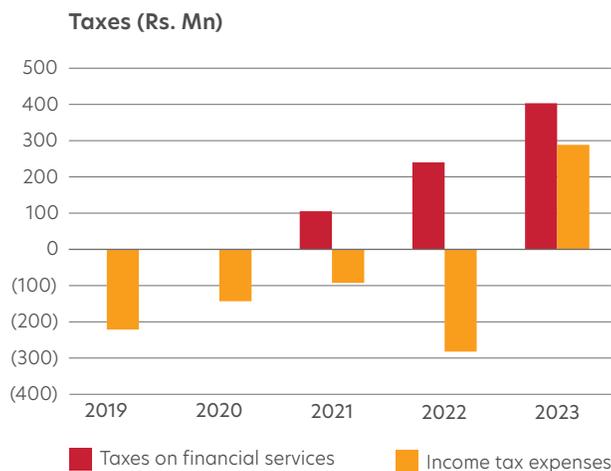


# Managing Our Capitals, Output and Outcomes

## Tax

The VAT on Financial Services, Social Security Contribution Levy and income tax expenses increased substantially mainly due to the growth in profits and the increased corporate income tax rate effective from 1 October 2022.

	2019	2020	2021	2022	2023
Taxes on financial services (Rs. '000)	(505)	-	106,154	256,281	404,829
Income tax expenses/ (reversal) (Rs. '000)	(220,814)	(142,589)	(91,528)	(281,327)	289,856



## Profitability

The Bank recorded a Profit After Tax (PAT) of Rs. 440Mn. for the FY2023 compared to Rs. 488 Mn. in the previous FY. Profit Before Tax (PBT) of Rs. 730 Mn. for the FY 2023 reflected a growth of 254% YoY.

	2019	2020	2021	2022	2023
PBT (Rs. '000)	(887,414)	(886,536)	(368,655)	206,437	729,876
PAT (Rs. '000)	(666,600)	(743,947)	(277,127)	487,764	440,020

### Income tax

↑ **290** Rs. Mn  
2022 - (281) Rs. Mn

### PBT

↑ **730** Rs. Mn  
2022 - 206 Rs. Mn

### PAT

↓ **440** Rs. Mn  
2022 - 488 Rs. Mn

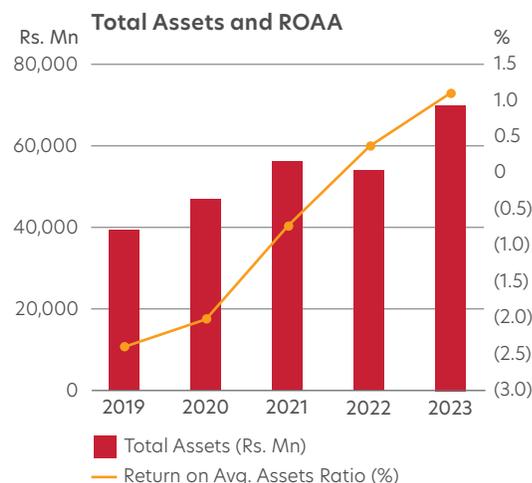
# Managing Our Capitals, Output and Outcomes

## Financial Capital

### Statement of Financial Position

#### Total Assets

Total assets of the Bank as of 31 December 2023 stood at Rs. 69.7 Bn. recording a 30% YoY increase or Rs. 16 Bn. Financial assets measured at fair value through other comprehensive income grew by 73% to Rs. 17.8 Bn. The loan book recorded a moderate growth of 13%, from Rs. 35.9 Bn. to Rs. 40.6 Bn. at the end of FY 2023 mainly due to the challenging operating conditions that prevailed during the year. The Bank exercised care in maintaining the quality of its lending in a high-interest-rate environment. With the gradual improvements in the economy, the Bank commenced lending in the latter part of the FY.



	2019	2020	2021	2022	2023
Total Assets (Rs. '000)	39,138,534	46,532,534	55,767,061	53,752,809	69,736,295
Return on Avg. Assets Ratio (before income tax) (%)	(2.41)	(2.03)	(0.74)	0.36	1.10

#### Total Liabilities

Total Liabilities too increased by 31% to Rs. 57.8 Bn. as of 31 December 2023, mainly due to the growth in deposits by 34% to Rs.50.7 Bn. amid continued reductions in market interest rates. The Bank judiciously balanced interest expenditure and income, as substantial reductions in interest rates and the time lag in repricing loans, have a direct impact on the Bank's NIMs.

	2019	2020	2021	2022	2023
Total Liabilities (Rs. '000)	28,706,069	36,798,232	46,442,200	44,032,504	57,793,512

#### Total Assets

↑ **69,736** Rs. Mn  
2022 - 53,753 Rs. Mn

#### Total Liabilities

↑ **57,794** Rs. Mn  
2022 - 44,033 Rs. Mn

#### Return on Average Assets

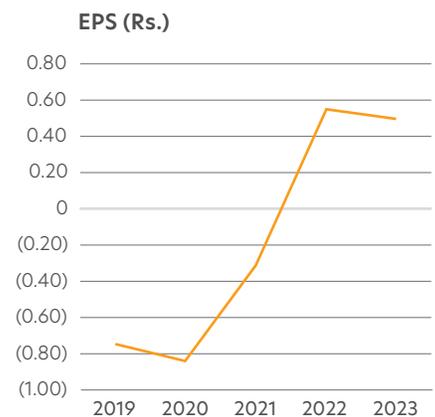
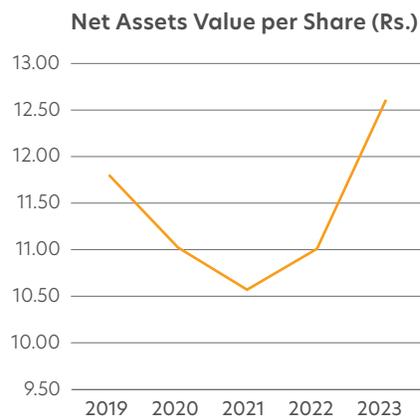
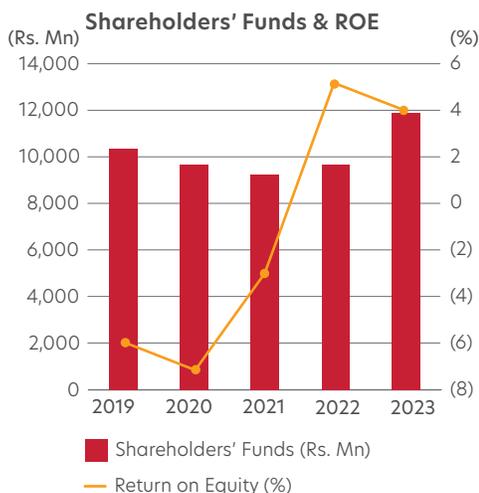
↑ **1.10** %  
2022 - 0.36 %

#### Equity

Shareholders' funds increased due to the public share issue of Rs. 500 Mn. in December 2023 and the substantial increase in the fair value of debt instruments in FY 2023 compared to the preceding year and PAT of Rs 440 Mn. recorded for the year. Return on Equity decreased to 4.12% in FY 2023 due to the 10% decrease in PAT YoY. Furthermore, the income tax reversal was converted into tax expenses in FY 2023. Return on Average Assets (before income tax) increased to 1.10% due to the significant improvement in PBT in FY 2023. Net Assets Value per Share also increased in FY 2023, resulting in a 23% increase in Equity attributable to equity holders. EPS decreased to Rs. 0.50 from Rs. 0.55 in FY 2022 due to the impact of the increased tax expense.

# Managing Our Capitals, Output and Outcomes

	2019	2020	2021	2022	2023
Shareholders' Funds (Rs. '000)	10,432,465	9,734,302	9,324,861	9,720,305	11,942,783
Return on Equity (%)	(5.96)	(7.14)	(2.99)	5.28	4.12
Return on Average Assets (before income tax) (%)	(2.41)	(2.03)	(0.74)	0.36	1.10
Net Assets Value per Share (Rs.)	11.81	11.02	10.56	11.01	12.63
EPS (Rs.)	(0.75)	(0.84)	(0.31)	0.55	0.50



## Shareholders' Funds

↑ **11,943** Rs. Mn  
2022 - 9,720 Rs. Mn

## Net Assets Value per Share

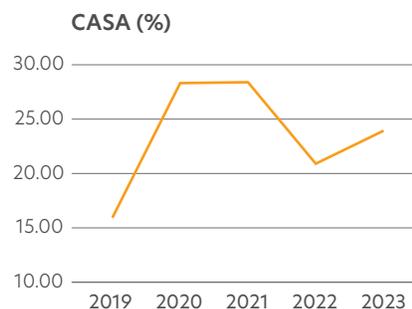
↑ **12.63** Rs.  
2022 - 11.01 Rs.

## EPS

↓ **0.50** Rs.  
2022 - 0.55 Rs.

## CASA

The CASA ratio improved from 21% to 24% YoY due to the direct business operations of the Bank in FY 2023.



## CASA Ratio

↑ **24** %  
2022 - 21 %

	2019	2020	2021	2022	2023
Deposits (Rs. '000)	25,042,562	31,997,601	40,182,402	37,802,680	50,728,853
CASA (%)	16.29	28.22	28.54	21.21	23.99
Savings Account (Rs. '000)	2,943,386	7,464,381	9,608,577	5,945,969	9,259,694
Current Account (Rs. '000)	1,137,092	1,564,808	1,860,773	2,071,043	2,912,036
CA and SA (Rs. '000)	4,080,478	9,029,189	11,469,350	8,017,012	12,171,730

# Managing Our Capitals, Output and Outcomes

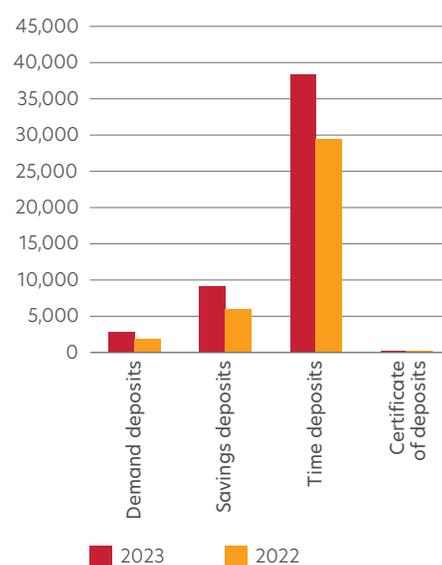
## Financial Capital

### Composition of the Deposit Portfolio

(Rs.'000)	2023	2022	YOY Movement	%
Current Account	2,912,036	2,071,043	840,993	40.61
Savings deposits	9,259,694	5,945,969	3,313,725	55.73
Time deposits	38,490,886	29,613,127	8,877,759	29.98
Certificate of deposits	66,237	172,541	(106,304)	(61.61)
<b>Total</b>	<b>50,728,853</b>	<b>37,802,680</b>	<b>12,926,173</b>	<b>34.19</b>

<b>Total Deposits</b>  <b>50,729</b> Rs. Mn 2022 - 37,803 Rs. Mn	<b>CA and SA</b>  <b>12,171</b> Rs. Mn 2022 - 8,017 Rs. Mn
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### Composition of Deposits (Rs. Mn)



### Capital Adequacy

Following the Bank's listing on the Colombo Stock Exchange (CSE), the Bank's total capital levels increased to Rs. 12.7 Bn. and the Bank is required to fulfill the minimum capital requirement of Rs. 20 Bn., stipulated by the CBSL, by end 2025. The Bank's total Capital Adequacy Ratio (CAR) stood at 23.15% as of 31 December 2023.

	2019	2020	2021	2022	2023
Common Equity Tier 1 Capital Ratio (%)	26.37	20.72	19.31	18.95	19.89
Total Tier 1 Capital Ratio (%)	26.37	20.72	22.75	22.32	22.63
Total Capital Ratio (%)	26.87	21.28	23.47	22.85	23.15

### Liquidity Ratio

The liquid assets base increased by 75%, propelled by strategic investments in treasury securities which increased by 35% YoY. The liquid liability base experienced a 19% YoY, driven by the augmentation of shareholder funds and repo liabilities. As mandated by CBSL, the minimum statutory liquid assets ratio was 20% while the Statutory Liquid Assets Ratio (SLAR) at total Bank level stood at 39.82% as of 31 December 2023.

### Liquidity Coverage Ratio (LCR)

In 2023, our high-quality liquid assets base increased by 97% compared to 2022, largely driven by the incremental acquisition of Treasury Bills and Bonds. As mandated by CBSL, the minimum requirement for the statutory Liquidity Coverage Ratio was 90% for end 2022 and 100% for FY 2023. To uphold robust liquidity management practices, we meticulously monitor both cash inflows and outflows, ensuring effective management of the liquidity coverage ratio.

<b>Total Capital Ratio</b>  <b>23.15</b> % 2022 - 22.85 %	<b>SLAR</b>  <b>39.82</b> % 2022 - 27.00 %	<b>LCR</b>  <b>289.04</b> % 2022 - 140.51%
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### Liquidity (%)

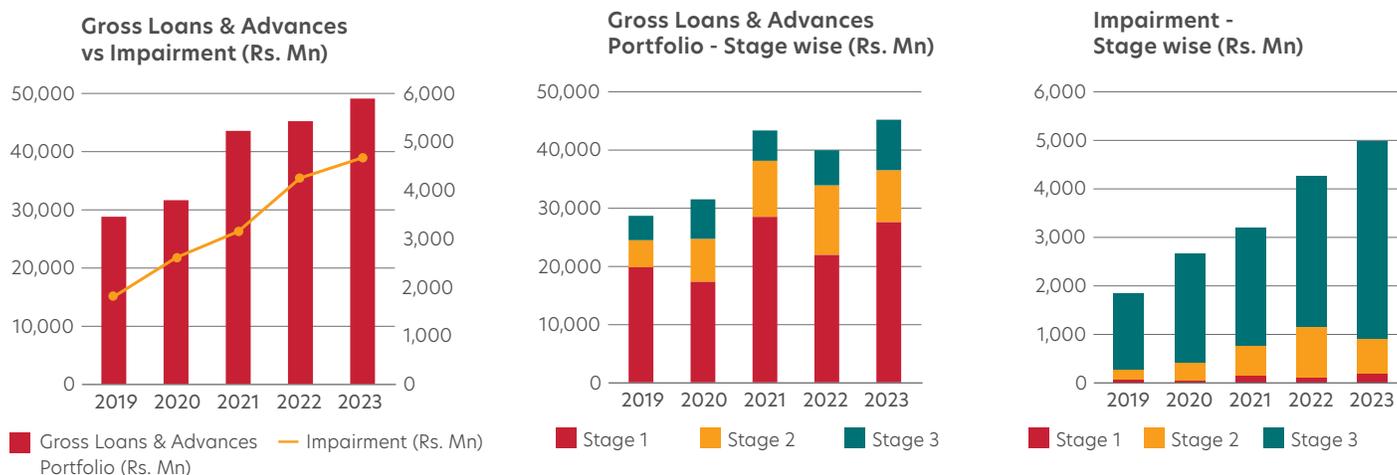


# Managing Our Capitals, Output and Outcomes

## Non-Performing Loan Portfolio

The Bank prudently categorised certain customers as a part of the stage 3 portfolio, based on potential risk assessment, aiming to mitigate expected risks before they could escalate to a 90-day default. As a result, the Bank maintained an overlay provision for these customers, leading to a higher Stage 3 loans (net of stage 3 impairments) to total loans ratio in 2023. Besides, the Bank upheld additional overlay provisions for stage 3 customers throughout the year, although the stage 3 provision cover was marginally reduced in 2023 due to increased denominator.

Assets Quality	2021	2022	2023
Stage 3 Loans (Net of Stage 3 Impairment) to Total Loans (%)	6.43	4.85	8.63
Stage 3 Loan Impairment to Stage 3 Loans (Stage 3 Provision Cover) (%)	46.69	51.15	46.69



Gross Loans and Advances (Rs. '000)	2019	2020	2021	2022	2023
Stage 1	19,963,594	17,450,348	28,706,889	22,138,056	27,806,354
Stage 2	4,676,233	7,428,834	9,744,067	12,029,934	8,991,131
Stage 3	4,230,787	6,854,139	5,231,275	6,081,727	8,755,609
Total	28,870,614	31,733,321	43,682,231	40,249,717	45,553,094

Stage wise Impairment (Rs. '000)	2019	2020	2021	2022	2023
Stage 1	90,054	68,805	152,309	132,422	188,024
Stage 2	186,450	342,306	617,283	1,026,985	709,734
Stage 3	1,580,437	2,243,089	2,421,903	3,130,230	4,095,898
Total	1,856,941	2,654,200	3,191,495	4,289,637	4,993,656

### Gross Loans

↑ **45,553** Rs. Mn

2022 - 40,250 Rs. Mn

### Impairment Provision

↑ **4,994** Rs. Mn

2022 - 4,290 Rs. Mn

### Stage 3 Loans (net of stage 3 impairments) to Total Loans

↑ **8.63** %

2022 - 4.85 %

# Managing Our Capitals, Output and Outcomes

## Financial Capital

### Statement of Financial Position

Indicator of value derived	Value derived as of 1 January 2023 (Rs.'000)	Activities undertaken to create Financial Capital	Value derived as of 31 December 2023 (Rs.'000)	Growth in value created
Shareholders' Funds	9,720,305	Raised a sum of Rs.500 Mn. through the issuance of 62,500,000 new Ordinary Voting Shares in December 2023	11,942,783	2,222,478
Subordinated liabilities	1,500,000		1,500,000	-
Other borrowings	2,469,552		2,467,367	(2,185)
Customers deposits	37,802,680	Grew the Business volume prudently throughout the period	50,728,853	12,926,173
Fund raised from refinance arrangements	233,565		420,225	186,660
Profit generated through net interest income from fund based operation	3,204,251		3,381,391	177,140
Income from fee-based operation	862,368		798,768	(63,600)
Profit generated from other trading activities	214,068		694,935	480,867

### Value Creation Highlights for FY2023

Pillars	Measurement	2022	2023	Growth in value created
Profitability	Gross income (Rs.'000)	9,488,610	12,907,417	3,418,807
	Cost-to-income ratio (%)	55	59	4
	PBT (Rs. '000)	206,437	729,876	523,439
	PAT (Rs. '000)	487,764	440,020	(47,744)
	CASA (%)	21	24	3
Liquidity	Statutory Liquid Assets Ratio (%)	27.00	39.82	12.82
Capital structure	Total Tier 1 Capital Ratio (%)	22.32	22.63	0.31
Investor performance	EPS (Rs.)	0.55	0.50	(0.05)

# Managing Our Capitals, Output and Outcomes



## Human Capital

Our team is the driving force behind the Bank's competitive edge, showcasing professionalism, skills, attitudes, and agility that strengthens resilience.

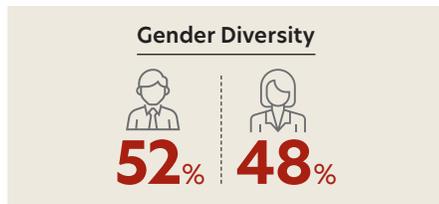
### Management approach

We consider our Human Capital as the most valuable asset and we firmly believe that the Bank's growth and success hinge significantly on the performance of this essential capital base. Therefore, we place significant importance on the well-being, satisfaction, and engagement of our employees.

Whilst the principles instilled by the Cargills Group permeate throughout our Bank's workforce, we proactively take initiatives to align our Human Resources with our Business philosophy. Accordingly, we provide our employees with opportunities to actively participate in the decision-making process, fostering a unique culture characterised by an open-door policy, a team-oriented atmosphere, and comprehensive guidance for swift career advancement opportunities.

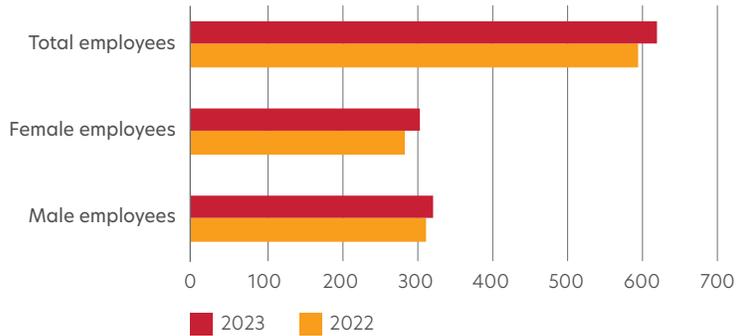
### Our team

Our team comprises 623 employees of whom 48% are female, and 31% of total employees have served the Bank for over 5 years.

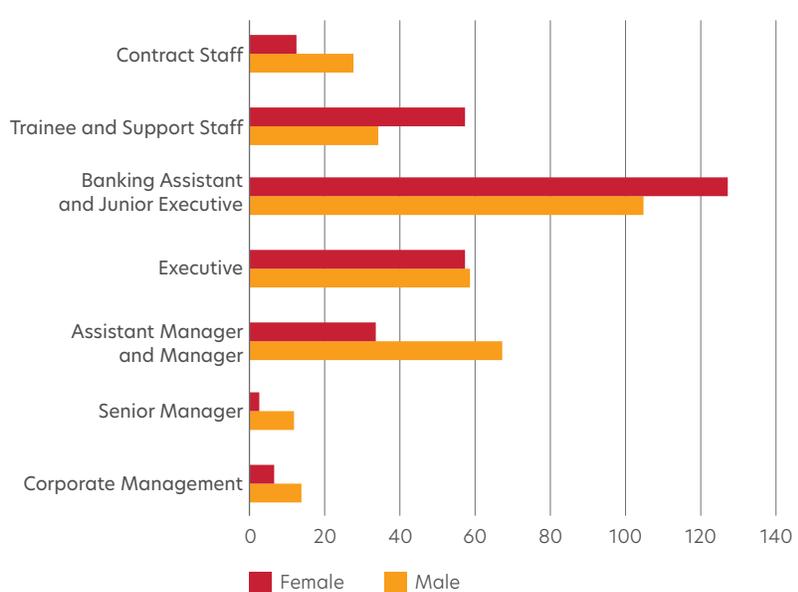


**We provide our employees with opportunities to actively participate in the decision-making process, fostering a unique culture characterised by an open-door policy, a team-oriented atmosphere, and comprehensive guidance for swift career advancement opportunities.**

Employee by Gender (Nos.)



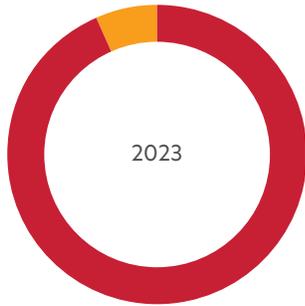
Employees by Category and Gender - 2023 (Nos.)



# Managing Our Capitals, Output and Outcomes

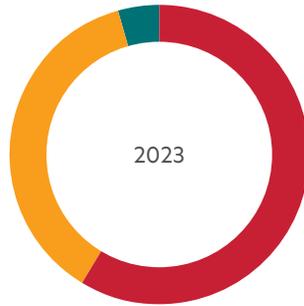
## Human Capital

Employee by Nature of Employment (%)



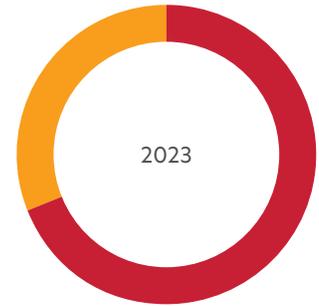
<span style="color: red;">■</span> Permanent staff	93%
<span style="color: orange;">■</span> Contract staff	7%

Employees by Age (%)



<span style="color: red;">■</span> Under 30	59%
<span style="color: orange;">■</span> 30-50	37%
<span style="color: teal;">■</span> Over 50	4%

Employees Based on Tenure (%)



<span style="color: red;">■</span> Less than 5 Years	69%
<span style="color: orange;">■</span> Over 5 Years	31%

**Total Employees**

↑ **623** Nos.  
2022 - 598 Nos.

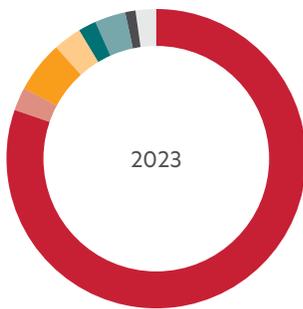
**Female Employees**

↑ **301** Nos.  
2022 - 285 Nos.

**Male Employees**

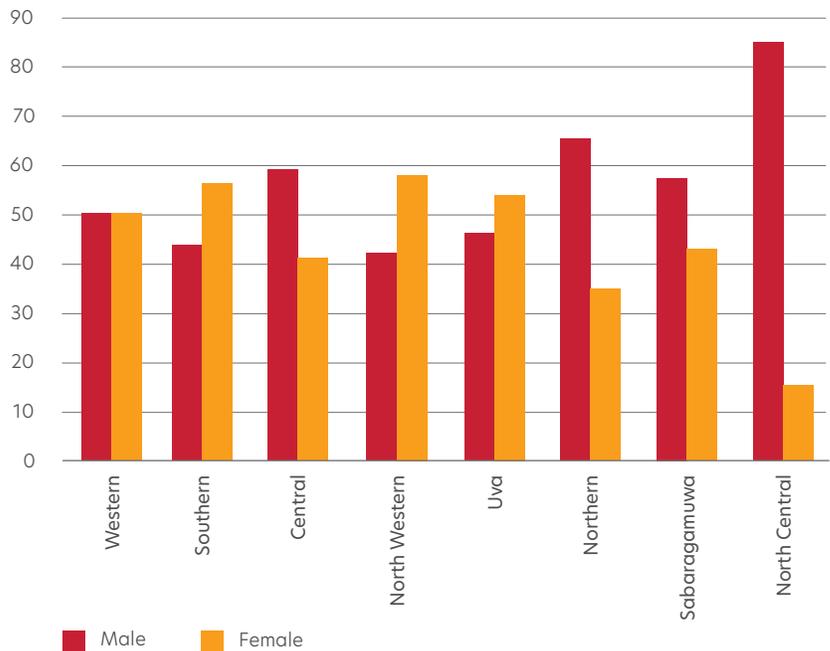
↑ **322** Nos.  
2022 - 313 Nos.

Geographic Dispersion of Employees (Nos.)



<span style="color: red;">■</span> Western	501
<span style="color: brown;">■</span> Southern	16
<span style="color: orange;">■</span> Central	34
<span style="color: lightorange;">■</span> North Western	19
<span style="color: teal;">■</span> Uva	13
<span style="color: grey;">■</span> Northern	20
<span style="color: black;">■</span> Sabaragamuwa	7
<span style="color: lightgrey;">■</span> North Central	13

Employees by Category and Gender - 2023 (%)



# Managing Our Capitals, Output and Outcomes

## Service analysis of employees

Employee Category	Less than 5 years	Over 5 years	Total
Corporate Management	12	9	21
Senior Manager	2	13	15
Assistant Manager and Manager	48	54	102
Executive	67	50	117
Banking Assistant and Junior Executive	171	63	234
Trainee and Support Staff	88	5	93
Contract Staff	41	0	41
<b>Total</b>	<b>429</b>	<b>194</b>	<b>623</b>

## Geographical spread of employees

Province	Permanent	Contract	Total
Western	461	40	501
Southern	16	-	16
Central	34	-	34
North Western	18	1	19
Uva	13	-	13
Northern	20	-	20
Sabaragamuwa	7	-	7
North Central	13	-	13
<b>Total</b>	<b>582</b>	<b>41</b>	<b>623</b>

## Employees based on age, gender, and employment category

Age (Year)	Corporate Management		Senior Manager		Assistant Manager and Manager		Executive		Banking Assistant and Junior Executive		Trainee and Support Staff		Contract Staff		Total	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Under 30	-	-	-	-	2	1	19	22	86	112	28	58	26	12	161	205
30-50	7	4	8	2	61	30	40	36	20	16	4	-	2	1	142	89
Over 50	7	3	4	1	5	3	-	-	-	-	3	-	-	-	19	7
<b>Total</b>	<b>14</b>	<b>7</b>	<b>12</b>	<b>3</b>	<b>68</b>	<b>34</b>	<b>59</b>	<b>58</b>	<b>106</b>	<b>128</b>	<b>35</b>	<b>58</b>	<b>28</b>	<b>13</b>	<b>322</b>	<b>301</b>
<b>Total</b>	<b>21</b>		<b>15</b>		<b>102</b>		<b>117</b>		<b>234</b>		<b>93</b>		<b>41</b>		<b>623</b>	

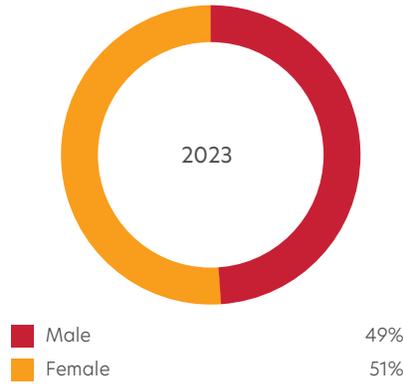
# Managing Our Capitals, Output and Outcomes

## Human Capital

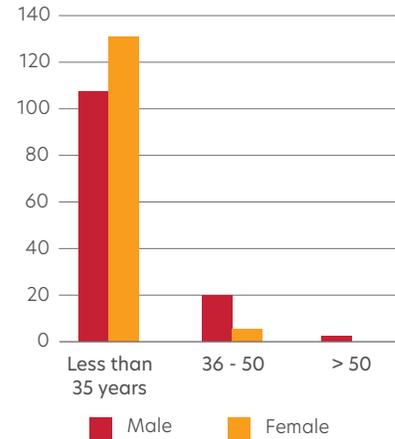
### Recruitment

Our policy is to attract qualified candidates with the required skills and competencies, possessing a positive mindset and good attitude. A key consideration is finding individuals who align seamlessly with our distinctive culture. Moreover, we focus on retaining key resources by providing career advancement opportunities and revisiting remuneration packages. Importantly, we strive to cultivate a unique and inclusive culture, fostering a sense of belonging among the staff.

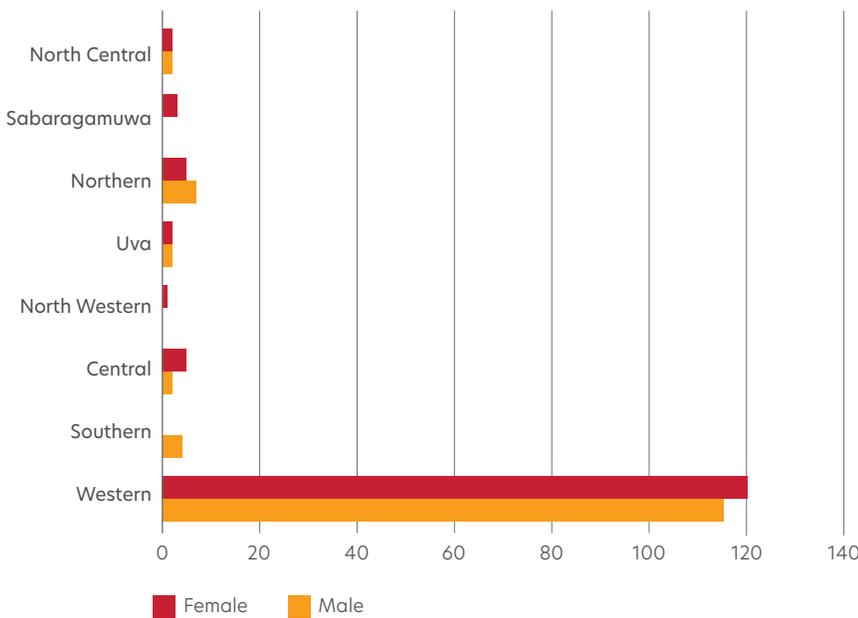
Recruitment by Gender (%)



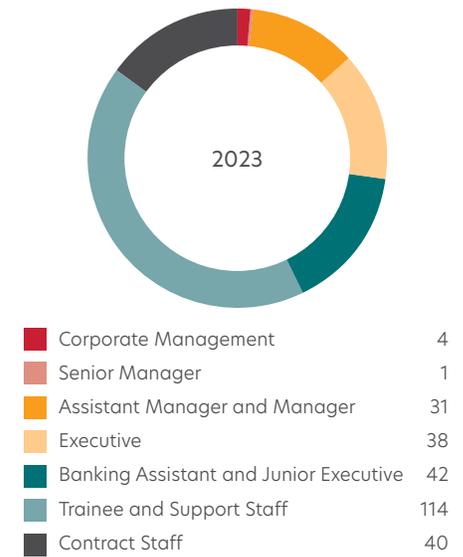
Recruitment by Age (Nos.)



Recruitment by Region and Gender (Nos.)



Recruitment by Employment Category (Nos.)

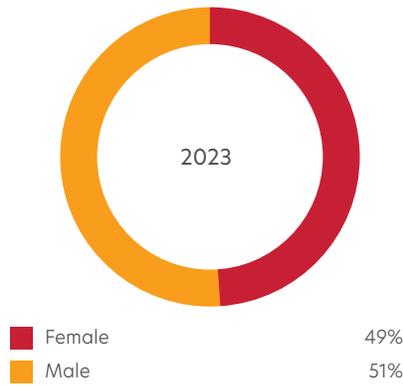


# Managing Our Capitals, Output and Outcomes

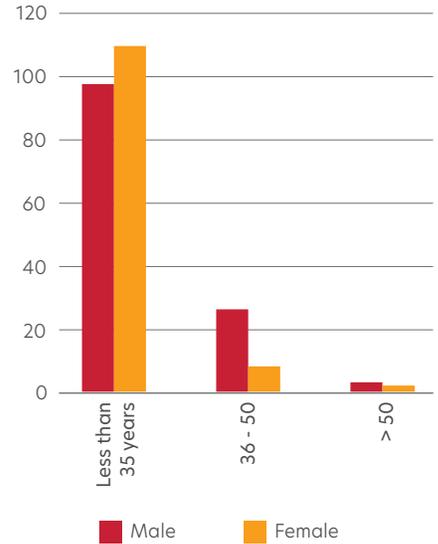
## Staff turnover

During the year under review, 245 employees resigned from the Bank due to numerous reasons. The majority (31%) of the employees who left the Bank were banking assistants and junior executives, followed by trainees and support staff (24%). The highest employee turnover was from the Western province followed by the Northern province. In terms of age, 84% were less than 35 years of age.

Employee Turnover by Gender (%)



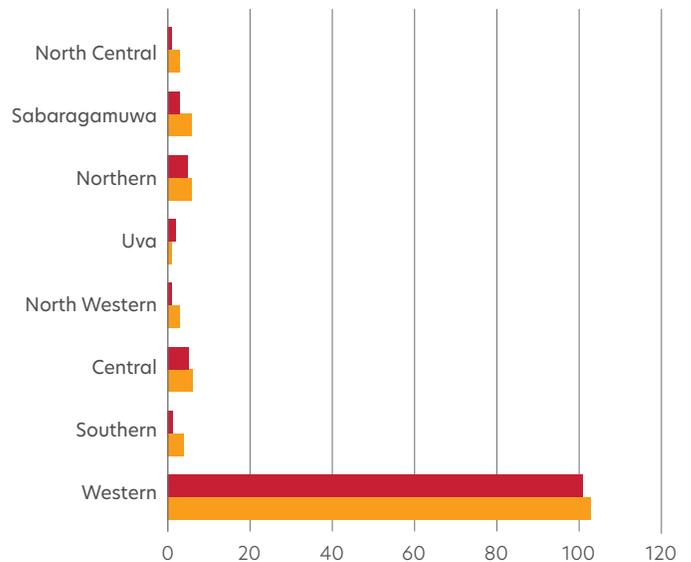
Employee Turnover by Age (Nos.)



Employee Turnover by Employment Category (Nos.)



Employee Turnover by Gender and Province (Nos.)



# Managing Our Capitals, Output and Outcomes

## Human Capital

### Training and development

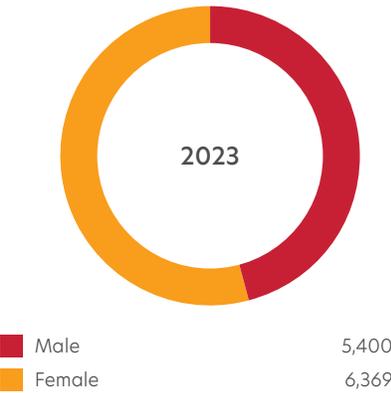
We are dedicated to fostering a dynamic learning culture where every employee can reach their full potential. This facilitates career development and enhances job satisfaction. We offer comprehensive learning and growth opportunities to our staff, aligning with both organisational objectives and individual learning aspirations.

During the year, we emphasised “on-the-job training,” whilst substantially increasing the number of training programmes. Leadership skills are being developed on the job. The promotion of virtual training initiatives and the implementation of need-based training, including mandatory e-learning, further underscored our commitment to continuous learning.

Moreover, we introduced reimbursement for education fees to incentivise and support staff members in pursuing further studies, aligning with our commitment to nurturing a knowledgeable and skilled workforce.

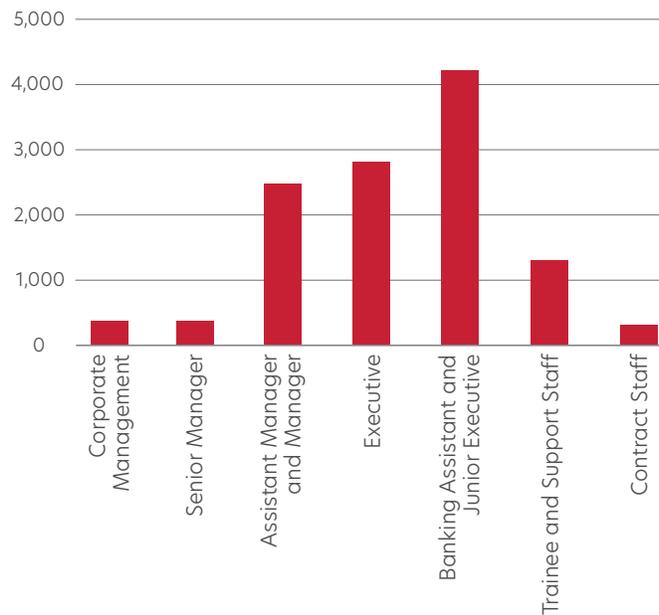
During the financial year 2023, our training cost increased by 40% YoY to Rs. 3.0 Mn. whilst the total training hours were increased by 158% to 11,769 hours compared to 2022. There was also a significant increase of 83% YoY in digital training hours as well.

Training Hours by Gender (Hours)



We offer comprehensive learning and growth opportunities to our staff, aligning with both organisational objectives and individual learning aspirations.

Training Hours by Employment Category (Hours)



#### Total Training

↑ **11,769** hours  
2022 - 4,561 hours

#### Digital Training

↑ **167** hours  
2022 - 85 hours

#### Training hours per employee

↑ **18.89** hours  
2022 - 7.62 hours

# Managing Our Capitals, Output and Outcomes

## Training programmes conducted in 2023

	Number of programmes	Number of participants	Training hours
Internal training programmes	78	2,244	9,932
External training programmes	38	157	1,805
Foreign training programmes	1	1	32
<b>Total</b>	<b>117</b>	<b>2,402</b>	<b>11,769</b>

## Average training hours in 2023

	Avg. Hours
Average training hours per employee	18.89
Average training hours per female employee	21.16
Average training hours per male employee	16.77

## Training statistics

	2022	2023	YoY Inc.
Training cost (Rs. '000)	2,172	3,046	40%
Training hours	4,561	11,769	158%
Average training hours per employee	7.62	18.89	147%
Number of hours on digital training	85	167	95%

## Performance management

The Key Performance Indicators (KPIs) derived from the Annual Business Plan permeate through various layers of the Bank, with specific KPIs being established for all permanent staff members at the beginning of each year. We adopt a Balanced Scorecard approach when formulating individual KPIs for staff. Salary increments and promotions are based on the attainment of KPIs, evaluated at the close of the financial year.

To expedite promotions and foster a performance-driven culture, a system is in place to swiftly recognise and reward outstanding performance, thereby cultivating a culture of excellence within the Bank. For the frontline sales staff, a structured Monetary Incentive scheme is implemented to incentivise accomplishing predetermined business targets. Staff promotions are granted to individuals who have demonstrated exceptional performance. Furthermore, recognising the need to celebrate exceptional performers and strengthen employee retention, the promotion process is fast-tracked for deserving individuals during the year, 125 promotions were granted to staff members across the Bank.

## Rewards and recognitions

A significant highlight in HR initiatives for the year was the increased investment in our workforce, manifested through the revision of salaries and other benefits to match industry benchmarks. Accordingly, staff benefits were subject to a comprehensive review, resulting in adjustments aligned with industry standards.

A core principle upheld throughout the year was the commitment to fair treatment for all high-performing staff members. Ensuring equity in the workplace, annual increments were guaranteed, with room for any interim revisions based on evolving requirements.

# Managing Our Capitals, Output and Outcomes

## Human Capital

The following benefits were reviewed and adjusted, especially as relief measures in response to the challenges posed by the economic meltdown.

- Salaries were increased on par with industry benchmarks
- Staff with over 5 years of service were given a special allowance
- Housing loans and vehicle loan limits were increased
- Housing loan rates were reduced to between 4% to 5% per annum
- Staff medical reimbursement limits were enhanced
- Staff allowances were reviewed and increased
- In April 2023, staff members received an additional month of ex-gratia payment and a half-month staff bonus as a motivational boost

During the year 2023, the total remuneration paid amounted to Rs. 1,073 Mn., reflecting an increase of 17% YoY.

### Employee engagement and well-being

We implemented a series of initiatives to enhance employee engagement and foster a positive work culture throughout the year. These included increasing the range of engagement activities, introducing new interventions, actively involving the staff in strategic planning and decision-making processes, and engaging them in cross-functional projects. Welfare and engagement activities, including quizzes, competitions, and sports, contribute to a positive work culture.

Prioritising employee engagement and motivation, we empowered Unit Heads to provide consistent support and mentorship within their respective units. This approach enabled to fostering of open communication, strengthened relationships, and boosted the overall confidence among staff members.

Furthermore, we prioritised career development, by offering internal and external training, promotions, and various growth opportunities to our staff. We also recognised outstanding performance and long service through awards.

### Staff engagement activities conducted in 2023

"Achievers Night 2023" was held on 12 August 2023 with the participation of 400 staff members. A total of 26 trophies were awarded to branches and back-office functions acknowledging their contribution in areas such as growth, achievement of KPIs, and special accomplishments. The Wattala Branch was awarded the Best Branch. Furthermore, 23 staff members with over 10 years of service were honoured for their dedicated service to the Bank.

We implemented a series of initiatives to enhance employee engagement and foster a positive work culture throughout the year.

A Staff Quiz Competition was held on 14 October 2023 at Hotel Sapphire featuring 10 qualifying teams who advanced to the finals. The preliminary first and second rounds were conducted virtually engaging 54 teams. The victorious teams were duly rewarded for their exceptional performance.

The Cargills Bank Cards Team won the Payment Cards Industry Quiz competition.

The staff members engaged in CSR activities such as blood donation campaigns, assisting orphanages, and donating books to children.

# Managing Our Capitals, Output and Outcomes

## Diversity, inclusion, and equal opportunity

We are dedicated to providing equal opportunities to all employees and fostering an inclusive work environment. Recruitment, training opportunities, remuneration, and promotions are determined based on merit, regardless of gender, age, or ethnicity. We strive to maintain a balanced ratio between men and women (ratio of 52:48).

Our commitment extends to creating a supportive work environment for female employees, encouraging women to pursue their career aspirations, and empowering them to take on leadership roles within the Bank.

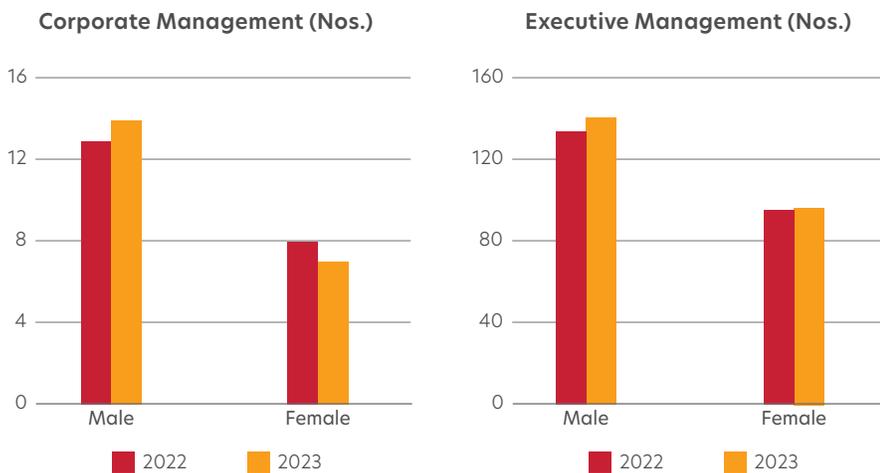
During the year under review, there were no incidents of discrimination.

## Gender distribution based on employment category

Employee Category	Male	Female
Corporate Management	14	7
Senior Manager	12	3
Assistant Manager and Manager	68	34
Executive	59	58
Banking Assistant and Junior Executive	106	128
Trainee and Support Staff	35	58
Contract Staff	28	13
<b>Total</b>	<b>322</b>	<b>301</b>

Our commitment extends to creating a supportive work environment for female employees, encouraging women to pursue their career aspirations, and empowering them to take on leadership roles within the Bank.

## Gender representation in governance bodies



# Managing Our Capitals, Output and Outcomes

## Human Capital

### The ratio of basic salary and remuneration of women to men - 2023

Employee Category	Male	Female
Corporate Management	81.58%	18.42%
Senior Manager	87.58%	12.42%
Assistant Manager and Manager	68.69%	31.31%
Executive	38.98%	61.02%
Banking Assistant and Junior Executive	53.79%	46.21%
Trainee and Support Staff	85.84%	14.16%
Contract Staff	64.13%	35.87%

### Grievance handling

We encourage employees to freely voice both occupational and personal grievances to the Management. An empathetic and unbiased hearing is ensured for all concerns, addressing them promptly to prevent any escalation into employee dissatisfaction. Confidentiality is upheld regarding the nature of the grievance. However, if the claims involve discrimination or harassment, appropriate disciplinary actions will be taken against the offenders after a fair and thorough hearing.

The Bank does not have collective bargaining agreements.

### Future focus

We will continue to focus on elevating staff satisfaction and retention by fostering a workplace that prioritises both professional growth and employee well-being. We aim to nurture a skilled and adaptable workforce, with the ability to attract, develop, and retain talent across various domains, including banking, technology, and customer service. Furthermore, we aim for external recognition, particularly aspiring to achieve industry-recognised distinctions.

We aim to nurture a skilled and adaptable workforce, with the ability to attract, develop, and retain talent across various domains, including banking, technology, and customer service.

# Managing Our Capitals, Output and Outcomes



## Intellectual Capital

Our intellectual capital is comprised of systems and processes, collective knowledge, organisational culture, business ethics and brand value.

### Our digital platforms

We have multiple digital platforms to offer convenience to our customers.

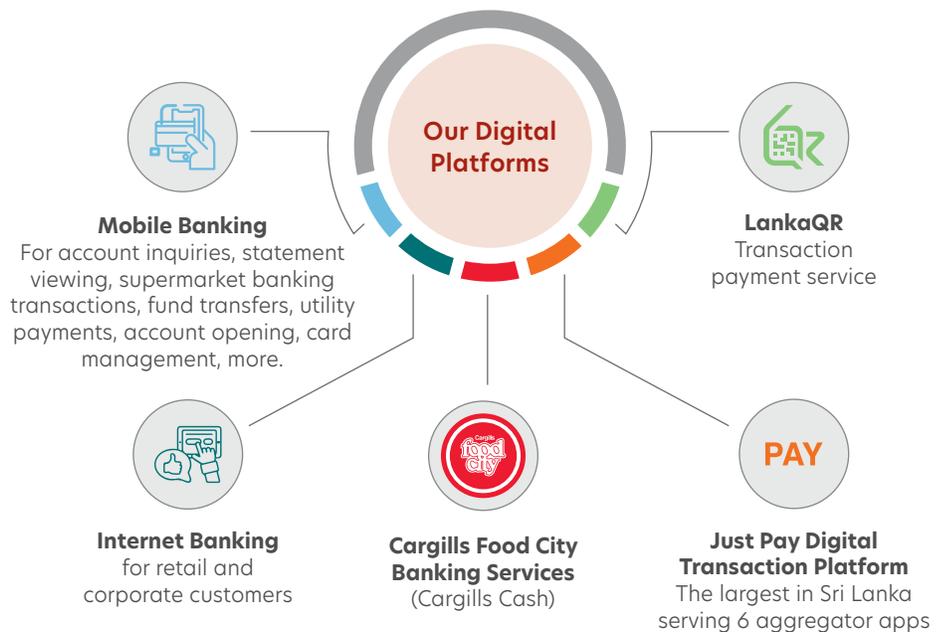
### Process improvements and automation in FY2023

The initial phase of implementing the Enterprise Resource Planning (ERP) System marks a significant milestone for our Bank, with several key in-house developments executed during this phase. Notably, the integration of the CRIB system with the Loan Origination System was accomplished, streamlining and enhancing our credit-related processes. Additionally, we implemented an in-house OD Excess Management System to manage overdraft limits. The Offer Letter Automation system was developed to generate offer letters for a more streamlined and efficient workflow. Furthermore, a Fixed Deposit Renewal Alert Automation system was created ensuring timely notifications and improved management of fixed deposit renewals.

### Innovations fuelling customer experience

Our commitment to innovation is evident through a series of strategic initiatives to elevate our operational efficiencies and customer service. Notably, the introduction of Tab Account Opening at Branches

**Our commitment to innovation is evident through a series of strategic initiatives to elevate our operational efficiencies and customer service.**



## Over 40,000 Active Users Across Digital Banking Platforms

signifies a customer-centric approach to enhance our services. The implementation of Data Classification has enhanced our data management practices. Leveraging no-code platforms, we have successfully developed new digital workflows, fostering efficiency and agility in our processes. In-house developments include the creation of the Lankapay Online Payment platform (LPOPP) for IRD payments, providing a seamless solution for transactions through branches. Moreover, our Offline Government Payment Platform, developed in-house, facilitates utility payments for over 150 government organisations. Integrating the Loan Hovering Process with the Core Banking System further streamlines our operations. We developed in-house an online Signature Booklet as well, and are committed to embracing digital solutions for a more streamlined and secure approach to document signing.

# Managing Our Capitals, Output and Outcomes

## Intellectual Capital

### Investments in technology

The following investments were made to enhance operational efficiency, and customer centricity, and enrich user experience.

- Hardware Security Module (HSM) upgrade to facilitate data encryption/decryption and PIN generation/verification for MasterCard/Visa transactions
- GOAML project - the anti-money laundering system upgrade
- Implemented a Mandate Archiving System to archive mandates and retrieve
- Implemented a Real Time Gross Settlement (RTGS) System as per the new CBSL guidelines
- Implemented SWIFT Mandatory Changes mandated by SWIFT for incoming messages
- Engaged with SWIFT Consultancy service with FINIQUE
- Implemented Mobile Application Security Module for root and Jailbroken device validation
- Upgraded website security
- Implemented the Network Access Control (NAC) system for limiting user access and blocking access from endpoint devices that do not comply with the corporate security policies
- Implemented SD-WAN to improve uptime and business agility while reducing operational costs and complexity. In addition, SD-WAN brings management simplicity with a centralised console that allows businesses to control and scale branch networks.

### Strengthening cyber security

We continued to strengthen cyber security by implementing the following:

- Strengthened the Security Operations Centre (SOC) and outsourced SOC operations
- Ongoing compliance through the Payment Card Industry Data Security Standard (PCI-DSS) certification and the ISO/IEC 27001 certification for the information security management system
- To maintain certifications, we uphold a rigorous internal vulnerability management programme supported by continuous and thorough assessments

### Nurturing a culture of integrity and accountability

The Bank has clear and transparent policies and guidelines to manage discipline, secrecy, conflicts of interest, anti-corruption, and legal compliance. By furnishing employees with a comprehensive framework, we ensure that all individuals understand their responsibilities and are aware of the consequences associated with non-compliance.

Furthermore, we cultivate an open communication culture, encouraging employees to report any unethical behaviour or potential violations directly or through committees like ORMC, and EIRMC, regular management meetings, and staff meetings. A whistleblowing policy is also in effect to protect individuals who step forward with information.

Moreover, we nurture a culture of accountability by setting clear performance expectations and routinely assessing employee performance. This involves conducting performance reviews, offering constructive feedback, and acknowledging and rewarding individuals who consistently exhibit integrity and ethical conduct.

Additionally, we have dedicated resources to training and development programmes centered around ethics, compliance, information security, and Group values. These initiatives are designed to educate employees on the Bank's values, ethical principles, and the risks tied to unethical conduct. By providing employees with essential knowledge and skills, we empower them to take ownership of their behaviour, actions, and performance. We have also mandated staff members to complete policy acceptances and e-learning modules to reinforce accountability.

During the onboarding process, the HR department emphasises the principles of Integrity and Accountability to new staff members. Before recruitment, we rigorously vet candidates, ensuring they meet specified standards, including a clear CRIB, background, and service records.

Disciplinary issues involving staff members are addressed in accordance with the Bank's Disciplinary Policy.

# Managing Our Capitals, Output and Outcomes

## Awards and recognitions

We were recognised for our exceptional digital banking services with two Gold Awards and a Merit Award at the LankaPay Technnovation Awards 2023.

The Bank was awarded the Gold Award for Bank of the Year for Financial Inclusivity Category C and the Gold Award for Bank of the Year for Excellence in Customer Convenience Category B. The Merit Award was presented to Cargills Bank for the Acquirer Bank for the Best Mobile Application for Retail Payments via JustPay.

These awards showcase our commitment to providing innovative, customer-centric, and inclusive digital banking solutions to our customers.

## Harnessing tacit knowledge

The tacit knowledge and collective experience of our team of employees is an important component of our intellectual capital. We strive to harness this wealth of knowledge and experience through formalised internal and external training programmes, on-the-job exposure under the guidance of competent and professional senior resources, and enabling staff to participate in strategic interventions and cross-functional projects.

## Marketing and social media strategy

Our marketing strategy is centered around elevating awareness of the "Cargills Bank" brand, highlighting our diverse range of products, and emphasising our unique service channels. Additionally, communication efforts were directed towards reinforcing the customer value propositions offered by the

Bank. In line with our communication strategy, social media channels took precedence as the primary platforms for conveying promotions, product details, and activities to the general public. These efforts were complemented by other channels such as radio, press, and TV, ensuring a comprehensive and effective outreach to our audience.

## Strengthening the Cargills Bank brand

Throughout the year, we carried out activities to strengthen our brand and also ventured into the share market. We expanded our presence with the opening of the new branch in Bandarawela and establishing new mini-locations.

## Our brand-building campaigns in FY 2023

		
Participation in special campaigns	The Corporate Campaign	IPO Campaign
<p>We participated in special campaigns organised by the Cargills Group, such as the Sirasa Magic Carnival and Village to Home. These events served as platforms to create awareness about the Bank's brand and products, foster association with the overall Cargills brand, and expand the customer base and portfolio of the Bank.</p>	<p>Adopting a multi-channel approach using television, radio, press, and social media, the awareness of the Cargills Bank was enhanced by emphasising our unique service channels such as Agency Banking through Cargills Food City locations.</p>	<p>The Cargills Bank Initial Public Offering was communicated using a multi-channel strategy involving radio, press, social media, hoardings, and point-of-sale materials. The goal was to increase awareness and recognition of the Cargills Bank brand.</p>

## Future outlook

The success of our digital expansion assumes continued stability and technological advancements in the mobile telecom and digital banking landscapes. This includes improvements in security, connectivity, and digital infrastructure, which are essential for a fulfilling digital banking experience. Furthermore, we are developing an enhanced customer self-care mobile app which will set new standards of customer convenience in the Sri Lankan banking industry. In addition to that, a new mobile app for the use of non-customers who engage in deposit transactions at Cargills Food City outlets will be implemented to remove the manual form-filling process. A new AI-driven multi-lingual chatbot will also be implemented in the new year.

# Managing Our Capitals, Output and Outcomes



## Manufactured Capital

Manufactured Capital comprises the physical infrastructure crucial for value creation, encompassing the Bank’s island-wide network of branches, MINI locations, ATMs, CRMs, plant and equipment, and other built assets. This infrastructure plays a vital role in enhancing customer engagement, acquiring new customers, and nurturing brand engagement, thereby propelling business growth. Furthermore, this enables us to further our commitment towards inclusive banking, serving Sri Lankans across the country with a diverse and competitive offering

### Management approach

We manage our manufactured capital through three Procurement Committees, guided by recommendations from the Technical Evaluation Committee and Financial Evaluation Committee.

The Technical Evaluation Committee carefully analyses the Bank’s requirements for manufactured capital based on predefined criteria in the requisition, using a scoring mechanism that recognises Mandatory, Important, and Optional criteria.

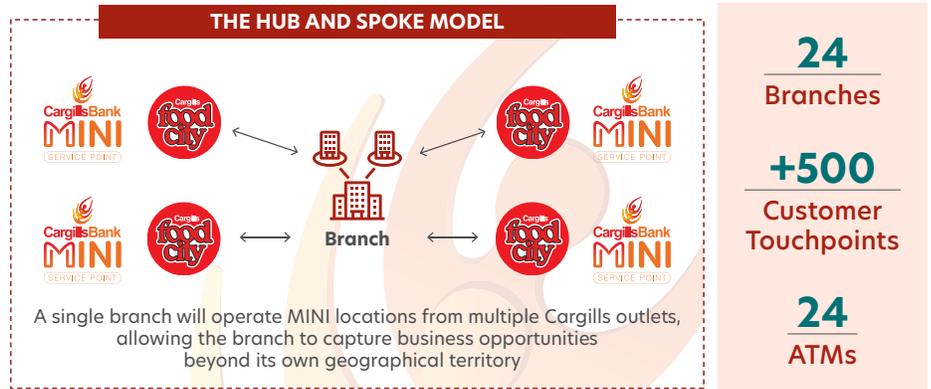
The Financial Evaluation Committee, composed of experts from the Operations, Finance, and Risk departments, evaluates financial proposals from vendors and makes recommendations on relevant investments in manufactured capital. This streamlined approach ensures a thorough evaluation aligned with the Bank’s strategic goals.

**We use a cost-effective “Hub and Spoke” model to expand our reach and attract retail customers. The central branch (Hub) extends its services through multiple MINI locations in Cargills Food City outlets, providing banking functions like account opening.**

### Our unique network

We use a cost-effective “Hub and Spoke” model to expand our reach and attract retail customers. The central branch (Hub) extends its services through multiple MINI locations in Cargills Food City outlets, providing banking functions like account opening. With 28 MINI locations, we now have over 500 touchpoints for customers.

Additionally, we engage in Agency banking through 477 Cargills Retail outlets, allowing customers to deposit, withdraw funds, and make payments. This unique banking model tied to a supermarket chain sets us apart in the domestic banking space, providing a distinct advantage.



Branches	Mini Locations
<b>24</b> Nos 2022 - 23 Nos	<b>28</b> Nos 2022 - 23 Nos

# Managing Our Capitals, Output and Outcomes

## Investment in expanding our presence in FY 2023

Growing our island-wide presence we opened a new branch in Bandarawela in FY 2023 and installed two ATMs in Bandarawela and Premier Pacific Buildings Colombo.

Our investments in manufacturing capital enabled us to increase our onboarded customer base by 13% to 215,000 as of December 2023 and deposit base by 34% to Rs. 50.7 Bn.

## Outcomes of our investments in manufacturing capital

- 13% YoY increase in the onboarded customer base
- 34% YoY increase in the deposit base

## Capital expenditure on manufactured capital

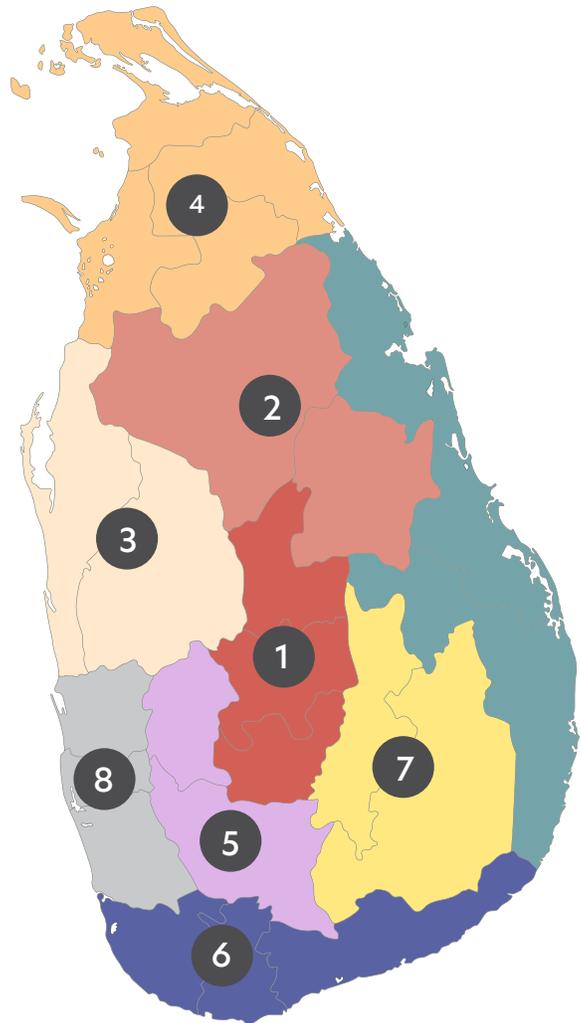
Capital Expenditure	2023 (Rs. '000)	2022 (Rs. '000)
Improvements to Leasehold Buildings	-	1,692
Computer Hardware	73,647	39,828
Office Equipment, Furniture & Fittings	19,922	37,711
Motor Vehicles	-	3
Machinery	3,528	3,522
Right-of-Use Asset	91,190	99,380
<b>Total</b>	<b>188,287</b>	<b>182,137</b>

## Our Branch Network

No.	Province	District	No. of Branches
1	Central	Nuwaraeliya	1
		Kandy	3
2	North Central	Polonnaruwa	1
		Anuradhapura	1
3	North Western	Kurunegala	1
		Puttalam	1
4	Northern	Vavuniya	1
		Jaffna	2
5	Sabaragamuwa	Ratnapura	1
6	Southern	Matara	1
		Galle	1
7	Uva	Monaragala	1
		Badulla	1
8	Western	Colombo	6
		Gampaha	2
		<b>Total</b>	<b>24</b>

## Future outlook

We will continue to expand our presence through selective branch expansion in strategic locations. The branch expansion will be complemented through Mini locations at high-traffic Cargills Retail outlets. A wider range of services will be facilitated through Mini locations, supported by a robust technology platform. Moreover, the number of Cargills Food City outlets facilitating banking operations will increase from 477 to 524 once the required approvals are obtained from the Central Bank of Sri Lanka.



# Managing Our Capitals, Output and Outcomes



## Natural Capital

In our efforts to address our environmental impact we continued to explore opportunities and strategies to transition toward a low-carbon economy.

### Management Approach

We strive to generate value for the environment by minimising the consumption of natural and non-renewable resources, efficient management of waste, water and energy and focusing on biodiversity conservation. By implementing initiatives aimed at minimising our carbon footprint, we strive to contribute positively to mitigating the adverse impacts of climate change.

### Reducing Our Energy Footprint

We continued to implement environmentally sound practices within our internal operations focused on energy-saving. Reducing resource consumption, particularly electricity across the head office and branch locations was a key priority. We are in the process of conducting an inventory to establish a baseline status to formulate annual targets to systematically decrease our energy footprint in alignment with our expansion programmes. The enforcement of sustainability standards has enabled us to lower energy usage and mitigate environmental impacts during the year.

**By implementing initiatives aimed at minimising our carbon footprint, we strive to contribute positively to mitigating the adverse impacts of climate change.**

The following energy-saving initiatives were implemented during FY 2023:

- Timely maintenance of cooling equipment and heating systems
- Upgraded computer servers for improved efficiency and performance, and substituted high-energy-consumption monitors with energy-efficient LCD monitors
- Implemented an employee energy-efficiency training/awareness programme
- Installed energy-efficient LED lighting to reduce the power consumption
- Assigned security personnel to switch off the air conditioning (A/C) units and lights after operational hours and mandated the last staff member departing from a department to switch off the lights and A/C units
- Ensured the proper shutdown of personal computers (PCs) and turning off of monitors upon leaving the office or heading out for visits
- Replaced obsolete A/C units with energy-saving units
- Instructed the janitors to refrain from switching on the lights of the entire floor when cleaning the premises from 7 am and discouraged employees from working after-hours
- Rationalised branch operations during weekends and holidays
- Evaluated the necessity of A/Cs installed in the branches to explore the possibility of reducing electricity
- Maintained temperature of the A/Cs in the range of 25 to 27°C
- Fixed motion detector bulbs in common areas and passages
- Minimised elevator usage by encouraging the use of the staircase to access floors either above or below
- Strictly monitored the usage of lights in washrooms and meeting rooms
- Switched off A/C units and lights to the best possible extent during power cuts to save fuel consumption

	2023	2022
Energy Consumption - Non-Renewable Sources (Rs.'000)	60,402	40,714
Energy Consumption - Non-Renewable Sources (Units/kWh)	1,044,906	929,499

# Managing Our Capitals, Output and Outcomes

## Reducing Paper Consumption

Although our routine operations necessitate substantial amounts of paper, judicious usage can significantly contribute to sustainability. Therefore, we are in the process of reducing paper consumption by optimising electronic information flows and establishing targets to minimise waste resulting from excessive paper usage. During the year 2023, our paper consumption was reduced by 8% YoY.

The following initiatives were implemented to reduce paper consumption:

- Issuing e-statements for bank accounts, email confirmations for memos, and utilising scanned soft copies for filing purposes
- Implementing an ERP system in the near future to streamline the manual processes
- The digital onboarding of the customers by creating a paperless banking culture
- Educating the staff members on the importance of using both sides of the paper sheets to maximise usage and minimise waste
- Encouraging customers to embrace environmentally friendly practices such as e-statements, SMS alerts, and online banking facilities to use less paper

## Managing Waste

All solid waste is disposed of according to the waste collection schedules set by local authorities. We have implemented a process of sorting waste collection using color-coded bins. Healthcare waste is collected and disposed of separately, minimising waste management costs. Sewer and wastewater are discharged following the guidelines stipulated by the National Water Supply and Drainage Board (NWSDB).

## Water Management

Our water requirement for drinking and washing is met through NWSDB, facilitated by installing water storage tanks. These tanks ensure an uninterrupted water supply to the Bank, particularly during local water cuts. For enhanced quality, drinking water is subjected to further purification using water filters installed on each floor of the head office building. Outstation branches receive a supply of purified bottled water for drinking purposes. Moreover, water-saving bathroom fittings, including automated urinals and high-efficiency water closets, are installed in washrooms to promote water conservation.

## Water Consumption

	2023	2022
Water cost (Rs.'000)*	1,159	517
Consumption (Cu. Ft.)*	5,579	4,490

\*Based on invoices issued by National Water Supply and Drainage Board.

**Water Cost**  
 **1,159** Rs. Mn  
 2022 - 0,517 Rs. Mn

**Water Consumption**  
 **5,579** Cu. Ft.  
 2022 - 4,490 Cu. Ft.

# Managing Our Capitals, Output and Outcomes

## Natural Capital

### Biodiversity Conservation

The protection of biodiversity through inclusive financing stands as a key objective for our Bank. We have recognised the impact of rapidly changing weather patterns on farmers across the island, and the adverse implications of inefficient farming practices and excessive use of fertilizers and insecticides on biodiversity in Sri Lanka. Collaborating with the Cargills Group and with financial backing from our Bank, measures have been initiated to introduce a cutting-edge irrigation system. This partnership with a leading institution in India aims to not only enhance productivity but also to safeguard water resources and farmlands. The state-of-the-art irrigation system not only supports the reduction of insecticide and fertilizer usage but also empowers farmers to mitigate climate-related risks by optimising water usage. Consequently, this measure eliminates the need to solely rely on monsoon seasons, allowing farmers to cultivate their land over three times a year.

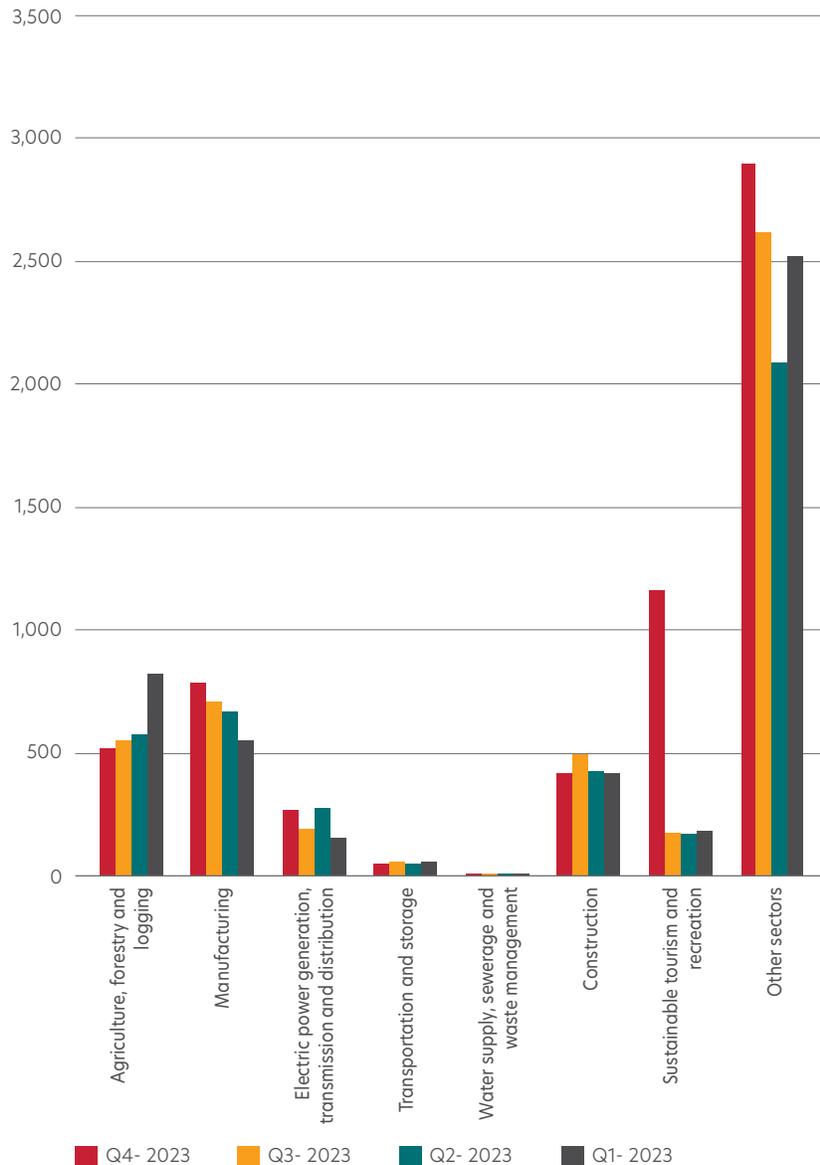
Furthermore, the greenhouses financed by us, provide a protective shield against climate change-related threats, enabling farmers to increase land usage and boost productivity.

### Promoting Green Financing

Underscoring our commitment to foster positive environmental impact and advance the goals of sustainable development, we engage in sustainable lending. Accordingly, we directly support and promote renewable energy, and natural gas initiatives, and assess our clients' carbon footprint. In alignment with the Millennium Development Goals, we have financed substantial solar projects, as well as natural gas extractions. These initiatives not only contribute to the reduction of pollution but also play a crucial role in mitigating deforestation.

### The sustainability financing portfolio of our Bank

#### Sectorial wise analysis of sustainable lending (Rs. Mn)



# Managing Our Capitals, Output and Outcomes

## Sustainability Governance

In the year 2023, we formulated an Environmental, Social, and Governance (ESG) policy, introducing the appointment of an experienced senior manager to oversee sustainability-related aspects. Moreover, we are poised to enhance our commitment by assigning an ESG officer to every division, ensuring the effective implementation of sustainability measures. To strengthen these efforts, a dedicated committee will be established, reporting directly to the Board, thus reinforcing our focus on integrating sustainable practices across all levels of our operations.

## Future Outlook

In our commitment to advancing environmental sustainability and contributing to the achievement of millennium development goals, we will be adopting a series of strategic measures. Firstly, we aim to align our lending operations with the green taxonomy and the CBSL directives. Secondly, an Environmental, Social, and Governance (ESG) structure will be established to meet our ESG objectives. The implementation of an Environmental Social Management System (ESMS) will be an important step to ensure sustainable financing practices. Furthermore, the departments of the Bank, including HR, Marketing, Legal, Finance, Branch Banking, Business Banking, Retail, and SME are poised to align their activities to support green banking, green procurement, and green operational initiatives. The establishment of a Board subcommittee in 2024 for sustainability underscores our commitment, while the appointment of an ESG officer for each division ensures the efficient implementation of sustainability aspects at every level of the Bank.

In the year 2023, we formulated an Environmental, Social, and Governance (ESG) policy, introducing the appointment of an experienced senior manager to oversee sustainability-related aspects.

# Managing Our Capitals, Output and Outcomes



## Social and Relationship Capital

Our Social and Relationship Capital encompasses our relationships with our customers, business partners, and communities.

### Customer capital

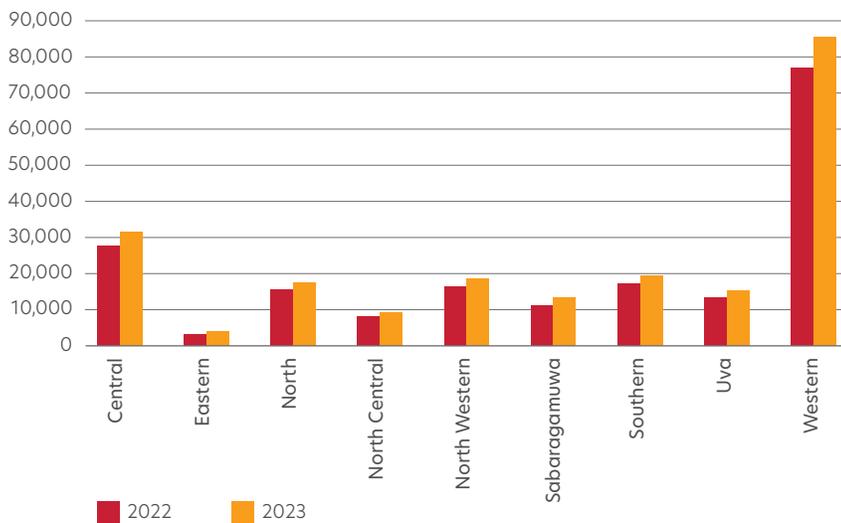
#### Management approach

Our commitment to customers is reflected in our value proposition, which revolves around providing convenience, savings and wealth accumulation, customer service, and fostering trust. We promote inclusive banking, serving Sri Lankans across the nation with a diverse and competitive offering.

#### Growing our customer base

We serve customers across Sri Lanka through our island-wide branch network and digital platforms. During FY2023, our customer base recorded a growth of 13.15% YoY, with positive increases observed in every province in Sri Lanka.

Customer Base by Geographic Distribution (Nos.)



#### Expanding our customer touchpoints

We seamlessly integrate both traditional and modern banking methods to offer a diverse range of services to our customers, who can access our services from over 500 locations across Sri Lanka and through our digital banking offerings to undertake account services and banking transactions from anywhere, anytime.

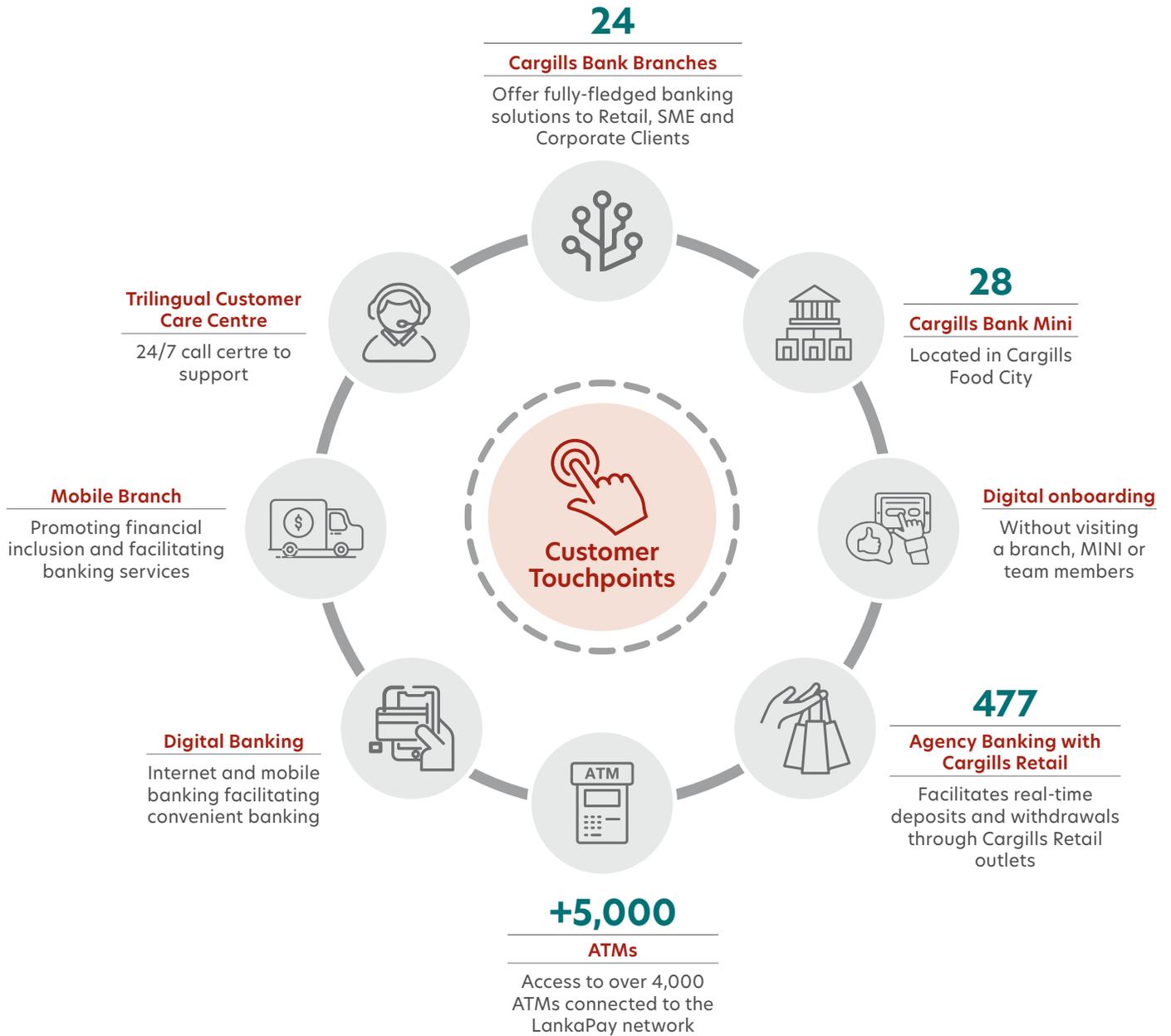
We operate 24 stand-alone bank branches, located in 15 districts of the country. Through our strategic agency banking partnership with Cargills Retail, we also operate 28 Cargills Bank MINI locations situated within Cargills Food City outlets, facilitating customer onboarding and support. Customers also have the benefit of accessing their bank accounts through 477 Cargills Retail outlets nationwide through the Cargills Cash service, which provides services such as free cash deposits, withdrawals, domestic fund transfers, remittance collection, and more.

**We seamlessly integrate both traditional and modern banking methods to offer a diverse range of services to our customers, who can access our services from over 500 locations across Sri Lanka and through our digital banking offerings**

To support our customers in the Northern, North Central and Central Provinces, we operate a Mobile Branch, which is especially useful for customers in areas with limited banking facilities, promoting our vision of broadening financial inclusivity.

Additionally, our digital onboarding service enables customers to open Savings Accounts from anywhere on the island. This comprehensive approach ensures widespread accessibility, catering to both urban and rural areas.

# Managing Our Capitals, Output and Outcomes



# Managing Our Capitals, Output and Outcomes

## Social and Relationship Capital

### Our product portfolio

Business Line	Products
Retail Banking	<ul style="list-style-type: none"> <li>• <b>Liability Products:</b> <ul style="list-style-type: none"> <li>• Local Currency</li> <li>• Fixed and call deposits</li> <li>• Current accounts</li> <li>• Cargills cash savings accounts</li> <li>• Abhimani women's savings account</li> <li>• Senior citizen savings account</li> <li>• High return savings account</li> <li>• Podihitiyo children's savings account</li> <li>• Salary saver account</li> <li>• Diriya investment account</li> <li>• Foreign currency                             <ul style="list-style-type: none"> <li>• Foreign currency savings a/c</li> <li>• Foreign currency fixed deposits</li> </ul> </li> </ul> </li> <li>• <b>Asset Products:</b> <ul style="list-style-type: none"> <li>• Housing loans</li> <li>• Loans against property</li> <li>• Personal loans</li> <li>• Loans for professionals</li> <li>• Vehicle loans</li> <li>• Term loans</li> </ul> </li> <li>• <b>Remittance Services</b></li> </ul>
Corporate Banking	<ul style="list-style-type: none"> <li>• Working capital financing</li> <li>• Short and long-term loans</li> <li>• Local and foreign currency loans</li> <li>• Local and international trade facilities</li> <li>• Guarantees</li> <li>• Fixed and working capital loans</li> <li>• Advisory services</li> <li>• Treasury and cash management solutions</li> </ul>

Business Line	Products
Cards	<ul style="list-style-type: none"> <li>• Cargills Bank Gold Credit Card</li> <li>• Cargills Bank Titanium Credit Card</li> <li>• Cargills Bank Platinum Credit Card</li> <li>• Cargills Bank Ascend Credit Card</li> <li>• Cargills Bank Shopping Debit Card</li> <li>• Cargills Bank Merchant Services - Point-of-Sale and Internet Payment Gateway Solutions</li> </ul>
Treasury	<ul style="list-style-type: none"> <li>• <b>Fixed Income Securities:</b> <ul style="list-style-type: none"> <li>• Treasury bonds</li> <li>• Treasury bills</li> <li>• Repo</li> <li>• Reverse repo</li> </ul> </li> <li>• <b>Foreign exchange:</b> <ul style="list-style-type: none"> <li>• Spot contracts</li> <li>• Forward contracts</li> </ul> </li> <li>• <b>Investments:</b> <ul style="list-style-type: none"> <li>• Sri Lanka Development Bonds (SLDB)</li> </ul> </li> </ul>
SME	<ul style="list-style-type: none"> <li>• Permanent Overdraft (POD)</li> <li>• Short-Term Loans</li> <li>• Term Loans</li> <li>• Trade Facilities</li> </ul>
Agriculture	<ul style="list-style-type: none"> <li>• <b>Bank Funded Facilities:</b> <ul style="list-style-type: none"> <li>• Term loans</li> <li>• Short term loans</li> <li>• Overdrafts</li> </ul> </li> <li>• <b>Refinance Facilities:</b> <ul style="list-style-type: none"> <li>• Saubhagya (Prosperity Loan)</li> <li>• DAD (Domestic Agriculture Development Programme)</li> <li>• Small holder Agri business Partnership Programme (SAPP) Loan Scheme</li> </ul> </li> </ul>

# Managing Our Capitals, Output and Outcomes

Business Line	Products
Digital channels	<ul style="list-style-type: none"> <li>• Retail Internet Banking               <ul style="list-style-type: none"> <li>• Fund transfers (single/bulk)</li> <li>• Bill payments</li> <li>• Pay anyone</li> </ul> </li> <li>• Corporate Internet banking</li> <li>• Mobile App for Retail Customers</li> <li>• Banking services at Cargills Food City Outlets               <ul style="list-style-type: none"> <li>• Collection account deposits</li> <li>• Deposits to other accounts</li> <li>• Credit card payments</li> <li>• Send cash</li> <li>• Withdrawals</li> <li>• Pay for purchases</li> <li>• Remittance collection</li> </ul> </li> <li>• Justpay Aggregator Services</li> <li>• Lanka QR Acquiring services for merchants.</li> <li>• CEFT API services for corporate customers</li> <li>• Remote account opening through digital onboarding</li> </ul>

## Marketing communications

As stipulated in the Bank's customer charter, we ensure that all marketing communications not only encompass accurate information but also adhere to other regulatory mandates. Our commitment extends to preventing mis-selling or misleading practices in the promotion of the Bank's products and services. Before release, all marketing communications for the Bank's products and services undergo thorough vetting by the Compliance Department, ensuring compliance with industry regulations.

There were no incidents of non-compliance concerning marketing communications during the year 2023.

## Marketing campaigns conducted in FY2023

We executed corporate, product-based, and sales-driven campaigns throughout the year to enhance our outreach. The product-based campaigns leveraged social media to enhance customer awareness and engagement. Complementary support was provided through various channels, including print media, digital screens, and point-of-sale materials such as leaflets and pennants. The product-based campaigns include the Abhimani Women's Savings Account, Cargills Cash, Fixed Deposit Campaigns, Credit Card and Debit Card campaigns.

The sales-driven campaigns are tailored to specific locations, incorporating branding along with communication support to attract customers to the targeted locations. Once customers arrive at these locations, we promote a range of products, including savings accounts, fixed deposits, and children's savings accounts. These campaigns include the Construction Exhibition 2023, the MINI Savings Account Drive, and the Children's Day with KFC.

We also conducted several Corporate Campaigns to build the profile of the Bank, leading to the successful completion of the Initial Public Offering (IPO) in December 2023.

## Empowering women

To commemorate International Women's Day, we launched an initiative to support women and their families to achieve their savings goals. Accordingly, the Abhimani Women's Savings Account holders were offered a bonus interest rate by depositing any amount and maintaining an average balance of Rs.5,000 for the month. In addition to receiving SMS alerts, along with mobile and internet banking facilities, with waived registration and annual fees for the first year, the children of the Abhimani account holders received a complimentary "PODIHITIYO" minor savings account with a pre-funded initial deposit of LKR 1,000. This was to offer a financial start for the younger generation.

# Managing Our Capitals, Output and Outcomes

## Social and Relationship Capital

### Strengthening customer privacy and safety

The Bank is mandated to uphold customer privacy by Section 77 of the Banking Act, No. 30 of 1988. To fulfill this commitment, we have established a dedicated information security unit, responsible for ensuring data security. Additionally, we have set up a specialised Risk department to oversee controls related to information security. Comprehensive policies and procedures governing information security and control have been formulated as well. Furthermore, we place a strong emphasis on staff training, which includes engaging e-learning sessions to enhance awareness among employees.

For all digital banking services (which includes Internet and mobile banking), we have implemented the best of-class international security measures such as PCI-DSS certified controls, mobile device validation, and OTP-based authorisation. Furthermore, we consistently engage with customers through every available channel to increase awareness about online scams, making it a daily priority to safeguard them against falling victim to such fraudulent schemes. Fostering trust in digital payments and transactions is paramount for building a robust digital banking system, and our commitment to this endeavour is unparalleled. Moreover, we have been steadfast in advocating increased security measures for our digital payment apps powered by JustPay. These efforts have been well-received by payment regulators in the country.

Additionally, we conducted communication campaigns aimed at enhancing customer awareness of handling sensitive financial information to mitigate the risk of financial fraud. These initiatives encompassed educating customers about PCI-DSS compliance, raising awareness about social media scams through dedicated campaigns, and emphasising the importance of OTP (One-Time Password) security measures.

### Celebrating Customer Service Week

To mark Customer Service Week in October 2023, the Cargills Bank Card Centre conducted a staff engagement programme throughout the week to imbue the importance of delivering customer excellence, while also making the activity fun and engaging for the whole team.

Similarly, other activities were conducted, such as at the Cargills Bank branch in Rajagiriya hosted a dedicated event to celebrate and acknowledge the importance of exemplary customer service.

### Future focus

We are committed to anticipating and responding to shifts in consumer behaviour and preferences, aligning our products and services with evolving needs, and ensuring continued relevance in an evolving landscape.

# Managing Our Capitals, Output and Outcomes

## Community Capital

### Management approach

Our commitment to fostering positive change in the communities we serve is paramount to promoting financial inclusion. Critical aspects of our focus lie in uplifting the agricultural communities, fostering a culture of saving, and supporting holistic rural development.

### Our community sustainability policy

Since 2016, we have proactively implemented measures to integrate Environmental, Social, and Governance (ESG) components into our banking activities. Our initial focus was on fostering financial inclusion, recognising it as a fundamental aspect of ESG standards. A significant stride in this direction has been our support to the farmer base. To date, we have disbursed over 12,000 loans, amounting to a total of Rs. 2.7 Bn. catering to both agricultural and non-agricultural micro-business segments.

Underscoring our commitment to ESG principles, we specifically report on the financial inclusion component, with an emphasis on agriculture and non-agricultural micro-financing activities. The Bank has formulated a Board approved ESG policy. As part of this initiative, we have appointed a senior manager with a background in ESG to oversee and ensure the effective implementation of these policies.

### Adding value to the community

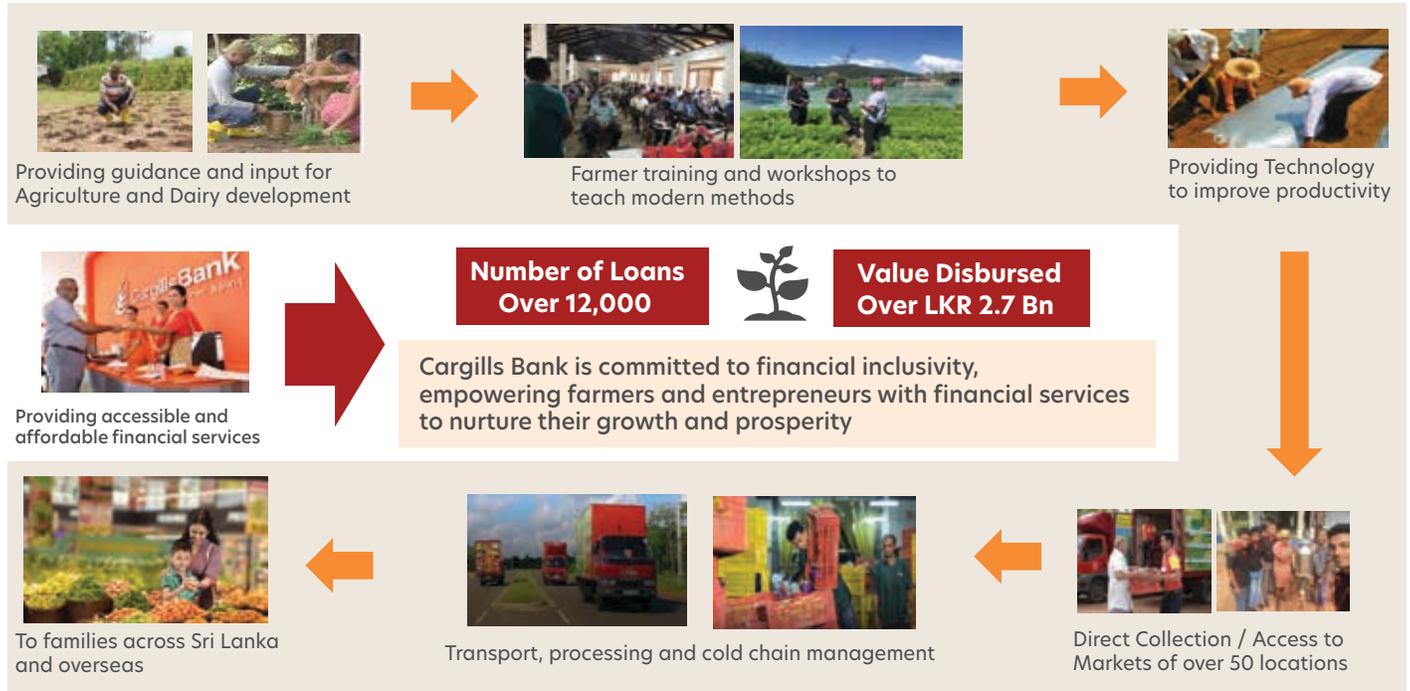
We are a part of the largest agriculture value chain in Sri Lanka linked to the Cargills Group. This enables us to engage with over 20,000 farmers, forging direct market linkages, enhancing capacities, and extending financial support through our dedicated banking services.

Our distinctive model is rare, with the ability to be involved in every facet of the support system, offering comprehensive end-to-end solutions that go beyond conventional financing activities. Our deep understanding of the agricultural landscape enables us to offer comprehensive banking solutions that contribute to the holistic development of farmers' livelihoods. Whilst some institutions may be reluctant to provide financing due to challenges such as the lack of market connections, insufficient financial information, income information, and collateral, our close ties with the Cargills group facilitate access to the necessary historical details of farmers. This flexibility allows us to provide tailor-made financial support. In addition to lending, the Cargills group pays the vegetable farmers through the Cargills Bank payment portal. This fosters saving habits, improves their livelihoods, and enables us to monitor their progress effectively, aligning with our commitment to bringing positive change to the agricultural community.

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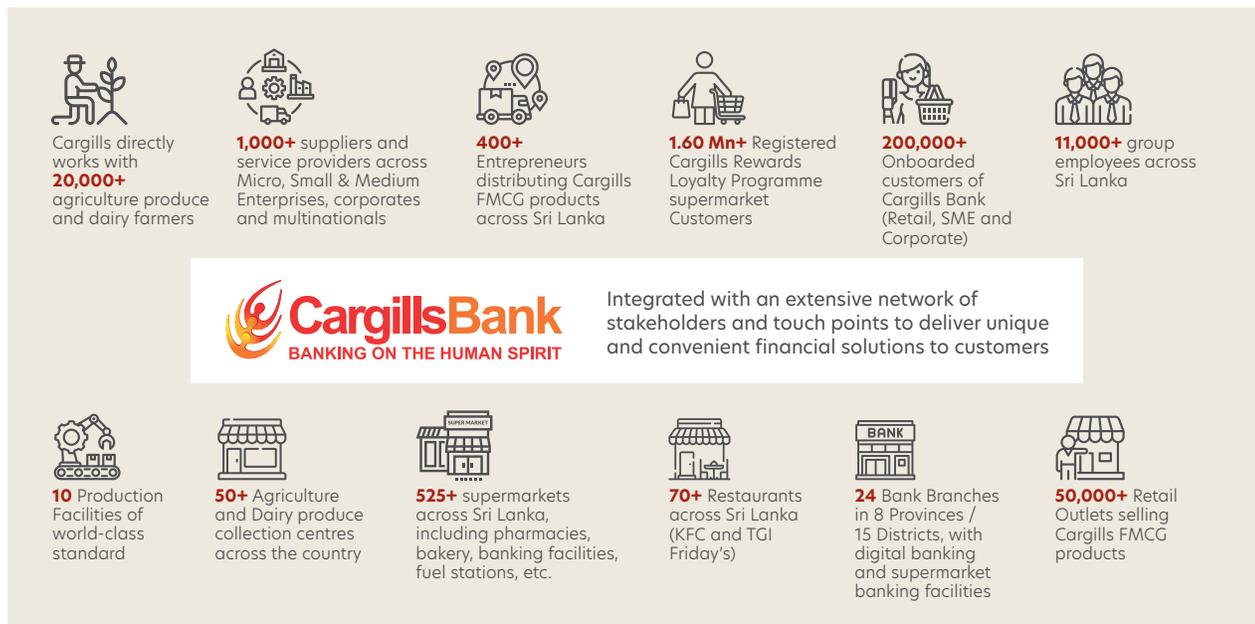
# Managing Our Capitals, Output and Outcomes

## Social and Relationship Capital



### Integrating into the Cargills ecosystem

The Cargills Group ecosystem presents the Bank with substantial growth opportunities across multiple business verticals, touchpoints to deliver financial services, and direct access to many in the farming community and entrepreneurs facilitating rural community upliftment and financial inclusivity in line with our Vision. We have developed customised offerings underpinned by access into this ecosystem, including key service channels such as agency banking and the hub-and-spoke model.



# Managing Our Capitals, Output and Outcomes

## Key corporate social responsibility (CSR) initiatives

### i. Rural entrepreneurial development

We have set up a dedicated Agriculture and Microfinance vertical to facilitate financial inclusion and rural upliftment. Acting as a Participating Financial Institution, we offer low-interest loan schemes for agriculture and MSME development. During the year under review, 192 low-interest loans to the value of Rs. 1.9 Bn. were disbursed.

### ii. Agriculture and dairy modernisation

We have provided agriculture and dairy modernisation and development initiatives to over 5,000 farmers across Sri Lanka. In addition, we provide guidance and training programmes in banking and financial management to promote financial literacy and ensure the sustainability of their businesses. During the FY2023, we organised 25 training programmes for the benefit of farmers of which 12 dedicated to dairy farmers.

### iii. Dry ration pack to deserving families

The Cargills Bank Matara Branch extended a helping hand to community members affected by the floods. With the support of the management, 80 families were provided with dry ration packs to supply their day-to-day household needs.

### iv. Essential support for schoolchildren

Demonstrating our community commitment on World Children's Day 2023, the Cargills Bank Matara Branch supported the Aparekka Model Primary School in the Matara District by addressing the needs of children. Beyond providing essential aid, we aimed to inspire young minds, foster their dreams, and encourage the pursuit of life goals with resilience and determination. A total of 160 students were provided essential aid.

### v. Stationery packs and Children's savings accounts

43 students of the RA/Haandukanda Primary School in Kiriella were gifted stationery packs and 'Podihitiyo' Minor savings accounts were opened for each child with an initial deposit of Rs. 1,500 contributed by the staff members of the Credit Administration Department (CAD) of the Bank. Furthermore, the children were presented with savings passbooks and a Cargills Bank Till to encourage their savings journey. Additionally, standing orders were executed, assigning 2-3 accounts to each CAD staff member who would contribute monthly to the child's account for 12 months.

### vi. Blood donation campaign

A blood donation campaign was organised with the participation of over 80 staff members.

### vii. Cargills Village to Home

We offered comprehensive support and guidance to Micro and SME entrepreneurs throughout Sri Lanka via the 'Cargills Village to Home' programme. The participants gained access to an extensive customer network, along with tailored training and advice covering various aspects of business operations, such as product development, production standards, quality assurance, and financial management.

## Future outlook

Following the implementation of our sustainability policy in 2024, we will focus on providing inclusive financing for the community. By expanding our branch network, we will bring banking services closer to rural areas. Furthermore, in collaboration with the Cargills group, we will launch innovative technology projects for dairy farmers and engage in public-private partnerships through initiatives like the Smallholder Agriculture Partnership Programme. We also plan to reach previously unbanked dairy farmers in rural areas such as Lindula, Kotmale, Bogawantalawa, Bogahawatta, and Hatton who are supplying milk to the Cargills dairy operation in the area. This initiative aims to assist farmers to cultivate a savings habit and gain access to financing.

# Managing Our Capitals, Output and Outcomes

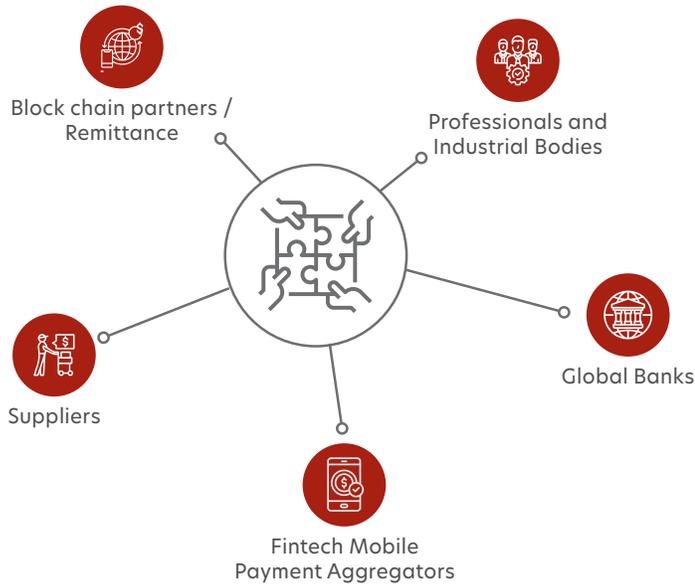
## Social and Relationship Capital

### Business Partner Capital

#### Management Approach

We nurture long-term relationships with our business partners to generate sustainable and mutually beneficial value for our partners, contributing to business growth.

#### Our business partners



#### Our diverse business partners

Technology Partners	Correspondence Banks	Communication Partners	Strategic Business Partners	Other Business Partners
<ul style="list-style-type: none"> <li>• Cargills - Technology provider for Agency Banking</li> <li>• Intellect - Core Banking</li> <li>• Oracle - Database</li> <li>• Mastercard - Card Scheme</li> <li>• Visa International</li> <li>• Euronet Worldwide - Switch provider</li> <li>• Fortuna Global - Digital banking and payments platforms</li> <li>• Ripple - Blockchain and Remittances</li> <li>• IBM - AS400 Systems</li> <li>• JustPay FinTech aggregators</li> <li>• Paymaster, OrelPay, DirectPay, Pay&amp;Go, OnePay, Markx Pay- Fintech Aggregators</li> </ul>	<ul style="list-style-type: none"> <li>• SCB Group Offices</li> <li>• BOC - Chennai and UK</li> <li>• Habib American Bank N.Y</li> <li>• Habib Metropolitan - Pakistan</li> <li>• Mashreq Bank N.Y</li> <li>• Kookmin Bank (Bank where Nostro accounts are maintained)</li> <li>• Bank of China - Colombo</li> </ul>	<ul style="list-style-type: none"> <li>• ATL - Shift Marketing Agency</li> <li>• BTL - Third Shift Press Release Agency</li> <li>• Social Media - 7 Media Agency</li> <li>• POSM's Printing companies</li> <li>• Complimentary Item suppliers</li> </ul>	<ul style="list-style-type: none"> <li>• Cargills Retail Food City</li> <li>• Cargills Restaurants (KFC)</li> <li>• TGI Friday's</li> <li>• CT Land</li> </ul>	<ul style="list-style-type: none"> <li>• International Chamber of Commerce (ICC)</li> <li>• Export Development Board (EDB)</li> <li>• Lanka Pay Pvt Ltd.</li> <li>• The Society for Worldwide Interbank Financial Telecommunications (SWIFT)</li> </ul>

#### Our procurement process

All procurements are exclusively conducted through registered vendors and suppliers with a proven and financially sound background. We emphasise the procurement of goods from vendors in close proximity to reduce transport costs, promoting both efficiency and environmental sustainability. Furthermore, we acquire services exclusively from suppliers

# Managing Our Capitals, Output and Outcomes

adhering to fair trade practices in accordance with the Bank's established procurement policy, to ensure ethical and responsible sourcing.

## Strengthening our business partner relationships

During the year we strengthened our business partner relationship by implementing the following:

- Expanded the coverage in the Middle East market to increase the inflow of remittances and engaged with new remittance partners via the Ripple Network.
- Conducted in-person meetings with local partners to explore new developments in Fintech Mobile Payment Aggregators.
- Partnered with Lankapay and implemented new systems to increase the digital footprint of Sri Lanka.
- Lanka Remit Platform - To facilitate foreign remittance service.
- LankaPay LPOPP - Facilitate real-time transfers to government companies.
- LPOPP Offline - Facilitate bill payments to 150+ government companies.
- Conducted regular reviews with FI counterparts on business volumes and control aspects of trade and remittance transactions.
- Offered sponsorships for the events organised by the business partners.
- Entered into a partnership for business promotions of credit and debit card offers on cost sharing basis.

## Screening business partners for social impacts

During the onboarding process for new suppliers, we assess the social impact of their business activities through the examination of company profiles and on-site visits. Our evaluation process takes into account a range of criteria, including fair trade practices, equal opportunities for employees (addressing issues such as gender discrimination, race, religion, etc.), commitment to safety and quality assurance, adherence to human rights and labour standards, compliance with regulations, and dedication to environmental preservation.

## Memberships, associations, and affiliations

Category	Professional Institute/Industry Associate
Professional Bodies	<ul style="list-style-type: none"> <li>• The Institute of Bankers of Sri Lanka (IBSL)</li> <li>• International Organisation for Standardization</li> <li>• Trade Finance Association of Bankers (TFAB)</li> <li>• Association of Professional Banks Sri Lanka (APBSL)</li> <li>• The Institute of Chartered Accountants of Sri Lanka</li> </ul>
Regulators	<ul style="list-style-type: none"> <li>• The Central Bank of Sri Lanka (CBSL)</li> <li>• International Chamber of Commerce (ICC)</li> <li>• Security Exchange Commission of Sri Lanka</li> </ul>
Business Collaborations	<ul style="list-style-type: none"> <li>• LankaPay (Pvt) Ltd.</li> <li>• Master Card Inc.</li> <li>• Visa International</li> <li>• SWIFT Alliance</li> </ul>
Banking and Finance Industry Associations	<ul style="list-style-type: none"> <li>• Credit Information Bureau (CRIB)</li> <li>• The Clearing Association of Bankers</li> <li>• Payment Card Industry Data Security Standard (PCI-DSS)</li> </ul>
Environmental Conservation Institutes	<ul style="list-style-type: none"> <li>• Sri Lanka Banks' Association</li> <li>• Banks CIO Forum</li> </ul>

## Future outlook

The success of our sustainable business operations and ongoing value creation for stakeholders relies heavily on strategic commercial partnerships. Therefore, our commitment is to maintain positive and mutually beneficial relationships with current business partners while seeking new alliances with regional vendors and international banks. Through this expansion we aim to enhance our network and address emerging challenges, ensuring the Bank's continued operation and growth. In line with our dedication to sustainable practices, we will prioritise local purchases, forging strong alliances that contribute to community development and local industry growth. The short-term effectiveness in navigating and overcoming the current economic slowdown hinges significantly on our collaborations with global banking partners. Furthermore, to prepare for future growth in the Trade business, we will focus on enhancing our systems and staff capabilities to deliver enhanced customer service.

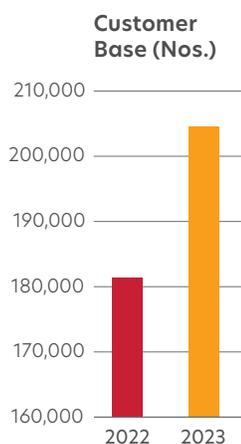
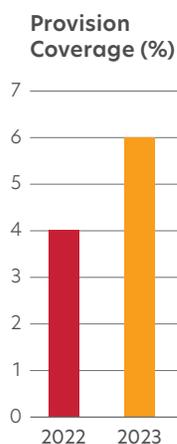
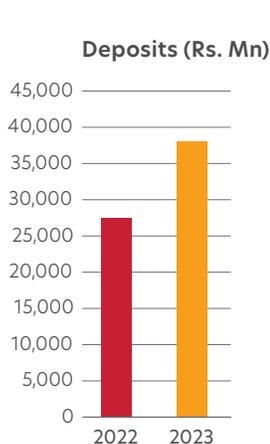
# Our Business Lines

## Retail Banking

The Retail Banking division is the leading segment of the Cargills Bank, catering to the individual customers served by branches, central sales and mini branches. We offer a full range of financial products and services, including Savings and Fixed Deposits Products, loans and advances and an array of transactional products. Additionally, based on the evolving needs of our customers we continue to enhance our digital value proposition by introducing innovative products and services.

### Performance Highlights

Retail Banking	2022	2023	% Change
Customer Base (Nos.)	181,267	204,419	12.77%
Deposits (Rs. Mn)	27,374	38,263	39.80%
Total Provision Coverage (Total Provision/ Gross loan)	4%	6%	2%



Operating context	Our response
<ul style="list-style-type: none"> <li>Reduction in deposit rates</li> <li>Decreasing net interest margins</li> <li>Challenges in the lending environment</li> <li>High staff turnover</li> </ul>	<ul style="list-style-type: none"> <li>Adjusted savings and deposit rates in line with market rates and offered additional benefits to the customers</li> <li>Pursued strategies to boost transaction volumes, aiming to fulfil bottom-line objectives</li> <li>Focused on credibility in lending segments</li> <li>Implemented a sustained effort to motivate staff, complemented by improved financial and non-financial benefits to enhance overall performance and job satisfaction</li> </ul>

**Deposits**

38,263 Rs. Mn  
 2022 - 27,374 Rs. Mn

### Our initiatives in 2023

- Expansion of both asset and liability bases
- Augmenting our retail customer base, ensuring a broader reach and increased engagement with individual customers
- Creating awareness regarding our diverse range of products and services
- Expanding our branch and mini-branch network

### Our performance

The deposit base increased by 39.80% YoY to Rs. 38,263 Mn. in FY 2023, compared to Rs. 27,374 Mn. recorded in FY 2022. The total provision coverage too was increased to 6% from 4% in the previous year.

### Future outlook

Our strategic focus revolves around the aggressive expansion of both our assets and liability base and increasing our retail customer base. To achieve this, we will prioritise enhancing top-of-mind awareness in retail banking for our diverse array of products and services. Furthermore, we are committed to expanding our value proposition to retail customers, ensuring that our offerings align seamlessly with their financial needs. A pivotal element of our growth strategy involves establishing new branches and mini-branches, thereby increasing customer touchpoints and fortifying our presence in key markets.

## Our Business Lines

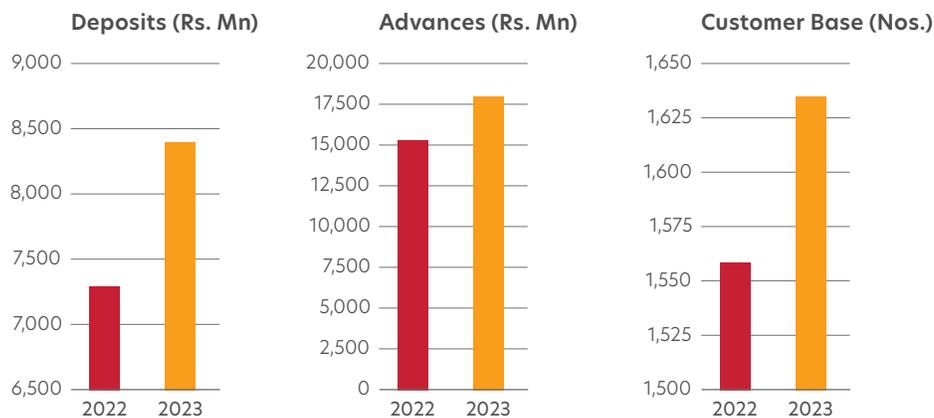
### Corporate Banking

The Corporate Banking Division provides a comprehensive suite of financial products, solutions, and services to customers, local and multinational corporates and mid-sized enterprises. As a part of a well-established and trusted brand, we cater to large and complex financing requirements through our team of experienced Corporate Relationship Managers. We have emerged as a well-accepted and respected corporate banking solution provider in the banking sector for our high-quality service standards.

**Advances**  
 **18,207** Rs. Mn  
 2022 - 15,058 Rs. Mn

### Performance Highlights

Corporate Banking	2022	2023	% Change
Deposits (Rs. Mn)	7,284	8,409	15.40%
Advances (Rs. Mn)	15,058	18,207	20.92%
Customer Base (Nos.)	1,560	1,637	4.94%
Total Provision Coverage (Total Provision/ Gross Loan)	15%	14%	(1)%



Operating context	Our response
<ul style="list-style-type: none"> <li>The stressed banking sector was further impacted by the expiration of the CBSL-backed moratoriums at the end of December 2022</li> <li>The persistence of margin pressures caused by the downward pricing of products and services, despite the challenges posed by the high cost of funds</li> <li>Stagnation or minimal growth in key industries such as Construction, Tourism, Health, and Apparel</li> <li>Restrictions on imports</li> <li>Increased demand for additional and extended facilities to sustain and resurrect stressed enterprises</li> <li>Low foreign currency liquidity in the market during the first quarters of 2023</li> </ul>	<ul style="list-style-type: none"> <li>Proactively negotiated viable solutions with mutual agreements during the post-moratorium period</li> <li>Restructured facilities to enhance the sustainability of stressed enterprises</li> <li>Repriced facilities to minimise the impact on the Bank's cost of funds and to pass on the benefits to customers</li> <li>Engaged in ongoing dialogue with customers and strengthened customer relationships</li> <li>Ensured fair and equitable treatment in fulfilling foreign currency requirements during periods of stressed liquidity, to support a diverse range of customers across various industries</li> <li>Careful selection and provision of comprehensive portfolio solutions based on the customers' wallet share</li> <li>Adopted customised growth strategies to develop corporate business</li> </ul>

# Our Business Lines

## Corporate Banking

### Our initiatives in 2023

- Collaborated on a significant syndication facility proposal for a power generation project of high national importance.
- Sustain higher customer engagement.
- Enhanced portfolio diversity and focused on credit risk management to maintain a high-quality credit portfolio.
- Proactively addressed and acted on any stressed industry or enterprise.
- Prioritised eco relationships and sustainable lending opportunities in alignment with both the Bank's objectives and regulatory guidelines.
- Extended more support to form local and international trade businesses.
- Engaged in strategic pricing and implemented cost-effective methods to improve the overall profitability of our Bank.
- To retain talent in the corporate banking division amid the volatile HR market we provided guidance, recognition, and strong support for continuous professional development to Relationship Managers (RMs) and related staff.

### Our performance

In 2023, our balance sheet growth surpassed the targeted goals for 2023. We remained a key contributor to the Bank's profitability, accounting for a significant portion of the net income. The deposit base increased by 15.4% YoY to Rs. 8,409 Mn. The advance base too was increased by 20.92% from Rs. 15,058 Mn to Rs. 18,207 Mn.

We implemented stringent control and management measures for stressed customers, ensuring the effective management of the Non-Performing Customer Fraction (NPCF). Furthermore, we enhanced our human capital through focused learning and development initiatives.

### Future outlook

We remain dedicated to maintaining a sustainable, diversified, and high-quality portfolio. As part of our strategic objectives, we will focus on further increasing our presence in the corporate market both locally and internationally, with a focus on enhancing customer convenience.

Our specialisation lies in catering to discerning corporate clients, delivering a service that is not only caring and superior but also intricately woven with the personalised richness of Cargills Culture seamlessly integrated into our banking services.

Furthermore, our goal is to become a distinctive and excellent service and unique solution provider, offering numerous digital banking solutions to meet the evolving needs of our customers. We will focus on continuous growth to maximize Return on Assets (ROA) and Return on Investment (ROI) for our stakeholders, whilst prioritising business and non-business activities aligned with Corporate Social Responsibility. To achieve these objectives, we are actively strengthening our in-house team, with a passionate and priority-driven approach to cater to the financial and banking needs of our customers.

## Our Business Lines

### Cards Business

We are an integral part of the Bank's financial ecosystem, providing a comprehensive range of credit card services. We ensure smooth transactions, offer credit solutions to customers, and make a substantial contribution to the Bank's overall revenue streams. With a strong commitment to excellence, we focus on delivering superior customer experiences, ensuring transaction security, and promoting financial inclusion.

#### Performance Highlights

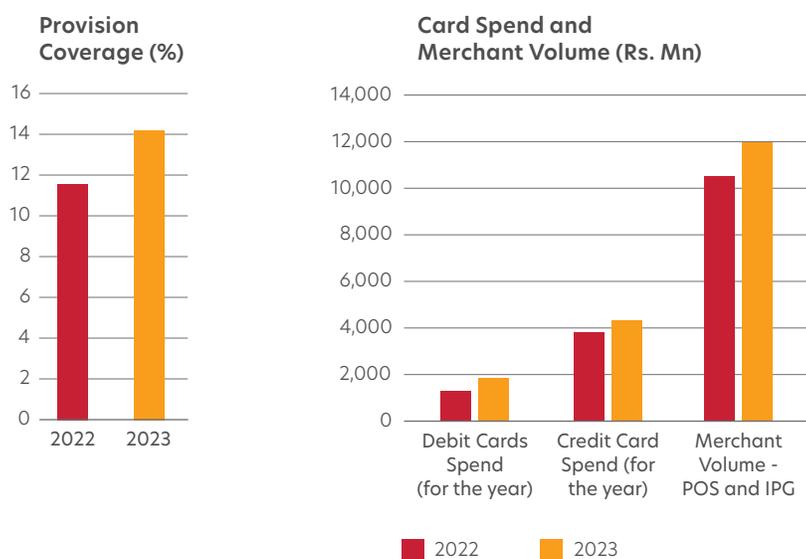
Cards Business	2022	2023	% Change
No. of Debit Cards (for the year)	10,657	17,012	59.63%
Debit Cards Spend (for the year) (Rs. Mn)	1,295	1,854	43.16%
Credit Card Spend (for the year) (Rs. Mn)	3,798	4,331	14.03%
Merchant Volume - POS and IPG (Rs. Mn)	10,499	11,979	14.09%
Credit Card Portfolio (Y/E) (Rs. Mn)	1,554	1,641	5.55%

# +29,000

Credit Cardholders

# +50,000

Debit Cardholders



#### Our initiatives in 2023

Boosted our remittance inflows through strategic partnerships, mainly leveraging the Cargills Bank IPG. This initiative enabled us to achieve a budgeted total spend of Rs. 9.1 Bn.

Operating context	Our response
<ul style="list-style-type: none"> <li>The reduction of the credit card interest rate from 34% to 28% in several stages by the Central Bank of Sri Lanka (CSBL) impacted the Net Interest Margin (NIM) of the credit card business</li> </ul>	<ul style="list-style-type: none"> <li>A comprehensive and actionable plan was developed to operationalise our activities, ensuring sustainable outcomes. Our approach included considerations for market dynamics, lessons learned from past implementations, feedback from employees, input from management, customer insights, and strategic analysis of competitor actions.</li> </ul>

# Our Business Lines

## Cards Business

Operating context	Our response
<ul style="list-style-type: none"> <li>The issuance of new credit cards experienced a decline due to stringent evaluation protocols and high minimum income criteria. This impacted the growth of credit cards, making it challenging to sustain card spend and fee income</li> </ul>	<ul style="list-style-type: none"> <li>We proactively undertook all necessary measures to revise the tariff/interest structure as per the guidelines from the CBSL. Additionally, we communicated these changes to our cardholder base through various communication channels to ensure transparency and awareness</li> <li>Given the decline in new card issuances, we focused on income from card spend, fees, and commissions from existing cardholders. New promotions were introduced to encourage more card usage and adjusted tariff structures for optimal income</li> <li>The payment-acquiring business was optimised to minimize losses and enhance profitability. New fees were introduced for merchants with low income or experiencing losses and concurrently renegotiated existing agreements with vendors to lower charges</li> </ul>

Established a partnership with a new vendor for servicing and maintaining our existing POS fleet, effectively extending its productive lifespan. The new vendor operates regional service centers across the island, facilitating the Merchant Acquiring Unit to broaden its presence nationwide.

Focused on enhancing the profitability of the POS and IPG merchant portfolio by implementing new fees and adjusting the commission structure to minimise losses and improve the overall efficiency of our merchant base.

Maintained an extensive partnership with over 100 merchants, offering a range of promotions and 0% instalment campaigns throughout the year. This collaboration with both Eco and Non-Eco partners enriched the shopping experience for cardholders and increased the value of Cargills Bank Cards as a versatile payment option.

### Our performance

We sustained growth in Sri Lanka’s dynamic payments landscape, enhancing offerings for expanding our cardholder base. New benefits and privileges, spanning essential expenses, were introduced for Cargills Bank Mastercard Credit and Debit Cardholders.

We remained dedicated to delivering exclusive benefits to our cardholders through partnerships with Eco-partners. Continuous year-round offers and promotions were extended at Cargills Food City, KFC, TGIF, and Ceylon Theatres, complemented by special discounts at top clothing, jewellery, dining,

lodging, electronics, and home improvement partners. Moreover, we provided flexible payment options, including easy-payment schemes and 0% instalment plans, catering to the diverse needs of our credit cardholders.

We enhanced our Payment Acquiring footprint across the island by employing advanced Internet Payment Gateway Solutions and Point-of-Sale (POS) Solutions. This effort enabled to enhance the digital payment capabilities of Sri Lankans and contribute to the Central Bank’s vision of establishing payment systems that are safe, secure, sound, efficient, and accessible nationwide.

### Future outlook

In 2024, our primary goal is to achieve a positive P&L, by enhancing efficiency and profitability of the card and merchant portfolio. We aim to reduce the NPA portfolio to below 9% in the ensuing year and further reduce it to below 7% within the next two years, significantly impacting overall department profitability.

Furthermore, we will focus on expanding the card base to surpass 40,000 credit cards by the end of 2025, whilst growing the card portfolio to Rs. 3 Bn. in 2025. Collaborative programmes with the new POS vendor will be initiated to broaden the merchant network, targeting a growth of 200 merchants by the end of 2024. Additionally, we will work on increasing the IPG merchant portfolio and onboarding new direct IPG merchants to enhance transaction volumes.

## Our Business Lines

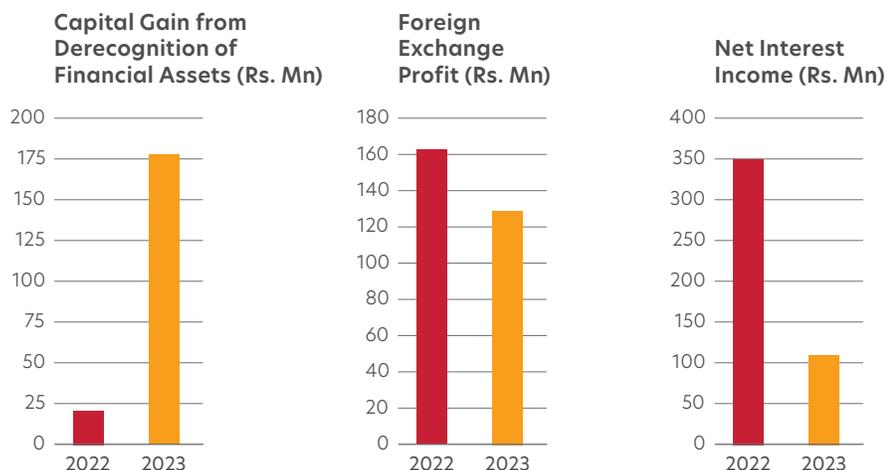
### Treasury Operations

The Treasury Division oversees assets and liabilities, making strategic investments and engaging in borrowing and lending activities to maximise profits. This is done while ensuring compliance with regulatory requirements and adhering to ethical market practices.

#### Performance Highlights

Treasury (Rs. Mn)	2022	2023	% Change
Net Interest Income (NII)	352	111	(69%)
Foreign Exchange profit	163	129	(21%)
Capital gain from derecognition of financial assets	21	177	750%

Higher NII and Forex profit recorded in FY 2022 were mainly due to high risk interest rate regime prevailed and significant depreciation in LKR during FY 2022, respectively.



Operating context	Our response
<ul style="list-style-type: none"> <li>The uncertainty that prevailed throughout the year regarding Domestic Debt Optimization (DDO) impacted the investments in the Government security portfolio. This had a direct impact on our NIL</li> <li>The DDO exerted pressure on our capital adequacy requirements</li> <li>Foreign currency liquidity constraints in the market adversely impacted the meeting of customer FX requirements and foreign currency liabilities</li> </ul>	<ul style="list-style-type: none"> <li>Prudently managed the portfolios in line with Board recommendations with the aim of maximising profits</li> <li>Successfully maintained capital adequacy within prescribed limits by assessing various scenarios to gauge the impact on Domestic Debt Optimisation (DDO) and stringently monitoring the portfolios</li> <li>Efficiently managed the limited FX resources to meet customers' foreign currency needs and fulfilled foreign currency repayments by prioritising payments, and meeting all commitments without defaults</li> </ul>

Capital gain from derecognition of financial assets (YoY)

↑ **177** Rs. Mn  
2022 - 21 Rs. Mn

**Honoured customers' foreign currency and local currency liabilities on time**

**Maintained capital adequacy within prescribed limits**

#### Our initiatives in 2023

- Assessed the impact of Domestic Debt Optimisation on the Bank.
- Maintained capital adequacy within the limits stipulated by the regulator.
- Financed foreign currency requirements of customers and honoured foreign currency and local currency liabilities on time.
- Maintained foreign currency and local currency liquidity at stipulated limits.

#### Future outlook

The upcoming year poses challenges for the banking industry. The successful restructuring of foreign currency debt will provide clarity on how quickly Sri Lanka can recover from default. A prompt recovery will boost confidence among foreign investors to invest in the Sri Lankan economy.

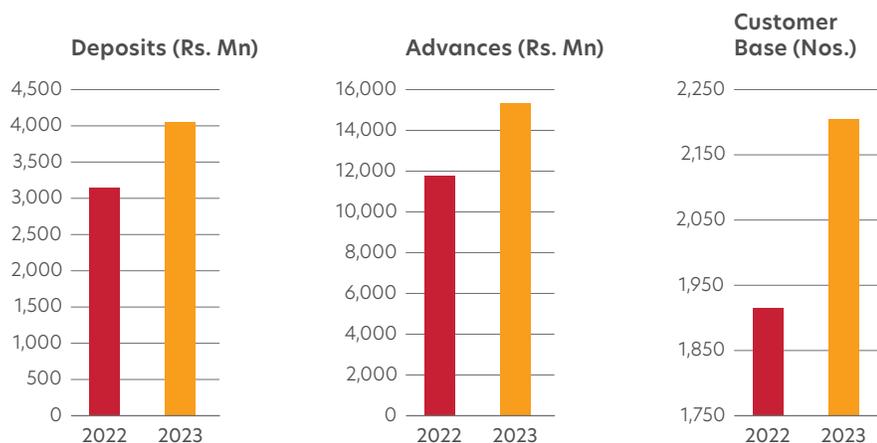
# Our Business Lines

## SME Banking

We provide inclusive financial solutions for the development of Small and medium-sized entrepreneurs to enhance wealth creation and social well-being across the country.

### Performance Highlights

SME Banking	2022	2023	% Change
Deposits (Rs. Mn)	3,144	4,057	29.00%
Advances (Rs. Mn)	11,797	15,319	29.86%
Total Provision Coverage (Total Provision/ Gross loan)	11.05%	10.85%	(0.20)%
Customer Base (Nos.)	1,918	2,208	15.12%



**Advances**

↑ **15,319** Rs. Mn

2022 - 11,797 Rs. Mn

### Our performance

Advances amounted to Rs. 15,319 Mn. in FY 2023 surpassing the budget of Rs. 13,516 Mn. and recording 29.86% YoY growth compared to Rs. 11,797 Mn. recorded in FY 2022. Deposits recorded a 29.00% YoY growth to Rs. 4,057 Mn. in FY 2023. The total provision cover was marginally declined from 11.05% in FY2022 to 10.85% in FY2023.

### Future outlook

With the increasing young population, growing middle class, and resilient entrepreneurial spirit, our nation is well-positioned to unlock substantial potential despite the challenges. We aim to achieve sustainable growth by focusing on technology, infrastructure development, and strategic pricing.

Operating context	Our response
<ul style="list-style-type: none"> <li>Managing NPLs, information asymmetry and market informality</li> <li>Economic instability, regulatory demands, and political change</li> <li>Expanding digital adoption</li> <li>Building long-term SME relationships</li> </ul>	<ul style="list-style-type: none"> <li>Consistently followed up and visited our customers to foster strong relationships. Our prime objective was to safeguard the financial stability of our customers. To ensure the smooth functioning of customer operations, we stayed abreast of market conditions. Swift and decisive actions were taken upon identifying Early Warning Signals (EWS) to effectively manage the Non-Performing Client Fund (NPCF)</li> <li>We remained updated on gazettes and circulars issued by the government and instructed the customers about the relevant changes</li> <li>Conduct training sessions for staff members, emphasising the importance of educating clients about digital platforms and their usage and benefits</li> <li>Organised numerous get-togethers and meet-ups with customers to foster and strengthen our relationships with them</li> </ul>

## Our Business Lines

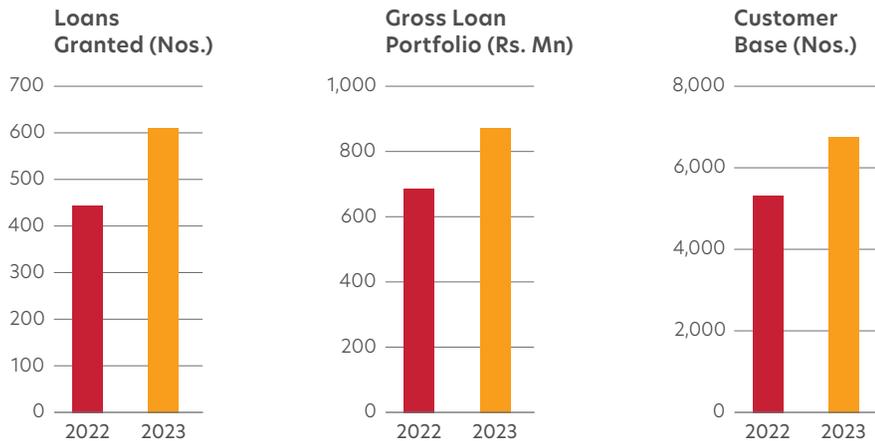
### Agriculture Operations

We have the unique advantage of directly working with our value chain, providing farmers with end-to-farming solutions. Linking with the end buyer through our supermarket chain, we provide financial assistance to customers.

Through the Cargills group, we have the opportunity to provide financing to over 20,000 dairy and agri farmers. Over 10,000 facilities have been granted, of which 60% account for our farmers. The cumulative facilities granted exceed Rs.2.7 Bn. as of 31 December 2023.

#### Performance Highlights

Agriculture	2022	2023	% Change
Number of loans granted (Nos.)	444	612	37.84%
Gross Loan (Rs. Mn)	686	850	23.91%
Customer Base (Nos.)	5,299	6,767	27.70%
Total Provision Coverage (Total Provision/ Gross loan)	7.64%	5.82%	(1.82)%



Linking with the end buyer through our supermarket chain, we provide financial assistance to customers.

Through the Cargills group, we have the opportunity to provide financing to over 20,000 dairy and agri farmers

#### Advances

↑ **850** Rs. Mn  
2022 - 686 Rs. Mn

Operating context	Our response
<ul style="list-style-type: none"> <li>Increased cost of agricultural inputs and fuel adversely impacted the lives and livelihoods of agriculture-dependent communities</li> <li>Escalation of agri-production costs due to the high cost of funds caused by the discontinuation of refinance schemes, and informal borrowing</li> </ul>	<ul style="list-style-type: none"> <li>Provided special interest rates lower than those offered to other business segments. Additionally, we collaborated with the Small Holder Agriculture Partnership Programme, offering low lending interest rates (for loans less than Rs. 300,000) specifically designed to support farmers with lower income levels</li> <li>Farmers traditionally depend heavily on high-cost borrowings from informal sources to meet urgent financial needs. To address this, we mandating farmers to channel their sales proceeds through bank accounts. This initiative resulted in farmers saving approximately one-third of their income in savings accounts</li> </ul>

# Our Business Lines

## Agriculture Operations

Operating context	Our response
<ul style="list-style-type: none"> <li>• Use of unproductive farming methods</li> <li>• Limited technical knowledge and low financial literacy levels</li> <li>• Erratic weather patterns</li> </ul>	<ul style="list-style-type: none"> <li>• This enabled farmers to reduce their reliance on informal borrowing thereby improving their overall livelihood. The accumulated savings balances exceeded Rs. 300 Mn. in 2023</li> <li>• Acknowledging farmers’ reliance on unpredictable monsoons, we launched a project in collaboration with the Cargills Group and Jain Irrigation India to assist farmers in investing in advanced irrigation systems and greenhouses. This strategic initiative enabled farmers to conduct farming activities with minimal labour, fertilizer, and insect damage, allowing them to harvest an additional season</li> <li>• We distinguish ourselves by addressing the neglect of the agriculture sector in financial institutions. With support from the Cargills Group, we overcame challenges related to assessing farmers’ needs and understanding agricultural operations. Through detailed income information, close relationships facilitated by extension officers, and capacity-building programmes, we enhanced farmers’ technical and financial literacy. This comprehensive approach enables us to fully understand and meet the requirements of farmers, contributing to improving their livelihoods</li> </ul>

- In alignment with the government’s objective of promoting the growth of agriculture and dairy production in the nation, we focused on capturing a captive farmer base through group synergies.

### Our performance

We exceeded the 2023 portfolio target by Rs.53 Mn. and achieved a cumulative total of Rs. 841 Mn. by the end of December 2023. This stands as a testament to our unwavering dedication and resilience. Furthermore, we augmented our Agri Lending Book by Rs. 153Mn. in 2023, increasing the lending book from Rs. 688 Mn. in 2022 to Rs.841 Mn., there by surpassing the Rs. 800 Mn. milestone. Additionally, we extended loan services worth Rs. 382 Mn. to over 400 customers throughout the year.

Our commitment to enhancing portfolio quality resulted in the Non-Performing Asset (NPA) portfolio, declining from Rs. 177 Mn. to Rs.164 Mn. recording a 7% reduction YoY. Maintaining the NPA at a lower level of 21% underscores our proactive risk management approach.

Noteworthy achievements include the growth of the Agri and Micro Savings portfolio to Rs. 142 Mn. and the expansion of the Fixed Deposit (FD) portfolio to Rs. 232Mn. in 2023. Moreover, 2,200 new Savings accounts were onboarded and 100+ new FD accounts were opened during the year. These highlight our success in expanding our customer base and fortifying financial relationships. Our exceptional performance is evident in the over 60% growth in the Savings portfolio and the notable 40% increase in the FD portfolio.

### Our initiatives in 2023

- We enhanced the lending and deposit base by strengthening farmer relationships through direct interactions and closely working with the extension officers of the group.
- By leveraging our group synergies, we extended support to farmer groups by providing financial support for technological advancement, purchasing raw materials by linking up with government organisations, providing low-cost funding through private-public partnerships, and encouraging savings.
- We expanded our reach through 24 branches, most located outside the western province. Seven agri-specific branches are located close to vegetable and dairy collection centres in rural locations. Measures were taken to facilitate farmer requirements through these centres by connecting with farmers and gaining an understanding of their requirements.
- Geared up to capture a captive farmer base through group synergies in tandem with the Government initiative to enhance agri and dairy production in the nation.

## Our Business Lines

### Supporting Livelihoods

Our collaboration with the Central Bank of Sri Lanka and the Smallholder Agribusiness Partnership Programme (SAPP) Department underscores our dedication to supporting national and grassroots initiatives in the agricultural sector. Our banking products offer attractive benefits and competitive interest rates, ensuring that our farmers and Micro clients receive financial solutions tailored to their specific needs. The bank-funded lending services (Agri and Micro Finance) are another valuable addition to our product portfolio, contributing to the advancement of our clients.

During 2023 we provided 612 advance facilities totaling Rs.382.5 Mn.

Agri Product Portfolio	No. of Facilities	Value (Rs. Mn)
Term Loan	370	218.41
STL	65	71.32
Current Account	4	7.05
Cash Back	28	20.11
Micro	13	8.18
DAD	103	58.48
SAPP	23	10.24
Saubhagya	6	2.85
<b>Total</b>	<b>612</b>	<b>396.64</b>

Collaborating with our ecosystem, specifically the Cargills group, we implemented a sub-categorisation strategy to elevate the quality of our loan portfolio. This involves classifying each loan service as either ECO or NON-ECO. In 2023, we allocated Rs. 263 Mn. specifically for our ECO system clients. This allocation underscores our commitment to boosting businesses and initiatives aligned with our ECO value chain, emphasising the importance of nurturing a high-quality relationship within the Cargills chain.

Product Sub Categorisation	No. of Facilities	Value (Rs. Mn)
ECO	551	263.95
NON-ECO	61	132.69
<b>Total</b>	<b>612</b>	<b>396.64</b>

### Future outlook

We remain committed to prioritising our captive dairy and agriculture farmer groups, to achieve a lending base of Rs. 1.1 Bn. in 2024. Furthermore, we will enhance our support to existing clients while broadening our reach to external farmer segments. Beyond our core groups, we will enter new market segments, including fisheries and the tea Industry, marking a significant expansion of our service portfolio in the coming year. Moreover, we will be committed to upholding stringent environmental, social, and governance guidelines throughout 2024.

To secure a robust and sustainable Agriculture and Micro portfolio, we will adopt the following strategies:

- Build stakeholder relationships with both internal and external stakeholders, enhance the banking literacy of our customers, and establish transparent communication channels to build trust and strengthen collaboration.
- Offer support for Women and Youth Entrepreneurship in the agriculture sector focusing on inclusivity. Provide customised financial solutions and educational programmes to empower them to thrive in the industry.
- Engage in continuous innovation and develop new agricultural products to serve the evolving needs of our customers and incorporate sustainability, efficiency, and adaptability into our product offerings.
- Create brand awareness and strengthen our brand by focusing on our commitment to sustainable banking practices and product portfolio.
- Revitalise inactive customer relationships by reengaging with dormant clients, proactively comprehending their changing needs, and providing personalised solutions that cater to their specific requirements.
- Invest in capacity-building and training programmes to equip our team with the latest industry knowledge, extend a high-quality service, and support our customers.

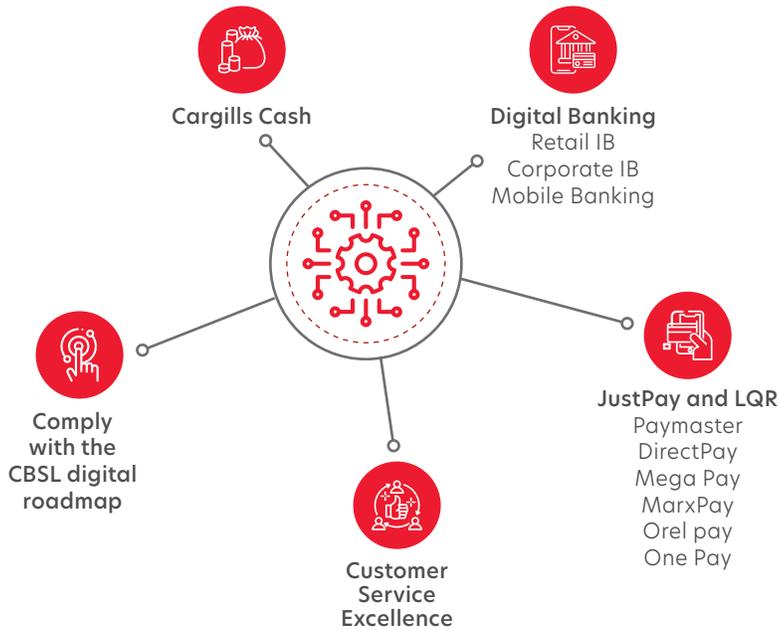
# Our Business Lines

## Digital Channels

We provide a suite of solutions to corporate, SME, and individual clients to conduct their transactions conveniently via digital channels. We strive to enhance financial inclusion by making our services available to all Sri Lankans across the island, 24/7, 365 days a year.

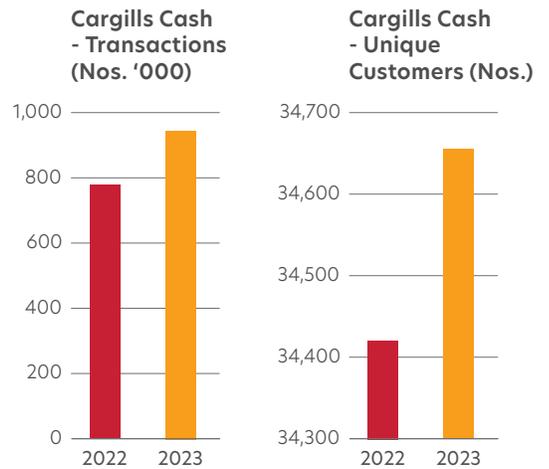
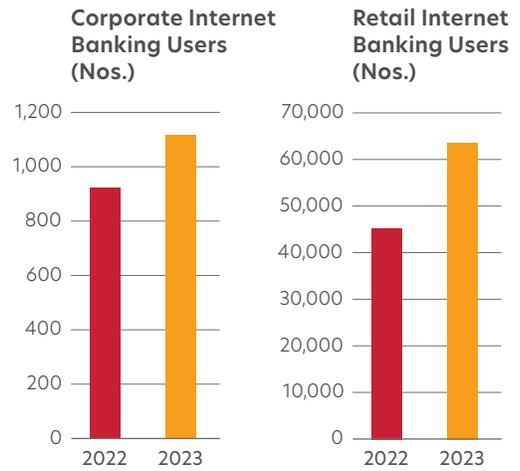
The Bank's most distinctive channel is its agency banking operation, strategically situated within 477 Cargills Retail Food City (CFC) outlets across the nation. Additionally, Cargills Bank stands as a prominent facilitator of digital payments in the country, supporting six aggregator apps that enable seamless digital transactions through JustPay and LankaQR platforms.

### Our digital services



### Performance Highlights

Digital Channels	2022	2023	% Change
Retail internet banking - Total users	45,249	63,565	40.48%
Corporate Internet banking total users	924	1,117	20.89%
Corporate Internet Banking - Transaction Value Growth (%)	26	65	150.00%
Cargills Cash Number of Unique Customers	34,421	34,658	0.69%
Cargills Cash Number of Transactions	779,983	947,203	21.44%



## Our Business Lines

Operating context	Our response
<ul style="list-style-type: none"> <li>The COVID-19 pandemic significantly accelerated the digital transformation of the country's population, fostering widespread adoption of digital banking and payment methods. The surge in demand for digital banking services was visible in the growth observed from 2021 to 2023. Furthermore, following the economic crisis in 2022, digital services became much cheaper than physical alternatives, setting the stage for continuous rapid growth in digital payments</li> <li>However, the surge in scams and related frauds within online payments during 2023, particularly the recurring scammers stealing registration one-time passwords (OTPs), damaged public trust in digital payments. This somewhat impeded the growth momentum of digital transactions across the country</li> <li>Cargills Bank takes the lead in JusPay real-time digital payments system in the country having 6 aggregator apps under its wing as the acquiring bank. Hence, the Bank needed to enhance the security not only of these apps but also of all other digital banking services</li> <li>The inwards remittance market experienced a notable improvement, driven by an ongoing economic recovery after the setbacks in previous years. The demand for swift and cost-effective options for local customers is fueling the rapid growth of this market</li> </ul>	<ul style="list-style-type: none"> <li>Actively engaged in the Central Bank of Sri Lanka (CBSL) regulatory and Lankapay-driven initiatives to mitigate fraudulent transactions on the JustPay platform. This participation was part of a broader effort to promote and enhance digital payments across the country</li> <li>Incorporated improvements into our existing digital payment apps ecosystem and processes in an agile manner, leading to a complete halt in fraudulent transactions by Q4</li> <li>Ensured higher Know Your Customer (KYC) levels when onboarding new customers</li> <li>We played a proactive role in championing the CBSL directive for the compulsory adoption of OTPs in all JustPay transactions from 2024 onwards. This measure aims to significantly reduce scams and fraud in digital payments. Due to our advocacy, CBSL has mandated the entire banking industry to implement this security measure by Q2 of 2024. This development solidifies our leadership position in digital banking and financial services within the country</li> <li>Actively advocated for the mandatory implementation of transaction OTP by the CBSL for all JustPay transactions starting in 2024, to minimise scams and fraud in digital payments in the future. Due to our advocacy, the CBSL has mandated the entire banking industry to implement this security measure by Q2 of 2024. This development solidifies our leadership position in digital banking and financial services within the country</li> <li>Improved the facilitation of withdrawals of inward remittances through the Cargills Food City outlets to improve the inflow of foreign exchange in the country</li> <li>Facilitated easy and convenient money transfers for Sri Lankans nationwide through a hassle-free and user-friendly process using digital apps as well as the Cargills retail Food City outlets</li> </ul>

### Implementations in 2023

- Implemented initiatives to increase awareness of retail online banking, the mobile banking app, and corporate online banking among staff members to increase customer engagement.
- Finalized the scope for revamping the new mobile app, aligning it with both local and global industry standards.
- Implemented extensive security measures to prevent fraud with JustPay aggregators to reduce fraud significantly.
- Finalised the digital transformation plan for banking services at the agent - Cargills Retail Outlets in 2024. This initiative eliminates the requirement for paper slips, offering swift and seamless access to all banking services. The "Bank while you shop" concept will be significantly more straightforward and convenient with the successful implementation of this plan.
- Promoted LankaQR payments during Village-to-Home events in partnership with Cargills Ceylon, to digitise payments in untouched segments of society.

# Our Business Lines

## Digital Channels

### Our Performance

Digital Channels	2023 Target	2023 Actual
Number of Cargills Cash Transactions	938,275	947,204
Collection Account Fee (Rs. Mn)	80	112
Collection Account Partnerships	60	58
Retail online banking new registrations	13,800	18,359
Mobile / Internet Banking (Total Users) - Personal	-	63,608
Retail online banking usage (Rs. Mn)	16,815	15,072
Retail online banking transactional fee (Rs. Mn)	5.4	5.2
Corporate online banking new registrations	200	187
Corporate Internet Banking total users	1,010	1,111
Corporate Internet Banking usage (Rs. Mn)	35,618	45,008
Corporate banking transactional fee income (Rs. Mn)	3.6	22.4

### Future outlook

We anticipate a highly positive future outlook, driven by the revamp of our mobile banking app, the digitalisation of banking transactions at the Cargills Food City, increased Internet banking (IB) penetration following the upgrading of the IB platform, and the growth of Cargills retail-based collection accounts. We will also execute the 2024 digital payments plan mandated by the CBSL.

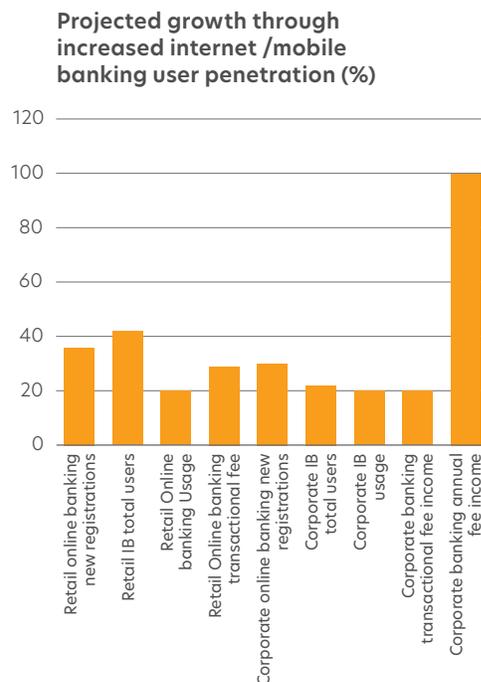
Furthermore, we aim to achieve customer service excellence through our digital systems, particularly through the upgrading of our website, deployment of chatbot/chat services, automation of the customer feedback system (NPS system), and launching a new Business line on the JustPay web.

To augment our revenue across digital services, we will introduce an affordable annual fee for retail internet and mobile banking. Additionally, we will implement a new automated system to control deposit limits, add multiple tiers to deposits at Cargills Food City, launch customised promotions for new collection accounts based on analytics, and adjust the bank charges of JustPay aggregators and collection accounts to be in line with current costs while ensuring they remain the lowest in the industry.

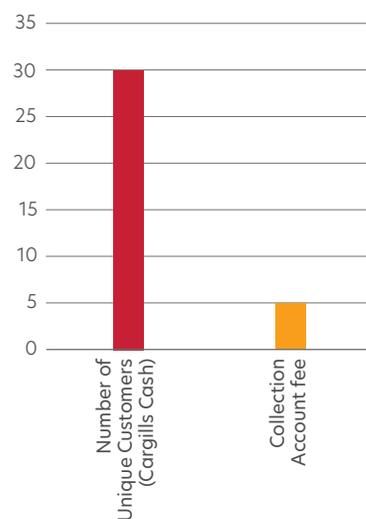
Finally, we aim to achieve profitability for all digital banking and payment services and reduce the risks of scams and fraud by enhancing internal processes and aggregator security preparedness, creating risk profiles, and improving the digital skills and knowledge of our staff members.

This will ensure all our customers can have peace of mind while enjoying faster and cost-effective digital services in future.

### Growth projections for 2024



### Growth projections for 2024 (%)



# Corporate Governance

## Overview

Corporate Governance is the system by which companies are directed and controlled in the proper manner. It provides the structure through which objectives are set and the means of attaining those objectives and monitoring performance are determined. The purpose of Corporate Governance is to facilitate effective relationships between the management and its Board, shareholders, and other stakeholders.

## The Board and Governance Framework

The Chairman and Board of Directors of Cargills Bank consciously strive to maintain and communicate a tone from the top which emphasizes good governance and inspires a positive work ethic in the Bank's employees.

The Cargills Bank Board composition comprise of a balance of skills, expertise and experience, age and gender, as may be considered appropriate and desirable for the operation of the Bank, including a suitable mix of Executive and Non-Executive Directors and Independent Directors in compliance with the requirements set out in the applicable Central Bank of Sri Lanka (CBSL) Directions and Listing rules of Colombo Stock Exchange (CSE) on Corporate Governance.

Profiles of the Board of Directors are provided in pages 22 to 27.

The classification of Directors into Executive, Non-Executive, Independent, Non-Independent as per applicable Directions, Rules and regulations are provided in page 144.

**The Chairman and Board of Directors of Cargills Bank consciously strive to maintain and communicate a tone from the top which emphasises good governance and inspires a positive work ethic in the Bank's employees.**

## Board Sub-Committees

The Board is ultimately responsible for the conduct of the Bank's affairs including Governance. But for greater efficiency, Board Sub-Committees have been set up with formally delegated objectives, authorities, responsibilities and tenure, in the form of Board committee charters or terms of reference. The Board Sub-Committees regularly report to the full Board and do not substitute for the Board and its responsibilities.

Cargills Bank has appointed the following Board Committees reporting to the Board and is in compliance with the Central Bank of Sri Lanka (CBSL) Directions and Listing rules of Colombo Stock Exchange (CSE) on Corporate Governance.

1. Board Integrated Risk Management Committee (BIRMC)
2. Board Nominations and Governance Committee (BNGC)
3. Board Human Resource and Remuneration Committee (BHRC)
4. Board Strategic Planning Committee (BSPC)
5. Board Related Party Transactions Review Committee (BRPTRC)
6. Board Credit Committee (BCC)
7. Board Audit Committee (BAC)

Detailed report of each sub-committee is provided from page 119 to 138.

## Corporate Governance

Directors' attendance at the Board and Sub-Committee Meetings for 2023 is set out in the table below;

Name of the Director	Attended/Eligibility To Attend							
	Board	BAC	BIRMC	BSPC	BHRRC	BNGC	BCC	BRPTRC
V R Page (Chairman) (Retired w.e.f. 21st January 2023)	1/1	-	-	0/0	0/0	1/1	0/0	-
R A Ebell (Chairman)	13/13	10/10	6/6	2/2	4/4	6/6	-	4/4
K B S Bandara (MD/CEO)	13/13	-	6/6	2/2	-	-	-	-
P S Mathavan (ED) (Retired w.e.f. 21st January 2023)	1/1	-	-	0/0	-	-	-	-
Ms. W Y R Fernando (Resigned w.e.f. 27th October 2023)	9/11	-	3/3	1/1	-	6/6	7/7	3/3
Ms. M M Page	13/13	1/1	-	2/2	-	-	8/8	-
Y Kanagasabai	11/13	9/9	6/6	2/2	1/3	-	-	0/0
P E A B Perera	13/13	10/10	-	2/2	3/3	5/5	8/8	4/4
H A Pieris	11/12	7/8	-	2/2	4/4	4/5	6/7	-
R A Jayawardena	7/9	-	-	2/2	1/2	-	-	-
Ms. S Gnanapragasam	7/8	-	3/3	1/2	1/1	-	1/1	2/2
A Herath	2/2	2/2	1/1	1/1	0/0	0/0	-	-

### Annual Corporate Governance Report of Cargills Bank PLC

#### For the year ended 31 December 2023

In terms of Section 46 (1) of the Banking Act No. 30 of 1988 (as amended), the Monetary Board has been empowered to issue Directions to Licensed Commercial Banks, regarding the manner in which the business of such banks is to be conducted, in order to ensure the soundness of the Banking System. In the exercise of the powers conferred by the above Section, the Monetary Board has issued Banking Act Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka'.

The rules applicable and degree of compliance of Cargills Bank to the rules of Banking Act Direction No. 11 of 2007 on Corporate Governance as at 31.12.2023 are provided below. The below mentioned numbering aligns with numbering in "Section 3" of the Banking Act Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka. Sections 1 and 2 are not applicable for this document.

Section No.	Rule	Degree of Compliance - As at 31.12.2023
3 (1)	Responsibilities of the Board	
3 (1) (i)	The Board shall strengthen the safety and soundness of the Bank by ensuring the implementation of the following:	
	a) Approve and oversee the Bank's strategic objectives and corporate values	Complied with.  Approving, overseeing and monitoring business strategy and execution of the strategic objectives and adherence to corporate values and policies are addressed by the Board. The Board's views relating to the above are communicated throughout the Bank.

## Corporate Governance

Section No.	Rule	Degree of Compliance - As at 31.12.2023
	b) Approve the overall business strategy of the Bank including Risk Policy and Risk Management Procedures and Mechanisms with measurable goals, for at least the next three years.	<p>Complied with.</p> <p>The overall business strategy was approved by the Board in the Bank's Business Plan for FY 2024 - 2026. Risk Management Policies and Risk Management Procedures and Mechanisms with measurable goals are available.</p>
	c) Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently	<p>Complied with.</p> <p>Board approved Risk Frameworks, Policies, Key Risk Indicators (KRIs) and monthly and quarterly risk monitoring and reporting mechanisms are in place.</p> <p>The Board Integrated Risk Management Committee is responsible for overseeing the implementation of the risk management function.</p>
	d) Policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers	<p>Complied with.</p> <p>A Board approved Communication Policy is in place.</p>
	e) Review the adequacy and the integrity of the Bank's internal control systems and management information systems	<p>Complied with.</p> <p>The Internal Audit Division has reviewed the adequacy and integrity of the internal Control system regularly and reported findings to the Board Audit Committee and implement the corrective measures. The Chairman of the BAC provided the update to the Board.</p> <p>Furthermore, the Internal Audit Department carried out the Information Systems (IS) audits as per the approved audit plan by the BAC.</p>
	f) Identify and designate Key Management Personnel, as defined in the International Accounting Standards	<p>Complied with.</p> <p>The Bank has identified and designated Key Management Personnel (KMP) as per LKAS 24.</p> <p>Board approval has been obtained for the KMPs.</p>
	g) Define the area of authority and key responsibilities for the Board Directors themselves and for the Key Management Personnel	<p>Complied with.</p> <p>The Bank has a Board approved Code of Corporate Governance which includes the roles and responsibilities of the Directors and KMPs.</p> <p>Areas of authority and responsibilities for members of the KMPs are stated in the Job Descriptions of each member.</p>

## Corporate Governance

Section No.	Rule	Degree of Compliance - As at 31.12.2023
	h) Ensure appropriate oversight of the affairs of the Bank by Key Management Personnel	<p>Complied with.</p> <p>The Board has formulated the following subcommittees to exercise appropriate oversight of the affairs of the Bank by the Key Management Personnel, that is consistent with the Board policy.</p> <ul style="list-style-type: none"> <li>• Board Audit Committee</li> <li>• Board Human Resources and Remuneration Committee</li> <li>• Board Nominations and Governance Committee</li> <li>• Board Integrated Risk Management Committee</li> <li>• Board Credit Committee</li> <li>• Board Strategic Planning Committee</li> <li>• Board Related Party Transactions Review Committee</li> </ul>
	i) Periodically assess the effectiveness of the Board of Directors' own governance practices	<p>Complied with.</p> <p>An evaluation specifically designed to cover this direction was completed by the Directors for the purpose of evaluating the effectiveness of governance practices in 2023. This is done on an annual basis and appropriate steps are taken to strengthen the governance practices.</p>
	j) Ensure an appropriate succession plan for Key Management Personnel	<p>Complied with.</p> <p>Succession plan was reviewed by the Board Human Resource and Remuneration Committee and approved by the Board.</p>
	k) Regular meetings with the Key Management Personnel	<p>Complied with.</p> <p>The Board sub committees have regular meetings with the Key Management Personnel on matters coming within their remit.</p> <p>Additionally, KMPs are called to explain matters arising from their respective areas when required at Board meetings.</p>

## Corporate Governance

Section No.	Rule	Degree of Compliance - As at 31.12.2023
	l) Understand the regulatory environment and maintain relationship with regulators	<p>Complied with.</p> <p>The Board collectively, as well Directors individually, recognise their duties to comply with laws and regulations which are applicable to the Bank.</p> <p>The Compliance Report includes an update on new laws and regulations which is provided monthly to the Board.</p>
	m) Exercise due diligence in the hiring and oversight of External Auditors	<p>Complied with.</p> <p>As per the Audit Committee Charter, the Audit Committee has the primary responsibility for making the recommendation on the appointment, re-appointment or termination of the external auditors in line with professional standards and regulatory requirements.</p> <p>Further, the Audit Committee monitors and reviews the external auditor's independence, objectivity and the effectiveness of the audit process taking into account relevant professional and regulatory requirements.</p> <p>The External Auditors submit a statement annually confirming their independence as required by Section 163 (3) of the Companies Act No. 07 of 2007 in connection with the external audit.</p>
3 (1) (ii)	The Board shall appoint the Chairman and the Chief Executive Officer (CEO)	<p>Complied with.</p> <p>Positions of the Chairman and the Chief Executive Officer (CEO) are separated. The functions and responsibilities of the Chairman and the CEO are defined in line with Direction 3(5) of these Directions.</p> <p>The Bank has a Board approved Code of Corporate Governance which sets out the roles and responsibilities and the separation of duties/functions of the Chairman and CEO.</p>
3 (1) (iii)	The Board shall meet regularly	<p>Complied with.</p> <p>The Board usually meets at monthly intervals, but meets more frequently whenever it is needed.</p> <p>The Board met 13 times during the year.</p>

## Corporate Governance

Section No.	Rule	Degree of Compliance - As at 31.12.2023
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	<p>Complied with.</p> <p>All Board members are given an equal opportunity in this regard where proposals relate to the promotion of business and the management of risks of the Bank. Directors could thus submit proposals for inclusion in the agenda on matters relating to the business of the Bank or any other matter pertinent to the operation of the Bank.</p>
3 (1) (v)	The Board shall ensure notice of at least 7 days for a regular Board meeting and for all other Board Meetings, adequate notice may be given	<p>Complied with.</p> <p>Board meeting dates are agreed at the beginning of the year. The Agenda, together with associated papers are sent to Board members at least 7 days prior to the meeting.</p>
3 (1) (vi)	Action on Directors who have not attended at least two-thirds of the meetings	<p>Complied with.</p> <p>All Directors have attended at least two-thirds of meetings held during 2023. Further, no Director has been absent from three consecutive regular Board meetings during 2023.</p>
3 (1) (vii)	Appoint a Company Secretary and set out clear responsibilities and ensure the secretariat services to the Board and shareholders are carried out in line with statutes and applicable regulations.	<p>Complied with.</p> <p>An Attorney-at-Law functions as the Secretary of the Board and complies with the requirements under the Banking Act No. 30 of 1988. She has ensured that proper Board procedures are followed and that applicable rules and regulations are adhered to.</p>
3 (1) (viii)	All Directors to have access to advice and services of the Company Secretary	<p>Complied with.</p> <p>As set out in the Bank's Code of Corporate Governance, all Board members have full access to advice and assistance of the Company Secretary to ensure that proper Board procedures are followed and all applicable rules and regulations are complied with.</p>
3 (1) (ix) and (x)	Maintain the minutes of Board Meetings with sufficient detail and serve as a reference for regulators and supervisory authorities	<p>Complied with.</p> <p>Minutes of Board meetings are maintained in sufficient detail to satisfy the requirements of this direction by the Company Secretary, and are open for inspection by any Director.</p> <p>The minutes are read together with the corresponding Board papers, which supplement information in the minutes.</p>

## Corporate Governance

Section No.	Rule	Degree of Compliance - As at 31.12.2023
3 (1) (xi)	Seeking independent professional advice in appropriate circumstances	<p>Complied with.</p> <p>This requirement is included in the Code of Corporate Governance of the Bank and is used when required by the Directors.</p>
3 (1) (xii)	Avoid conflicts of interests, or the appearance of conflicts of interest due to commitments to other organization and related parties	<p>Complied with.</p> <p>Directors make declarations of interest when they join the Board and annually thereafter. They also update their declaration quarterly.</p> <p>Conflicts of interest (if any) are addressed based on this information.</p> <p>The Board has taken steps to ensure that conflicts and potential conflicts of interest of Directors are disclosed to the Board by way of a self-declaration at the Board meeting.</p> <p>Directors do not participate in making decisions on matters, in which they have an interest and thus avoid conflicts of interest with the activities of the Bank.</p>
3 (1) (xiii)	Formal schedule of matters to ensure the direction and control of the Bank.	<p>Complied with.</p> <p>This is included in the Bank's Code of Corporate Governance.</p>
3 (1) (xiv)	Inform the Director of Bank Supervision in a possible insolvency	No such situation has arisen during the year.
3 (1) (xv)	The Board shall ensure the Bank is capitalized at levels as required by the Monetary Board	<p>Complied with.</p> <p>The Monetary Board has granted an extension to Cargills Bank until 31st December 2025 to meet the minimum capital requirement stipulated by the CBSL.</p>
3 (1) (xvi)	Publish Corporate Governance report	<p>Complied with.</p> <p>This report serves the said requirement.</p>
3 (1) (xvii)	Adopt a scheme of self- assessment of Directors	<p>Complied with.</p> <p>The Board has adopted a scheme of self-assessment undertaken by Directors annually, and maintains records of same with the Company Secretary.</p>

## Corporate Governance

Section No.	Rule	Degree of Compliance - As at 31.12.2023
3 (2)	The Board's Composition	
3 (2) (i)	The Board shall comprise not less than 7 and not more than 13 Directors	Complied with.  There were 9 Directors on the Board as at 31st December 2023.
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.  During the year, the Chairman Mr. Ranjit Page and Executive Director, Mr. Prabhu Mathavan retired from the Board having completed nine years.  The period of service of all Directors is under nine years.
3 (2) (iii)	The number of Executive Directors does not exceed one- third of the number of Directors of the Board	Complied with.  As at 31st December 2023, the Board consisted of nine Directors of which one was an Executive Director. All other Directors are Non- Executive.
3 (2) (iv)	The Board shall have at least three Independent Non- Executive Directors or one third of the total number of Directors, whichever is higher	Complied with.  As at 31st December 2023, the Board had 6 Independent Non- Executive Directors, which is over one-third of the total number of Directors. The following individuals are Independent, Non- Executive Directors.  1. Mr. Richard Ebell 2. Mr. Yudhishtan Kanagasabai 3. Mr. Buwaneka Perera 4. Mr. Ravindra Jayawardena 5. Mrs. Shanti Gnanapragasam 6. Mr. Arjuna Herath
3 (2) (v)	Alternate Director is appointed to represent an Independent Director to satisfy the required criteria	Not Applicable.  No alternate Directors were appointed for the year 2023.
3 (2) (vi)	The Bank shall have a process for appointing Independent Directors	Complied with.  Whenever such need arises the Directors nominate names of eminent professionals or academics from various disciplines to the Nominations & Governance Committee who consider their profiles and recommend the suitable candidate to the Board.  The Bank has a Board approved Policy for appointment of new Directors.

## Corporate Governance

Section No.	Rule	Degree of Compliance - As at 31.12.2023
3 (2) (vii)	Quorum of the Board Meetings includes more than 50% of the Directors and out of this quorum more than 50% should include Non-Executive Directors	Complied with.  All Board meetings held during 2023 were duly constituted with more than 50% of the Directors present being Non-Executive Directors.
3 (2) (viii)	The composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the Annual Corporate Governance report	Complied with.  This report serves the said requirement.  The composition of the Board as at 31 st December 2023 is as follows: 1. Mr. Richard Ebell - Chairman/INED 2. Mr.Senarath Bandara -MD/CEO 3. Ms. Marianne Page-NED 4. Mr.Yudhishtan Kanagasabai-INED 5. Mr. Buwaneka Perera- INED 6. Mr. Asoka Pieris- NED 7. Mr. Ravindra Jayawardena - INED 8. Mrs. Shanti Gnanapragasam- INED 9. Mr. Arjuna Herath-INED  Profiles are given on pages 22 to 27.
3 (2) (ix)	The procedure for the appointment of new Directors to the Board	Complied with.  The Bank has a Board approved Policy for appointment of new Directors and new appointments to the Board are based on the recommendations made by the Board Nominations & Governance Committee.
3 (2) (x)	All Directors appointed to fill a casual vacancy are subject to election by shareholders at the first General Meeting after their appointment	Complied with.  The process is followed at Annual General Meetings where required.
3 (2) (xi)	Proper procedure to be followed for resignation or removal of a Director	Complied with.  Ms. Ruvini Fernando resigned due to professional commitments, whilst Mr. Ranjit Page and Mr. Prabhu Mathavan retired from the Board after serving 9 years on the Board.

## Corporate Governance

Section No.	Rule	Degree of Compliance - As at 31.12.2023
3 (2) (xii)	A process to identify whether a Director or an Employee of the Bank is appointed, elected or nominated as a Director of another bank	Complied with.  Declarations signed by Directors on quarterly and annual basis will identify any issues arising. None of the Directors are Directors or employees of any other bank.  Employees are prohibited from taking up any other appointment according to their Letters of Appointment.
3 (3)	<b>Criteria to assess the fitness and propriety of Directors</b>	
3 (3) (i)	Age of a person who serves as Director does not exceed 70 years	Complied with.
3 (3) (ii)	Directors of the Bank shall not hold Directorships in more than 20 companies/ entities/ institutions inclusive of subsidiaries or associate companies of the Bank	Complied with.  No Director holds Directorship in more than 20 companies/ entities/ institutions inclusive of subsidiaries or associate companies of the Bank.
3 (4)	<b>Management functions delegated by the Board</b>	
3 (4) (i)	The Directors shall understand the delegation arrangements in place	Complied with.  The Board takes ultimate responsibility for activities of the Bank.  The Board has delegated certain responsibilities to Board Sub Committees ( refer 3 (1) (i) (h) ) and Management Committees as set out in their respective Terms of References (TOR), and Key Management Personnel through policies and procedures.
3 (4) (ii)	Extent of delegation to be within appropriate limits	Complied with.  The delegated responsibilities to Board Sub Committees are set out in their respective TORs. These TORs have been approved by the Board.
3 (4) (iii)	The Board shall review the delegation processes in place on a periodic basis	Complied with.
3 (5)	<b>The Chairman and CEO</b>	
3 (5) (i)	The roles of Chairman and CEO shall be separate and not be performed by the same individual	Complied with.  The roles of Chairman and CEO are separate and not performed by the same individual.

## Corporate Governance

Section No.	Rule	Degree of Compliance - As at 31.12.2023
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	<p>Complied with.</p> <p>Mr. Ranjit Page, Non Independent Non Executive Director, was Chairman of the Bank until 21st January 2023. During this period Mr. Richard Ebell, Independent Non Executive Director functioned as the Senior Director of the Board.</p> <p>Mr. Richard Ebell who was appointed as Chairman w.e.f. 21st January 2023 is an Independent Non Executive Director and as such there is no designated Senior Director as at 31st December 2023.</p>
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	<p>Complied with.</p> <p>The Board is aware that there is no relationship, whether financial, business or family or any other material/relevant relationship between the Chairman and the CEO.</p> <p>The Board is also aware that there is a family, financial and business relationship between Mr. Ranjit Page (Chairman until 21st January 2023) and Ms. Marianne Page.</p> <p>Mr. Ranjit Page, Mr. Yudhishtan Kanagasabai and Mr. Asoka Pieris were Directors of Cargills (Ceylon) PLC and Cargills Retail (Private) Limited, until Mr. Yudhishtan Kanagasabai resigned from the Boards of the said companies on 28th July 2023.</p>
3 (5) (iv), (vi),(vii), (viii)	The role of Chairman to be in line with the duties and responsibilities set out in the Directive	<p>Complied with.</p> <p>The duties and responsibilities of the Chairman are included in the Bank's Code of Corporate Governance.</p> <p>The Board's annual assessment process includes an area to measure the effectiveness of the Chairman, in order to facilitate the effective discharge of the responsibilities of the Chairman.</p>
3 (5) (v)	Formal Agenda is approved by the Chairman prior to circulation by the Secretary	<p>Complied with.</p> <p>The Company Secretary circulates the formal agenda after obtaining the approval of the Chairman.</p>

## Corporate Governance

Section No.	Rule	Degree of Compliance - As at 31.12.2023
3 (5) (ix)	The Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever	Complied with.  Chairman is an Independent Non-Executive Director. The Chairman does not directly get involved in the supervision of key management personnel or any other executive duties.
3 (5) (x)	The Chairman shall ensure effective communication with shareholders and that the views of shareholders are communicated to the Board	Complied with.  At general and investor meetings, shareholders are given the opportunity to take up matters for which clarification is required. These matters are adequately clarified by the Chairman and/or CEO and/or any other officer.
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.  CEO functions as the executive in charge of the day to day management of the Bank's operations and business supported by the members of the Corporate Management.
3 (6)	<b>Board Appointed Committees</b>	
3 (6) (i)	Establishing Board Sub Committees, their functions and reporting	Complied with.  The Board has formed sub committees to exercise appropriate oversight of the affairs of the Bank ( refer 3 (1) (i) (h) ).  Each committee has a Secretary to arrange the meetings and maintain minutes.  Board Committees reports directly to the Board.  The Annual Report includes individual reports of each committee. Such reports include summary of its duties, roles and performance.

## Corporate Governance

Section No.	Rule	Degree of Compliance - As at 31.12.2023
3 (6) (ii)	Audit Committee (BAC)	
	a) The Chairman of the Committee shall be an Independent Non-Executive Director (INED) and possess qualifications and related experience	<p>Complied with.</p> <p>The Former Chairman Mr. Richard Ebell and The current Chairman Mr Arjuna Herath are Independent Non-Executive Directors and possess the required qualifications. Both are Fellow of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Chartered Institute of Management Accountants (CIMA), UK. Mr Ebell holds a Diploma in Marketing from the Chartered Institute of Marketing (CIM), UK.</p> <p>Their profiles including related experience are provided on pages 22 to 27.</p>
	b) All members of the Committee shall be Non-Executive Directors (NED)	<p>Complied with.</p> <ol style="list-style-type: none"> <li>1. Mr. Arjuna Herath, Chairman W.E.F. from 15th November 2023</li> <li>2. Mr. Richard Ebell, Chairman of the BAC up to 14th November 2023</li> <li>3. Mr. Buwaneka Perera</li> <li>4. Mr. Yudhishtan Kanagasabai W.E. F 25th January 2023</li> <li>5. Ms. Marianne Page resigned on 25th January 2023</li> <li>6. Mr. Asoka Pieris resigned on 11th November 2023</li> </ol> <p>All members are Non-Executive Directors.</p>
	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	<p>Complied with.</p> <p>The Committee has recommended re-appointment of the External Auditors the fees payable to the auditors, implementation of the Central Bank guidelines, application of the relevant accounting standards and compliance with other statutory requirements.</p>
	d) Review and monitor the External Auditors' on their independence, and objectivity and effectiveness of the audit processes	<p>Complied with.</p> <p>The BAC had discussed with the External Auditors the scope and nature of the audit, independence of the Auditors and the conduct of the audit in accordance with SLAuS.</p> <p>The Committee received a declaration from KPMG as required by the Companies Act No. 7 of 2007, confirming that they do not have any relationship or interest in the Company, which may have a bearing on their independence.</p>

## Corporate Governance

Section No.	Rule	Degree of Compliance - As at 31.12.2023
	e) Develop and implement a policy on the engagement of an External Auditor to provide non-audit services in accordance with relevant regulations	<p>Complied with.</p> <p>A policy on non-audit related services was developed and approved by the Board. Compliance with the policy is monitored by the Board Audit Committee.</p>
	f) Discuss and finalise the nature and scope of the audit, with the External Auditors	<p>Complied with.</p> <p>The Committee met with the external auditors to discuss and finalise the scope and to ensure that the Bank is in compliance with the relevant Directions in relation to corporate governance and internal controls over financial reporting. Further, ensured that the preparation of the financial statements for external purposes in accordance with relevant accounting principles and reporting obligations.</p>
	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	<p>Complied with.</p> <p>Quarterly Financial Statements and year-end Financial Statements are circulated to the members of the Audit Committee. Discussions take place at committee meetings regarding such Financial Statements prior to a recommendation being made to the Board for their adoption.</p> <p>The Audit Committee reviews Financial Statements for disclosures, major judgmental areas, changes in accounting policies and practices, validity of the going concern assumption, compliance with relevant accounting standards and other legal requirements, and in respect of the Audited Financial Statements, any significant adjustments arising from audit.</p>
	h) Discuss independently without presence of executive management with the External Auditors any issues with relation to the audit	<p>Complied with.</p> <p>The Audit Committee met the external auditors twice during the year without executive management present.</p>
	i) Review the External Auditors' management letter and the management's response thereto	Complied with.
	j) Internal Audit function of the Bank review the adequacy of the scope, functions and resources of the Internal Audit Department	<p>Complied with.</p> <p>The Internal Audit scope, functions and resource availability has been reviewed and the Internal Audit Plan has been approved by the Board Audit Committee.</p>

## Corporate Governance

Section No.	Rule	Degree of Compliance - As at 31.12.2023
	<ul style="list-style-type: none"> <li>Review the Internal Audit program and results of the Internal Audit Process.</li> </ul>	<p>Complied with.</p> <p>The Board Audit Committee has reviewed the internal audit reports and directed that necessary action be taken where necessary to implement audit recommendations.</p>
	<ul style="list-style-type: none"> <li>Review the appraisal and performance of Head of Audit and Senior staff in Internal Audit.</li> </ul>	<p>Complied with.</p> <p>Performance of the Head of Internal Audit and Senior Staff of the Department for year 2023 was reviewed by the Board Audit Committee.</p>
	<ul style="list-style-type: none"> <li>Recommend any appointment or termination of Head of Audit and Senior staff in Internal Audit.</li> </ul>	<p>Complied with</p> <p>The BAC was part of the process to recruit a new Head of Internal Audit and Senior staff during the year.</p> <p>No terminations during the year.</p>
	<ul style="list-style-type: none"> <li>Committee is apprised of resignation of senior staff in Internal Audit department.</li> </ul>	<p>Complied with.</p> <p>Resignation of Senior staff in Internal Audit department had been informed to the Committee.</p>
	<ul style="list-style-type: none"> <li>Internal Audit is independent of the function it Audits.</li> </ul>	<p>Complied with.</p> <p>Head of Internal Audit reports functionally to the Board Audit Committee that ensures independence of Internal Audit and its functions.</p>
	k) Consider major findings of internal investigations and management's responses thereto	<p>Complied with.</p> <p>Significant findings on investigations carried out by the Internal Auditors along with the responses of the management are tabled and discussed at Audit Committee Meetings.</p>
	l) The Committee would have at least two meetings with the External Auditors without the Executive Directors being present	<p>Complied with.</p> <p>The Audit Committee met the external auditors twice during the year without Executive Directors present.</p>
	m) Terms of Reference of the Committee	<p>Complied with.</p> <p>Audit Committee charter ensures authority to investigate matters, resource requirements to do so, access to full information and authority to obtain external advice if necessary.</p>

## Corporate Governance

Section No.	Rule	Degree of Compliance - As at 31.12.2023
	n) Regular committee meetings	Complied with.  The Audit Committee met ten times during the year.
	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.
	p) The Secretary of the Committee may be the Company Secretary or the Head of the Internal Audit function	Complied with.  The Head of Internal Audit acts as the Secretary to the Audit Committee and maintains detailed minutes of all meetings.
	q) Review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters	Complied with.  The Bank has a Whistle-blowing Policy approved by the Audit Committee and the Board of Directors.  A process and proper arrangements are in place to raise concerns in confidence, conduct fair and independent investigations and appropriate follow-up action.
3 (6) (iii)	<b>Board Human Resources and Remuneration Committee (BHRC)</b>	
	a) The Committee shall have a policy to determine the remuneration relating to Directors, CEO and Key Management Personnel of the Bank	Complied with.  HR and Remuneration policy for Directors, CEO and KMPs including all employees has been reviewed by the BHRC and approved by the Board.
	b) The Committee shall set documented goals and targets for the Directors, CEO and the Key Management Personnel	Complied with.
	c) The Committee shall evaluate the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives	Complied with.  A Standard Performance Evaluations Process has been completed for 2023 which is linked to year end remuneration and performance based incentives of the CEO and KMPs.
	d) The CEO shall be present at meetings of the committee, except when matters relating to the CEO are being discussed	Complied with.

## Corporate Governance

Section No.	Rule	Degree of Compliance - As at 31.12.2023
3 (6) (iv)	Board Nominations Governance Committee (BNGC)	
	<p>a) Implement a procedure to select/ appoint new Directors, CEO and Key Management Personnel</p> <p>b) Consider and recommend (or not recommend) the re- election of current Directors</p>	<p>Complied with.</p> <p>The Policy on selecting and appointing new Directors/ CEO/KMPs has been approved by the Board Nominations &amp; Governance Committee and approved by the Board.</p> <p>The BNGC recommended the re-election of current Directors.</p> <p>The Board approved the re-designation of the Board Nominations Committee (BNC) as Board Nominations &amp; Governance Committee (BNGC) and the scope of the Committee was expanded to cover the requirements of Rule 9.11 of the Listing Rules of the Colombo Stock Exchange w.e.f. 15th November 2023. The Terms of Reference of the BNGC were accordingly adopted w.e.f. the said date.</p>
	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	<p>Complied with.</p> <p>The BNGC sets the criteria such as qualifications, experience and key elements required for eligibility to be considered for appointment or promotion to the post of CEO and KMPs.</p>
	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	<p>Complied with.</p> <p>Affidavits have been obtained and all appointments have been approved as fit and proper by CBSL.</p>
	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	<p>Complied with.</p> <p>The BNGC peruses the profiles and recommends suitable candidates to the Board to replace retiring Directors and KMPs,as required.</p> <p>The Bank has a succession plan for KMPs that was presented to the BNGC and approved by the Board.</p>

## Corporate Governance

Section No.	Rule	Degree of Compliance - As at 31.12.2023
	f) The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors	<p>Complied with.</p> <p>The Chairman of the Committee is an Independent Non Executive Director.</p> <p>The Committee comprises of 4 Non Executive Directors, 3 of whom are independent as at 31st December 2023.</p> <p>Composition of the Committee as at 31st December 2023 is as follows:</p> <ol style="list-style-type: none"> <li>1. Mr. Buwaneka Perera - Committee Chairman (INED)</li> <li>2. Mr. Richard Ebell (INED)</li> <li>3. Mr. Asoka Pieris (NED)</li> <li>4. Mr. Arjuna Herath (INED)</li> </ol>
3 (6) (v)	<b>Board Integrated Risk Management Committee (BIRMC)</b>	
	a) Composition of Board Integrated Risk Management Committee (BIRMC)	<p>Complied with.</p> <p>Composition of the Committee as at 31st December 2023 is as follows:</p> <ol style="list-style-type: none"> <li>1. Yudhishtan Kanagasabai Chairman (Independent-Non Executive Director)</li> <li>2. Richard Ebell (Independent Non-Executive Director)</li> <li>3. Shanti Gnanapragasam (Independent Non-Executive Director)</li> <li>4. Arjuna Herath (Independent Non-Executive Director)</li> <li>5. Senarath Bandara (Managing Director / Chief Executive Officer)</li> <li>6. Prabhu Mathavan (Chief Operating Officer)</li> <li>7. Chandradasa Amarasinghe (DGM Retail, Business and SME Banking)</li> <li>8. Wimal Karunaarachchi (Head of Risk)</li> <li>9. Gayantha Wijekoon (Compliance Officer)</li> </ol> <p>Head of Risk of the Bank acted as the Secretary of the Committee while Corporate Management personnel participated by invitation when required.</p>

## Corporate Governance

Section No.	Rule	Degree of Compliance - As at 31.12.2023
	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	<p>Complied with.</p> <p>The IRM framework, credit risk, liquidity risk, interest rate risk, operational risk, foreign exchange risks, strategic risk, reputation risk, capital adequacy planning and management, financial position and compliance reviews are discussed and risk assessments were presented to the BIRMC on a quarterly basis. These risks are captured through a KRI dashboard which is presented to the Board on a monthly basis.</p> <p>The Assets and Liabilities Committee (ALCO) reviewed the risks such as market and liquidity risk monthly and key matters were discussed at the BIRMC on a quarterly basis. Key Operational Risk Indicators have been developed (covering Risk Register, Operational Loss reporting and KRI ) and presented to the BIRMC.</p> <p>The Risk Management team updates the Board monthly, highlighting key macro and strategic risks observed during the month.</p>
	c) Review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset-Liability Committee	<p>Complied with.</p> <p>Review of adequacy and effectiveness on all management level risk related committees such as ALCO, ERM and ECC have been carried out by BIRMC.</p>
	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	<p>Complied with.</p> <p>The relevant committees reviewed the KRI dashboard and specifically discussed indicators at level beyond approved internal limits.</p>
	e) Meet at least quarterly to assess all aspects of risk management including updated business continuity plans	<p>Complied with.</p> <p>The committee met 6 times during 2023.</p>
	f) Take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions	<p>Complied with.</p> <p>The Terms of Reference of the BIRMC which was reviewed and adopted by the Board has special provisions to cover this.</p>
	g) Submit a risk assessment report within a week of each meeting to the Board	<p>Complied with.</p> <p>The risk assessment reports from BIRMC are presented to the next Board meeting, by way of Board Committee minutes and reports within reasonable time lines.</p>

## Corporate Governance

Section No.	Rule	Degree of Compliance - As at 31.12.2023
	h) Establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated Compliance Officer selected from Key Management Personnel shall carry out the compliance function and report to the committee periodically	Complied with.  Compliance function is in place and report to the BIRMC. The Compliance Officer submits compliance papers and reports to the BIRMC periodically and to the Board on a monthly basis.
3 (7)	<b>Related Party Transactions</b>	
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 including related parties	Complied with.  The Board approved Related Party Transactions (RPT) Policy is in place which has set the procedure to be followed when transacting with Related Parties.  The Bank has a process to identify Related Parties. The list of Bank's Related Parties are reviewed on a quarterly basis and the list is uploaded to the Bank's Intranet.  Monthly confirmation is obtained from the relevant branches and departments confirming that they have complied with the Related Party Transactions Policy.  Additionally, the Compliance department conducts periodic reviews of the process and transactions to ensure that the RPT policy is being adhered to.
3 (7) (iii)	The Board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3 (7) (i) above, in a manner that would grant such parties 'more favourable treatment' than that accorded to other constituents of the Bank carrying on the same business	Complied with.  Bank's Related Parties are identified, reviewed and updated to the Bank's Intranet.  The Bank is required to adhere to Bank's RPT policy and procedures. Related Party Transactions are reviewed by the Bank's Board Related Party Transactions Review Committee and escalated to the Board for approval where necessary.  The process ensures the Bank does not grant Related Parties of the Bank "more favourable treatment".

## Corporate Governance

Section No.	Rule	Degree of Compliance - As at 31.12.2023
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.  This requirement has been included in the Bank's RPT policy and procedures to ensure compliance to the Direction.
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 Accommodation was granted.
3 (8)	<b>Disclosures</b>	
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)	<b>The Board shall ensure that the following minimum disclosures are made in the Annual Report</b>	
	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 section on 'Directors' Responsibility for Financial Reporting' and 'CEO's and CFO's Responsibility for Financial Reporting' on pages 177 and 178 & 183 to 184 respectively.

## Corporate Governance

Section No.	Rule	Degree of Compliance - As at 31.12.2023
	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	<p>Complied with.</p> <p>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 pages 179 and 180.</p>
	c) The external auditor's report on the effectiveness of the Internal Control Mechanism referred to in Direction 3 (8) (ii) (b) above	<p>Complied with.</p> <p>The Bank has obtained an Assurance Report from the External Auditors on the effectiveness of the Internal Control Mechanism. Refer pages 181 and 182.</p>
	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	<p>Complied with.</p> <p>Profiles of Directors are given on pages 22 to 27.</p> <p>Directors transactions with the Bank and their remunerations have been disclosed in the Note 51 to the Financial Statements on pages 262 to 266.</p>
	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	<p>Complied with.</p> <p>The net accommodation granted and the net accommodation granted as a percentage of the Bank's regulatory capital is disclosed in Note 51 to the Financial Statements on pages 262 to 266.</p>
	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	<p>Complied with.</p> <p>The remuneration of the Bank's Key Management Personnel and transactions with the Bank's Key Management Personnel as defined by LKAS 24 have been disclosed in Note 51 to the Financial Statements on pages 262 to 266.</p> <p>In addition to the KMP's identified above, the Bank also considers selected members of corporate management as other Key Management Personnel, in order to comply with the Corporate Governance Direction. Total emoluments received, deposits made and accommodation obtained as at 31 December 2023 by the other Key Management Personnel (selected members of corporate management) amounted to Rs. 173.6 Mn, Rs. 38.7 Mn and Rs. 45.4 Mn, respectively.</p>

## Corporate Governance

Section No.	Rule	Degree of Compliance - As at 31.12.2023
	g) External Auditors' report on compliance with Corporate Governance Directions	Complied with.  A Factual Findings Report from the External Auditor's 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-compliance	Complied with.  Refer statement of 'Directors' Responsibility for Financial Reporting' on 177 to 178.
	i) A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision to be disclosed to the Public	There were no regulatory lapses that have been pointed out by the Director of Bank Supervision to be disclosed to the Public as at 31st December 2023.

# Corporate Governance

## Colombo Stock Exchange (CSE) Disclosures relating to Corporate Governance

Cargills Bank was listed in CSE on 09 January 2024. Annual Report disclosures relating to Section 7.10 and section 9 of the CSE listing Rules [previous Corporate Governance requirements which were in force prior to 1st October 2023] shall continue to be effective until 1st October 2024. Given below are the disclosure rules applicable and the levels of compliance to the said rules as at 31.12.2023.

Section No.	Rule	Degree of Compliance - As at 31.12.2023
7.10	Compliance  Statement confirming compliance with the Corporate Governance Rules and if unable to confirm compliance, reasons for the same	Complied with.  As a requirement for listing, the Bank has complied with those relevant rules covered by CSE Circular No. 4/2023 issued on 11 September 2023.
7.10.1	Non - Executive Directors  Number of Non-Executive Directors in compliance with the Rule.  The Board of Directors of a Listed Entity shall include at least, <ul style="list-style-type: none"> <li>• two non-executive directors; or</li> <li>• such number of non-executive directors equivalent to one third of the total number of directors whichever is higher.</li> </ul> Number of Independent Directors in compliance with the Rule.  Where the constitution of the board of directors includes only two non-executive directors in terms of Rule above, both such non-executive directors shall be 'independent'. In all other instances two or 1/3 of non-executive directors appointed to the board of directors, whichever is higher shall be 'independent'.	Complied with.  As at 31st December 2023, the Board had 6 Independent Non- Executive Directors, which is over one-third of the total number of Directors. The following individuals are Independent, Non- Executive Directors. <ol style="list-style-type: none"> <li>1. Mr. Richard Ebell</li> <li>2. Mr.Yudhishtan Kanagasabai</li> <li>3. Mr. Buwaneka Perera</li> <li>4. Mr. Ravindra Jayawardena</li> <li>5. Mrs. Shanti Gnanapragasam</li> <li>6. Mr. Arjuna Herath</li> </ol>

## Corporate Governance

Section No.	Rule	Degree of Compliance - As at 31.12.2023
7.10.3	<p>Disclosures Relating to Directors disclose compliance with the following;</p> <ul style="list-style-type: none"> <li>Annual determination of independence of directors based on declaration by directors</li> <li>If a director does not qualify any independence criteria but considered nevertheless independent by the board, criteria not met and basis for such determination</li> <li>Brief resume of each director including the nature of his/her expertise in relevant functional areas</li> </ul>	<p>Complied with.</p> <p>Declarations signed by Directors on their status of Independent/Non-Independent was obtained and based on which the following directors are deemed to be Independent.</p> <ol style="list-style-type: none"> <li>Mr. Richard Ebell</li> <li>Mr. Yudhishtan Kanagasabai</li> <li>Mr. Buwaneka Perera</li> <li>Mr. Ravindra Jayawardena</li> <li>Mrs. Shanti Gnanapragasam</li> <li>Mr. Arjuna Herath</li> </ol> <p>Board has not considered any Director as “nevertheless independent”.</p> <p>Profile of the Directors are available from pages 22 to 27.</p>
7.10.5	<p>Remuneration Committee</p> <ul style="list-style-type: none"> <li>Names of directors comprising the committee,</li> <li>Remuneration policy</li> <li>Aggregate remuneration paid to executive and non-executive directors.</li> </ul>	<p>Complied with.</p> <p>Details are provided in the Board Human Resource and Remuneration Committee Report on from pages 125 to 127.</p>
7.10.6	<p>Audit Committee</p> <ul style="list-style-type: none"> <li>Names of the directors comprising the committee</li> <li>Determination of the independence of the auditors and basis for such determination</li> <li>Report by the audit committee, setting out the manner of compliance by the Entity in relation to 7.10.6.</li> </ul>	<p>Complied with.</p> <p>Details are provided in the Board Audit Committee Report from pages 136 to 138.</p>
9.3.2 (a)	<p>Related Party Disclosures</p> <p>Non-recurrent Related Party Transactions (RPTs) exceeding 10% of the Equity or 5% of the Total Assets, whichever is lower (in the specified format)</p> <p>Name of the Related Party (RP) Relationship Value of RPT</p> <p>Value as % of equity and total assets. Terms and Conditions, Rationale</p>	<p>No such situation has arisen.</p>

## Corporate Governance

Section No.	Rule	Degree of Compliance - As at 31.12.2023
9.3.2 (b)	Recurrent RPT exceeding 10% of the gross revenue/income (in the specified format)	No such situation has arisen.
9.3.2 (c)	<p>RPT Review Committee Report</p> <ul style="list-style-type: none"> <li>• Names of the Directors comprising the Committee.</li> <li>• Statement that committee has reviewed RPTs and communicated comments/observations to the Board</li> <li>• Policies and procedures adopted by the Committee</li> <li>• Number of committee meetings</li> </ul>	<p>Complied with.</p> <p>For further details refer Board Related Party Transactions Review Committee report from pages 131 to 133.</p>
9.3.2 (d)	Affirmative declaration by the Board of Directors on compliance with RPT Rules or negative statement to that effect.	<p>Complied with.</p> <p>Details are provided in the Board Related Party Transactions Review Committee report from pages 131 to 133.</p>

# Committee Reports

## Board Integrated Risk Management Committee Report

The Board Integrated Risk Management Committee (BIRMC) is a Committee of the Board of Directors established in compliance with Section 3(6) of the Banking Act Direction No.11 of 2007 on "Corporate Governance for Licensed Commercial Banks in Sri Lanka". The Bank has also adopted an Integrated Risk Management Framework (IRMF) in line with the Central Bank of Sri Lanka Banking Act Direction No.7 of 2011.

### Composition

The composition and the scope of work of the Committee conform with the provisions of the aforementioned Direction. The Committee comprises nine (9) members of which four (4) members are Independent Non-Executive Directors. The Head of Risk Management is the Secretary to the Committee.

The following are the members of the Committee:

1. Mr. Yudhishtan Kanagasabai - Chairman (*Independent Non-Executive Director*)
2. Mr. Richard Ebell (*Independent Non-Executive Director*)
3. Ms. Shanti Gnanapragasam (*Independent Non-Executive Director*)
4. Mr. Arjuna Herath (*Independent Non-Executive Director*)
5. Mr. Senarath Bandara (*MD / CEO*)
6. Mr. Prabhu Mathavan (*Chief Operating Officer*)
7. Mr. Chandrasada Amarasingha (*Deputy General Manager*)
8. Mr. Wimal Karunarachchi (*Head of Risk Management*)
9. Mr. Gayantha Wijekoon (*Head of Compliance*)

### Meetings

The charter of the BIRMC mandates meetings to be held every quarter and as often as it deems necessary. The Committee held six (6) meetings during the year.

### Reporting

The discussions and outcomes of Committee meetings were documented in the BIRMC minutes and consistently communicated to the Board for awareness, notification, and necessary actions. Monthly Risk and Compliance Reports were regularly presented during Board meetings, highlighting notable shifts in the Bank's risk landscape and identifying their underlying causes.

### Role and Responsibilities

Following the guidelines outlined in the Terms of Reference (TOR) established by the Board, the Committee's principal function is to supervise the Bank's management of enterprise-wide risks, including the governance framework, risk management policies, procedures, and operational practices. The Committee is tasked with various key responsibilities including:

- Assisting the Board of Directors in comprehending the risk profile of the Bank in the process of executing the banking operations and establishing a framework that ensures the efficiency and adequacy of the Risk Management functions and provides directions to the Management.
- Reviewing the Bank's governance framework for credit, market, liquidity, operational, strategic, and other risks. This includes a thorough

examination of the relevant policies, processes, and systems adopted by the Management to manage risk exposures, risk measurement methodologies, and approaches to stress testing.

- Reviewing the independence and authority of the Risk Management and Compliance functions while ensuring the sufficiency of the functional coverage.
- Reviewing and formulating methodologies for the allocation of risk capital and reviewing the Internal Capital Adequacy Process (ICAAP).
- Reviewing the adequacy and effectiveness of Management level committees in assessing, mitigating, and managing enterprise-wide risks within the stipulated quantitative and qualitative risk limits.

### Directions of the BIRMC

Following the economic crisis, the financial sector encountered formidable challenges in a tough economic environment. Economic contraction, tax hikes, and elevated prices strained balance sheets, leading to a decline in financial intermediation. Increased exposure to the Government and concerns about sovereign debt restructuring and bank diagnostics added complexity to the context.

The credit risk, gauged by the Stage 3 Loans Ratio, remained elevated, indicating weakened debt servicing capacities amid economic challenges. Notably, there was a stabilisation in credit risk during the third quarter of FY 2023, as reflected in the slowed increase of Stage 3 Loans.

# Committee Reports

## Board Integrated Risk Management Committee Report

The committee observed the challenging environment very closely together with the regulatory directions and made the required changes to its risk governance paradigm, including:

- Enhanced the Integrated Risk Management Framework by reviewing and formulating policies related to credit, market, liquidity, and operational risks.
- Maintained focus on centralising and analysing risk data for improved accuracy and efficiency of risk quantification tools.
- Monitored the Bank's overall risk profile through a comprehensive Key Risk Indicator (KRI) framework, ensuring compliance with internally set risk appetite limits.
- Reinforced credit risk management through an independent loan review mechanism and portfolio management.
- Strengthened the Credit Risk Monitoring Processes for stressed credit, watch-listed customers, and credit excesses, facilitating early identification of warning signals. The Stress Testing process was reviewed and further strengthened. Scenario assessments were used for credit, market and liquidity risk management due to the high volatility in the macroeconomic variable. The BIRMC routinely examined the outcomes of stress testing following the regulatory guidelines and periodically reviewed the stress testing results as set out in the regulatory guidelines.
- Improved the Operational risk identification and assessment process. Risk Register and Operational Loss Reports were

improved in line with the regulatory guidelines.

- Enhanced the operational risk management framework through a comprehensive Risk Control Self-Assessment process adopting Key Risk Indicators, Operational Loss Reporting, and the Risk Register to achieve integrated risk ratings and reporting.
- Augmented the scope of risk appetite within Technology Risk management by formulating a comprehensive Technology Risk appetite statement. The committee closely supervised the activities aimed at achieving compliance with the Central Bank of Sri Lanka's (CBSL) technology risk management standards and guidelines.
- Revised the business continuity policies and Key Performance Indicators (KPIs), and meticulously monitored the Bank's preparedness for business continuity in the event of disaster scenarios.
- Reviewed and assessed the Anti-Money Laundering and Regulatory Compliance measures of the Bank, branch network, products, processes, and procedures by conducting targeted reviews.
- Monitored the Bank's integration to new reporting platforms implemented by the CBSL such as go AML.

The Committee acknowledges the regulatory emphasis on ensuring the Bank's capital adequacy. At the commencement of FY 2023, with careful consideration of risk-reward trade-offs in optimising capital, the Bank projected the necessary capital and assets composition following Basel III guidelines. Additionally, in

FY 2023, the Bank conducted an additional capital-raising initiative by publicly listing its shares. This initiative aimed to improve visibility, and corporate governance coverage, and infuse additional capital funds into the Bank.

During the period under review, the Board of Directors continued to provide oversight to the Business and Risk strategy of the Bank, along with the risk appetite statement. As macroeconomic vulnerabilities continued, the Board's direction in risk governance also evolved. The Committee is content with the effective implementation of risk management initiatives, ensuring the ongoing stability of the Bank for the reviewed and into the foreseeable future.



Yudhishtan Kanagasabai  
Chairman - Board Integrated Risk Management Committee

Colombo  
26 March 2024

# Committee Reports

## Board Nominations and Governance Committee Report

### Composition of the Committee

The Board Nomination Committee (BNC) which was reconstituted as Board Nominations and Governance Committee (BNGC) during the year comprises four Non- Executive Directors, three of whom are independent. The following Directors served/serve on the BNGC during the year.

BNGC Member	Directorship Status	Membership Status	Date of Appointment/ Resignation
Mr. Buwaneka Perera	Independent Non-Executive Director	Chairman	Appointed as Chairman w.e.f. 15 November 2023. Member from 25 January 2023.
Mr. Richard Ebell	Independent Non-Executive Director	Chairman	Chairman from 4 August 2022 until 14 November 2023. Member from 3 January 2018.
Mr. Ranjit Page	Non-Independent Non-Executive Director	Member	Member from 19 May 2012. Retired from the Board w.e.f. 21 January 2023.
Ms. Ruvini Fernando	Independent Non-Executive Director	Member	Member from 29 July 2021. Resigned from the Board w.e.f. 27 October 2023.
Mr. Asoka Pieris	Non-Independent Non-Executive Director	Member	Member from 25 January 2023.
Mr. Arjuna Herath	Independent Non-Executive Director	Member	Member from 15 November 2023.

Ms. Amendra de Silva

*The Company Secretary, functions as the Secretary of the Committee.*

### Terms of Reference

In terms of Direction No.3(6)(iv) of the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks of Sri Lanka issued by the Monetary Board of the Central Bank of Sri Lanka (CBSL), the Bank had established a BNC in conformity with the said Direction. The role and responsibilities of the Committee were aligned with the provisions of the aforesaid Direction. With the proposed Listing of the Bank, the Bank was required to comply with Rule 9 of the Listing Rules of the Colombo Stock Exchange, and accordingly, the scope of the BNC was expanded to cover the requirements of Rule 9.11 of the Listing Rules and the Board of Directors approved the re-designation of the BNC as BNGC w.e.f. 15 November 2023 with an expanded scope as envisaged in the said Rule. The Terms of Reference of the BNGC was accordingly adopted w.e.f. the said date.

The Bank was listed on the Colombo Stock Exchange on 9 January 2024.

### Purpose of Establishing the Committee

In accordance with the Terms of Reference set by the Board, key role and responsibilities of the BNGC are as follows;

- To recommend to the Board a Corporate Governance Policy and Framework for the Bank, considering all applicable regulatory requirements and industry and international best practices, and periodically review and update the recommendations made as necessary.
- To obtain reports from the Management on compliance with the Corporate Governance Framework and all applicable laws and regulations, together with any deviations/non-compliance.

# Committee Reports

## Board Nominations and Governance Committee Report

- To keep under review the structure, size and composition of the Board and Board Committees (including the skills, knowledge, experience and diversity required) to better ensure the effective discharge of their duties and responsibilities.
- To establish and maintain criteria and a transparent procedure for recommending to the Board, persons as Directors and the Bank's Chief Executive Officer, and also its Key Management Personnel, considering academic/ professional qualifications, skills, experience and attributes necessary, given the nature of the Bank's business and in the case of Non-Executive Directors, their ability to commit to the role the time required.
- To consider and recommend to the Board, the appointment of Directors to the Board Committees of the Bank.
- To establish a process for the periodic evaluation of the performance of the Directors and the CEO to determine whether their responsibilities are satisfactorily discharged.
- To establish a transparent procedure to recommend (or not recommend) to the Board the reappointment of Directors when they come up for re-election, considering their contribution towards the effective discharge of the Board's responsibilities.
- To establish a process to determine whether the Directors, the Bank's Chief Executive Officer, and also its

Key Management Personnel are fit and proper persons to hold office as specified and set out in the Banking Act, the Colombo Stock Exchange (CSE) Listing Rules and other relevant statutes and directions issued by the Central Bank of Sri Lanka and CSE from time to time.

- To ensure the development of a succession plan for the Board of Directors and Key Management Personnel.

### Frequency of Meetings and Quorum

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

The quorum for meetings of the Committee is three (3) members, including at least two Independent Non-Executive Directors, including its Chairperson.

The Committee met six (6) times during the year and the attendance of Committee members at meetings is given in the table below.

BNGC members	Attended/ Eligibility to attend
Mr. Buwaneka Perera	5/5
Mr. Richard Ebell	6/6
Mr. Ranjit Page	1/1
Ms. Ruvini Fernando	6/6
Mr. Asoka Pieris	4/5
Mr. Arjuna Herath	0/0

Only members of the Committee have the right to attend Committee meetings. However, other employees such as the Chief Executive Officer, the Head of Human Resources, and external advisers are invited to attend all or part of any meeting, as and when appropriate and necessary.

The proceedings of the Committee meetings have been reported to the Board of Directors.

### Activities of the Committee

- With the retirement of Mr. V R Page, Chairman of the Bank and Mr. P S Mathavan, Executive Director after completing nine years on the Board, four new appointments were made to the Board. The BNC after careful evaluation and to strengthen Board diversity, balance in the Board composition, and repertoire of skills, recommended the appointment of Mr. Ravindra Jayawardena, Mrs. Shanti Gnanapragasam, and Mr. Arjuna Herath to the Board. Further, Mr. Asoka Pieris, whose appointment was recommended by the Committee in 2022 was appointed to the Board on 20 January 2023 on receipt of the approval of CBSL.
- M/s Asoka Pieris, Ravindra Jayawardena, Arjuna Herath, and Mrs. Shanti Gnanapragasam have the necessary expertise, qualifications, and experience in diverse fields, adding immense value to the deliberations of the Board/Committees. The BNGC and the Board have adhered to the Policy on appointment/selection of Directors/CEO and KMPs when the said appointments to the Board were considered.
- The Committee recommended the election/re-election of Directors taking into consideration the performance during the year, including whether the member concerned was an active participant and contributed to Board/Committee deliberations with respect to the overall discharge of the Board/Committee responsibilities. In recommending

## Committee Reports

the re-election of Directors, the Committee reviewed the fitness and propriety of the Directors based on the Affidavit/Declaration submitted by the Directors in line with the CBSL Direction and CSE Listing Rules.

- All Non-Executive Directors submit themselves for re-election by rotation in terms of the Articles of Association of the Bank. All such Directors have offered themselves for re-election at least once in every three years.
- The Declaration on Independence provided by the Non-Executive Directors were reviewed and the Committee determined that the Independent Directors met the requisite criteria laid down in the Direction on Corporate Governance issued by CBSL and CSE Listing Rules. Accordingly, M/s Richard Ebell, Yudhishtan Kanagasabai (Independent w.e.f. 28 July 2023), Buwaneka Perera, Ravindra Jayawardena, Arjuna Herath, and Mrs. Shanti Gnanapragasam have been designated as independent whilst, Ms. Marianne Page and Mr. Asoka Pieris have been designated as non-independent.
- The Committee determined that the Directors and MD/CEO satisfied the Fit and Proper Assessment criteria stipulated in the Listing Rules of the CSE and the Banking Act and Directions issued thereunder by CBSL.
- After a careful interview and evaluation process, the Committee recommended the appointments of KMPs to head Internal Audit, Risk Management and Treasury.
- The Committee recommended the extension of the Contracts of Employment of MD/CEO, DGM-Retail and Business Banking and AGM-Credit Administration and Treasury Back Office, taking into consideration their performance and experience and the need to retain their services to steer the Bank to achieve its strategic objectives.
- Board and Board Sub Committees have established a process to conduct an annual self-evaluation, and have complied with this requirement for 2023. The MD/CEO's performance has been evaluated by the BHRR/BNGC and appropriate recommendations made to the Board.

The Directors were given the opportunity to attend a workshop on Good Governance; Rights and Obligations of an Independent Director and new CSE listing requirements conducted by the Sri Lanka Institute of Directors and have also been updated on the proposed changes included in the Consultation Paper to the Banking Act, and regulations on trading in listed securities. Further, an external resource person conducted a workshop for Directors and staff on Data Protection laws and regulations. Additionally, the Directors are apprised of the regulatory changes on an ongoing basis.

# Committee Reports

## Board Nominations and Governance Committee Report

### Re-Election of Directors

Mr. R A Ebell and Mr. Y Kanagasabai offer themselves for re-election, whilst Mr. R A Jayawardena, Mrs. S Gnanapragasam, and Mr. A Herath who were appointed to the Board in 2023, offer themselves for election in terms of Articles 86 and 92 respectively of the Articles of Association of the Bank.

Director	Membership of Committees	Date of first appointment as a Director	Date of last re-appointment as a Director	Directorships or Chairpersonships and other principal commitments, both present and those held over the preceding three years in other Listed Entities	Any relationships including close family relationships between the candidate and the directors, the Listed Entity or its shareholders holding more than ten per centum (10%) of the shares of the Listed Entity
Mr. R A Ebell	BSPC - Chairman BAC - member BNGC - member BHRRC - member BRPTRC - member BIRMC - member	3 July 2015	2021 AGM	HNB Assurance PLC Resigned w.e.f 31 December 2023	NIL
Mr. Y Kanagasabai	BIRMC - Chairman BRPTRC - Chairman BAC - member BSPC - member	28 October 2019	2022 AGM	<p><b>Current Directorships</b></p> Ambeon Capital PLC Colombo City Holdings PLC Peoples Leasing and Finance Company PLC	NIL
				<p><b>Previous directorships</b></p> Hunter & Company PLC Cargills (Ceylon) PLC Dankotuwa Porcelain PLC Ceylon Tobacco Company PLC	

### Declaration

Cargills Bank PLC being a Licensed Commercial Bank complies with the Banking Act Direction No. 11 of 2007 on Corporate Governance. The Bank was listed on the Colombo Stock Exchange on 09 January 2024 and is in process of adopting those amendments required by CSE Circular No. 04/2023 issued on 11 September 2023, which are not already covered by the aforesaid Banking Act Direction, by the stipulated timelines.



**Buwaneka Perera**  
Chairman - Board Nominations and Governance Committee

Colombo  
26 March 2024

# Committee Reports

## Board Human Resources and Remuneration Committee Report

### Composition of the Committee

The Board Human Resources and Remuneration Committee (BHRRC) comprises five (5) Non-Executive Directors, four (4) of whom are independent.

The following Directors served/serve on the BHRRC;

BHRRC Members	Directorship Status	Membership Status	Date of Appointment/ Resignation
Mrs. Shanti Gnanapragasam	Independent Non-Executive Director	Chairperson	Appointed as Chairperson w.e.f. 15 November 2023. Member from 1 July 2023.
Mr. Asoka Pieris	Non-Independent Non-Executive Director	Chairman	Chairman w.e.f. 25 January 2023 - 14 November 2023. Member from 25 January 2023.
Mr. Ranjit Page	Non-Independent Non-Executive Director	Chairman	Appointed w.e.f. 19 May 2012. Chairman from 3 January 2018 - 21 January 2023. Retired from the Board w.e.f. 21 January 2023.
Mr. Richard Ebell	Independent Non-Executive Director	Member	Member from 4 August 2022.
Mr. Ravindra Jayawardena	Independent Non-Executive Director	Member	Member from 1 July 2023.
Mr. Arjuna Herath	Independent Non-Executive Director	Member	Member from 15 November 2023.
Mr. Yudhishtan Kanagasabai*	Independent Non-Executive Director	Member	Member from 29 November 2019 - 30 June 2023.
Mr. Buwaneka Perera	Independent Non-Executive Director	Member	Member from 29 July 2021 - 30 June 2023.

\*Designated as an independent director w.e.f. 28 July 2023.

### Permanent Attendee

Mr. Senarath Bandara (Managing Director/CEO)

### Ms. Amendra de Silva

The Company Secretary, functions as the Secretary of the Committee.

### Terms of Reference

The BHRRC was formed in compliance with Section 3 (6) (iii) of Banking Act Direction No. 11 of 2007, on "Corporate Governance for Licensed Commercial Banks in Sri Lanka", issued by the Monetary Board of the Central Bank of Sri Lanka under the powers vested in the Monetary Board, in terms of the Banking Act No. 30 of 1988. With the proposed Listing of the Bank, the Terms of Reference were reviewed and amended to be in compliance with Rule 9.12 of the Listing Rules of the Colombo Stock Exchange. The composition and the scope of work of the Committee are in conformity with the provisions of the said Direction and Rule.

### Purpose of Establishing the Committee

Cargills Bank values the Human Capital as its most prized asset. The growth and success of the organisation is largely dependent on the performance of this capital base. Thus, the Bank places special emphasis on the well-being of its employees. At the same time the Bank values, the reputation and recognition the brand "Cargills" has achieved over the

# Committee Reports

## Board Human Resources and Remuneration Committee Report

years. As such we seek alignment between the personal values of our employees and that of the Cargills brand and the overall alignment of our Human Resources to our business philosophy and brand value. The Committee considers effective recruitment and selection as central and crucial to the successful functioning of the Bank. Hence, meticulous attention is paid to recruitment and selection of the right people to the right position. The Bank strives to remunerate employees in exchange for their time, talent, efforts and results. We value the performance culture where there is a clear articulated correlation between performance and rewards and the compensation and benefits schemes are designed to be fair and without discrimination.

The basis for annual salary increases of the staff members are recommended by the Committee based on the structures/ justifications presented by the management. The annual increment structures are proposed subsequent to comprehensive performance evaluation carried out by the individual Department heads for each of their team members. The individual achievements against the KPIs, the overall contribution etc. are the deciding factors of different performance ratings and increment percentages for the individual staff members. Annual increments and the market adjustments are typically made based on the information gathered with regard to the prevailing market salaries and other perks.

Additionally, the Committee may declare a bonus pay to improve employee morale, motivation, and

productivity or as a "Thank you" to employees who achieve a significant goal and is strictly performance based and will depend on the overall achievement of targets and performance of the Bank.

The Committee may also recommend annual staff promotions in adherence to Bank's policies and procedures based on the justification provided by the management on individual performance, ability to meet or exceed duties as per the job description and KPI, leadership capabilities and overall attitude of the staff etc.

The Committee assists the Board in the discharge of its oversight role and responsibilities relating to;

- The Bank's Human Resource's strategy and policy in positioning employment, retention, training, development, remuneration, and other performance-based payments.
- The remuneration of Executive and Non-Executive Directors.
- The remuneration and performance of the Company's Chief Executive Officer and the Key Management Personnel.
- Review of the Remuneration Policy of the Bank.
- Review of the Organisational Structure of the Bank.

In performing this role, the Committee shall inter alia;

- Discuss and determine the remuneration policy, including salaries, allowances, and other financial payments (cash and non-cash benefits) relating to Directors, Chief Executive Officer (CEO), and

Key Management Personnel of the Bank and make recommendations to the Board for approval.

- Establish and maintain a formal and transparent procedure for developing a policy on Executive Directors' remuneration and for fixing the remuneration packages of individual Directors. No Director shall be involved in fixing his/her own remuneration.

The Policy so adopted shall be based on the principle of non-discriminatory pay practices among Non-Executive Directors to ensure that their independence is not impaired.

- Evaluate the performance of the CEO and Key Management Personnel against the set targets and goals periodically.
- Determine the basis for revising remuneration, benefits, and other payments of performance-based incentives.
- Review and assess HR and Remuneration Risk.
- Review the HR policies including Performance Management Policy, Employee Remuneration Policy, Employee Benefit Policies, Code of Conduct and Ethics, Occupational Health and Safety, Employment related policies and recommend same for the approval of the Board.
- Make recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

## Committee Reports

### Frequency of Meetings and Quorum

Committee meetings are held half yearly or more frequently if required.

The MD/CEO is present at all meetings of the Committee, except when matters relating to the MD/CEO are being discussed. The quorum required at a meeting is three (3) members, two of whom shall be Non-Executive Independent Directors.

The Committee met four (4) times during the year and the attendance of Committee members at meetings is given in the table below.

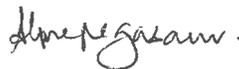
BHRRC members	Attended/ Eligibility to attend
Mrs. Shanti Gnanapragasam	1/1
Mr. Richard Ebell	4/4
Mr. Ranjith Page	0/0
Mr. Asoka Pieris	4/4
Mr. Ravi Jayawardena	1/2
Mr. Arjuna Herath	0/0
Mr. Yudhishtan Kanagasabai	1/3
Mr. Buwaneka Perera	3/3

The details of the aggregate remuneration of the Executive and Non- Executive Directors are stated on pages 262 to 267.

### Activities of the Committee

The Committee considered and reviewed and/or recommended the following for the year under review;

- KPIs of the Corporate Management, inclusive of the MD/CEO.
- Amendment to the Organisation Structure by introducing a new layer.
- The annual increments/incentives for staff.
- The Committee comprehensively reviewed the performance of the MD/CEO and Corporate Management of the Bank for the year 2023 against set goals and targets and recommended to the Board of Directors, the increments and promotions for the staff members in general and individually for the Corporate Management in 2023.
- Talent retention measures and guidance and direction provided in retaining qualified, competent performers at different levels of the organisation.
- Policies on Personal Loans, Staff Housing Loans, Staff Vehicle Loans, and Medical Policy.
- Revision of staff benefits.
- Terms of Reference of the Committee.
- The annual Committee evaluation for 2023.



Shanti Gnanapragasam (Mrs.)  
Chairperson - Board HR and Remuneration  
Committee

Colombo  
26 March 2024

# Committee Reports

## Board Strategic Planning Committee Report

### Composition of the Committee

The Board Strategic Planning Committee (BSPC) comprises nine (9) Directors, eight (8) of whom are Non-Executive Directors. The following Directors served/serve on the Committee;

BSPC Member	Directorship Status	Membership Status	Date of Appointment/ Resignation
Mr. Richard Ebell	Independent Non-Executive Director	Chairman	Member from 3 July 2015. Appointed as Chairman w.e.f. 25 January 2023.
Mr. Ranjit Page	Non-Independent Non-Executive Director	Chairman	Member from 19 May 2012. Chairman from 29 May 2015 up to 21 January 2023. Retired from the Board w.e.f. 21 January 2023.
Mr. Senarath Bandara	MD/CEO	Member	Member from 1 October 2020.
Mr. Prabhu Mathavan	Executive Director	Member	Member from 19 May 2012. Retired from the Board w.e.f. 21 January 2023.
Ms. Ruvini Fernando	Independent Non-Executive Director	Member	Member from 1 August 2018. Resigned from the Board w.e.f. 27 October 2023.
Ms. Marianne Page	Non-Independent Non-Executive Director	Member	Member from 29 November 2019.
Mr. Yudhishtan Kanagasabai*	Independent Non-Executive Director	Member	Member from 29 November 2019.
Mr. Buwaneka Perera	Independent Non-Executive Director	Member	Member from 29 July 2021.
Mr. Asoka Pieris	Non-Independent Non-Executive Director	Member	Member from 25 January 2023.
Mr. Ravindra Jayawardena	Independent Non-Executive Director	Member	Member from 1 July 2023.
Mrs. Shanti Gnanapragasam	Independent Non-Executive Director	Member	Member from 1 July 2023.
Mr. Arjuna Herath	Independent Non-Executive Director	Member	Member from 15 November 2023.

\*Designated as an independent director w.e.f 28 July 2023.

Ms. Amendra de Silva

The Company Secretary, functions as the Secretary of the Committee.

### Terms of Reference

The Committee is duly constituted with its own Terms of Reference, which has been approved by the Board.

## Committee Reports

### Purpose of Establishing the Committee

The Board Strategic Planning Committee was formed to assist the Board of Directors and the Chief Executive Officer in fulfilling their larger role and responsibility in the development and execution of an appropriate and effective strategy for the Bank's profitability, growth and long-term sustainability.

Its scope is limited to an oversight role and includes a set of responsibilities to assist the Bank in pursuing an appropriate and effective strategy and to periodically monitor whether the Executive Management is fully committed and is able to execute and deliver the strategy and make appropriate recommendations to the Board. The planning, execution and delivery of the Bank's strategies is the primary responsibility of the Executive Management.

In performing this role, the Committee shall inter alia;

- Assist the Executive Management in developing a well-defined medium-term Strategic Plan for the Bank in line with the Bank's overall vision and strategic direction.
- Review and assess whether the Bank is responsive to changes in the competitive environment by realigning its strategies and action plans periodically, where appropriate, to strengthen its competitive position.
- Review and assess whether the strategic plans of the Bank address the expectations of all key stakeholders, including in particular its shareholders.
- Review and assess whether the annual business plans and financial budgets, including capex budgets developed by the Executive Management, are aligned with the Bank's business model and Strategic Plan and recommend such matters for approval by the Board.
- Review and evaluate the alignment of KPIs of all KMPs to the Strategic Plan and financial budgets.
- Regularly review and evaluate the key objectives and goals contained in the annual financial budget, the business plan and the Strategic Plan concerning performance and sustainability and review all major business initiatives and projects prior to their submission to the Board for approval.
- Review and evaluate major initiatives and projects aimed at transforming the business and operating model and make appropriate recommendations to the Board.
- Advise the Board on strategy and direction, in carrying out the above oversight responsibilities relating to the smooth functioning of the Bank.
- Assist the Board in ensuring that all necessary action is taken to meet regulatory capital requirements and oversee the efficiency in the deployment of capital by the Management.

### Frequency of Meetings and Quorum

- Committee meetings shall be held twice a year or more frequently if required.
- The quorum required at a meeting shall be five (5) including the MD/CEO, two of whom shall be Independent Non-Executive Directors.
- The Committee met twice during the year and the attendance of committee members at meetings is given in the table below.

BSPC Members	Attended/Eligibility to attend
Mr. Ranjit Page	0/0
Mr. Richard Ebell	2/2
Mr. Senarath Bandara	2/2
Mr. Prabhu Mathavan	0/0
Ms. Ruvini Fernando	1/1
Ms. Marianne Page	2/2
Mr. Yudhishtan Kanagasabai	2/2
Mr. Buwaneka Perera	2/2
Mr. Asoka Pieris	2/2
Mr. Ravindra Jayawardena	2/2
Mrs. Shanti Gnanapragasam	1/2
Mr. Arjuna Herath	1/1

# Committee Reports

## Board Strategic Planning Committee Report

### Activities of the Committee

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

- Financial Projections 2023-2026

The Committee recommended for the approval of the Board, the projected financial statements for the period 2023–2026, including the estimated year end projections for 2023 taking into consideration the performance of the Bank from January – May 2023. The Committee also deliberated on the IT Roadmap of the Bank for the period 2023–2025 and the objectives, focus areas, strategies, and business targets for the respective business units for the period 2024–2026. In recommending the Financial Projections for 2023–2026, the Committee considered the economy which was on a stronger footing than one year ago, mainly due to the CBSL's tight monetary policy, which had reined in inflation and returned a certain degree of stability to the currency.

- Budget and Business Plan for 2024

The Committee deliberated in detail, reviewed and recommended for the approval of the Board, the Budget, and Business Plan for 2024 with emphasis on customer and portfolio growth, increasing fee-based income, converting ecosystem opportunities, sustainability, technology improvements, and staff engagement and development. In approving the Budget and Business Plan for 2024, the Committee considered the measured recovery of the economy and improving macroeconomic factors.

- Committee evaluation for 2023.



Richard Ebell

*Chairman - Board Strategic Planning Committee*

Colombo

26 March 2024

# Committee Reports

## Board Related Party Transactions Review Committee Report

### Composition of the Committee

The Board Related Party Transactions Review Committee (BRPTRC) comprises three (3) Independent Non-Executive Directors. The following Directors served/serve on the BRPTRC;

BRPTRC Members	Directorship Status	Membership Status	Date of Appointment/ Resignation
Mr. Yudhishtan Kanagasabai*	Independent Non-Executive Director	Chairman	Appointed as Chairman and member w.e.f. 15 November 2023.
Mr. Buwaneka Perera	Independent Non-Executive Director	Chairman	Chairman from 27 October 2023 - 14 November 2023 and member from 4 August 2022 - 14 November 2023.
Ms. Ruvini Fernando	Independent Non-Executive Director	Chairperson	Chairperson and member from 28 September 2018 - 27 October 2023. Resigned from the Board w.e.f. 27 October 2023.
Mr. Richard Ebell	Independent Non-Executive Director	Member	Member from 29 April 2021.
Mrs. Shanti Gnanaprasam	Independent Non-Executive Director	Member	Member from 1 July 2023.

\*Designated as an independent director w.e.f. 28 July 2023.

### Ms. Amendra de Silva

*The Company Secretary, functions as the Secretary of the Committee.*

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

### Terms of Reference

The Board of Directors of Cargills Bank recognises that Related Party Transactions (RPTs) present a heightened risk of conflict of interest and/or improper benefit (or the perception thereof) to the related party transacting with the Bank. Therefore, demonstrating its commitment to good governance, the Board established a Related Party Transactions Review Committee in 2018, governed by its own Terms of Reference.

### Purpose of Establishing the Committee

The Board of Directors, through its mandated Committee; the BRPTRC has taken necessary steps to avoid conflicts of interest that may arise from transactions with any person considered a related party. It ensures that the Bank refrains from engaging in transactions with related parties in a manner that would grant such parties more favourable treatment than accorded to other constituents of the Bank carrying on the same business. When reviewing a RPT, the Committee considers the related party's relationship to the Bank and interest in the transaction, material facts of the proposed RPT, including the proposed aggregate value of such transaction, the benefits to the Bank of the proposed RPT, the availability of other sources of comparable products or services, an assessment of whether the proposed RPT and pricing are on terms that are comparable to the terms generally available to an unaffiliated third party under the same or similar circumstances, or to employees generally, including an independent assurance from the Head of Risk Management on the proposed RPT.

# Committee Reports

## Board Related Party Transactions Review Committee Report

The Committee has been delegated with the following responsibilities to assist the Board in ensuring that all RPTs conform to the applicable regulations. In discharging its responsibilities, the Committee reviews the mechanism and processes by which Related Parties and RPTs are captured.

- To ensure all related parties are identified, changes promptly captured, and RPTs are continuously monitored.
- To ensure RPTs are not undertaken on more favourable terms than are available to non-related parties under similar circumstances. This is to ensure the interests of shareholders and other stakeholders as a whole are taken into account by the Bank when entering into RPTs. When clearing RPTs, to ensure the objective and the economic and commercial substance of the RPTs take precedence over the legal form and technicality.
- The Committee reviews and approves the types of recurrent RPTs to be considered as exempt in terms of the Listing Rules (involving the provision of goods, services or financial assistance, continuing and conducted in the ordinary and usual course of business, on terms not more favourable than terms available to non-related parties in similar circumstances). This list of exempt recurrent RPTs is reviewed and updated if required quarterly, by the Committee and advised to the Board.
- All RPTs which require prior clearance are reviewed by the Committee. It will also determine and advise whether Board approval is required for the proposed RPT, depending on the nature of the transaction and the terms offered.
- To perform other activities the Committee deems appropriate for executing its duties and functions under its Terms of Reference and any other responsibilities which the Board may assign to it from time to time.
- In evaluating RPTs, the Committee takes into account the Banking Act Direction No.11 of 2007 on Corporate Governance for Licensed Commercial Banks, Banking Act No.30 of 1988, Listing Rules of the Colombo Stock Exchange (CSE) and any other applicable law or Direction and the Related Party Transactions Policy of the Bank.

### Frequency of Meetings and Quorum

The Committee is required to meet at least four times during the Financial Year, and as and when deemed necessary. The quorum required at a meeting is three (3).

The Committee met four (4) times during the year and the attendance of the members at meetings is given in the table below;

BRPTRC Members	Attended/Eligibility to attend
Mr. Yudhishtan Kanagasabai	0/0
Mr. Buwaneka Perera	4/4
Ms. Ruvini Fernando	3/3
Mr. Richard Ebell	4/4
Mrs. Shanti Gnanapragasam	2/2

### Activities of the Committee

The Committee considered and/or reviewed the following;

- The data on related parties of the Bank, compiled based on self-declarations provided by the Directors, Key Management Personnel, and group companies. It considered the process by which related parties and RPTs were captured and tracked to ensure all RPTs were at arm's length and no favourable treatment had been afforded to them.
- All RPTs which require prior clearance were reviewed by the Committee. When reviewing the RPTs, the Committee advised whether Board approval should be sought, depending on the nature of the transaction and the terms offered.
- All RPTs entered into by the Bank were reviewed on a quarterly basis.

## Committee Reports

- The review carried out by the Head of Internal Audit on the adequacy of processes in relation to RPTs. Based on the report submitted, advice was given to Management to strengthen processes.
- The Terms of Reference and the Related Party Transactions Policy were amended in line with the Listing Rules of the CSE and recommended for the approval of the Board.
- Committee evaluation for 2023.

The proceedings of the meetings of the Committee during the year and all RPTs of the Bank were regularly reported to the Board of Directors with its comments and observations.

### Declaration

There were no transactions with related parties which were more favourable or preferential during the period under review and the Bank was compliant with the Listing Rules of the CSE and Banking Act Direction No. 11 of 2007 on Corporate Governance (as amended) issued by the Central Bank of Sri Lanka, on RPTs.



**Yudhishtan Kanagasabai**

*Chairman - Board Related Party Transactions Review Committee*

Colombo  
26 March 2024

# Committee Reports

## Board Credit Committee Report

### Composition of the Committee

The Board Credit Committee (BCC) comprises four (04) Non- Executive Directors, two (02) of whom are independent. The following Directors served/serve on the BCC during the year.

BCC Members	Directorship Status	Membership Status	Date of Appointment/ Resignation
Mr. Buwaneka Perera	Independent Non -Executive Director	Chairman	Chairman w.e.f. 4 August 2022. Member from 29 July 2021.
Ms. Marianne Page	Non-Independent Non-Executive Director	Member	Member from 4 August 2022.
Mr. Asoka Pieris	Non-Independent Non-Executive Director	Member	Member from 25 January 2023.
Mrs. Shanthi Gnanapragasam	Independent Non -Executive Director	Member	Member from 27 October 2023.
Mr. Ranjit Page	Non-Independent Non-Executive Director	Member	Member from 19 May 2012. Retired from the Board w.e.f. 21 January 2023.
Ms. Ruvini Fernando	Independent Non-Executive Director	Member	Member from 1 August 2018. Resigned from the Board w.e.f. 27 October 2023.

Ms. Amendra de Silva

*The Company Secretary, functions as the Secretary of the Committee.*

### Terms of Reference

The primary role of the BCC is to oversee the Bank's credit and lending strategies, to meet the overall objectives of the Bank. The Committee oversees the Credit Direction, Credit Policy, Credit Risk, and lending guidelines of the Bank, whilst monitoring the quality and performance of the Bank's credit portfolio and making appropriate recommendations, to inculcate healthy lending standards and practices, thus ensuring compliance with relevant regulations.

### Purpose of Establishing the Committee

In accordance with the Terms of Reference set by the Board, the key role and responsibilities of the BCC are as follows;

- Review the Bank's Credit Risk appetite and credit policies and make recommendations to the Board.
- Guide the Management on the risk appetite of the Bank.
- Review the cost of capital in lending and the pricing of credit to maximise returns.
- To approve/recommend to the Board, credit facilities coming under the purview of the Committee as per the board-approved delegation of authority.
- Review the quality of risk assets and non-performing advances.
- Review the cyclical aspects of the economy and the resulting quality of the loan portfolio.
- Review the Sector exposure caps and parameters.
- Review the exposure limits and thresholds for customer groups.

## Committee Reports

- Review and recommend credit risk management policies in tandem with the Board Integrated Risk Management Committee.
- Review and monitor the effectiveness and application of credit risk management policies, related standards and procedures and the control environment concerning credit decisions.
- Ensure that the systems and processes established by the Board to identify, assess, manage and monitor the Bank's credit and lending operations are designed and operating effectively.

### Authority

The BCC is authorised by the Board of Directors to approve facilities under the credit limits specified and delegated by the Board and to make recommendations to the Board on all credit proposals that are above its delegated authority. The Committee is also authorised to seek any information it requires to perform its duties.

### Frequency of Meetings and Quorum

Meetings of the Committee shall be held on a regular basis with a minimum of four (4) meetings in a year to exercise the powers and carry out its functions and responsibilities. The Committee may meet more often as may be necessitated by the demands of the Bank's business.

The quorum for a meeting shall be three (3) including at least two (2) independent directors being present and participating in the meeting.

The Committee met eight (8) times during the year and the attendance of the members at meetings is given in the table below;

BCC Members	Attended/Eligibility to attend
Mr. Buwaneka Perera	8/8
Mr. Ranjit Page	0/0
Ms. Ruvini Fernando	7/7
Ms. Marianne Page	8/8
Mr. Asoka Pieris	6/7
Mrs. Shanthi Gnanapragasam	1/1

The proceedings of the Committee meetings have been reported to the Board of Directors.

### Activities of the Committee in 2023

- Approved credit proposals within the approved limits of the Committee and recommended other credit proposals coming within the purview of the Board.
- Reviewed facilities where there were delays in repayment, including segments which were vulnerable to the current macroeconomic conditions.
- Reviewed exposure to stressed sectors.
- Ensured the implementation of appropriate credit controls to maintain the quality of the portfolio.
- Reviewed the watch-listed clients and ensured that they were in line with the Bank's lending policies and credit risk appetite.
- Ensured that the lending portfolios were managed as per the stipulated credit risk parameters.
- Closely monitored the portfolio under moratorium.
- Loan Review Management (LRM) - reviewed the findings and provided feedback to management as appropriate.
- Committee evaluation for 2023.



**Buwaneka Perera**  
Chairman - Board Credit Committee

Colombo  
26 March 2024

# Committee Reports

## Board Audit Committee Report

The Board Audit Committee (BAC) assists the Board in carrying out its responsibilities on financial reporting, internal control and internal and external audit functions.

### Composition of the Committee

- **Mr. Arjuna Herath (AH), Chairman**  
(Independent Non-Executive Director)  
Appointed Director on 1 November 2023; Member / Chairman of the BAC from 15 November 2023
- **Mr. Richard Ebell (RE)**  
(Chairman of the Bank, Independent Non-Executive Director)  
Chairman of the BAC up to 14 November 2023
- **Mr. Buwaneka Perera (BP)**  
(Independent Non-Executive Director)
- **Mr. Yudhishtan Kanagasabai (YK)**  
(Independent Non-Executive Director; Non-Independent Non - Executive Director up to 28 July 2023)  
Appointed to the BAC on 25 January 2023
- **Ms. Marianne Page (MP)**  
(Non-Independent, Non-Executive Director)  
Appointed to the BAC on 4 August 2022. Resigned on 25 January 2023
- **Mr. Asoka Pieris (AP)**  
(Non-Independent, Non-Executive Director)  
Appointed to the BAC on 25 January 2023, Resigned on 11 November 2023

Mr. Kusala Karunaratne, Head of Internal Audit, serves as the Committee's Secretary since 1 April 2023. Mr. Chandima Samarasinghe, previously AGM Internal Audit, served until his resignation from the Bank on 31 March 2023.

Mr. Senarath Bandara, Managing Director/CEO and Mr. Prabhu Mathavan, COO, attended meetings as representatives of management, and other employees of the Bank including the Head of Finance attended meetings as required by invitation, to assist BAC awareness of the key issues and relevant developments, and provide briefings and responses to questions asked.

The External Auditors, attended BAC meetings as required.

### Qualifications

Mr. Arjuna Herath, Chairman, and Mr. Richard Ebell, previous Chairman, are both Fellows of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and have many years of relevant experience. Other members who serve on the BAC, or served on the BAC during the year, had considerable experience in banking, finance and related areas. Brief profiles of all are given on pages 22 to 27 of the Annual Report.

### Regulatory Compliance

The role and functions of the BAC are regulated by 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, and now with the Bank listing on the Colombo Stock Exchange (CSE), the Listing Rules of the CSE.

### Duties and Role of the Board Audit Committee

The Charter of the BAC clearly defines the duties and role of the BAC. The Charter was last reviewed and approved on 28 November 2023 by the Board of Directors, incorporating requirements flowing from the CSEs Listing Rules.

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

- The integrity of the annual and quarterly Financial Statements of the Bank and the appropriateness of accounting policies adopted which it assessed by reviewing these statements with the management and external auditors.

## Committee Reports

- The effectiveness of the Bank's systems of internal controls including internal controls over financial reporting, which it assessed through review of internal audit reports and discussion with management and the external auditors.
- Independence and performance of Internal Audit, which it assessed through review of audit plans and work done, and internal audit reports provided.
- Monitoring the independence and performance of the External Auditors, which it assessed through multiple interactions during the year, and making recommendations on them re-appointment and the fees payable to them.
- Ensuring that proper arrangements are in place for the fair and independent investigation of matters raised through whistleblowing, and for appropriate follow-up action.
- Reviewing External Auditors' Management Letters and, as necessary, CBSL onsite examination reports, and follow up on remedial actions to address findings and recommendations.

### Meetings of the Board Audit Committee

The committee met 10 times in 2023. Attendance at these meetings was:

Mr. Arjuna Herath	01/01 Meetings
Mr. Richard Ebell	10/10 Meetings
Mr. Buwaneka Perera	10/10 Meetings
Mr. Yudhishtan Kanagasabai	08/08 Meetings
Mr. Asoka Peris	07/09 Meetings
Ms. Marianne Page	01/01 Meetings

KPMG was represented at 3 of these meetings.

### Financial Reporting

The BAC reviewed the Bank's quarterly and annual Financial Statements with management, who provided it internal assurances of compliance, prior to recommending their adoption by the Board. This is a part of its responsibility to oversee the integrity of the Bank's financial reporting process and the financial statements produced.

In discharging this responsibility, the BAC considered the effectiveness of the Bank's internal controls over financial reporting with the assistance of the External Auditors and the Internal Audit Department, as required by the regulations applicable.

### Internal Audit

Coverage of the audit universe by the Internal Audit team is based on a risk assessment review aligned to the Bank's strategic plan. The annual risk and significance-based audit plan covering significant operational areas and mandatory regulatory audits extending to branches, departments, and special reviews is approved by the BAC at the beginning of the year.

Engaging early to protect the control environment, with post implementation reviews of critical systems, and use of combined expertise on information systems and processes, was the strategy used by Internal Audit to enhance their value addition to the Bank. The BAC periodically reviewed progress of the audit plan.

The BAC also reviewed the scope, independence, objectivity and performance of the Internal Audit function and the adequacy of its resources. The performance of the Head of Internal Audit was also reviewed by the BAC and the performance of senior officers of Internal Audit was observed by the BAC in the course of the work they performed.

Major findings of audits and internal investigations were considered by the BAC and appropriate recommendations made on action required and mitigating controls necessary, with implementation followed up as necessary with management.

Information Systems audits were conducted by internal Audit, understanding information security risks (including cyber security risks) and possible mitigation strategies considering changes in the working environments and IT infrastructure including cyber security risks . The BAC works with the BIRMC in identifying and addressing these concerns.

# Committee Reports

## Board Audit Committee Report

### External Audit

The BAC monitored the independence of the External Auditors and the objectivity and effectiveness of their audit process and provided recommendations to the Board on their re-appointment and on the audit fees payable to them. The BAC also reviewed any engagement of the external auditors and the fees applicable on other services provided, ensuring these were not prohibited services and their provision did not impair the auditors' independence and objectivity.

The BAC had two confidential meetings with the External Auditors without the presence of management, to ensure they had unhindered access to information, records and staff, and experienced no pressure or influence in reporting their findings.

The BAC received a declaration from KPMG as required by the Companies Act No.07 of 2007, confirming that they did not have any relationship or interest in the Bank which had a bearing on their independence.

The Committee reviewed the external audit plan and audit findings, as well as the Auditor's management letters and followed up on issues raised.

### Communication with the Board

Minutes of BAC meetings are submitted to the Board. Written reports and verbal updates were provided also, as thought necessary, highlighting matters of particular relevance.

### Evaluation of the Committee

Self-evaluations of the workings of the committee were initiated in December 2023. The results of these evaluations will be reviewed appropriately by the BAC and advised to the Board.

On behalf of the BAC



Arjuna Herath  
*Chairman, Board Audit Committee*

Colombo  
26 March 2024

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

Your Directors take pleasure in presenting this report to their stakeholders together with the audited Financial Statements for the year ended 31 December 2023.

The details set out herein provide pertinent information as required by the Companies Act No. 7 of 2007, Banking Act No.30 of 1988 and its amendments, Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks and subsequent amendments thereto, the Listing Rules of the Colombo Stock Exchange (CSE), and the best accounting practices recommended by the Institute of Chartered Accountants of Sri Lanka (CASL) and other necessary disclosures in the best interest of stakeholders of the Bank.

## General

Cargills Bank Ltd (now Cargills Bank PLC) was a limited company and a Licensed Commercial Bank, that was incorporated in Sri Lanka on 3 November 2011 as "Cargills Agriculture and Commercial Bank Limited" under the Companies Act No. 7 of 2007 and changed its name to "Cargills Bank Limited" on 28 January 2014. The Bank was listed on the Colombo Stock Exchange on 9 January 2024 and became a Public Limited Company.

It was approved as a Licensed Commercial Bank under the Banking Act No. 30 of 1988 on 21 January 2014.

The Bank has been assigned a National Long-Term Rating of A (lka) by Fitch Ratings Lanka Limited in year 2023.

## Board Responsibility Towards Financials

According to sections 150 (1), 151, 152 and 153 (1) & (2) of the Companies Act No. 07 of 2007 and amendments thereto, the Bank's Board of Directors is responsible for the preparation of the Financial Statements of the Bank, which reflect a true and fair view of the financial position and the performance of the Bank.

In this respect, the Board of Directors wishes to confirm that the Financial Statements, namely, Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and Material Accounting Policies and Notes thereto appearing on pages 190 to 291 have been prepared and presented in conformity with the requirement of the Sri Lanka Accounting Standards as mandated by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the Companies Act No. 07 of 2007 and amendments thereto.

The report also provides the information and disclosures as required by the Companies Act No. 07 of 2007 and amendments thereto, Banking Act No. 30 of 1988 and amendments thereto, the Directions issued thereunder including the Banking Act Direction No. 11 of 2007, as amended, the Listing Rules of the CSE and best accounting practices recommended by the CASL.

The Board of Directors of the Bank is pleased to present to the shareholders the 12th Annual Report of the Bank comprising a detailed discussion and analysis of capitals and business lines, the Audited Financial Statements of the Bank for the year ended 31 December 2023 along with the Independent Auditor's Report on the Financial Statements conforming to all applicable statutory requirements.

The Report of the Board of Directors and the Financial Statements for the year ended 31 December 2023, including comparatives were approved and authorised by the Board of Directors on 26 March 2024.

Within the statutory time limits, the appropriate number of copies of the Annual Report will be submitted to the CSE and to the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) and soft copies of same will be hosted on the website of the Bank, <https://www.cargillsbank.com> and on CSE website, <https://www.cse.lk>.

## Board Balance and Contribution

The Board is considered to be of appropriate balance and mix of skills and experience. The Boards' diversity contributes to varied perspectives and objective evaluation of matters set before them. Non-Executive Directors are eminent professionals in their respective fields. Gender diversity is maintained with two ladies on the Board both as at 31 December 2022 and 2023.

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

Directors are appointed through a formal and transparent process, assessed for their independence and approved by the Central Bank of Sri Lanka. The nomination of Directors is delegated to the Board Nominations & Governance Committee (BNGC), which recommends the appointment of new Directors for approval by the Board having reviewed the combined knowledge, experience and diversity of the Board in relation to the Bank's strategic plans and any gaps therein.

During the year, four new Directors were appointed to the Board to fill the vacancies which had arisen. The BNGC (previously BNC) spent a considerable amount of time in identifying the most suitable candidates, to build the right team to steer the Bank into the future.

The meeting agenda and papers are made available to the Directors generally seven days before the meeting and minutes of the preceding meeting circulated well in advance of the subsequent Board Meeting, allowing members sufficient time to review them, make their observations and be prepared for the forthcoming meeting.

The Chairman sets the Board agenda, assisted by the Company Secretary. Care is taken to ensure that the Board spends sufficient time considering matters critical to the Bank's success, as well as compliance, risk and administrative matters.

## Board and Its Committees

The Board is empowered by the Articles of Association to delegate any of its powers to the Board appointed subcommittees within the scope of the respective Terms of Reference approved by the Board. The subcommittees consist of members appointed as the Board thinks fit, subject to meeting the criteria specified in the respective Terms of Reference. The following Board subcommittees were functional as at 31 December 2023. The scope, composition and responsibilities of these subcommittees have been provided in the respective Committee Reports published elsewhere in the Annual Report.

- 1) Board Audit Committee (BAC)
- 2) Board Integrated Risk Management Committee (BIRMC)
- 3) Board Strategic Planning Committee (BSPC)
- 4) Board Human Resources and Remuneration Committee (BHRRC)
- 5) Board Nominations & Governance Committee (BNGC)
- 6) Board Credit Committee (BCC)
- 7) Board Related Party Transactions Review Committee (BRPTRC)

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

Given below is a summary of the participation of Directors in Board and Committee meetings in the year 2023.

Name of the Director	Date of Appointment to the Board	Attended/Eligibility to Attend							
		Board	BAC	BIRMC	BSPC	BHRRC	BNGC	BCC	BRPTRC
Mr. V R Page (Chairman)	3 November 2011 Retired w.e.f 21 January 2023	1/1	-	-	*0/0	*0/0	1/1	*0/0	-
Mr. R A Ebell (Chairman)	3 July 2015 Appointed as Chairman w.e.f. 21 January 2023	13/13	10/10	6/6	2/2	4/4	6/6	-	4/4
Mr. K B S Bandara (MD/CEO)	8 September 2020	13/13	-	6/6	2/2	-	-	-	-
Mr. P S Mathavan (ED)	1 March 2012 Retired w.e.f 21 January 2023	1/1	-	*0/0	*0/0	-	-	-	-
Ms. W Y R Fernando	1 August 2018 Resigned w.e.f 27 October 2023	9/11	-	3/3	1/1	-	6/6	7/7	3/3
Ms. M M Page	10 October 2019	13/13	1/1	-	2/2	-	-	8/8	-
Mr. Y Kanagasabai	28 October 2019	11/13	9/9	6/6	2/2	1/3	-	-	*0/0
Mr. P E A B Perera	1 July 2021	13/13	10/10	-	2/2	3/3	5/5	8/8	4/4
Mr. H A Pieris	20 January 2023	11/12	7/8	-	2/2	4/4	4/5	6/7	-
Mr. R A Jayawardena	01 May 2023	7/9	-	-	2/2	1/2	-	-	-
Mrs. S Gnanapragasam	21 June 2023	7/8	-	3/3	1/2	1/1	-	1/1	2/2
Mr. A Herath	01 November 2023	2/2	2/2	1/1	1/1	*0/0	*0/0	-	-

\* Meetings have not been held during the relevant period.

## Auditors

The opinion expressed by the Bank's External Auditors, Messrs KPMG, Chartered Accountants, who were re-appointed in accordance with a resolution passed at the 11th Annual General Meeting held on 28 April 2023 is given on the pages 185 to 189 of this Annual Report.

The details on the remuneration of External Auditors are given in Note 17 on page 220 to the Financial Statements.

As far as Directors are aware, the External Auditors do not have any other relationship on interest in contracts with the Bank other than audit-related and non-audit assignments which have been appropriately approved.

## Income

The Bank's income consists largely of interest on loans and advances and other interest earning assets and fee-based income, as shown in the snapshot below:

	2023 Rs. '000	2022 Rs. '000
Interest income	10,929,050	8,002,096
Fee and commission income	1,283,432	1,272,446
Net gains/(losses) from trading	324	994
Net gains/(losses) from financial assets at fair value through profit or loss	264,942	-
Net gains/(losses) from derecognition of financial assets	176,953	20,814
Net other operating income	252,716	192,260

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

## Material Accounting Policies

The material accounting policies adopted in preparation of the Financial Statements are given on pages 195 to 291.

## Shareholders' Funds And Reserves

### Stated Capital

The Stated Capital of the Bank is Rs. 11,894.4 Mn, the details of which are given in Note 42 to the Financial Statements.

### Reserves

The Bank's total reserves as at 31 December 2023 stood at Rs. 48 Mn. This comprises an accumulated loss of Rs. 1,177 Mn, statutory reserve of Rs. 79 Mn and fair value through OCI reserve of Rs. 1,147 Mn. The movement in reserves and accumulated loss are shown in Notes 43 and 44 to the Financial Statements.

### Capital Expenditure

The Bank's expenditure on Property, Plant and Equipment at cost amounted to Rs. 188.3 Mn during 2023, details of which are given in Note 31 to the Financial Statements. Expenditure on Intangible Assets at cost amounted to Rs. 79.7 Mn during 2023, details of which are given in Note 32 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, in a timely manner.

## Provision for Taxation

As per the Inland Revenue (Amendment) Act No. 45 of 2022, the income tax rate applicable on the domestic operation and off shore operation of the Bank is 30% for the year of assessment 2023/2024. The income tax rates applicable for the year of assessment 2022/2023 were 24% for the first half and 30% for the second half of the said year of assessment in accordance with income tax legislation.

Deferred tax was calculated based on the Balance Sheet Liability Method in accordance with Sri Lanka Accounting Standard LKAS 12 on Income Taxes.

As per the Value Added Tax (Amendment) Act No. 14 of 2022, the VAT rate applicable to the Bank's Financial services is 18% (2022-18%).

According to the Social Security Contribution Levy Act No. 25 of 2022, the Bank is liable to Social Security Contribution Levy at 2.5% on the value addition attributed to Financial Services as well as non-financial services turnover (with effect from 01 October 2022 - 2.5%).

The Bank is also liable for Crop Insurance Levy at 1% of profit after tax for the period ending 31 December 2023 (2022 - 1%).

## Internal Controls

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

## Interest Register and Director's Interest

Under 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.

Related party transactions of the Bank are disclosed in Note 51 to the Financial Statements on pages 262 to 266. In addition, transactions with entities where Directors of the Bank hold directorates are disclosed on page 147. The Directors have no direct or indirect interest in contracts or proposed contracts other than those disclosed. The Directors have declared all material interests in contracts, if any, involving the Bank and have refrained from participating when relevant decisions are made.

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

## Directors' Remuneration

Directors' remuneration and other benefits of the Directors are given in Note 15.1 and 51.4.1 to the Financial Statements, on pages 218 and 262, respectively.

## Director's Interest in Shares

Directors' holdings in shares of the Bank as at 31 December 2022 and 2023 are tabulated below;

Name	As at 31 December 2023	As at 31 December 2022
Mr. V R Page - Chairman (Retired w.e.f. 21 January 2023)	N/A	NIL
*Mr. R A Ebell - Chairman (Chairman w.e.f. 21 January 2023)	48,300 (ordinary voting shares)	NIL
Mr. K B S Bandara - Managing Director/CEO	112,500 (ordinary voting shares)	NIL
Mr. P S Mathavan (Retired w.e.f. 21 January 2023)	N/A	1,100,000 (ordinary voting shares)
Ms. W Y R Fernando (Resigned w.e.f. 27 October 2023)	N/A	NIL
Ms. M M Page	NIL	NIL
Mr. Y Kanagasabai	NIL	NIL
Mr. P E A B Perera	NIL	NIL
Mr. H A Pieris (Appointed w.e.f. 20 January 2023)	NIL	N/A
Mr. R A Jayawardena (Appointed w.e.f. 1 May 2023)	NIL	N/A
Mrs. S Gnanapragasam (Appointed w.e.f. 21 June 2023)	NIL	N/A
Mr. A Herath (Appointed w.e.f. 1 November 2023)	NIL	N/A

\*Held jointly with Mrs. M T L Ebell (spouse) and Mrs. J M Wijayanayaka (daughter).

## Register of Directors and Secretaries

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

## Donations

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

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

## Directorate

The names of the Directors of the Bank during the period 1 January 2023 to date are given with changes that occurred in the composition of the Board during the period under review. The classification of Directors into Executive, Non-Executive and Non-Executive Independent Directors is made as per the Central Bank of Sri Lanka (CBSL) mandatory rules on Corporate Governance under the Banking Act directions and CSE Listing Rules.

Name of the Director	Executive/ Non-Executive Status	Status Independence/Non-Independence
Mr. V R Page <i>Chairman</i>	Non-Executive	Non-Independent (Retired w.e.f. 21 January 2023)
Mr. R A Ebell <i>Chairman</i>	Non-Executive	Independent (Appointed as Senior Director w.e.f. 04 August 2022 to 20 January 2023 and as Chairman w.e.f. 21 January 2023)
Mr. K B S Bandara <i>Managing Director/CEO</i>	Executive	Non-Independent
Mr. P S Mathavan	Executive	Non-Independent (Retired w.e.f. 21 January 2023)
Ms. W Y R Fernando	Non-Executive	Independent (Resigned w.e.f. 27 October 2023)
Ms. M M Page	Non-Executive	Non-Independent
Mr. Y Kanagasabai	Non-Executive	Non-Independent/ Independent (Mr. Kanagasabai resigned from the Boards of Cargills (Ceylon) PLC and Cargills Retail (Pvt) Ltd on 28 July 2023 and was thereafter designated as an Independent Director)
Mr. P E A B Perera	Non-Executive	Independent
Mr. H A Pieris	Non-Executive	Non-Independent
Mr. R A Jayawardena	Non-Executive	Independent
Mrs. S Gnanapragasam	Non-Executive	Independent
Mr. A Herath	Non-Executive	Independent

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

## Declaration by Directors

### Independent/ Non-Independent Status

All Non-Executive Directors have submitted signed declarations confirming their independent/ non-independent status in compliance with Rule 9.8.3 of the CSE Rules on Corporate Governance. The Non-Executive Directors status of independence/non- independence has also been determined according to Direction 3(2)(iv) of the Banking Act Direction No.11 of 2007 on Corporate Governance issued by the Monetary Board of Central Bank of Sri Lanka.

### Declaration by Directors - 'Fit and Proper' Status of Continuing Directors

In terms of Rule 9.7.5 of the CSE Rules, all Directors and CEO of the Bank satisfy the "Fit and Proper" assessment criteria stipulated in Rule 9.7.3 of the CSE Rules. The Bank obtained declarations from the Directors and CEO confirming that each of them have continuously satisfied the Fit and Proper Assessment criteria set out in the Listing Rules and satisfied the said criteria as at the date of confirmation.

The Directors and the CEO have submitted Affidavits in terms of Section 42 of the Banking Act (as amended) respectively declaring their 'fit and proper' status, prior to the Annual General Meeting, which were submitted to the Director, Bank Supervision, Central Bank of Sri Lanka.

## Re-Election/Election of Directors

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

Mr. R A Jayawardena, Mrs. S Gnanapragasam and Mr. A Herath who were appointed on 01 May, 21 June and 01 November 2023 respectively, offer themselves for election in terms of Article 92 of the Articles of Association of the Bank with the unanimous recommendation of the Board of Directors.

## Board Evaluation

Self evaluations designed to improve the Board's effectiveness and that of its committees were conducted in line with the best practices on Corporate Governance during the year.

## Corporate Governance for Licensed Commercial Banks in Sri Lanka

The Bank has complied with the Banking Act Directions and the Listing Rules of the CSE on Corporate Governance as stated in the detailed statement provided on pages 93 to 138 of the Annual Report.

## Risk Management and Internal Controls

The material foreseeable Risk Factors are disclosed in the Risk Management Report of the Annual Report on pages 148 to 161.

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

## Shareholding

The number of registered shareholders of the Bank as at 31 December 2023 was 2,266. The schedule providing information on shareholders is available in the sections on 'Investor Relations'.

## Review of Operations and Future Developments

The review of the financial operation and performance of the Bank together with important events and future development have been explained in the following reports.

- Chairman's' Message (Pages 16 and 17)
- CEO's Message (Pages 18 to 21)
- Management Discussion and Analysis (Pages 28 to 92)

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

## Events After the Reporting Period

No circumstances have arisen since the Statement of Financial Position date, which would require adjustments to, or disclosure in, the Financial Statements.

## Annual General Meeting

The Annual General Meeting will be held at the Institute of Chartered Accountants of Sri Lanka, No: 30A, Malalasekara Mawatha, Colombo - 07 on Friday, 26 April 2024. The Notice of Meeting can be found on page of 319 the Annual Report.

## Going Concern

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

## Acknowledgement of the Contents of the Report

As required by Section 168 (1) (k) of the Companies Act No. 7 of 2007, the Board of Directors hereby acknowledges the contents of this Annual Report.

For and on behalf of the Board of Directors,



Richard Ebell  
Chairman



Senarath Bandara  
Managing Director/CEO



Ms. Amendra de Silva  
Company Secretary

Colombo  
26 March 2024

## Directors' Interest in Contracts with the Bank

In addition to the Related Party Transactions disclosed in Note 51 to the Financial Statements on pages 262 to 266 in the Annual Report, the Bank carries out transactions in the ordinary course of business on an arm's length basis with entities where the Chairman or a Director of the Bank is the Chairman or a Director of such entities.

The details of such transactions are given below;

Company	Relationship	Accommodation Granted/ Deposit Rs.'000	Interest Paid Rs.'000	Interest charged Rs.'000	Fees and expenses charged Rs.'000	Balance outstanding	
						31-Dec-23 Rs.'000	31-Dec-22 Rs.'000
Sierra Construction (Pvt) Ltd	Common Directors	Loan and Advances	-	-	1,926	-	341,672
		Deposits	111	-	-	-	5,742
		Off balance Sheet	-	-	-	-	71,752
Dankotuwa Porcelain PLC	Common	Loan and Advances	-	-	3	-	-
	Directors	Deposits	-	-	-	113	6597
Edinburgh Products (Pvt) Ltd	Common	Loan and Advances	-	-	17	-	-
	Directors	Deposits	1,087	-	-	-	-
Double Yummm (Pvt) Ltd	Common	Loan and Advances	-	-	57	-	-
	Directors	Deposits	19,254	-	-	-	60,942
Sierra Cables PLC	Common	Loan and Advances	-	-	2	-	10,257
	Directors	Deposits	1,060	-	-	9,724	3,329
Ceylon Chamber of Commerce	Common	Loan and Advances	-	-	3	-	-
	Directors	Deposits	0.43	-	-	12	-

# Risk Management

Managing risks is more crucial now than ever. The banking industry is continually influenced by novel concepts, increased use of technology and an exponential increase in the diversity, volume and speed of financial transactions. Banks not only compete with each other but also with numerous other financial institutions, both nationally and internationally. The regulatory framework governing banks is constantly changing. Yet, these changes have catalysed the development of robust risk management frameworks within Banks. Improvements in both risk-management frameworks and technology have enabled banks to adeptly identify, measure, monitor and control risks more effectively. Technology has accelerated the pace of communication and data transmission, allowing banks to swiftly assess risks and improve risk management practices across their global operations.

The Bank evaluates risks based on future uncertainties and the potential benefits of those outcomes. The risk management function prioritises mitigating the potential downside while strategically optimising gains within defined risk tolerance parameters.

The Bank's risk appetite is pro-actively expressed and monitored both in terms of qualitative and quantitative measures. Risk monitoring is achieved through the implementation of robust and effective management of information systems, facilitating timely review of risk positions and exceptions.

**The Bank's risk management process leverages a range of tools to identify, measure and manage risk on an ongoing basis.**

Risk controls are carried out by establishing and communicating risk limits through policies, standards and procedures that define responsibility and authority, for the numerous risks assumed by the Bank.

The Bank's risk management process leverages a range of tools to identify, measure and manage risk on an ongoing basis. Furthermore, the Bank has established a comprehensive risk monitoring mechanism through Key Risk Indicators (KRI). The Bank has bolstered its operational resilience by empowering front-line staff with risk-aware decision-making capabilities.

## Integrated Risk Management Framework (IRMF)

The framework facilitates oversight and accountability for various risks at different levels of the Bank. Key elements of the IRMF are as follows:

### Components of IRM Framework

- Risk Appetite
- Risk Management Tools
- A culture of risk awareness

## Role of the Board and Board Committees

The Board of Directors holds the ultimate responsibility for oversight of the risk management of the Bank. They also determine the risk appetite and review the governance structure, policy framework and risk management process regularly.

## Risk Governance and Management Structure of the Bank

The Board has appointed a Board Integrated Risk Management Committee (BIRMC) to support its oversight of the risk management function.

The Board Audit Committee (BAC) evaluates the adequacy of internal controls and compliance to the controls in accordance with the relevant policies, procedures and guidelines.

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

# Risk Management

## Objectives of the IRMF

- a) Explicitly stipulate overall risk management objectives, risk tolerance levels, policies, guidelines and approaches for the management of risk exposures.
- b) Define the responsibilities of different parties involved in the integrated risk management function.
- c) Integrate and aggregate different risk exposures including credit, market, operational and strategic risks to develop an overall risk profile of the Bank.
- d) Ensure compliance with regulatory guidelines issued by the Central Bank of Sri Lanka (CBSL) and applicable laws in the area of risk management.
- e) Create staff awareness and inculcate a risk culture throughout the Bank.
- f) Provide analysis and recommendations to support the business units to achieve the Bank's overall strategic objectives.

Apart from the Board committees, the Management committees have focused oversight on designing, implementing and maintaining an effective risk management framework and culture. The senior management is given clear guidelines by the Board of Directors on risk tolerance limits and control parameters. This enables the senior management to design strategies and business plans following the guidelines.

Senior management is also guided by the laws, regulations and other directives in managing the responsibilities assigned to them. Being the risk owners, the line business managers are responsible for managing risks in their respective areas.

## Integrated Risk Management Division (IRMD)

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

Currently, IRMD consists of separate units for Credit Risk Management/ Loan Review Management (LRM), Asset and Liability Management and Market Risk Management / Treasury Middle Office and Operational Risk Management / Technology Risk Management.

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

# Risk Management

## Units Under IRMD and Key Responsibilities

Credit Risk	• Implementation of credit risk framework, policies and tools.
	• Independent credit risk reviews before approval.
	• Post-disbursement review mechanism and recommendations.
	• Monitoring stressed credits and excesses.
	• Credit Portfolio Risk assessment and SLFRS 9 process governance.
	• Monitoring early warning indicators, including watch lists, delinquency ratios, sector concentrations and trends.
	• Model Validation.
	• Assess Key Risk Indicators monthly.
Market and Liquidity Risk	• Maturity/Interest Rate Risk Analysis.
	• Price Value Basis Point (PVBP), Value At Risk (VAR) and Duration Analysis.
	• Sensitivity Analysis and Stress.
	• Maturity Mismatch.
	• Concentration of Funding.
	• Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR).
	• Liquidity Stress Testing.
Operational Risk and Technology Risk	• Identification, assessment, measurement and monitoring of operational risk and recommending the mitigation controls to the management.
	• Management of risks arising from the controls placed within the Bank.
	• Conduct Risk Control Self Assessment (RCSA) for all business units to enable coherent risk management within the business process.
	• Continuously focus on meeting the information security objectives and requirements of the Bank in line with emerging technology and the Bank's strategy.
	• Monitoring and governance of IT and IS risks covering Control risk, Project Risk and Change Risk.
Control risk, Project Risk and Change Risk	• Monitoring the operational resilience to disaster scenarios and the Bank's capability for business continuity.
Reputational and Strategic Risks	• Qualitative scorecard approach.
	• Review the accomplishments of Strategic goals.
	• Assess the reputational value of the Bank.
	• Review the accomplishments of customer service goals.

# Risk Management

Key Implementations During 2023	• Strengthened the existing Risk Management Policy Framework.
	• Developed and improved the (Internal Capital Adequacy Assessment Process) framework.
	• Automated the Overdraft excess approving process.
	• Developed the Return On Risk Adjusted Capital model.
	• Implemented the comprehensive risk appetite statement, with strengthened Technology risk KRIs.
	• Listed on the Colombo Stock Exchange (CSE) and enhanced governance aspects in compliance with the latest CSE guidelines.
	• Review and validation of the Risk model in line with SLFRS 9 - Guiding alignment with the Bank's risk appetite with financial reporting.
	• Overall Collective and Individual Impairment process governance in line with the SLFRS 9 Standard.
	• Strengthened the credit process through continuous process improvements.
	• Development, validation and calibration of risk models.
	• Enhanced operational risk resilience by empowering the business operations risk managers.
	• Improved staff awareness of risk management aspects.
	• Enhanced Technology Risk Management Framework in line with the CBSL guidelines.
	• Centralised the stress testing framework.
	• Developed and improved Collective and Individual Impairment process governance in line with the CBSL Direction 13 of 2021.
• Developed the CBSL-mandated Recovery Plan.	
• Enhanced operational Risk and Control Self Assessment (RCSA) process coverage.	
Bank's Priorities for 2024	• Improve Risk Tolerance Framework and risk management policies.
	• Align business continuity management with the ISO standard and strengthen the business continuity capabilities.
	• Enhance risk reporting to ensure relevance, focus and quality to support decision-making.
	• Develop risk models to have a robust inventory of credit scoring models, model documentation with periodic validation and recalibration.
	• Centralisation of risk data, backtesting and analytics.
	• Improve and process development of the Bank loan origination system.
	• Strengthen the Loan Review Management (LRM) process to enhance its robustness and expand its coverage.
	• Enhance the technology risk management process in line with the technology risk resilience framework of the CBSL.
	• Enhance cybersecurity posture through robust risk analysis.
	• Consolidate market risk policies to streamline operations.
• The Treasury middle office is prioritising Global FX code implementation in 2024.	

# Risk Management

## Credit Risk

Credit risk management is an essential element of the Bank's risk management strategy. Credit risk is the potential loss arising from a customer or counterparty failing to meet its obligations in accordance with the agreed terms. The Bank is vulnerable to credit risk through direct lending, commitments and contingencies. Credit risk is determined by a variety of factors, including the quality of the lending portfolio, concentration levels and counterparty ratings with cross-border exposures and government exposures.

The Bank established policies and a framework to describe the concepts that influence client selection, due diligence, risk tolerance, portfolio monitoring and management, facility review and recovery procedures. These serve as a guide to measure, manage and control credit risk through a suitable credit risk environment, a good credit-granting process and adequate credit administration.

The Bank's credit risk management prioritises establishing acceptable credit criteria for borrowers and counterparties, as well as anticipating emerging risks that may affect customers' business activities in advance. The credit risk management team develops risk assessment and monitoring technologies used in credit origination and portfolio management, including stressed credit scenarios. Furthermore, close monitoring of working capital facility utilisation and ongoing attention to changes in economic or other circumstances that may contribute to

risk deterioration are critical areas of focus. Moreover, the team plays an important role in the SLFRS 9 impairment process governance.

The Bank has established clear criteria for its credit approval system and authority has been distributed to various stages of the approval process. Credit facilities above a certain threshold are independently examined by risk officers assigned to the Risk Management Department and comments are made and considered when such facilities are approved.

IRMD uses internally developed risk scoring models to rate Business Banking, SME, Retail, credit cards, Micro and Agri facilities. The rating considers both quantitative and qualitative factors and is reviewed at least annually. The rating models used by IRMD are independently validated annually in accordance with the regulatory requirement. The Bank designed a workflow-based centralised risk rating system that allows for the central storage of risk ratings for all bank customers.

Loan review management (LRM) is another crucial responsibility within credit risk management. The Loan Review Unit, a separate unit from the Credit Risk Management Unit, continuously evaluates and improves loan quality and credit function. The Unit has increased the sample size and scope of loan evaluations to gather feedback from business units on post-disbursement credit management changes that enhance loan portfolio quality.

The Bank established policies and a framework to describe the concepts that influence client selection, due diligence, risk tolerance, portfolio monitoring and management, facility review and recovery procedures.

# Risk Management

During 2023, Cargills Bank established a system for approving and monitoring excesses which are created by branches and units. Business units are required to obtain approval from the relevant authorities through this system, while IRMD has the capability to monitor any excess through the same system.

The Bank has implemented a watchlist and close monitoring approach to identify clients who have signalled signs of elevated credit risk. Management receives information on frequently watch-listed clients, including overdue exposures, excess positions, frequent cheque returns, restructured and extended facilities, rating downgrades and Stage 3 crossovers. Corrective measures are taken to ensure the quality of the bank loan book.

The BCC/BIRMC receives reports on watch-listed borrowers with substantial credit quality deterioration and significant exposures.

The Bank has evaluated and analysed sectors and portfolio segments to take proactive steps and identify negative trends, high-risk industries and unprotected exposures. IRMD provides the EIRMC/BIRMC with dashboards and information on credit portfolio quality and performance. These evaluations provide business line managers with insightful guidance on credit risk and key areas of concern, guiding their lending decisions.

The portfolio monitoring unit has identified aggregate risks in its credit portfolio. The goal was to proactively identify and minimise portfolio-level hazards. The unit has analysed the Bank’s loan products to understand the portfolio behaviour across demographics, geographic regions and internal segments.

The Business Units and the Recovery Unit are responsible for recovering delinquent loans and non-performing advances. Credit officers monitor the recovery of advances at the outset and advances are transferred to the Recovery Unit when loans become non-performing.

This unit monitors the value of the collateral held while pursuing the recovery procedure until a resolution is achieved. To guarantee efficient follow-up and the dissemination of key insights, the Recovery Unit communicates with the Credit Risk Management Unit. Advances that are not repaid are escalated to the legal department, as a final recourse for proceedings.

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

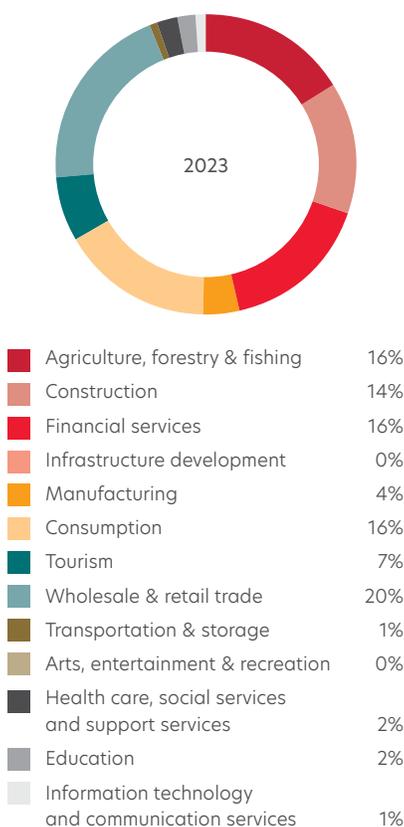
Loan Origination	Approval	Disbursement	Monitoring
<ul style="list-style-type: none"> <li>All facilities are categorized and treated based on the assigned risk rating through a comprehensive risk evaluation model.</li> <li>The evaluation model is selected based on the credit risk framework and the functioning business sector.</li> <li>The Bank employs the Return on Risk-Adjusted Capital (RORAC) model to ascertain the risk-adjusted return.</li> </ul>	<ul style="list-style-type: none"> <li>Credit facilities are approved through assigned Delegated Authority, which has structured based on the risk thresholds.</li> <li>Board and executive level sub committees scrutinize and approve the credit facilities beyond individual DA threshold.</li> <li>Credit risk unit establish within the RMD, which assist the management and board committees on its independent opinion.</li> </ul>	<ul style="list-style-type: none"> <li>The Credit Administration department centrally manage the validation of approvals granted, disbursement, and operational maintenance.</li> <li>Operation of credit management function is segregated from business lines..</li> <li>Independent LRM unit under RMD conduct periodic reviews on facilities approved.</li> </ul>	<ul style="list-style-type: none"> <li>Constant monitoring of credit facilities were conducted prioritizing based on risk rating assigned.</li> <li>Credit facilities that are overdue undergo focused monitoring by Business Units, Senior Management, and the Collection Unit.</li> <li>Loans that are overdue by 60 to 90 days are categorized as watch listed, and their performance is closely monitored by management.</li> <li>RMD monitors and reports to the management on the expected, actual, and forecasted performance of credit facilities.</li> </ul>

# Risk Management

## Concentration Risk

The Bank mitigates concentration risk by strategically diversifying its business across various industry sectors, products, counterparties and geographies. Concentration risk is measured through the Normalised Herfindahl-Hirschman Index (HHI) and is computed as part of the Bank’s ICAAP (Internal Capital Adequacy Assessment Process). This process measures concentration related to different industrial sectors of the economy, diverse customer segments, product types and maturity patterns.

### Sector Concentration



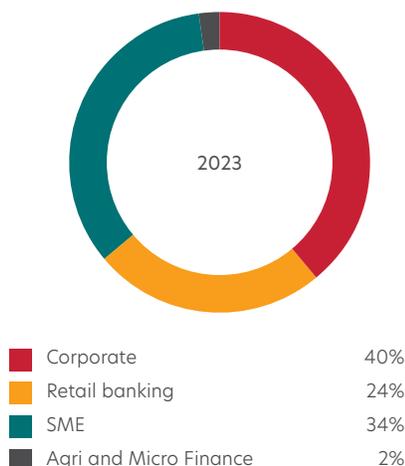
## Counterparty Risk

The established policies, procedures and limit structures including single borrower limits and group exposure limits with product-specific sub-limits are used to mitigate counterparty risk. The limits set by the Bank are more stringent than those stipulated by the regulator. Consequently, the Bank gains more flexibility in controlling the extent of its counterparty exposure concentration.

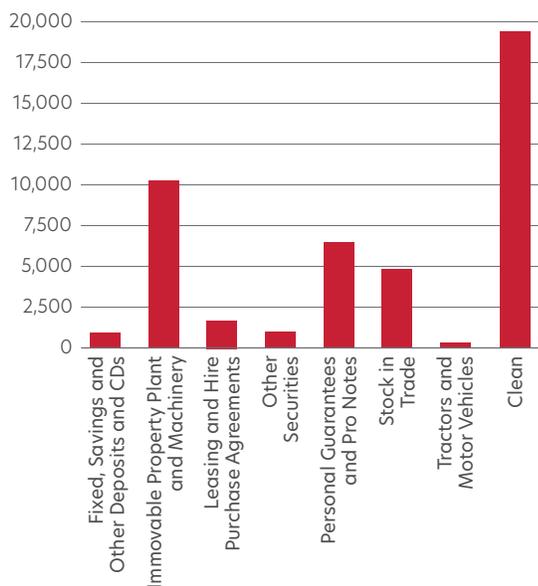
A major aspect of counterparty risk is the loans and receivables to bank, both domestic and foreign. This aspect is vigilantly monitored by a set of guidelines, protocols and limitations. The prudent limits are regularly checked against the counterparty bank exposures and when necessary, the limits are updated to reflect the most recent information. Throughout the year, the market data of counterparties’ financial and economic performance is closely examined.

Details of Product Wise Exposure and Sector Wise Exposure are provided on pages 233 and 275 to 276, respectively, of the Annual Report.

## Business Unit Wise Exposure

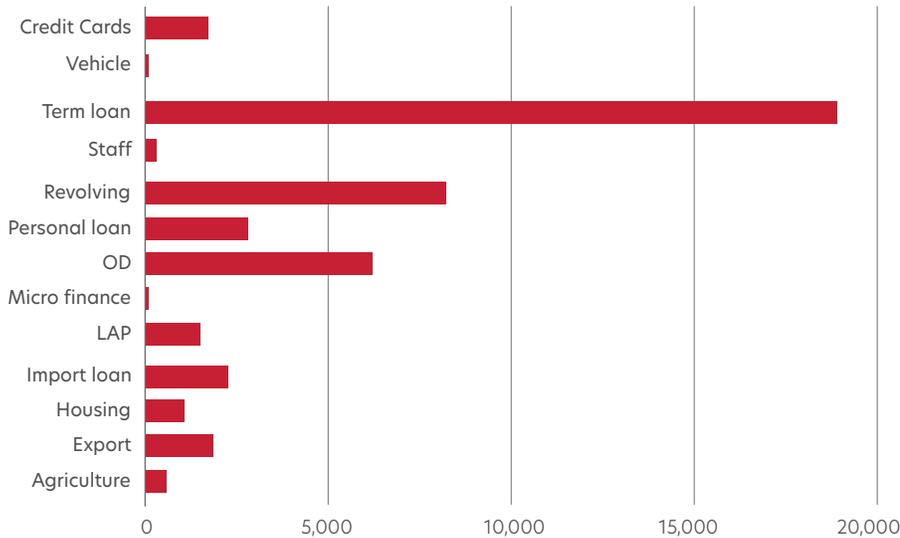


## Collateral Concentration (Rs. Mn)



# Risk Management

## Product Concentration (Rs. Mn)



## Operational Risk

Operational Risk Management is accountable for the design, implementation and maintenance of an effective and efficient Operational Risk Management Framework (ORMF). The Bank manages operational risk using the ORMF. This framework facilitates the assessment of the operational risk profile in alignment with its risk appetite. It systematically identifies operational risk scenarios and concentrations to recommend prioritised risk-mitigating measures.

The operational risk is intrinsic to the banking business and the extent of risk exposure depends on the size, sophistication, level of automation and the nature and complexity of activities undertaken.

The operations risk unit is responsible for driving the operation risk governance framework to enable Bank-wide identification and escalation of operation risk items. ORM unit facilitates the business units to record the identified operations risk items in the Risk register, Internal loss event reporting (LER) is utilised to maintain the anticipated risk level. ORM unit concurrently monitors the risk exposed by the Bank through a well-established key risk indicator (KRI) process.

## Operational Risk Reporting

To cover the broad range of risk types underlying operational risk, the operations risk framework contains numerous operational risk management techniques. These aim to efficiently manage the operational risk in our business and are used to identify, assess and mitigate the operational risks.

## Risk Control Self-Assessment

Risk Control Self-Assessment (RCSA) is a process of assessing operational risks in all products and processes compiled by the respective departments. It is a process of self-assessment by the business/ process owners in each respective business/ operational department facilitated by the Operational Risk Management Unit. The Risk Control Self-Assessment process identifies issues that need the attention of the management and remain outstanding for a considerable period. Findings of the Risk Control Self-Assessment will be treated through the Risk Register.

The Risk Register is the main repository of the risks and controls identified across all departments in the Bank. It also outlines the actions to mitigate each risk event identified by the departments. These identified risks are the result of systematic or ad hoc risk assessments performed at a given point in time through Risk Control Self-Assessment or any other means.

The Risk Register is crucial for the successful management of risk and is a pivotal aspect of the Risk Management Plan. It helps with tracking issues and proactive problem-solving as they arise.

# Risk Management

Risk Register also provides a systematic means of identifying control gaps that threaten the achievement of defined business or process objectives and monitoring management action to address them. The findings from the RCSAs are used to formulate appropriate action plans to address identified control gaps. The Operational Risk Management unit diligently follows up on the registered items, until a resolution is achieved.

To achieve these goals, the operational risk unit has established the following risk reporting structure across the Bank.

**A. Key Risk Indicators are used for the continuous monitoring of risks and facilitate the identification of triggers of known risks.**

A Key Risk Indicator is a measure used to indicate the statistical movement of a risk event. It is a tool used for monitoring trends in selected areas or events.

This tool is used to monitor the operational risk profile and alert the organisation of impending problems promptly. Key Risk Indicators facilitate monitoring the effectiveness of controls implemented and trigger risk-mitigating actions.

**B. Operational Loss and Event Reporting is a mechanism stipulated in the Basel Committee guidelines.**

The continuous collection of data on operational losses and events supports timely action on key observations. Loss event reports enable the Banks to extract lessons learned during each adverse event.

This process includes but is not limited to systematic risk analyses, including a description of the business environment surrounding the loss event, previous events, near misses and event-specific KRI. The report also includes the corrective action taken by the responsible departments including root cause analysis.

To integrate the risk management function with the front line, the Bank has appointed department-wise Business Operational Risk Managers (BORM), who serve as a link between the Operational Risk Unit and the respective departments. They are responsible for embedding the ORMF within the relevant business units or infrastructure functions.

The Bank has in place adequate operational risk coverage to assess the effective implementation of operating policies and procedures.

## The Operational Risk Management Committee (ORMC)

The Committee oversees the critical aspects covering the overall operations of the Bank. The ORMC facilitates the business units to collaborate with each department when mitigating the identified risk. The ORMC takes further actions and provides oversight on the implementation of controls for known risks. It serves as a crucial link between the departmental level and the management. This approach enables shorter issue resolution time. Any unresolved issues are referred to EIRMC for necessary action. The ORMC is further authorised by the EIRMC to;

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

Internal Audit periodically validates the effectiveness of the Bank's Operational Risk Management framework and its implementation.

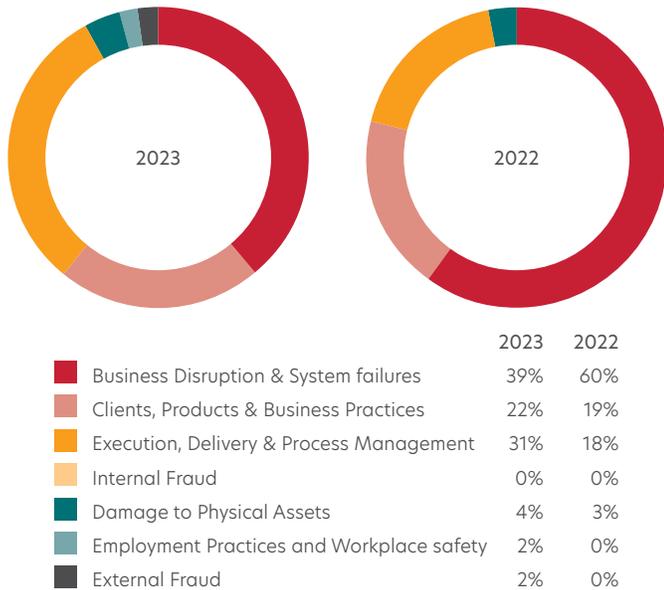
The Operational Risk Unit as an independent unit monitors the planning, implementation and execution of the Business Continuity Plan together with the Disaster Recovery Plan aimed at ensuring the function of critical operations of the Bank with minimal disruption. Information Technology related operational risks are managed primarily through the Information Security Committee, IT Steering Committee and IT system security policies.

## Operational Risk Events

Risk event	2023	2022
Business Disruption and System failures	39%	60%
Clients, Products and Business Practices	22%	19%
Execution, Delivery and Process Management	31%	18%
Internal Fraud	0%	0%
Damage to Physical Assets	4%	3%
Employment Practices and Workplace Safety	2%	0%
External Fraud	2%	0%

# Risk Management

## Operational Risk Events



## Market Risk

Market risk is the potential adverse effect on a bank’s financial position due to fluctuations in the financial market encompassing changes in interest rates, exchange rates, commodity prices and equity/debt prices.

The fluctuations in these factors and their correlations with the Bank’s expectations will have varying effects on the Bank’s operations.

The primary goal is to manage and regulate market risk exposures within reasonable limits according to the risk appetite of the Bank.

### Managing of Market Risk

Market risk is managed and monitored regularly through the comprehensive market risk management framework approved by the Board. The framework comprises a robust risk governance structure and a comprehensive suite of risk management tools and processes including policies, market risk limits, KRIs, risk monitoring and risk assessments.

The Treasury Middle Office (TMO) which functions independently from other business units and the Market Risk Management function is primarily responsible for setting up suitable policies/procedures for treasury operations. It is also responsible for setting up and monitoring various limits to monitor business operations.

Furthermore, it monitors the asset and liability positions of the Bank under the supervision of ALCO. Moreover, it maintains independent MIS reports and dashboard reports which are presented to the Senior Management, ALCO, EIRMC, BIRMC and the Board of Directors to support the decision-making process.

Additionally, it uses various tools to measure Market Risk exposures such as Value at Risk (VaR), Modified Duration (MD) and Mark to Market valuations (MTM). It also conducts stress testing and sensitivity analysis to review the Bank’s performance under various stress conditions.

### Managing Foreign Exchange Risk

Disparities between assets and liabilities denominated in various currencies lead to the foreign exchange (FX) risk. Changes in exchange rates have an impact on the cost of collective foreign currency exposure.

The Bank has managed the FX risk within regulatory limits through tight restrictions on risk tolerance for both individual and aggregate currency exposures. The possible losses from FX rate movements were kept to a minimum within the Bank’s risk appetite.

### Foreign Exchange Rate Risk Parameters

- Overnight open position limits on individual currencies and the cumulative of all currencies.
- Counterparty limits and Settlement limits.
- Management action trigger limits.
- Dealer-related limits.
- Forward foreign exchange mismatch limits.
- Maturity mismatch limits.
- Currency tolerance limits.

# Risk Management

## Managing Interest Rate Risk (IRR)

Severe interest rate shifts expose the Bank to changes in net interest income (NII) and may affect the underlying value of interest-bearing liabilities, interest-earning assets and off-balance sheet items. Re-pricing risk, yield curve risk and basis risk are the three primary forms of IRR to which the Bank is exposed.

Interest Rate Risk in Banking Book (IRRBB) is regularly stressed, incorporating both systemic and individual stress scenarios along with changing positions and new economic variables. Both the earnings and the economic value of equity perspectives are currently used by the Bank to estimate the interest rate risk.

An efficient risk management procedure that safeguards interest rate risk within reasonable limits is essential to ensure the Bank's safety, soundness and profitability.

## Liquidity Risk

Liquidity risk is the Banks' inability to pay contractual and contingent financial obligations when they become due without suffering unbearable losses. Due to discrepancies in the maturities of their assets and liabilities, banks are subject to liquidity and solvency issues. Thus, determining and guaranteeing the availability of funds necessary to fulfil commitments at the proper times, both in regular and stress situations, is the main goal of liquidity risk management.

## Managing Liquidity Risk

The Bank manages liquidity risk through policies and processes, measurement techniques, mitigation strategies, stress testing methodologies and backup funding arrangements. The Bank had undue liquidity throughout the year due to the relatively slow credit growth compared to deposit inflow, as experienced by the banking industry.

The Bank found it challenging to manage such excess liquidity to generate an optimum return. Therefore, a significant percentage of the excess liquidity is required to be invested in government securities, at optimal yields to minimise negative effects on profitability.

The ALCO keeps a tab on the Bank's liquidity status via analysis of the liquidity reports and ratios generated by the Finance, Treasury and Risk Management Divisions. To ensure liquidity indicators are kept within set parameters, the Board, BIRMC and ALCO continuously evaluate the soundness of existing indicators. The minimum liquidity standards under BASEL III have been implemented.

Liquidity risk is mainly monitored through a stock approach and a flow approach. Under the flow approach, the Bank monitors contractual and behavioural liquidity mismatches through static and dynamic maturity analyses by placing all cash inflows and outflows in the time bands according to the residual time to maturity.

Under the stock approach, liquidity is measured in terms of key ratios that depict the liquidity stored in the balance sheet and TMO monitors a comprehensive list of ratios against their approved limits. Any deviations and exceptions to the approved limits are reported to BIRMC. Additionally, to assess the impact of unfavourable changes in its cash flows on liquidity, the Bank regularly conducts scenario analysis and stress testing.

## Liquidity Risk Parameters

- Maturity of Assets and Liabilities Report (MAL).
- Statutory Liquid Asset ratio.
- Net loans to total assets ratio.
- Loans to customer deposits ratio.
- Liquid assets to short-term liabilities ratio.
- Liquidity coverage ratio.
- Net stable Funding ratio.

## Strategic Risk

Strategic risk arises from challenges such as ineffective implementation of business plans and strategies and poor resource allocation. It can also stem from the inability to adapt to changes and failure to meet set targets within the dynamic business environment.

The oversight role of the Board of Directors and the supervisory role of the senior management are an integral part of the Bank's strategic risk management programme.

The Bank has implemented robust strategic risk mitigation and monitoring measures with KRIs to

# Risk Management

continuously assess and monitor the alignment of performance with the strategic goals. Industry and competitor benchmarking is carried out to align the target achievement of strategic objectives with industry performance.

During the year, the Bank has achieved the budgeted targets well ahead of the time. Furthermore, the Bank has increased its net profitability significantly. As such, the Bank envisages maintaining strategic risk within the desired appetite, while meeting its social values and strategic objectives.

## Reputational Risk

The Bank places the utmost value on its reputation alongside the strong support from Cargills Ceylon PLC. To maintain this, the Bank has implemented seamless customer service channels, robust complaint management and ethical business practices to safeguard the interests of customers.

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

The Bank's operational risk management division assesses reputational risks leveraging information gathered through various processes, including the identification of loss events and near misses, peer group comparison and assessments of factors such as

staff conduct and competence and customer service and complaints management. The RMD monitors reputational risk under a risk framework, with mitigation controls. The Bank continuously strives to maintain and improve the quality of its business activities.

## Compliance Risk

Compliance risk is the risk of legal or regulatory sanctions, material financial loss or loss to the reputation the Bank may face as a result of its failure to comply with laws, regulations, rules, regulatory organisational standards, codes of conduct and internal policies and procedures applicable to its business activities.

## Information Security/ Technology Risk Management

Information Security and technology risk are top priorities for the Bank. The Bank has strategised to build a risk-resilient culture within the organisation. This entails promoting risk awareness and adopting a risk-focused governance approach.

The Bank has implemented a 3-tier governance architecture with a dedicated information security unit at the front end. This unit is tasked with managing and responding to security concerns and actively engaging with the IT operations. The Bank has invested in industry-standard preventive and detective technologies bolstered with the establishment of a Security Operations Center (SOC).

The Bank is continually focused on the implementation of the CBSL technology risk management and resilience framework. The Bank has renewed the PCI-DSS re-certification process and ISO/IEC 27001 certification process, being one of the leading banks in Sri Lanka to achieve both certifications.

# Risk Management

The Information security risk unit was established under the Risk Management Department in line with the technology risk resilience framework of the Central Bank of Sri Lanka (CBSL). Both information security and information security risk units report to the Board Integrated Risk Management Committee (BIRMC) through the Information Security Council (ISC).

The Bank is continually focused on the implementation of the CBSL technology risk management and resilience framework. The Bank has renewed the PCI-DSS re-certification process and ISO/IEC 27001 certification process, being one of the leading banks in Sri Lanka to achieve both certifications.

The Bank successfully obtained the external assurance of the compliance of the SWIFT customer secure programme (SWIFT CSP).

The Bank constantly engages with the customers to ensure a seamless service while prioritising security and customer interests.

In 2023, a rise in social engineering techniques for financial fraud was reported. In response, the Bank proactively implemented security controls and monitoring mechanisms to safeguard customer transactions.

Security literacy within the community poses a significant obstacle to the adaptation of digital channels. To address this, the Bank has implemented beyond perimeter monitoring mechanism to detect threats faced by customers in their interactions with Cargills Bank. The Bank raises awareness of security best practices among the customers and Bank's agents.

During the year 2023, the Bank has enhanced customer service by expanding the connectivity with the latest technology and strengthening the endpoint security.

## Technology risk planned in 2024

- Improve the Bank wide risk assessments.
- Policies to enhance Data security and privacy.
- Enhanced the connectivity of the branches with the latest technology.
- Enhanced the efficiency of the Security Operation Center (SOC).

## Technology risk achievements in 2023

- Re-Certification of PCI-DSS V 3.2.1 standard.
- Re-Certification of ISO/ IEC 27001: 2013 standard.
- Enhanced the connectivity of the branches with the latest technology.
- Enhanced the endpoint security
- Compiled to the CBSL Technology Risk resilient guidelines.
- Stringent Bank-wide vulnerability management programme.
- Zero cyber security breaches.

## Capital Adequacy and ICAAP Framework

In line with the Basel requirements and as prescribed in the ICAAP framework, the Bank uses internal models to assess and quantify the risk profile. Internal limits which are more stringent than the regulatory requirements provide early warnings on capital adequacy. ICAAP supports the regulatory review process providing valuable inputs for evaluating the required capital in line with future business plans. It integrates strategic focus and risk management plans with the capital plan in a meaningful manner. The ICAAP process also identifies gaps in managing qualitative and quantitative aspects of reputational risk, human resources risk, compliance risk and strategic risk which are not covered under Pillar 1 of Basel III. The Bank is compliant with both regulatory and prudential requirements of capital adequacy.

Capital requirements are measured as a percentage of Risk Weighted Assets which are calculated as per the CBSL direction No.1 of 2016.

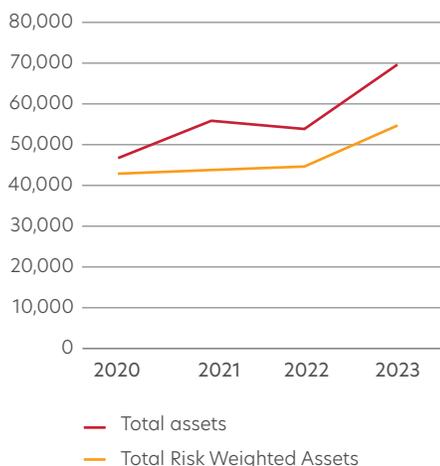
- Credit Risk- Standardise Approach.
- Market and Liquidity Risk- Standardise Approach.
- Operations Risk- Basic Indicator Approach.

# Risk Management

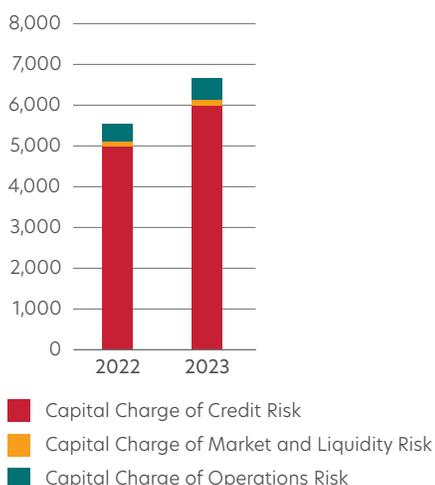
Item (Rs. '000)	Risk Weighted assets		Required Capital	
	2022	2023	2022	2023
Credit Risk	39,898,474	47,226,113	4,987,309	5,903,264
Market and Liquidity Risk	1,097,152	2,972,977	137,144	371,622
Operations Risk	3,451,568	4,645,715	431,446	580,714
Total Risk Weighted Assets	44,447,194	54,844,806	5,555,899	6,855,601
Total Assets	53,752,809	69,736,295	6,719,101	8,717,037

	2022	2023
Total Tier 1 Capital Ratio, % (Regulatory requirement 8.5%)	22.32	22.63
Total Capital Ratio, % (Regulatory requirement 12.5%)	22.85	23.15

## Total Assets vs Risk Weighted Assets of the Bank (Rs. Mn)



## Capital Charge for Risk of the Bank (Rs. Mn)



## Stress testing

Stress testing is an effective communication tool for senior management, risk owners and risk managers as well as the supervisors and regulators. This offers a broader view of all risks borne by the Bank. The outcomes of stress testing are reported to the EIRMC and BIRMC quarterly for appropriate, proactive decision-making. The Bank conducted stress testing for severe shocks on its major risk exposures periodically. The bank evaluates the sensitivity of the current and forward risk profile relative to the Bank's risk appetite and assesses the stress impact on the resilience of capital, funding, liquidity, operations and earnings.

The Bank's governance framework for stress testing sets out the responsibilities and approaches to stress testing activities undertaken at the Bank, business line and risk type levels. The Bank uses a range of stress testing techniques, including scenario analysis, sensitivity analysis and reverse stress testing to perform stress testing for different purposes. The framework covers all the material risks such as credit risk including NPCF, operational risk,

liquidity risk, FX risk and IRRBB risk. The Bank evaluates various degrees of stress levels identified in the Stress Testing Policy as Minor, Moderate and Severe.

## Stress testing achievements in 2023

- Stress testing for each quarter.
- Enhance the risk scenarios covers through stress testing.
- Bank has assessed the resilience to the shocks speculated during the year 2023, including domestic debt structure and sharp volatility of interest rates.

## Stress testing planned activities in 2024

- Enhance the operations risk stress testing model.
- Introduction of Technology risk stress testing.

### Total Tier I Capital Ratio

↑ **22.63%**  
2022 - 22.32%

### Total Capital Ratio

↑ **23.15%**  
2022 - 22.85%

## Statement of Compliance

In addition to the Annual Report of the Board of Directors on the Affairs of the Bank appearing on pages 139 to 146, given below is a summary of the extent of compliance with the requirements of Section 168 of the Companies Act No. 07 of 2007 and amendments thereto and other relevant statutes and recommended best practices.

	Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
<b>Mandatory disclosures as required by the Companies Act No. 07 of 2007 and amendments thereto (CA)</b>				
1.	The nature of the business of the Bank together with any changes thereof during the accounting period	Section 168 (1) (a)	Note 1 to the Financial Statements: Reporting Entity	195
2.	Signed Financial Statements of the Bank for the accounting period completed in accordance with Section 152	Section 168 (1) (b)	Financial Statements of the Bank for the year ended December 31, 2023	190 to 291
3.	Auditors' Report on the Financial Statements of the Bank	Section 168 (1) (c)	Independent Auditors' Report	185 to 189
4.	Accounting Policies of the Bank and any changes therein	Section 168 (1) (d)	Notes 1 to 57 to the Financial Statements:	195 to 291
5.	Particulars of the entries made in the Interests Registers of the Bank during the accounting period	Section 168 (1) (e)	<p>The Bank maintains Interests Registers. All Directors have made declarations as required by the Section 192 (1) and (2) and all related entries were made in the Interests Registers during the year under review.</p> <p>The Interests Registers are available for inspection by shareholders or their authorised representatives as required by the Section 119 (1) (d).</p> <p>Refer "Directors' Interest in Contracts with the Bank" disclosed in the Annual Report.</p>	142 & 147
6.	Remuneration and other benefits paid to Directors of the Bank during the accounting period	Section 168 (1) (f)	<p>Note 15 to the Financial Statements: Personnel Expenses</p> <p>Report of the Board Human Resources and Remuneration Committee</p>	218 & 220 125 to 127
7.	Total amount of donations made by the Bank during the accounting period	Section 168 (1) (g)	Note 17 to the Financial Statements: Other Operating Expenses	220
8.	Information on Directorate of the Bank during and at the end of the accounting period	Section 168 (1) (h)	<p>Annual Report of the Board of Directors - Directorate</p> <p>Refer "Board of Directors and Profiles" for details of members of the Board of Directors of the Bank</p>	144 22 to 27

## Statement of Compliance

	Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
9.	Separate disclosure on amounts payable to the Auditors as Audit Fees and Fees for other services rendered during the accounting period by the Bank	Section 168 (1) (i)	Note 17 to the Financial Statements: Other Operating Expenses	220
10.	Auditors' relationship or any interest with the Bank (Lead auditor's independence)	Section 168 (1) (j)	Refer Independent Auditor's Report for the declaration provided by Messrs. KPMG in term of the Code of Professional Conduct and Ethics issued by CA Sri Lanka, applicable as at the reporting date.  No prohibited non audit services have been provided by Messrs. KPMG as per the Direction issued by the CBSL on 'Guidelines for External Auditors relating to their Statutory Duties'. The Directors are satisfied as the BAC has assessed each service, having regard to auditor's independence requirements of applicable laws, rules and regulations, and concluded in respect of each non-audit service or type of non-audit service that the provision of that service or type of service would not impair the independence of Messrs. KPMG.	185 to 189
11.	Acknowledgement of the Contents of this Report/ Signatures on behalf of the Board of Directors	Section 168 (1) (k)	The Board of Directors have acknowledged the contents of this Annual Report as disclosed.	146
Other Disclosures as required by Recommended Best Practices (RBP), Listing Rules (LR) of the Colombo Stock Exchange, Companies Act No. 07 of 2007 and amendments thereto (CA) and the Banking Act Direction No. 11 of 2007 (CBSL)				
12.	Vision, Mission and Corporate Conduct	RBP	Stemming from our "Vision and Mission" the business activities of the Bank are conducted maintaining the highest level of ethical standards reflecting our commitment to high standards of business conduct and ethics.  The Bank issues a copy of its Code of Ethics to each and every staff member and all employees are required to abide by the provisions contained therein.	8

## Statement of Compliance

	Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
13.	Review of Business operations of the Bank and future developments	RBP	"Chairman's Message" and "Chief Executive Officer's Message"  Management Discussion and Analysis  Note 49 to the Financial Statements: Operating Segments	16 to 21  28 to 92  260
14.	Gross Income	RBP	Notes 7 & 49 to the Financial Statements: Gross Income & Operating Segments	208 & 260
15.	Dividends on Ordinary Shares	RBP	N/A	
16.	Reserves and appropriations	RBP	Statement of Changes in Equity  Notes 43 & 44 to the Financial Statements: Retained earnings & other reserves	193  254
17.	Corporate Social Responsibility (CSR)	RBP	Community capital	75 to 77
18.	Extents, locations, valuations and the number of buildings of the Bank's land holdings and investment properties	LR 7.6 (VIII)	Note 31 to the Financial Statements: Property, Plant and Equipment & Right-of-use assets  Note 45 to the Financial Statements: Contingent Liabilities & Commitments	237 to 241  255 to 256
19.	Significant changes in the Bank's fixed assets and the market value of land, if the value differs substantially from the book value	LR 7.6 (XII)	Note 31 to the Financial Statements	237 to 241
20.	Issue of Shares and Debentures	LR 7.6 (XIII)		
20.1.	Issue of Shares by the Bank	LR 7.6 (XIII)	Notes 42, 42.1 & 42.2 to the Financial Statements: Stated Capital, Movements in number of shares and Issue of New Shares  "Investor Relations" - Item 3.1	253  304
20.2	Issue of Debentures by the Bank		Note 39 to the Financial Statements: Financial Liabilities at Amortised Cost - Other Borrowings	250 & 251

## Statement of Compliance

	Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
21.	Share information and Substantial Shareholdings			
21.1	Distribution Schedule of Shareholdings, names and the number of shares held by the 20 largest holders of Voting & Non-Voting shares and the percentage of such shares held, Float adjusted Market Capitalisation, public holding percentage, number of public shareholders, and the option under which the Bank complies with the minimum public holding requirement.	LR 7.6 (III) LR 7.6 (IV) LR 7.6 (X) LR 7.13.1	"Investor Relations" - Items 1, 2, 4.1, 4.2 and 4.3	303 to 305
21.2	Financial ratios and market price information	LR 7.6 (XI)	Financial Overview of 2023	13
	Information on Earnings, Dividends, Net Assets and Market Value per share		Notes 20 and 47 to the Financial Statements  "Investor Relations" - Item 5	223 & 257  305
	Information on listed debt securities		N/A	
21.3	Information on shares traded and the number of shares represented by the Stated Capital	LR 7.6 (IX)	Notes 42 & 42.1 to the Financial Statements: Stated Capital and Movements in number of shares  "Investor Relations" - Item 3	253  304
21.4	Own Share Purchases	CA S.64	The Bank did not purchase its own shares	
21.5	Equitable Treatment to Shareholders	RBP	Statement of Directors' Responsibility for Financial Reporting	177 & 178
22.	Information on Directors' Meetings and Board Committees			
22.1	Directors' Meetings	RBP	Corporate Governance	93 to 94
22.2	Board Committees	RBP	Board Committee Reports	119 to 138
23.	Disclosure of Directors' dealings in shares and debentures			
23.1	Directors' Interests in Ordinary Voting and Non-voting Shares of the Bank	LR 7.6 (V)	Annual Report of the Board of Directors	139 to 146
24.	Employee Share Option Plans and Employee Share Purchase Schemes	LR 7.6 (XIV)	The Bank does not have any employee share option plans or share purchase schemes	

## Statement of Compliance

	Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
25.	Directors' Interests in Contracts or Proposed Contracts and Remuneration and other benefits of Directors during the year under review	RBP	Directors have refrained from voting on matters in which they were materially interested. Directors have no direct or indirect interest in any other contract or proposed contract with the Bank, other than those disclosed in "Directors' interest in contracts with the Bank" and Note 51 to the Financial Statement: Related Party Disclosures.	147 262 to 266
		LR 7.6 (XIV)	There are no arrangements that enable the Non-Executive Directors of the Bank to acquire shares or debentures of the Bank, other than via the market.	
26.	Environmental Protection	RBP	The Bank have not, to the best of their knowledge, engaged in any activity, which was detrimental to the environment.  Refer "Our ESG Focus" for details of our Environmental, Social and Governance Policy.	40
27.	Declaration on Statutory Payments	RBP	Statement of Directors' Responsibility for Financial Reporting	177 & 178
28.	Events after the reporting period	RBP	Note 55 to the Financial Statements: Events Occurring after the date of Financial Position	267
29.	Going Concern	RBP	Statement of Directors' Responsibility for Financial Reporting	139 to 146
30.	Directors' Responsibility for Financial Reporting	CBSL Direction 3(8)(ii)(a)	Statement of Directors' Responsibility for Financial Reporting	177 & 178
31.	Hiring and oversight of External Auditors and their remuneration.	CBSL Direction 3(1)(i)(m)	Refer "Corporate Governance"	93 to 118
		CA S.168 (1) (I)	A resolution to appoint Messrs KPMG as Auditors and granting authority to the Directors to fix their remuneration will be proposed at the forthcoming AGM for shareholder approval.  Expenses incurred in respect of Audit fees and fees for other services rendered by Messrs KPMG during the year are given in Note 17 to the Financial Statements: Other Operating Expenses	141 220

## Statement of Compliance

	Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
32.	Material issues pertaining to employees and industrial relations	LR 7.6 (VII)	"Human Capital"	51 to 60
33.	Information on material foreseeable risk factors	LR 7.6 (VI)	Risk Management	148 to 161
			Report of the Board Integrated Risk Management Committee	119 & 120
			Note 57 to the Financial Statements: Financial Risk Management	268 to 291
			The Independent Auditors' Report	185 & 189
34.	Corporate Governance	RBP LR 7.6 (XV)	<p>The Directors declare that –</p> <p>(a) the Bank has complied with all applicable laws and regulations in conducting its business and have not engaged in any activity contravening the relevant laws and regulations.</p> <p>(b) they have declared all material interests in contracts involving the Bank and refrained from voting on matters in which they were materially interested;</p> <p>(c) they have conducted a review of internal controls covering financial, operational &amp; compliance controls, risk management and have obtained a reasonable assurance of their effectiveness and proper adherence;</p> <p>(d) the Bank has complied with the applicable statutes on related party transactions and has made the required disclosures in the Financial Statements and to the market when applicable;</p> <p>(e) the business is a Going Concern with supporting assumptions or qualifications as necessary, and that the Board of Directors has reviewed the Bank's Corporate/Business plans and is satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements of the Bank, is prepared based on the Going Concern assumption.</p>	93 to 118

## Statement of Compliance

	Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
35.	Focus on new regulations	RBP	The Bank is well poised to comply with new regulations/ the amendments made to the existing regulations' as an when become effective.	
36.	Sustainability	RBP	The Bank has considered the sustainability aspects when formulating its business strategies.	308 to 310
37.	Human Resources	RBP	The Bank on an ongoing basis invests in Human Capital Development and implement effective Human Resource Practices and Policies to improve workforce efficiency, effectiveness and productivity.  Specific measures taken in this regard are detailed in the "Report of the Board Human Resources and Remuneration Committee"  "Human Capital"	125 to 127  51 to 60
38.	Technology	RBP	Stemming from our Mission, our business processes are predominantly driven by technology.  Refer "Digital Channels" for more details.	90
39.	Operational excellence	RBP	To increase efficiency and reduce operating cost, the Bank has ongoing initiatives to drive policy and process standardisation and to optimise the use of existing technology platforms.	90 to 92
40.	Outstanding Litigation	RBP	In the opinion of the Directors and in consultation with the Bank's lawyers, litigation currently pending against the Bank will not have a material impact on the reported financial results or future operations.  Note 46 to the Financial Statements: Litigation Against the Bank	256

## Statement of Compliance

	Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
41.	Disclosure on Related Party Transactions	LR 9.3.2 (a) and (b) LR 9.3.2 (c) LR 9.3.2 (d)	No such situation has arisen	
			Note 51 to the Financial Statements: Related Party Disclosures	262 to 266
			Board Related Party Transactions Review Committee Report	131 to 133
			Annual Report of the Board of Directors' on the Affairs of the Bank	139 to 146
42.	Names of Directors	LR 7.6 (i)	Annual Report of the Board of Directors	139 to 146
43.	Principal Activities of the Bank	LR 7.6 (ii)	Note 1.2 to the Financial Statements	195
44.	Related Party transactions exceeding 10% of equity or 5% of total assets	LR 7.6 (xvi)	No such situation has arisen	
45.	Foreign currency denominated securities listed	LR 7.6 (xvii)	Not applicable	
46.	Sustainable bonds listed	LR 7.6 (xviii)	Not applicable	
47.	Perpetual debt securities, infrastructure bonds and/ or Shariah Compliant debt securities listed.	LR 7.6 (xix) (xx) and (xxi)	Not applicable	

# Statement of Compliance

## Compliance with the Disclosure Requirements Specified by the Central Bank of Sri Lanka for Preparation of Annual Financial Statements of Licensed Commercial Banks

	Disclosure requirement	Page reference for compliance and other necessary disclosures	Page/s
1.	Information about the significance of financial instruments for financial position and performance		
1.1	Statement of Financial Position		
1.1.1	Disclosures on categories of financial assets and financial liabilities	Note 21 to the Financial Statements: Classification of financial assets and financial liabilities	224 & 225
1.1.2	<b>Other disclosures</b>	Note 27 to the Financial Statements: Financial assets measured at FVTPL	232
	i) Special disclosures about financial assets and financial liabilities designated to be measured at fair value through profit or loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement	Note 57 to the Financial Statements: Financial Risk Management	268 to 291
	ii) Reclassifications of financial instruments from one category to another	No such situation has arisen	
	iii) Information about financial assets pledged as collateral and about financial or nonfinancial assets held as collateral	Note 31.4 to the Financial Statements: PPE pledged as securities for liabilities	240
		Note 50.1 to the Financial Statements: Carrying value of securities allocated for repurchase transactions	261
	iv) Reconciliation of the impairment allowance account for credit losses by class of financial assets	Note 23.1, 28.3 and 29.2 to the Financial Statements: Movement in impairment provision for cash and cash equivalents, Loans and advances and Investments in debentures, respectively.	230, 234 to 235
	v) Information about compound financial instruments with multiple embedded derivatives	N/A	
	vi) Breaches of terms of loan agreements	During the year the Bank has not breach any loan agreement in which the Bank is a creditor.  Breach of agreement in respect of loans granted to customers are dealt with through based on provisions of the internal policies including credit, risk, recovery, etc.	

## Statement of Compliance

	Disclosure requirement	Page reference for compliance and other necessary disclosures	Page/s
1.2	Statement of Comprehensive Income		
1.2.1	Disclosures on items of income, expense, gains or losses	Note 7 to 19 to the Financial Statements	208 to 222
1.2.2	Other disclosures		
	i) Total interest income and total interest expense for those financial instruments that are not measured at fair value through profit and loss	Note 8 to the Financial Statements: Net interest income	208 & 209
	ii) Fee income and expense	Note 9 to the Financial Statements: Net fee and commission income	210
	iii) Amount of impairment losses by class of financial assets	Note 14 to the Financial Statements: Impairment losses on financial instruments and other assets	212 to 217
	iv) Interest income on impaired financial assets	Note 8 to the Financial Statements: Net interest income	208 & 209
1.3	Other disclosures		
1.3.1	Accounting policies for financial instruments	Note 3.2 to the Financial Statements: Financial Instruments	199 to 204
1.3.2	Financial liabilities designated as at FVTPL	N/A	
1.3.3	Investments in equity instruments designated at FVOCI		
	i) Details of equity instruments that have been designated at FVOCI and the reasons for the designation	Note 30 to the Financial Statements: Financial assets measured at FVOCI	236
	ii) Fair value of each investment at the reporting date	Note 22 to the Financial Statements: Fair value of financial assets and financial liabilities	226 to 229
	iii) Dividends recognised during the period, separately for investments derecognised during the reporting period and those held at the reporting date	Note 13 to the Financial Statements: Net other operating income	212
	iv) Any transfers of the cumulative gain or loss within equity during the period and the reasons for those transfers	N/A	
	v) If investments in equity instruments measured at FVOCI are derecognised during the reporting period, - reasons for disposing of the investments - fair value of the investments at the date of derecognition; and - the cumulative gain or loss on disposal	N/A	
1.3.4	Reclassifications of financial assets	No such situation has arisen	
1.3.5	Information on hedge accounting	N/A	

## Statement of Compliance

	Disclosure requirement	Page reference for compliance and other necessary disclosures	Page/s
1.3.6	Information about the fair values of each class of financial asset and financial liability, along with:	Note 22 to the Financial Statements: Fair value of financial assets and financial liabilities	226 to 229
	i) Comparable carrying amounts		
	ii) Description of how fair value was determined		
	iii) The level of inputs used in determining fair value		
	iv) Reconciliations of movements between levels of fair value measurement hierarchy, additional disclosures for financial instruments for which fair value is determined using level 3 inputs		
	v) Information if fair value cannot be reliably measured		
2.	Information about the nature and extent of risks arising from financial instruments	Note 57 to the Financial Statements: Financial Risk Management	268 to 291
2.1	Qualitative disclosures		
2.1.1	Risk exposures for each type of financial instrument		
2.1.2	Management's objectives, policies, and processes for managing those risks		
2.1.3	Changes from the prior period		
2.2	Quantitative disclosures		
2.2.1	Summary of quantitative data about exposure to each risk at the reporting date.		
2.2.2	Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed		
	i) Credit Risk <ul style="list-style-type: none"> <li>a) Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets.</li> <li>b) For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset.</li> <li>c) Information about collateral or other credit enhancements obtained or called.</li> <li>d) Credit risk management practices</li> <li>e) ECL calculations</li> <li>f) Amounts arising from ECL</li> <li>g) Collaterals</li> <li>h) Written-off assets</li> <li>i) For other disclosures, refer Pillar III disclosures of the Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III for Licensed Banks.</li> </ul>	Note 57.3 to the Financial Statements: Financial Risk Management	270 to 281

## Statement of Compliance

	Disclosure requirement	Page reference for compliance and other necessary disclosures	Page/s
	ii) Liquidity Risk a) A maturity analysis of financial assets and liabilities. b) Description of approach to risk management. c) For other disclosures, refer Pillar III disclosures of the Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III for Licensed Banks.	Note 57.6 to the Financial Statements: Financial Risk Management	286 to 290
	iii) Market Risk a) A sensitivity analysis of each type of market risk to which the bank is exposed. b) Additional information, if the sensitivity analysis is not representative of the bank's risk exposure. c) For other disclosures, refer Pillar III disclosures of the Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III for Licensed Banks.	Note 57.4 to the Financial Statements: Financial Risk Management	282 to 285
	iv) Operational Risk For other disclosures, refer Pillar III disclosures of the Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III for Licensed Banks.	Note 57.5 to the Financial Statements: Financial Risk Management	286
	v) Equity risk in the banking book a) Qualitative disclosures <ul style="list-style-type: none"> <li>• Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons.</li> <li>• Discussion of important policies covering the valuation and accounting of equity holdings in the banking book</li> </ul> b) Quantitative disclosures <ul style="list-style-type: none"> <li>• Value disclosed in the statement of financial position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.</li> <li>• The types and nature of investments</li> <li>• The cumulative realised gains/(losses) arising from sales and liquidations in the reporting period.</li> </ul>	Note 57.4 to the Financial Statements: Financial Risk Management	282 to 285
	vi) Interest rate risk in the banking book a) Qualitative disclosures b) Quantitative disclosures	Note 57.4 to the Financial Statements: Financial Risk Management	282 to 285
2.23	Information on concentrations of risk	Note 57.3.3.5 on analysis of risk concentration	274 to 279

## Statement of Compliance

	Disclosure requirement	Page reference for compliance and other necessary disclosures	Page/s
3.	Other disclosures	Basel III - Pillar III Market Disclosures	292 to 302
3.1	Capital - Refer Pillar III disclosures of the Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III for Licensed Banks.		
4.	Disclosures applicable for repurchase and reverse repurchase transactions of dealer direct participants in scripless treasury bonds and scripless treasury bills	Note 50 to the Financial Statements: Repurchase and reverse repurchase transactions in scripless t-bonds and scripless t-bills	261
4.1	Registered Stock and Securities Ordinance and Local Treasury Bills Ordinance Directions No. 01 of 2019 dated 20th December 2019 issued by the Monetary Board  i) The carrying value of securities allocated for repurchase transactions as at the period end date. ii) The market values of securities received for reverse repurchase transactions as at the period end date. iii) The dealer direct participant policy on haircut for repurchase and reverse repurchase transactions iv) Any penalties imposed for non compliance with this Direction.		
5.	Disclosures applicable on treasury operations of the bank	Note 49 to the Financial Statements: Operating Segment	260
5.1	Banking Act Directions No 06 of 2019 dated 29 August 2019 issued by the Monetary Board on Market Conduct and Practices for Treasury Operations of Banks		
	Disclose as a separate item in the Bank's audited Financial Statements, the profit generated through all interbank foreign exchange transactions including end user transactions where one leg is in the interbank market.	Note 13 to the Financial Statements: Net other operating income	212

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# Financial Calendar 2023/2024

## Annual General Meetings

12th Annual General Meeting	26 April 2024
11th Annual General Meeting	28 April 2023

FINANCIAL STATEMENTS				
Interim Financial Statements	Date released to CSE	Date published in newspapers		
		English	Sinhala	Tamil
Q4/ For the twelve months ended 31.12.2023	28 February 2024	29 February 2024	29 February 2024	29 February 2024
Q3/ For the nine months ended 30.09.2023	NA	29 November 2023	29 November 2023	29 November 2023
Q2/ For the six months ended 30.06.2023	NA	14 August 2023	14 August 2023	14 August 2023
Q1/ For the three months ended 31.03.2023	NA	15 May 2023	15 May 2023	15 May 2023
Q4/ For the twelve months ended 31.12.2022	NA	28 February 2023	28 February 2023	28 February 2023

FINANCIAL STATEMENTS	
Annual Financial Statements	Date released to CSE
Annual Financial Statements for 2023	In April 2024
Annual Financial Statements for 2022	NA

## PROPOSED FINANCIAL CALENDAR 2024 (TENTATIVE)

### Interim Financial Statements

Interim financial statements will be released to the Colombo Stock Exchange (CSE) and published in newspapers in all three languages of Sinhala, Tamil and English within the stipulated regulatory deadlines.

### Annual Financial Statements

#### Annual Financial Statements for 2024 will be released to CSE in April 2025

As per Rule 7.4 of the Listing Rules of the Colombo Stock Exchange (CSE), quarterly Financial Statements (un-audited) for the first three quarters should be released to the CSE as soon as the said statements are approved by the Board of Directors and in any event not later than 45 days from the end of each quarter and in respect of the final quarter, within two months from the end of the final quarter. According to Rule 7.5 of the Listing Rules of the CSE, the audited Financial Statements should be published in accordance with the Sri Lanka Accounting Standards and audited in accordance with Sri Lanka Auditing Standards and shall comply with any other applicable regulatory requirements and the Annual Report should be sent to the shareholders and the CSE within five months from the close of the financial year.

As per the Banking Act Direction No. 11 of 2007 - Corporate Governance for Licensed Commercial Banks, the annual audited Financial Statements and quarterly Financial Statements should be prepared and published in accordance with the requirements of supervisory and regulatory authorities and applicable accounting standards and such statements must be published in the newspapers in an abridged form in Sinhala, Tamil and English.

# Directors' Responsibility for Financial Reporting

The responsibility of the Directors in relation to the Financial Statements of Cargills Bank PLC (the Bank) prepared in accordance with the provisions of the Companies Act No.07 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 pages 185 to 189 of the Annual Report.

In terms of Sections 150 (1) and 151 of the Companies Act No.07 of 2007 (Companies Act), the Directors of the Bank are responsible for ensuring that the Bank keeps proper books of account of all transactions and prepares Financial Statements that give a true and fair view of the financial position of the Bank as at end of each financial year and of the financial performance of the Bank for each financial year and place them before the Annual General Meeting for shareholders for their approval. The Financial Statements comprise the Statement of Financial Position as at the end of the financial year, the Statement of Profit or Loss, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity for the financial year ended, and Notes thereto.

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

- a) the financial position of the Bank as of 31 December 2023; and
- b) the financial performance of the Bank for the financial year ended 31 December 2023.

The Financial Statements of the Bank have been certified by the Bank's Head of Finance, the person responsible for their preparation, as required by the

Companies Act. Financial Statements of the Bank have been signed by two Directors of the Bank on 26 March 2024 as required by Section 150 (1) of the Companies Act No.07 of 2007.

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

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

- I. Appropriate accounting policies have been selected and applied in a consistent manner while material departures, if any, have been disclosed and explained;
- II. The Financial Statements are presented in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) and are consistent with the underlying books of accounts;
- III. Reasonable and prudent judgment and estimates have been made so that the form and substance of the transaction are properly reflected;

The Financial Statements provide the information required by the Companies Act, Banking Act No. 30 of 1988 (Banking Act) and amendments thereto and the Listing Rules of the Colombo Stock Exchange (CSE); and

- IV. All applicable accounting standards have been followed.

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

The Directors have taken adequate measures with regard to inspecting financial reporting systems through Audit Committee Meetings and granting approvals for the issuing of Interim Financial Statements. The Directors have also instituted effective and comprehensive systems of internal controls. These comprise internal checks, internal audits and the whole system of financial and other controls required to carry on the banking business in an orderly manner, while safeguarding assets, preventing and detecting frauds and other irregularities and as far as practicable securing the accuracy and reliability of records. The results of such reviews carried out during the year ended 31 December 2023 are given in 'Directors' Statement on Internal Controls over Financial Reporting' on pages 179 and 180 of the Annual Report.

The Auditor's Report on Internal Controls is given on pages 181 and 182 of the Annual Report.

## Directors' Responsibility for Financial Reporting

The Bank's External Auditors, Messrs. KPMG, conducted 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 pages 185 to 189 of this Annual Report.

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

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

By Order of the Board,



Ms. Amendra de Silva  
*Company Secretary*

Colombo  
26 March 2024

# Directors' Statement on Internal Controls over Financial Reporting

As required by Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007, the Board of Directors is mandated to present this report on Internal Controls. The Board is cognizant that banking involves the need to manage both rewards and risks.

The Board has established a continuous process to identify, evaluate, and manage substantial risks faced by the bank. This process entails improving the internal control system over financial reporting in response to business environment or regulatory changes. The Board reviews the process following the guidance issued by the Institute of Chartered Accountants of Sri Lanka.

The Board has assessed the internal controls over financial reporting based on established principles for assessing the Internal Control System. The Board deems the existing system of internal controls over financial reporting to be sound and adequate to provide reasonable assurance concerning the reliability of financial reporting, complying with accounting principles and regulatory requirements.

The Management assists the Board in implementing risk and control policies and procedures by identifying and assessing risks and designing, operating, and monitoring suitable internal controls to mitigate those risks.

- The Board of Directors has established various committees to assist in ensuring the effectiveness of the Bank's daily operations and to provide assurance that the Bank's operations are directed by corporate objectives, strategies and the annual budget, as well as policies and business directives that have been approved.
- The Bank's controls are designed to address current banking operations and ensure compliance with relevant laws and regulations. To this end, operational

manuals, guidelines, and directives issued by the Bank are reviewed regularly.

- On an ongoing basis, the Bank's Internal Audit Department undertakes a comprehensive evaluation of the effectiveness of internal control systems to ensure adherence to established policies and procedures. This process involves the implementation of rotational procedures and sampling methods to identify instances of non-compliance. Significant findings and deviations observed are promptly highlighted, fostering a culture of accountability and compliance. Furthermore, the department diligently reviews the adequacy and appropriateness of existing procedures, ensuring alignment with applicable laws and regulations. To ensure the reliability and integrity of financial information and operational data, meticulous examinations are conducted. The Board Audit Committee holds the responsibility of reviewing and approving the annual internal audit plan, demonstrating the importance accorded to this function. The department's findings are systematically presented to the Audit Committee for review during their regular meetings.
- In 2023, Internal Audits were performed on selected Information Systems (IS) and reviews were conducted on credit management processes. Additionally, audits were carried out for all systemically important departments.
- The Board Audit Committee of the Bank reviews internal control issues identified by the Internal Audit Department, External Auditors, Regulatory Authorities, and Management and evaluates the adequacy and effectiveness of internal control systems. They also review internal audit functions focusing on the scope and quality of audits. Minutes of Board Audit Committee meetings are forwarded

to the Board. Further details of the activities undertaken by the Board Audit Committee of the Bank are set out in the Audit Committee Report on pages 136 to 138.

- Apart from the Audit Committee, several Board committees have been established with appropriate empowerment to ensure effective oversight of the Bank's core areas of business operations and the management and supervision thereof.

These Committees include the Executive Integrated Risk Management Committee, the Strategic Planning Committee, the Human Resource and Remuneration Committee, the Nomination & Governance Committee, the Credit Committee, and the Related Party Transactions Review Committee.

- Operational committees have also been established with appropriate empowerment to better ensure an effective management and supervision of the Bank's core areas of business operations. These committees include the Asset and Liability Management Committee (ALCO), the Executive Credit Committee, the Executive Integrated Risk Management Committee, the Information Technology Steering Committee, and the Operational Risk Management Committee.

The Compliance Department has taken initiatives to implement a robust compliance process to address and monitor compliance with regulatory requirements.

## Continuous Monitoring of Application of SLFRS 9: Financial Instruments

The Bank adopted SLFRS 9 - "Financial Instruments" with effect from 1st January 2018. This standard had a significant impact on the Bank's methodology for calculating impairment losses on loans and advances.

## Directors' Statement on Internal Controls over Financial Reporting

With the introduction of the concept of "Expected Credit Loss" under SLFRS 9, the Bank developed models to assess Expected Credit Losses (ECLs). These models are inherently complex and were developed with the assistance of an external consultant. Several key assumptions are made by the Bank in applying the requirements of SLFRS 9 to the models. These include selecting and using forward-looking information.

The Bank continues to focus on reviewing, calibrating, and testing the models developed. The Bank's Risk Department reviews and tests these processes on an ongoing basis. Changes in the policies and procedures applied are documented and approved by the Board Audit Committee. In addition during the year under review, the Bank engaged the Accounting Advisory Services team of KPMG Sri Lanka to undertake an independent validation of the existing ECL models used by the Bank, and material recommendations stemming from the validation exercise were incorporated into the ECL models of the Bank after detailed deliberation.

The preparation of Financial Statements incorporating the necessary adjustments is based mainly on spreadsheet applications. The process followed by the Bank for quantification of adjustments is documented for clarity and auditability.

### Confirmation

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

### Review of the Statement by External Auditors

The External Auditors, Messrs. KPMG, have formally reviewed the Directors' Statement on Internal Controls over Financial Reporting, as included in the Bank's Annual Report for the year ended 31st December 2023. They have subsequently reported to the Board that, based on their review, there is no evidence to suggest that the statement is inconsistent with their understanding of the processes adopted by the Board in reviewing the design and effectiveness of the Bank's internal controls over financial reporting.

The Assurance Report of the External Auditors in connection with Internal Controls over Financial Reporting is on pages 181 and 182.



**Senarath Bandara**  
*Managing Director/ Chief Executive Officer*



**Ms. Amendra de Silva**  
*Company Secretary*

Colombo  
26 March 2024

# Assurance Report on the Directors' Statement on Internal Control



KPMG  
(Chartered Accountants)  
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## THE BOARD OF DIRECTORS OF CARGILLS BANK PLC.

### Report on the Directors' Statement on Internal Control

We were engaged by the Board of Directors of Cargills Bank PLC ("Bank") to provide assurance on the Director's Statement on Internal Control ("Statement") included in the annual report for the year ended 31st December 2023.

### Management's Responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with the section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

### Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behavior.

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding professional compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### Our Responsibilities

Our responsibility is to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the design and effectiveness of the internal control of the Bank.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 (revised), Assurance Report for Banks on Directors' Statement on Internal Control, issued by the Institute of Chartered Accountants of Sri Lanka.

This standard requires that we plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control.

For purposes of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed an audit or review of the financial information.

### 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 Directors and appropriately reflects the process the Directors have adopted in reviewing the system of internal control for the Bank.

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

- Enquired the Directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the Statement made by the Directors in the annual report.
- Reviewed the documentation prepared by the Directors to support their Statement made.
- Related the Statement made by the Directors to our knowledge of the Bank obtained during the audit of the financial statements.

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C. P. Jayatilake FCA  
Ms. S. Joseph FCA  
G. A. U. Karunaratne FCA  
R. H. Rajan FCA  
A.M.R.P. Alahakoon ACA

T. J. S. Rajakarier FCA  
W. K. D. C. Abeyrathne FCA  
R.M.D.B. Rajapakse FCA  
M.N.M. Shameel FCA  
Ms. P.M.K. Sumanasekara FCA

W. W. J. C. Perera FCA  
S. T. D. L. Perera FCA  
Ms. B.K.D.T.N. Rodrigo FCA  
Ms. C.T.K.N. Perera ACA  
R.W.M.O.W.D.B. Rathnadiwakara FCA

Principals: S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, Ms. F.R. Ziyad FCMA (UK), FTI

## Assurance Report on the Director's Statement on Internal Control

- (d) Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.
- (e) Attended meetings of the Audit Committee at which the annual report, including the Statement on Internal Control is considered and approved for submission to the Board of Directors.
- (f) Considered whether the Director's Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.
- (g) Obtained written representations from Directors on matters material to the Statement on Internal Control where other sufficient appropriate audit evidence cannot reasonably be expected to exist.

SLSAE 3050 (revised) 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 (revised) 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.

The procedures selected depend on our judgment, having regard to our understanding of the nature of the Bank, the event or transaction in respect of which the Statement has been prepared.

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

### Our Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included on pages 179 and 180 of this annual report is inconsistent with our understanding of the process the Board of Directors have adopted in the review of the design and effectiveness of internal control system over the financial reporting of the Bank.



CHARTERED ACCOUNTANTS  
Colombo  
26 March 2024

## CEO's and CFO's Responsibility for Financial Reporting

The Financial Statements of Cargills Bank PLC (the Bank) for the year ended 31 December 2023 are prepared and presented in compliance with the following requirements;

- Sri Lanka Accounting Standards (SLFRS/ LKAS) issued by The Institute of Chartered Accountants of Sri Lanka
- Companies Act No.7 of 2007 and amendments thereto;
- Sri Lanka Accounting and Auditing Standards Act No.15 of 1995;
- Banking Act No.30 of 1988 and amendments thereto and the Directions, Determinations and Guidelines issued by the Central Bank of Sri Lanka (CBSL) including Section 3(8)(ii)(b) of the Banking Act Direction No 11 of 2007 on Corporate Governance issued by the CBSL;
- The Listing Rules of the Colombo Stock Exchange (CSE):

The formats used in the preparation of the Financial Statements and disclosures made comply with the specified formats prescribed by the Central Bank of Sri Lanka which also complies with the disclosure requirements of Sri Lanka Accounting Standard - LKAS 1 (Presentation of Financial Statement). The Bank presents the financial results to its shareholders on a quarterly basis.

The Accounting Policies used in the preparation of the Financial Statements are appropriate and are consistently applied by the Bank.

There are no material departures from the prescribed Accounting Standards in their adoption.

Comparative information has been reclassified wherever necessary to comply with the current presentation.

Significant accounting policies and estimates that involved a high degree of judgement and complexity were discussed with the Audit Committee and the External Auditors. The Board of Directors and the Management of the Bank accept the responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgements relating to the Financial Statements were made on a prudent and reasonable basis; to ensure 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 implementing a sound system of internal controls and accounting records with the use of a comprehensive core banking system, for safeguarding assets and to prevent and detect frauds as well as other irregularities, which is reviewed, evaluated, and updated on an ongoing basis. The Bank's 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. We confirm that, to the best of our knowledge, the Financial Statements, Significant Accounting Policies, and other financial information included in this Annual Report, fairly present in all material respects the financial position, results of the operations and the Cash Flows of the Bank during the year under review. We also confirm that the Bank has adequate resources to continue in operation and has applied the going concern basis in preparing these Financial Statements.

Further, the Board assessed the effectiveness of the Bank's internal controls over financial reporting during the year ended 31 December 2023, as required by the Banking Act Direction No.11 of 2007, the result of which is given in 'Directors' Statement on Internal Controls over Financial Reporting' on pages 179 and 180 of the Annual Report. The 'Auditor's Report on Internal Controls' is given on pages 181 and 182 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 pages 185 to 189 of the Annual Report. The Audit Committee of the Bank meets periodically with the Internal Audit team and the independent External Auditor to review their audit plans, assess the manner in which the auditors discharge their responsibilities and discuss their reports on internal controls and financial reporting issues. To ensure complete independence, the External Auditor and the Internal Auditor have full and free access to the members of the Audit Committee to discuss any matter of substance.

The Audit Committee approves audit and non-audit services provided by the External Auditors, Messrs. KPMG, to ensure that the provision of such services does not impair the independence of the External Auditors and does not contravene the guidelines issued by the CBSL on permitted non-audit services. Refer to 'Report of the Board Audit Committee' appearing on pages 136 to 138 for details.

## CEO's and CFO's Responsibility for Financial Reporting

The Bank has taken appropriate actions to implement new Sri Lanka Accounting Standards and Directions issued by the Central Bank of Sri Lanka on due dates and all the processes are in place to address the requirements of the Sri Lanka Accounting Standards and respective regulatory Directions.

We confirm to the best of our knowledge that;

- Prudential requirements have been satisfied and there are no material litigations that are pending against the Bank other than those disclosed in Note 46 to the Financial Statements;
- There are no material non-compliances; and
- All contributions, levies and taxes paid on behalf of the Bank and in respect of the employees of the Bank as of 31 December 2023 have been paid or where relevant provided for.



**Senarath Bandara**  
*Managing Director/ Chief Executive Officer*



**Mrs. Dilhani Gajanayaka**  
*Head of Finance*

Colombo  
26 March 2024

# Independent Auditor's Report



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

Tel : +94 - 11 542 6426  
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## TO THE SHAREHOLDERS OF CARGILLS BANK PLC

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Cargills Bank PLC (“the Bank”), which comprise the statement of financial position as at 31st December 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policies as set out on pages 190 to 291 of this Annual Report.

In our opinion, the accompanying financial statements of the Bank give a true and fair view of the financial position of the Bank as at 31st December 2023, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### Basis for Opinion

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

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Bank's financial statements of the current period. These matters were addressed in the context of our audit of the Bank's financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

C. P. Jayatilake FCA  
Ms. S. Joseph FCA  
G. A. U. Karunaratne FCA  
R. H. Rajan FCA  
A.M.R.P. Alahakoon ACA

T. J. S. Rajakarier FCA  
W. K. D. C. Abeyrathne FCA  
R.M.D.B. Rajapakse FCA  
M.N.M. Shameel FCA  
Ms. P.M.K. Sumanasekara FCA

W. W. J. C. Perera FCA  
S. T. D. L. Perera FCA  
Ms. B.K.D.T.N. Rodrigo FCA  
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Principals: S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, Ms. F.R. Ziyad FCMA (UK), FTI

## Independent Auditor's Report

Allowances for Expected Credit Losses	
<p>Refer to the critical accounting estimates and judgements disclosures in relation to the allowance for expected credit losses in Note 2.11 (Accounting Judgement, Estimates and Assumptions), Note 14 (Impairment charge for loans and other losses), and Note 28 (Financial assets measured at amortised cost - loans and advances to other customers), to these financial statements.</p>	
Risk Description	Our Responses
<p>Allowance for expected credit losses (ECL) is a key audit matter due to the significance of the loans and receivables balance to the financial statements and the inherent complexity of the Bank's ECL models used to measure ECL allowances. These models are reliant on data and estimates including multiple economic scenarios and key assumptions such as defining a significant increase in credit risk (SICR).</p> <p>SLFRS 9 <i>Financial Instruments</i> requires the Bank to measure ECLs on a forward-looking basis reflecting a range of economic conditions. Post-model adjustments are made by the Bank to address known ECL model limitations or emerging trends in the loan portfolios. Challenging the economic scenarios used and the judgmental post-model adjustments the Bank applies to the ECL results involves significant judgement.</p> <p>The Bank's criteria selected to identify a SICR are key areas of judgement within the Bank's ECL methodology as these criteria determine if a forward-looking 12 month or lifetime allowance is recorded.</p> <p>Additionally, allowances for individually significant loans exceeding specific thresholds are individually assessed by the Bank. Challenging the assessment of specific allowances based on the expected future cash repayments and estimated proceeds from the value of the collateral held by the Bank in respect of the loans along with the heightened uncertainty associated with the impact of the economic outlook and its impact on customers, increased our audit effort thereon.</p>	<p>Our audit procedures to assess the allowances for ECL included the following:</p> <p>Testing key controls of the Bank in relation to:</p> <ul style="list-style-type: none"> <li>• Reconciliation of the data used in the ECL calculation process to gross balances recorded within the general ledger.</li> <li>• IT system controls which record loan days past due, and non-performing loan classification.</li> <li>• Review of the ECL model governance and validation processes which involved assessment of model performance</li> </ul> <p><i>Assessing adequacy of impairment for individually significant customers</i></p> <p>Selecting a sample of customers (based on quantitative thresholds set by the bank and qualitative factors) and our procedures included the following:</p> <ul style="list-style-type: none"> <li>• Evaluating management's assessment of recoverability of the forecasted cash flows by comparing them to the historical performance of the customers, their financial position and the expected future performance where applicable;</li> <li>• Assessing external collaterals and comparing external valuations to values used in management's impairment assessments, forecasted timing of future cash flows in the context of underlying valuations and approved business plans</li> <li>• Testing the implementation of the Bank SICR methodology by re-performing the staging calculation for a sample of loans;</li> <li>• For a sample of customer loans which were not identified as displaying objective evidence indicators assessed by management, we reassessed the conclusions by reviewing the historical performance of the customers and formed our own view whether any impairment indicators were present.</li> </ul> <p><i>Assessing the adequacy of collective impairment included the following procedures:</i></p> <ul style="list-style-type: none"> <li>• Assessing the accuracy of the data used in the ECL models by checking a sample of data fields such as account balance, days past due, interest rate to relevant source systems.</li> <li>• Working with our Financial Risk Management (FRM) specialist we carried out the following procedures: <ul style="list-style-type: none"> <li>• Assessed the accuracy of the ECL model estimates by re-performing, for a sample of loans and comparing this to the amount recorded by the Bank;</li> </ul> </li> </ul>

## Independent Auditor's Report

Risk Description	Our Responses
	<ul style="list-style-type: none"> <li>• Challenged the forward-looking macroeconomic assumptions and scenarios incorporated in the ECL models. We compared the forecast GDP, unemployment rates, interest rate, inflation rate to relevant publicly available macroeconomic information.</li> <li>• Testing the implementation of SICR methodology by re-performing the staging calculation for a sample of loans taking into consideration movements from loan origination and comparing our result to actual staging applied on an individual account level in the ECL model;</li> <li>• Evaluating the approach taken by the management in identifying the risk elevated sectors and assessing the current market conditions and specific risks in the Bank's loan restructures due to exposure to risk elevated sectors;</li> </ul> <p><i>Assessing the adequacy of post model adjustments</i></p> <p>We challenged key assumptions in the components of the Bank's post-model adjustments to the ECL allowance balance. This included:</p> <ul style="list-style-type: none"> <li>• Assessing post-model adjustments against the Bank's ECL model and data deficiencies identified by the Bank's ECL model validation processes, particularly in light of the significant volatility in economic scenarios;</li> <li>• Comparing underlying data used in underlying loan portfolio characteristics of recent loss experience, restructure, current market conditions and exposure to risk elevated sectors in the Bank's loan portfolios;</li> <li>• Assessing certain post-model adjustments identified by the Bank against internal and external information;</li> <li>• Assessing the completeness of post-model adjustments by checking the consistency of overlay criteria we identified in the loan portfolios against the Bank's assessment.</li> </ul> <p>We also assessed the appropriateness of the related disclosures in the financial statements using our understanding obtained from our testing and against the requirements of Sri Lanka Accounting Standards.</p>

## Independent Auditor's Report

IT systems and controls over financial reporting	
Risk Description	Our Responses
<p>The Bank's businesses utilize many complex, interdependent Information Technology (IT) systems to process and record a high volume of transactions. The controls over access, changes to and operation of IT systems are key to the recording of financial information and the preparation of financial statements which provide a true and fair view of the Bank's financial position and performance.</p> <p>The IT systems and controls, as they impact the recording and reporting of financial transactions, is a key audit matter as our audit approach could significantly differ depending on the effective operation of the Bank's IT controls.</p>	<p>Our testing focused on the technology control environments for key IT applications (systems) used in processing significant transactions and recording balances in the general ledgers, and the automated controls embedded within these systems which link the technology enabled business processes our audit procedures included:</p> <ul style="list-style-type: none"> <li>Assessing the governance and higher-level controls in place across the IT Environment, including those regarding policy design, review and awareness, and IT Risk Management practices;</li> <li>Obtaining an understanding and testing operating effectiveness of the sample of key controls operating in relation to financial accounting and reporting systems, including system access and system change management, monitor system integrity, program development and computer operations;</li> <li>Data integrity of critical system reporting used by us in our audit to select samples and analyze data used by management to generate Financial Statements.</li> <li>Testing compensating controls, such as reconciliations between systems and other information sources and performed additional substantive testing such as using extended sample sizes and performing data analysis routines over the full population of transactions.</li> </ul>

### Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

### Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud

## Independent Auditor's Report

or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Bank.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is FCA 1798.



Chartered Accountants  
Colombo, Sri Lanka  
26 March 2024

## Statement of Profit or Loss

For the year ended 31 December	Note	Page No.	2023 Rs. '000	2022 Rs. '000	Change %
Gross income	7	208	12,907,417	9,488,610	36
Interest income			10,929,050	8,002,096	37
Less: Interest expense			7,547,659	4,797,845	57
<b>Net interest income</b>	8	208	<b>3,381,391</b>	<b>3,204,251</b>	<b>6</b>
Fee and commission income			1,283,432	1,272,446	1
Less: Fee and commission expense			484,664	410,078	18
<b>Net fee and commission income</b>	9	210	<b>798,768</b>	<b>862,368</b>	<b>(7)</b>
Net gains/(losses) from trading	10	211	324	994	(67)
Net gains/(losses) from financial assets at fair value through profit or loss	11	211	264,942	-	100
Net gains/(losses) from derecognition of financial assets	12	211	176,953	20,814	750
Net other operating income	13	212	252,716	192,260	31
<b>Total operating income</b>			<b>4,875,094</b>	<b>4,280,687</b>	<b>14</b>
Less: Impairment losses on financial instruments and other assets	14	212	848,792	1,463,485	(42)
<b>Net operating income</b>			<b>4,026,302</b>	<b>2,817,202</b>	<b>43</b>
<b>Less: Expenses</b>					
Personnel expenses	15	218	1,072,799	915,285	17
Depreciation and amortisation	16	219	331,904	437,014	(24)
Other operating expenses	17	220	1,486,894	1,002,185	48
<b>Total operating expenses</b>			<b>2,891,597</b>	<b>2,354,484</b>	<b>23</b>
<b>Operating profit before tax on financial services</b>			<b>1,134,705</b>	<b>462,718</b>	<b>145</b>
Less: Taxes on financial services	18	220	404,829	256,281	58
<b>Profit before income tax</b>			<b>729,876</b>	<b>206,437</b>	<b>254</b>
Less: Income tax expense/(reversal)	19	221	289,856	(281,327)	203
<b>Profit for the year</b>			<b>440,020</b>	<b>487,764</b>	<b>(10)</b>
<b>Profit attributable to:</b>					
Equity holders of the Bank			440,020	487,764	(10)
<b>Profit for the year</b>			<b>440,020</b>	<b>487,764</b>	<b>(10)</b>
Basic earnings per share (Rs.)	20	223	0.50	0.55	(9)
Diluted earnings per share (Rs.)	20	223	0.50	0.55	(9)

The Notes to the Financial Statements disclosed on pages 195 to 291 form an integral part of these Financial Statements.

# Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December	Note	Page No.	2023 Rs. '000	2022 Rs. '000	Change %
Profit for the year			440,020	487,764	(10)
Other comprehensive income, net of tax					
<b>Items that will never be reclassified to profit or loss</b>					
Net actuarial gains/(losses) on defined benefit obligations	40	251	4,503	(5,701)	179
Change in fair value of investment in equity instruments measured at fair value through other comprehensive income	22.2.1	228	2,672	1,575	70
Deferred tax (charge)/reversal related to the above	34.2	246	(2,153)	(283)	(660)
Net other comprehensive income, items that will never be reclassified to profit or loss			5,022	(4,409)	214
<b>Items that are or may be reclassified to profit &amp; loss</b>					
Net gains/(losses) on investment in debt instruments measured at fair value through other comprehensive income					
Fair value gains/(losses) that arose during the period			1,995,983	(104,187)	2,016
Fair value (gains)/losses realised to Income Statement on disposal	12	211	(176,953)	(20,814)	(750)
Net gains / (losses) on re-measuring Financial Instruments at FVOCI			1,819,030	(125,001)	1,555
Deferred tax (charge)/reversal related to the above	34.2	246	(541,594)	37,090	(1,560)
Net other comprehensive income, Items that are or may be reclassified to profit & loss			1,277,436	(87,911)	1,553
Total other comprehensive income/(loss) for the year, net of tax			1,282,458	(92,320)	1,489
Total comprehensive income for the year			1,722,478	395,444	336
<b>Attributable to:</b>					
Equity holders of the Bank			1,722,478	395,444	336
Total comprehensive income for the year			1,722,478	395,444	336

The Notes to the Financial Statements disclosed on pages 195 to 291 form an integral part of these Financial Statements.

# Statement of Financial Position

As at 31 December	Note	Page No.	2023 Rs. '000	2022 Rs. '000	Change %
<b>ASSETS</b>					
Cash and cash equivalents	23	230	1,963,321	1,232,272	59
Balances with Central Bank of Sri Lanka	24	230	432,805	1,311,926	(67)
Securities purchased under resale agreements	25	231	730,566	-	100
Derivative financial instruments	26	231	6	-	100
Financial assets measured at fair value through profit or loss	27	232	2,468,401	-	100
Financial assets at amortised cost - Loans and advances to other customers	28	232	40,559,438	35,960,080	13
Financial assets at amortised cost - Debt and other financial instruments	29	235	2,050,119	1,996,950	3
Financial assets measured at fair value through other comprehensive income	30	236	17,779,520	10,253,496	73
Property, plant and equipment and right-of-use assets	31	237	462,706	475,180	(3)
Intangible assets	32	242	283,445	335,150	(15)
Deferred tax assets	34	245	284,090	955,721	(70)
Other assets	35	247	2,721,878	1,232,034	121
<b>Total assets</b>			<b>69,736,295</b>	<b>53,752,809</b>	<b>30</b>
<b>LIABILITIES</b>					
Due to banks	36	248	717,667	514,193	40
Derivative financial instruments	37	248	27	30	(10)
Financial liabilities at amortised cost - Due to depositors	38	249	50,728,853	37,802,680	34
Financial liabilities at amortised cost - Other borrowings	39	250	3,669,925	3,688,924	(1)
Retirement benefit obligations	40	251	108,605	96,806	12
Lease liability	33	244	335,781	340,542	(1)
Other liabilities	41	253	2,232,654	1,589,329	40
<b>Total liabilities</b>			<b>57,793,512</b>	<b>44,032,504</b>	<b>31</b>
<b>EQUITY</b>					
Stated capital	42	253	11,894,421	11,394,421	4
Statutory reserve fund	44	254	78,775	56,774	39
Retained Earnings/(losses)	43	254	(1,176,968)	(1,598,139)	26
Other reserves	44	254	1,146,555	(132,751)	964
<b>Total equity attributable to equity holders of the Bank</b>			<b>11,942,783</b>	<b>9,720,305</b>	<b>23</b>
<b>Total liabilities and equity</b>			<b>69,736,295</b>	<b>53,752,809</b>	<b>30</b>
Contingent liabilities & commitments	45	255	16,697,057	22,292,738	(25)
Net assets value per share (Rs.)	47	257	12.63	11.01	15
<b>Memorandum Information</b>					
Number of employees			623	598	
Number of branches			24	23	

The Notes to the Financial Statements disclosed on pages 195 to 291 form an integral part of these Financial Statements.

## Certification

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



D. Gajanayaka  
Head of 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.



S. Bandara  
Managing Director/ Chief Executive Officer



R. A. Ebell  
Chairman

Colombo  
26 March 2024

# Statement of Changes in Equity

	Note	Page No.	Stated Capital Rs. '000	Statutory Reserves Rs. '000	Retained Earning/(losses) Rs. '000	Other Reserves (Fair Value through Other Comprehensive Income Reserve) Rs. '000	Total Rs. '000
Balance as at 01 January 2022			11,394,421	32,386	(2,055,814)	(46,132)	9,324,861
<b>Total comprehensive income for the year 2022</b>							
Profit for the year			-	-	487,764	-	487,764
Other comprehensive income, net of tax	43, 44	254	-	-	(5,701)	(86,619)	(92,320)
<b>Total comprehensive income for the year 2022</b>			-	-	482,063	(86,619)	395,444
<b>Transactions with equity holders recognised directly in equity</b>							
Transfer to the statutory reserve fund	44	254	-	24,388	(24,388)	-	-
<b>Total transactions with equity holders</b>			-	24,388	(24,388)	-	-
<b>Balance as at 31 December 2022</b>			<b>11,394,421</b>	<b>56,774</b>	<b>(1,598,139)</b>	<b>(132,751)</b>	<b>9,720,305</b>
Balance as at 01 January 2023			11,394,421	56,774	(1,598,139)	(132,751)	9,720,305
<b>Total comprehensive income for the year 2023</b>							
Profit for the year			-	-	440,020	-	440,020
Other comprehensive income, net of tax	43, 44	254	-	-	3,152	1,279,306	1,282,458
<b>Total comprehensive income for the year 2023</b>			-	-	443,172	1,279,306	1,722,478
<b>Transactions with equity holders recognised directly in equity</b>							
Issue of shares	42	253	500,000	-	-	-	500,000
Transfer to the statutory reserve fund	44	254	-	22,001	(22,001)	-	-
<b>Total transactions with equity holders</b>			<b>500,000</b>	<b>22,001</b>	<b>(22,001)</b>	<b>-</b>	<b>500,000</b>
<b>Balance as at 31 December 2023</b>			<b>11,894,421</b>	<b>78,775</b>	<b>(1,176,968)</b>	<b>1,146,555</b>	<b>11,942,783</b>

# Statement of Cash Flows

For the year ended 31 December	Note	Page No.	2023 Rs. '000	2022 Rs. '000
<b>Cash flows from operating activities</b>				
Profit/(loss) before income tax			729,876	206,437
Adjustments for:				
Non-cash items included in profit/(loss) before tax	52	266	1,611,809	2,775,724
Gains/(losses) on sale of property, plant & equipment and other assets	13	212	(99)	(315)
Dividend income	13	212	(1,571)	(720)
Interest paid on lease liability	33.4	244	(44,442)	(34,271)
Benefits paid on defined benefit plans	40	251	(18,599)	(12,674)
<b>Operating profits before changes in operating assets and liabilities</b>			<b>2,276,974</b>	<b>2,934,181</b>
Net (increase)/decrease in operating assets	53	267	(14,647,708)	(324,582)
Net (increase)/decrease in operating liabilities	54	267	13,896,768	(2,118,078)
<b>Cash generated from/(used in) operating activities before income tax</b>			<b>1,526,034</b>	<b>491,521</b>
Income taxes paid			-	-
<b>Net cash generated from/(used in) operating activities</b>			<b>1,526,034</b>	<b>491,521</b>
<b>Cash flows from investing activities</b>				
Net purchase of property, plant and equipment	31	237	(97,096)	(177,616)
Investment in debentures	29	235	-	(160,353)
Proceeds from sale of property, plant and equipment			336	755
Net purchase of intangible assets	32	242	(79,675)	(193,576)
Dividends received	13	212	1,571	720
<b>Net cash generated from/(used in) investing activities</b>			<b>(174,864)</b>	<b>(530,070)</b>
<b>Cash flows from financing activities</b>				
Payment of lease liability	33.5	244	(95,951)	(91,513)
Interest Paid			(469,651)	(152,517)
Change in securities sold under repurchase agreements			(18,999)	(280,692)
<b>Net cash generated from/(used in) financing activities</b>			<b>(584,601)</b>	<b>(524,722)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>			<b>766,569</b>	<b>(563,270)</b>
Cash and cash equivalents at the beginning of the year			1,260,340	1,823,610
<b>Cash and cash equivalents at the end of the year</b>			<b>2,026,909</b>	<b>1,260,340</b>
<b>Reconciliation of cash and cash equivalents</b>				
Cash and cash equivalents	23	230	2,026,909	1,260,340
<b>Cash and cash equivalents at the end of the year (Gross)</b>	<b>23</b>	<b>230</b>	<b>2,026,909</b>	<b>1,260,340</b>
Less: Impairment charges	23.1	230	(63,588)	(28,068)
<b>Cash and cash equivalents at the end of the year (Net)</b>	<b>23</b>	<b>230</b>	<b>1,963,321</b>	<b>1,232,272</b>

The Notes to the Financial Statements disclosed on pages 195 to 291 form an integral part of these Financial Statements.

# Notes to the Financial Statements

## 1. REPORTING ENTITY

### 1.1 Domicile and Legal Form

Cargills Bank PLC, formerly known as Cargills Bank Limited, (the Bank) is a Public Limited Company incorporated on 3 November 2011, listed on the Colombo Stock Exchange and domiciled in Sri Lanka under the Companies Act No. 7 of 2007 for the purpose of carrying out banking activities in Sri Lanka. It is a Licensed Commercial Bank registered under the Banking Act No. 30 of 1988 and amendments thereto. The registered office of the Bank is located at No. 696, Galle Road, Colombo 3.

The Bank does not have an identifiable Parent of its own. Further, the Bank does not hold any investments in the form of a subsidiary, joint venture or an associate. Corporate information is presented in the inner back cover of this Annual Report.

### 1.2 Principal Activities and Nature of Operations

On 21 January 2014, in terms of Section 5 of the Banking Act No. 30 of 1988 (as amended from time to time), the Bank has been issued with a commercial banking license by the Central Bank of Sri Lanka (CBSL) to carry on domestic banking business and off-shore banking business. The Bank provides a comprehensive range of financial services encompassing accepting deposits, corporate and retail banking, project financing, trade finance, treasury services, issuing of credit cards and debit cards, off-shore banking, resident and non-resident foreign currency operations, invoice discounting, electronic banking services such as: telephone banking, internet banking, mobile banking and money remittance facilities, etc.

### 1.3 Number of Employees

The total number of employees of the Bank as at 31 December 2023 was 623 (2022 - 598).

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

### 2.1 Statement of Compliance

The Financial Statements of the Bank have been prepared and presented in accordance with the Sri Lanka Accounting Standards (LKAS/SLFRS) laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007 and the Banking Act No. 30 of 1988, as amended & applicable directions and listing rules of Colombo Stock Exchange (CSE). The details of material accounting policies are disclosed in Note 3. These Financial Statements except for information in the Statement of Cash Flows have been prepared following the accrual basis of accounting.

The formats used in the preparation of the Financial Statements and the disclosures made therein also comply with the specified formats prescribed by the CBSL for the preparation, presentation and publication of Annual Audited Financial Statements of Licensed Commercial Banks.

### 2.2 Responsibility for Financial Statements

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

The Board of Directors acknowledges their responsibility for Financial Statements as set out in the 'Annual Report of the Board of Directors' on the Affairs of the Bank', 'Directors' Responsibility for Financial Reporting' and the certification on the 'Statement of Financial Position' on pages 139 to 146, 177 to 178 and 192, respectively.

These Financial Statements include the following components,

- Statement of Profit or Loss, Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Bank for the year under review. Refer pages 190 and 191.
- A Statement of Financial Position providing the information on the financial position of the Bank as at the year end. Refer page 192.
- A Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Bank. Refer page 193.
- A Statement of Cash Flows providing the information to the users, on the ability of the Bank to generate cash and cash equivalents and the need to utilise those cash flows. Refer page 194.
- Notes to the Financial Statements comprising Material Accounting Policies and other explanatory information. Refer pages 195 to 291.

### 2.3 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Bank for the year ended 31 December 2023 were authorised for issue (including comparatives for the year 2022) by the Board of Directors on 26 March 2024.

## Notes to the Financial Statements

### 2.4 Basis of Measurement

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

Items	Measurement basis
Financial assets measured at Fair Value Through Profit or Loss (FVTPL) including derivative financial instrument	Fair value
Financial assets measured at Fair Value through Other Comprehensive Income (FVOCI)	Fair value
Net defined benefit (asset)/liability	Present value of the defined benefit obligation

### 2.5 Going Concern

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

### 2.6 Functional and Presentation Currency

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

The amounts in the Financial Statements have been rounded to the nearest Rupees thousands, unless indicated otherwise as permitted by the Sri Lanka Accounting Standard LKAS 1 on 'Presentation of Financial Statements'.

### 2.7 Comparative Information

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

The comparative information is reclassified whenever necessary to conform with the current year's presentation and to be in compliance with the Circular No. 2 of 2019 issued by Central Bank of Sri Lanka on publication of Annual and Quarterly Financial Statements and other disclosures by licensed banks in order to provide a better presentation. Details of Comparative Information are given in Note 56 to the Financial Statements on page 267.

### 2.8 Presentation of Financial Statements

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

### 2.9 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the 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 Statement of Profit or Loss unless required or permitted by an Accounting Standard or an interpretation and as if specifically disclosed in the Accounting Policies of the Bank.

### 2.10 Materiality and Aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard LKAS 1 on 'Presentation of Financial Statements' and subsequent amendments.

### 2.11 Use of Significant Accounting Judgements and Assumptions and Estimates

In preparing these Financial Statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses and the accompanying disclosures, as well as the disclosure of contingent liabilities. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

#### 2.11.1 Extraordinary Economic Conditions

With a view of meeting the challenges faced by businesses and individuals engaged in various economic sectors

## Notes to the Financial Statements

due to the prevailing extraordinary macroeconomic circumstances, in 2022 the Central Bank of Sri Lanka (CBSL) via its direction, concessions to affected borrowers amidst the prevailing extraordinary macroeconomic circumstances requested banks to provide concession to affected borrowers on a need basis. Concessions granted by the Bank under this circular include grace period on capital or interest or both capital and interest for a period of six months from the date of the aforesaid circular, based on the new repayment capacity of the borrower.

When a customer is provided with a moratorium and the same results in a Significant Increase in Credit Risk (SICR), the impact on Expected Credit Loss (ECL) is recognised when assessing provision by applying risk elevation for Probability of Default (PD) to reflect the impact of moratorium granted.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses and fair value measurement. The impact of these estimates where relevant is discussed further in the respective Notes to these Financial Statements. Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to estimates are recognised prospectively.

### 2.11.2 Judgements

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

- Note 3.2.1.4: Classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial

assets are Solely Payment of Principal and Interest (SPPI) on the principal outstanding.

- Note 14: Assessment of credit risk establishing the criteria for determining whether credit risk on the financial asset has increased significantly since the initial recognition, determining methodology for incorporating forward-looking information into measurement of Expected Credit Loss and selection and approval of models used to measure ECL.

### 2.11.3 Assumptions and Estimation Uncertainties

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

- Note 22: Determination of the fair value of financial instruments with significant unobservable inputs.
- Note 57.3: Determination of inputs into the Expected Credit Loss measurement model including key assumptions used in estimating recoverable cash flows and incorporating forward-looking information.
- Note 31: Property, Plant and Equipment and Right of Use Assets: Key assumptions of economic useful life and residual value.
- Note 32: Intangible Assets: Key assumptions of economic useful life and residual value.
- Note 34.3: Recognition of deferred tax assets: Availability of future taxable profit against which carry forward tax losses can be utilised.
- Note 40.2: Measurement of defined benefit obligations: key actuarial assumptions.

### 2.12 Financial Risk Management

Risk is inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

A detailed write-up on the way in which the risk management is carried out within the Bank's Risk Management Framework with due consideration given to factors such as governance, identification, assessment, monitoring, reporting and mitigation are discussed in the Section on "Risk Management" on pages 148 to 161. The said write-up on "Risk Management" does not form a part of the Financial Statements.

The Bank exposure to risks arising out of financial activities which it undertakes in engaging in its operations are described more in Note 57: Financial Risk Management.

### 2.13 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 in Note 55 to the Financial Statements.

## Notes to the Financial Statements

### 3. MATERIAL ACCOUNTING POLICIES

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements, except if mentioned otherwise.

In addition, the Bank adopted Disclosure of Accounting Policies (Amendments to LKAS 1 and IFRS Practice Statement 2) from 1 January 2023. The amendments require disclosure of “material” rather than “significant”, accounting policies. The amendments did not result in any changes to the accounting policies themselves.

#### Index of Material Accounting Policies

Note	Description	Reference to the Notes in Financial Statements	Page Reference
	<b>Material Accounting Policies - General</b>		
3.1	Foreign Currency Transactions and Balances		
	<b>Material Accounting Policies - Recognition of Assets and Liabilities</b>		
3.2	Financial Instruments - Initial Recognition, Classification and Subsequent Measurement		
3.3	Leases	33	244 & 245
3.4	Impairment of Non-Financial Assets	23 and 29	230 & 235
3.5	Employee Benefits	40	251 & 252
3.6	Provisions		
3.7	Restructuring	14	212 to 217
3.8	Onerous Contracts		
3.9	Stated Capital and Reserves	42, 43 and 44	253 & 254
	<b>Material Accounting Policies - Recognition of Income and Expenses</b>		
3.10	Recognition of Income and Expenses	8	208 & 209
3.11	Net Income from Other Financial Instruments	9, 10, 11, 12 and 13	210 to 212
3.12	Expenditure Recognition	15, 16 and 17	218 to 220
	<b>Material Accounting Policies - Tax Expenses</b>		
3.13.1	Income Tax Expense	19	221 & 222
3.13.2	Crop Insurance Levy (CIL)		
3.13.3	Value Added Tax on Financial Instruments	18	220
3.13.4	Social Security Contribution Levy	18	220
	<b>Material Accounting Policies - Statement of Cash Flows</b>		
4	Statement of Cash Flows		
	<b>Material Accounting Policies – Changes in Accounting Policies</b>		
5.1	Deferred tax related to assets and liabilities arising from single transaction	19	221 & 222
5.2	Material accounting policy information		

## Notes to the Financial Statements

### 3.1 Foreign Currency Transactions and Balances

Foreign currency transactions are translated into the Functional Currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the dates of the transactions. In this regard, the Bank's practice is to use the middle rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated 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 payments and effective interest 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 translated to the Functional Currency at the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currency that are measured at historical cost are translated using the exchange rate prevailed at the date of the transaction. Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of FVOCI equity instruments or qualifying cash flow hedges, which are recognised in Other Comprehensive Income.

### 3.2 Financial Instruments

#### 3.2.1 Initial Recognition, Classification and Subsequent Measurement

The classification of financial instruments at initial recognition depends on their business model for managing the instruments and cash flow characteristics as described in Note 3.2.1.4 to the financial statements.

##### 3.2.1.1 Date of Recognition

The Bank initially recognises loans and advances, deposits, debt securities issued, subordinated liabilities, etc. on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

##### 3.2.1.2 Initial Measurement of Financial Instruments

The classification of financial instrument at initial recognition depends on their business model and cash flow characteristics of managing the instruments.

A financial asset or financial liability is measured at fair value plus, for items not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally at its transaction price.

##### 3.2.1.3 "Day 1" Profit or Loss

When the transaction price of the instrument differs from the fair value at origination and fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in net gains/(losses) from trading. In those cases, where the fair value is based on

models for which some inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

The "Day 1 loss" arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rates (EIR) in "Interest income" and "Personnel expenses" over the remaining service period of the employees or tenure of the loan whichever is shorter in line with the SLFRS 9 and Sri Lanka Accounting Standard on "Employee Benefits" (LKAS 19).

## Notes to the Financial Statements

### 3.2.1.4 Classification and Subsequent Measurement of Financial Assets

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

A summary of the recognition and measurement criteria pertaining to different types of financial assets recognised within the statement of financial position are as follows.

Financial Assets Classification	Criteria	Type of Assets Measured as per the specified Assets Classification	Note Reference
Financial Assets measured at Amortised Cost	<p>A financial asset is measured at amortised cost if both of the following conditions are met and is not designated as a FVTPL.</p> <ul style="list-style-type: none"> <li>The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and</li> <li>The contractual terms of the financial asset give rise to cash flows that are SPPI, on specific date.</li> </ul>	<p>Cash and cash equivalents</p> <p>Balance with Central Bank of Sri Lanka</p> <p>Securities purchases under resale agreements</p> <p>Financial assets at amortised cost - Loans and advances to customers</p> <p>Financial assets at amorised cost- Debt and other instruments</p>	<p>23</p> <p>24</p> <p>25</p> <p>28</p> <p>29</p>
Financial assets measured at Fair Value through Other Comprehensive Income (FVOCI)	<p>A debt instrument is measured at FVOCI when both of the following condition are met:</p> <ul style="list-style-type: none"> <li>The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and</li> <li>The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.</li> </ul> <p>On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI.</p> <p>This election is made on an investment- by- investment basis.</p>	Financial assets measured at Fair Value through Other Comprehensive Income	30
Financial assets measured at Fair Value through Profit or Loss (FVTPL)	Financial assets are measured at FVTPL unless it is measured at amortised cost or FVOCI.	<p>Derivative financial instruments</p> <p>Financial assets measured at Fair Value through Profit or Loss</p>	<p>26</p> <p>27</p>

## Notes to the Financial Statements

### 3.2.1.4.1 Business Model Assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether Management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's Management; the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how Managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activities. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

### 3.2.1.4.2 Assessment of whether Contractual Cash Flows are Solely Payments of Principal and Interest (SPPI)

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

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

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

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

other basic lending risks and costs associated with the principal amount outstanding.

### 3.2.1.5 Securities purchased under resale agreements (Reverse Repos)

When the Bank purchases a financial asset and simultaneously enters into an agreement to resale the asset (or a similar asset) at a fixed price on a future date (Reverse Repo), the arrangement is accounted for as a financial asset in the Statement of Financial Position reflecting the transaction's economic substance as a loan granted by the Bank.

Subsequent to initial recognition, these securities issued are measured at their amortised cost using the EIR method with the corresponding interest receivable being recognised as interest income in profit or loss.

### 3.2.2 Recognition and Measurement of Financial Liabilities on Initial Recognition

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

- Financial liabilities at Amortised Cost; and
- Financial liabilities at Fair Value Through Profit or Loss,

A financial liability is measured initially at fair value plus, transaction costs that are directly attributable to its acquisition or issue. Subsequent measurement of financial liability is at fair value or amortised cost. The amortised cost of a financial liability is the amount at which the financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount.

## Notes to the Financial Statements

A summary of the recognition and measurement criteria pertaining to different types of financial liabilities recognised within the statement of financial position are as follows.

Financial Liability	Criteria	Type of Liabilities Measured as per the Specified Liability classification	Note Reference
Financial liabilities at amortised cost	The financial liabilities issued that are not designated at FVTPL are classified as financial liabilities measured at amortised cost.	Due to bank	36
		Financial Liabilities at amortised cost - Due to depositors	38
		Financial Liabilities at amortise cost - Due to other borrowers	39
Financial liabilities at Fair Value Through Profit or Loss (FVTPL)	Financial liabilities measured at FVTPL include: <ul style="list-style-type: none"> <li>• Financial Liabilities held for trading</li> <li>• Financial Liabilities designated at FVTPL</li> </ul>	Derivate financial instrument	37

### 3.2.2.1 Classification and subsequent measurement of financial liabilities

The subsequent measurement of financial liabilities depends on their classification.

#### 3.2.2.1.1 Financial liabilities at amortised cost

Financial Liabilities issued by the Bank that are not designated at fair value through profit or loss are recognised initially at fair value plus any directly attributable transaction costs, by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method. Deposit liabilities including savings deposits, current deposits, fixed/ time deposits, call deposits, certificates of deposit are classified as financial liabilities measured at amortised cost.

The EIR amortisation is included in "Interest expense" in the Statement of Profit or Loss. Gains and losses too are recognised in the Statement of Profit or Loss when the liabilities are derecognised as well as through the EIR amortisation process.

#### 3.2.2.1.2 Financial liabilities at Fair Value Through Profit or Loss

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

### 3.2.3 Reclassification of Financial Assets and Liabilities

Financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the Bank changes its objective of the business model for managing such financial assets. Financial liabilities are not reclassified, as such reclassifications are not permitted by Accounting Standard SLFRS 9 on Financial Instruments.

### 3.2.4 Derecognition of Financial Assets and Financial Liabilities

#### 3.2.4.1 Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.

The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay

the received cash flows in full without material delay to a third party under a pass-through arrangement and either: The Bank has transferred substantially all the risks and rewards of the asset, or

- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained, substantially all the risks and rewards

## Notes to the Financial Statements

of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

### 3.2.4.2 Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. 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 recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

### 3.2.5 Modification of Financial Assets and Financial Liabilities

#### Financial Assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised, and a new financial asset is recognised at fair value plus any eligible transaction

costs. Any fees received as part of the modification are accounted for as follows:

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

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (refer write-off policy).

This approach impacts the result of the quantitative evaluation and means that the recognition criteria are not usually met in such cases.

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

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

### Financial Liabilities

The Bank derecognises a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different.

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

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

### 3.2.6 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

## Notes to the Financial Statements

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 as gross in Statement of Financial Position.

### 3.3 Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- The contract involves the use of an identified asset. This may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has substantive substitution right, then the asset is not identified;

The Bank has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and

- The Bank has the right to direct the use of the asset, when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

At inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative standalone prices. However, for leases of land and buildings in which it is a lease, the Bank has elected not to separate non-lease components

and account for the lease and non-lease components as a single lease component.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made on or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Details of right-of-use assets are given in Note 31 to the Financial Statements as a part of property, plant and equipment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or a rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or the rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, an extension or a termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Details of lease liability are given in Note 33 to the Financial Statements.

## Notes to the Financial Statements

### Short-term leases and leases with low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, if any. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

### 3.4 Impairment of Non-Financial Assets

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

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use, that is largely independent of the cash inflows of other assets or Cash Generating Units (CGU).

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in Statement of Profit or Loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amount of the other assets in the CGU on a pro rata basis.

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

### 3.5 Employee Benefits

#### 3.5.1 Defined Contribution Plans (DCP)

##### Employees' Provident Fund and Employees' Trust Fund

A DCP 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 are 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.

#### 3.5.2 Defined Benefit Plan (DBP) - Gratuity

A DBP is a post-employment benefit plan other than a DCP as defined in the Sri Lanka Accounting Standard - LKAS 19 on "Employee Benefits". Based on the Sri Lanka Accounting Standard LKAS19 - Employee Benefits, the Bank has adopted the actuarial valuation method for employee benefit liability. An actuarial valuation is carried out every year to ascertain the full liability. A separate fund is not maintained for this purpose.

The principal assumptions, which have the most significant effects on the valuation are; the rate of discount, rate of increase in salary, rate of turnover at the selected ages, rate of disability, death benefits and expenses.

The liability is measured on an actuarial basis using the projected unit credit method, adjusted for unrecognised actuarial gains and losses. The defined benefit plan liability is discounted using rates equivalent to the market yields at the date of statement of financial position that are denominated in the currency in which benefits will be paid, and that have a maturity approximating to the terms of the related pension liability.

The Bank recognises all actuarial gains and losses arising from the defined benefit plan in Other Comprehensive Income (OCI) and all other expenses related to defined benefit plans are recognise as personnel expenses in the Statement of Profit or Loss.

## Notes to the Financial Statements

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss from curtailment is recognised immediately in profit or loss. The Bank recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Details of Defined Benefit Plan - Gratuity are given in Note 40 to the Financial Statements.

### 3.5.3 Short-Term Employee Benefits

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

### 3.5.4 Terminal Benefits

Termination benefits are expensed at the earlier of when the Bank can no longer withdraw the offer of those benefits and when the Bank recognise costs for a restructuring. If benefits are not expected to be wholly settled within 12-months of the reporting date, then they are discounted.

### 3.6 Provisions

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

### 3.7 Restructuring

Provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

### 3.8 Onerous Contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract is lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

### 3.9 Stated Capital and Reserves

#### 3.9.1 Debt Vs Equity

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Distributions thereon are recognised as interest or dividend depending on the debt or equity classification.

### 3.10 Recognition of Income and Expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The specific recognition criteria must also be met before revenue is recognised. Applicable accounting policies on income recognition are given in Notes 07 to 13 to the Financial Statements.

### 3.11 Net Income from Other Financial Instruments at FVTPL

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

### 3.12 Expenditure Recognition

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

### 3.13 Tax Expenses

#### 3.13.1 Income Tax Expense

Accounting policy on Income Tax is given in Note 19 to the Financial Statements.

#### 3.13.2 Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from 1 April 2013 and is payable to the National Insurance Trust Fund.

Currently, the CIL is payable at 1% of the profit after tax.

#### 3.13.3 Taxes on Financial Services

Details of Taxes on Financial Services are given in Note 18 to the Financial Statements.

## Notes to the Financial Statements

### 4. STATEMENT OF CASH FLOWS

The Cash Flow Statement has been prepared using the 'Indirect Method' of preparing Cash Flows in accordance with the LKAS 7 - 'Statement of Cash Flows.' 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. Investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition.

### 5. CHANGES IN MATERIAL ACCOUNTING POLICIES

The Bank has consistently applied the accounting policies to all the periods presented in these financial statements except as described below:

#### 5.1 Deferred Tax Related to Assets and Liabilities Arising from Single Transaction

The Bank has adopted the amendments to LKAS 12 on Deferred Tax related to Assets and Liabilities arising from Single Transaction with effect from 1 January 2023. The amendments narrow the scope of the initial recognition exception to exclude transactions that give rise to equal and offsetting temporary difference - e.g. leases. For leases, the Bank is required to recognise the associated deferred tax assets and liabilities from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at the date. For all other transaction, the Bank applies the amendments to transactions that occur on or after the beginning of the earliest period presented.

The Bank previously accounted for deferred tax on leases by applying the "integrally linked" approach, resulting in a similar outcome as under the amendments, except that the deferred tax assets or liability was recognised on a net basis. Following the amendments, the Bank recognised a separate deferred tax asset in relation to its lease liabilities and a deferred tax liability in relation to its rights-of-use assets. However, there was no impact on the Statement of Financial Position as the balances qualify for offset under LKAS 12. There was also no impact on the opening retained earnings as at 01 January 2022 as a result of this change.

Refer Note 34 for key impact disclosure on the deferred tax assets and liabilities of the Bank.

#### 5.2 Material Accounting Policy Information

The Bank adopted Disclosure of Accounting Policies (Amendments to LKAS 1 and IFRS Practice Statement 2) from 1 January 2023. Although the amendments did not result in any changes to accounting policies themselves, they impacted the accounting policy information disclosed in the Financial Statements.

The amendments require disclosure of "material", rather than "significant", accounting policies assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

### 6. STANDARDS ISSUED BUT NOT EFFECTIVE

A number of new and amendments to accounting standards are effective for annual periods beginning after 1 January 2024 and earlier application is permitted. However, the Bank has not early adopted the new or amended standards stated below in preparing these financial statements.

The following new and amended standards are not expected to have a significant impact on the Bank's Financial Statements.

- Classification of Liabilities as Current or Non-Current and Non-Current liabilities with Covenants (Amendments to LKAS 1)
- Supplier Finance Arrangements (Amendments to LKAS 7)
- Lack of Exchangeability (Amendments to LKAS 21)
- Lease liability in a Sale and Leaseback (Amendments to LKAS 16)

## Notes to the Financial Statements

### 7. GROSS INCOME

The gross income represents the interest income and the non-interest income earned by the Bank during the year.

Gross income is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The specific recognition criteria, for each type of gross income are given under the respective Notes.

For the year ended 31 December	Note	2023 Rs. '000	2022 Rs. '000
Interest income	8	10,929,050	8,002,096
Fee and commission income	9	1,283,432	1,272,446
Net gains/(losses) from trading	10	324	994
Net gains/(losses) from financial assets at fair value through profit or loss	11	264,942	-
Net gains/(losses) from derecognition of financial assets	12	176,953	20,814
Net other operating income	13	252,716	192,260
<b>Total gross income</b>		<b>12,907,417</b>	<b>9,488,610</b>

### 8. NET INTEREST INCOME

#### Accounting Policy

Interest income and expenses are recognised in Statement of Profit or Loss under the effective interest method.

#### Effective Interest Rate (EIR)

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than Purchased or Originated Credit Impaired (POCI) financial assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For POCI financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

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

The “amortised cost” of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus principal repayments, plus or minus cumulative amortisation using the effective interest method of any difference between that initial amount and maturity amount, and for financial assets, adjusted for any expected credit loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset, before adjusting for any Expected Credit Loss (ECL) allowance.

#### Calculation of Interest Income and Interest Expense

The effective interest rate of a financial asset or liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect the movements in market rates of interest.

## Notes to the Financial Statements

However, for financial assets that have become credit impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net carrying amount of the financial asset and Bank ceases the recognition of interest income on assets when it is probable that economic benefits associated will no longer flow to the Bank. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit impaired on initial recognition, interest income is calculated by applying the credit adjusted effective interest to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

### Presentation

Interest income and expenses calculated under effective interest method presented in the Statement of Profit or Loss include;

- interest on financial assets and financial liabilities measured at amortised cost; and
- interest on financial assets measured at Fair Value through Other Comprehensive Income (FVOCI) calculated on an effective interest basis;
- Interest on Financial Asset Measured at Fair Value Through Profit or Loss (FVTPL)

For the year ended 31 December	Note	2023 Rs. '000	2022 Rs. '000
Interest income	8.1	10,929,050	8,002,096
Less: Interest expense	8.2	7,547,659	4,797,845
<b>Net interest income</b>		<b>3,381,391</b>	<b>3,204,251</b>

### 8.1 Interest Income

Placements with banks	22,404	8,398
Reverse repurchase agreements	96,556	3,346
Investments in debenture	35,133	24,762
Financial assets at amortised cost - Loans and advances to other customers	7,098,811	6,234,071
Financial assets at amortised cost - Debt and other financial instruments	350,807	167,990
Financial assets measured at fair value through other comprehensive income	3,325,339	1,563,529
<b>Total interest income (a)</b>	<b>10,929,050</b>	<b>8,002,096</b>

### 8.2 Interest Expense

Due to banks	22,823	55,622
Financial liabilities at amortised cost - Due to depositors	6,697,753	4,269,284
Financial liabilities at amortised cost - Other borrowings	469,650	168,258
Repurchase agreements	357,433	304,681
<b>Total interest expense (b)</b>	<b>7,547,659</b>	<b>4,797,845</b>
<b>Net interest income (a-b)</b>	<b>3,381,391</b>	<b>3,204,251</b>

## Notes to the Financial Statements

### 9. NET FEE AND COMMISSION INCOME

#### Accounting Policy

Fee and commission income and expenses that are integral part to the Effective Interest Rate (EIR) of a financial asset or financial liability are capitalised and included in the measurement of the EIR and recognised in the Statement of Profit or Loss over the expected life of the instrument.

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

Other fee and commission expenses related mainly to transaction and service fees, which are expensed as the services are received.

As per SLFRS 15, the Bank adopts principles based five steps model for revenue recognition. Accordingly, revenue is recognised only when all of the following criteria are met;

- (i) The parties to the contract have approved the contract;
- (ii) The entity can identify each party's rights regarding the services to be transferred;
- (iii) The entity can identify the payment terms for the services to be transferred;
- (iv) The contract has commercial substance;
- (v) It is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

The applicability of SLFRS 15 to the Bank is limited for fee and commission income.

For the year ended 31 December	Note	2023 Rs. '000	2022 Rs. '000
Fee and commission income	9.1	1,283,432	1,272,446
Less: Fee and commission expenses	9.2	484,664	410,078
<b>Net fee and commission income</b>		<b>798,768</b>	<b>862,368</b>

#### 9.1 Fee and Commission Income

Loans and advances to other customer	43,792	42,076
Cards	659,630	615,931
Trade and remittances	274,458	417,615
Deposits	30,899	12,813
Guarantees	93,267	86,082
Other financial services	181,386	97,929
<b>Total fee and commission income (a)</b>	<b>1,283,432</b>	<b>1,272,446</b>

#### 9.2 Fee and Commission Expenses

Cards	385,215	339,319
Brokerage fee	5,258	3,992
Other financial services	94,191	66,767
<b>Total fee and commission expenses (b)</b>	<b>484,664</b>	<b>410,078</b>
<b>Net Fee and commission income (a-b)</b>	<b>798,768</b>	<b>862,368</b>

## Notes to the Financial Statements

### 10. NET GAINS/(LOSSES) FROM TRADING

#### Accounting Policy

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.

For the year ended 31 December	2023 Rs. '000	2022 Rs. '000
Derivative financial instruments		
Inter bank	324	994
<b>Total net gains/(losses) from trading</b>	<b>324</b>	<b>994</b>

### 11. NET GAINS/(LOSSES) FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

#### Accounting Policy

Net gains/(losses) from financial assets at Fair Value Through Profit or Loss (FVTPL) comprises all realised and unrealised fair value changes, related capital gains and losses derived from the financial assets classified as financial assets at FVTPL.

For the year ended 31 December	2023 Rs. '000	2022 Rs. '000
Investment in unit trusts	264,942	-
<b>Total net gains/(losses) from financial assets at fair value through profit or loss</b>	<b>264,942</b>	<b>-</b>

### 12. NET GAINS/(LOSSES) FROM DERECOGNITION OF FINANCIAL ASSETS

#### Accounting Policy

As per SLFRS 9, on derecognition of a financial asset in its entirety, the difference between the carrying amount (measured at the date of derecognition) and the consideration received (including any new asset obtained less any new liability assumed) shall be recognised in the Statement of Profit or Loss.

Accordingly, all the realised gains or losses from derecognition of financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income are given below.

For the year ended 31 December	2023 Rs. '000	2022 Rs. '000
Government securities	176,953	20,814
<b>Total net gains/(losses) from derecognition of financial assets</b>	<b>176,953</b>	<b>20,814</b>

## Notes to the Financial Statements

### 13. NET OTHER OPERATING INCOME

#### Accounting Policy

Net other operating income includes foreign exchange gains and losses, dividend income from equity instruments designated at Fair Value through Other Comprehensive Income (FVOCI), gains/losses on disposal of property, plant and equipment, and rental and other income.

For the year ended 31 December	2023 Rs. '000	2022 Rs. '000
Gains/(losses) on sale of property, plant and equipment and other assets	99	315
Gains/(losses) on foreign exchange	246,707	189,281
Inter bank	30,181	24,510
Others	216,526	164,771
Dividend income	1,571	720
Rent and other income	4,339	1,944
<b>Total net other operating income</b>	<b>252,716</b>	<b>192,260</b>

### 14. IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS AND OTHER ASSETS

#### Accounting Policy

#### Overview of Expected Credit Loss and Staging

The Bank recognises the impairment (Expected Credit Losses) on financial instruments assessed as per SLFRS 9 - "Financial Instruments". Further, the Bank also recognises an impairment loss when the carrying amount of a non-financial asset exceeds the estimated recoverable amount from that asset as more fully described in Note 3.4 Impairment of Non-Financial Assets.

The Bank recognises the impairment (Expected Credit Losses) on the following financial instruments except on equity investments and on the financial instruments that are measured at Fair Value Through Profit or Loss (FVTPL);

- Cash and cash equivalents;
- Placements with banks;
- Financial assets that are loans and advances;
- Financial assets that are debt instruments;
- Financial guarantee contracts issued; and
- Undrawn credit commitments.

The Bank records the loss allowance for Expected Credit Loss (ECL) at an amount equal to lifetime ECL, except for the following, for which they are measured as 12 month ECL:

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

As per SLFRS 9, the Bank adopts a three stage model for impairment based on changes in credit quality since initial recognition.

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

## Notes to the Financial Statements

Life Time ECL (LTECL) are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments with a significant increase in credit risk since inception are referred to as “Stage 2 financial instruments”.

Credit-impaired instruments are with probability of default at 100% and are referred to as “Stage 3 financial instruments”. A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is an evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

In addition, Banking Act Direction No.13 of 2021 on Classification, Recognition and Measurement of Credit Facilities in a Licensed Banks too requires credit facility where contractual payments are past due for more than 90 days, contracts restructured for more than 2 times (other than upgraded facilities) and rescheduled contract (other than upgraded facilities) are to be classified as credit impaired contracts.

Treasury bills and bonds denominated in local currency, issued by the Government of Sri Lanka, are classified under Stage 1 based on the Banking Act Direction No. 14 of 2021, issued by the Central Bank of Sri Lanka, applying a LGD of zero to these Government securities. Based on the continuous settlement of these securities by the Government and implications of the Domestic Debt Optimization (which excluded these securities) and the said Direction, the Bank's overall Expected Credit Loss (ECL) on these instruments is also zero.

Both LTECLs and 12 months ECLs are calculated either on an individual basis or a collective basis, based on a predetermined threshold of customer exposures. If a particular loan is credit impaired under individual impairment the amount of loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows. If the individually assessed asset is determined that it is not credit impaired under individual impairment, such financial assets are then collectively assessed for any impairment along with other portfolios having similar risk characteristics under collective impairment.

### Calculation of Expected Credit Loss (ECL)

The calculation of ECLs, both Life time and 12 months are performed either on an individual basis or a collective basis, based on a predetermined threshold of customer exposures (Refer Note 57.3.3.4 for details).

### Calculation of Individual Impairment

The Bank calculates ECL on an individual basis for Corporate, SME and Retail exposures identified as individually significant loans and investments in debt instruments. In respect of all loans considered individually significant, the Bank assesses on case by case basis, whether there is/are objective evidence/s of impairment.

Criteria used by the Bank in determining whether there is such objective evidence include (but not limited to) the followings;

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for a security because of financial difficulties; and
- Other indicators exist that suggest the borrower will not be able to service the loan as agreed.

If a particular loan is credit impaired under individual impairment the amount of loss is measured as the shortfall of the present value of estimated future cash flows over its carrying amount.

If the individually assessed asset is determined that it is not credit impaired under individual impairment, such financial assets are then collectively assessed for any impairment along with other portfolios having similar risk characteristics under collective impairment.

## Notes to the Financial Statements

### Calculation of Collective Impairment

Collective assessment is performed for the exposures as follows;

- Exposures that have not been individually assessed i.e. falling below the individually significant threshold;
- Exposures that have been assessed individually for Objective Evidence of Incurred Loss and were found to have no such evidence/ indicators; and
- Exposures that have been individually assessed and were found not to be impaired on an individual basis based on the cash flow estimation.

### Key Elements of the ECL Calculation

Key elements of the ECL calculation are outlined below;

#### Exposure at Default (EAD)

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest whether scheduled by contract or otherwise, expected drawdowns on committed facilities. To calculate EAD for a stage 1 loan, the Bank assesses the possible default events within 12 months. For all other loans, the EAD is considered for default events over the life time of the financial instruments.

#### Loss Given Default (LGD)

LGD is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

#### Probability of Default (PD)

PD is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

Additional explanations are available in Note 57.3.3.1 of the Financial Risk Management.

### Forward Looking Information

The Bank incorporates forward looking information into impairment assessment in measuring whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. When estimating the ECLs, the Bank considers three economic scenarios (base case, best case and worse case). Quantitative economic factors are based on economic data and forecasts published by CBSL and other reliable sources. In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- Quantitative factors - GDP growth, Unemployment rate, rate of Inflation and Interest rate, etc.
- Qualitative factors - Government policies, average loan to value ratio and management outlook on delinquencies etc.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the Financial Statements.

### Restructured/ Rescheduled Financial Assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

## Notes to the Financial Statements

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its recognition.

This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of recognition to the reporting date using the original effective interest rate of the existing financial asset.

### **Purchased or Originated Credit Impaired (POCI) Financial Assets;**

The Bank perform an assessment of whether any financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Financial assets which are credit impaired on initial recognition are categorised within Stage 3 with a carrying value already reflecting the Life Time Expected Credit Loss (LTECL).

The Bank does not have Purchased or Originated Credit Impaired (POCI) loans as at the reporting date.

### **Undrawn Credit Facilities**

The undrawn amounts including credit cards and financial guarantees are converted into likely future exposures using Credit Conversion Factors (CCF) as specified in the BASEL III guidelines and included within the collective model which will reflect the days past due, Probability of Default (PD) and Loss Given Default (LGD).

### **Loan Commitments and Letters of Credit**

When estimating life-time ECL for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down. The expected cash shortfalls are discounted at an approximation to the expected EIR of the loan. For loan commitments and letters of credit, the ECL is recognised within other liabilities.

### **Financial Guarantee Contracts**

The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Statement of Profit or Loss and the ECL allowance. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holders for a credit loss that it incurs. The shortfalls are discounted by the risk adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within other liabilities.

### **Impairment of Debt and Other Financial Assets**

The Bank does not have historical loss experience on debt instruments at amortised cost and debt instruments at FVOCI. Thus the Bank considers PDs based on the rating scales of external rating agencies as at the reporting date. LGD for all debt instruments are based on the guideline issued by the Central Bank of Sri Lanka. Further, the Bank applied the Economic Factor Adjustment (EFA) based on the macro economic factor model. EAD of a debt instrument is its gross carrying amount.

### **Collaterals Held and Other Credit Enhancement & Their Valuation and Collaterals Repossessed**

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

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. The main types of collateral obtained include mortgages over residential properties and real estate properties, cash, inventory and trade receivables, shares, motor vehicles, gold etc.

## Notes to the Financial Statements

Management monitors the market value of collateral and will request additional collateral if the market values are not sufficient in accordance with the underlying agreement. It is the Bank's policy to dispose repossessed properties in an orderly manner. The proceeds are used to recover the outstanding claim.

The Bank holds collaterals and other credit enhancements against its credit exposures.

The Bank's policy is to dispose collaterals repossessed at the earliest possible opportunity.

### Significant Accounting Judgements, Estimates and Assumptions on Impairment Allowance on Financial Assets

The measurement of impairment allowance under SLFRS 9 across all categories of financial assets requires Judgement in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of impairment allowances. Accounting judgements, estimates and assumptions are reviewed regularly and revisions to the same are recognised prospectively.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include;

- The Bank's criteria for assessing if there has been a significant increase in credit risk and hence allowances for financial assets should be measured on a LTECL basis and the qualitative assessment.
- The segmentation of financial assets when their ECL is assessed on a collective basis.
- Development of ECL models, including the various formulas and the choice of inputs.
- Determination of associations between macroeconomic scenarios and economic inputs such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs.
- Selection of forward-looking macroeconomic scenarios and their probability weightings to derive the economic inputs into the ECL models.

### Sensitivity Analysis on Impairment Allowances

A sensitivity analysis of impairment allowance to feasible changes in various factors used has been disclosed the Note 57.3.3.5.3 of Financial Risk Management.

### Write-off

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

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

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

### Management Overlays on Impairment Allowances

Temporary adjustments to the ECL allowances are used in circumstances where it is judged that the existing inputs, assumptions and model techniques do not capture all the risk factors relevant to Bank's lending portfolios due to emerging economic uncertainties and risks. The use of management overlay may impact the amount of ECL recognised. Accordingly, post model adjustments have been applied to ensure credit provisions are appropriate.

## Notes to the Financial Statements

### Presentation of Allowance for Expected Credit Loss (ECL) in the Statement of Financial Position

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

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

### Impairment Charges for the Year

For the year ended 31 December	Note	2023 Rs. '000	2022 Rs. '000
Financial assets at amortised cost - Loans and advances to other customers	28.2	821,898	434,947
Financial assets at amortised cost - Debt and other financial instruments	29.2	2,928	13,227
Cash and cash equivalents	23.1	35,520	20,363
Contingent liabilities and commitments	45.1.2	(39,210)	(37,060)
<b>Total impairment charges</b>		<b>821,136</b>	<b>431,477</b>
Direct write-offs		27,333	1,031,085
Write-off of other assets		323	923
<b>Total impairment charges for financial instruments and other assets</b>		<b>848,792</b>	<b>1,463,485</b>

### 14.1 Analysis of Impairment Changes - Stage Wise Impairment

For the year ended 31 December	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
<b>(a) 2023</b>				
Financial assets at amortised cost - Loans and advances to other customers	95,540	(313,235)	1,039,593	821,898
Financial assets at amortised cost - Debt and other financial instruments	2,928	-	-	2,928
Cash and cash equivalents	15,498	20,022	-	35,520
Contingent liabilities and commitments	1,987	(32,412)	(8,785)	(39,210)
<b>Total impairment charges</b>	<b>115,953</b>	<b>(325,625)</b>	<b>1,030,808</b>	<b>821,136</b>
<b>(b) 2022</b>				
Financial assets at amortised cost - Loans and advances to other customers	(77,730)	357,527	155,150	434,947
Financial assets at amortised cost - Debt and other financial instruments	13,227	-	-	13,227
Cash and cash equivalents	4,786	15,577	-	20,363
Contingent liabilities and commitments	12,597	25,314	(74,972)	(37,060)
<b>Total impairment charges</b>	<b>(47,120)</b>	<b>398,418</b>	<b>80,178</b>	<b>431,477</b>

## Notes to the Financial Statements

### 15. PERSONNEL EXPENSES

#### Accounting Policy

Personnel expenses include salaries and bonus, terminal benefit charges and other related expenses. The provisions for bonus is recognised when it is probable that an outflow of resources, embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation.

#### Defined Contribution Plans

A defined contribution plan is a post employment benefit plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods, as defined in the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

#### Employees' Provident Fund and Employees' Trust Fund

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 salaries of employees to the Bank's Employees' Provident Fund and the Employees' Trust Fund respectively. The above expenses are identified as contributions to 'Defined Contribution Plans' as defined in the Sri Lanka Accounting Standard - LKAS 19

#### Defined Benefit Plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Accordingly, staff gratuity were considered as defined benefit plans as per Sri Lanka Accounting Standard - LKAS 19 Employee Benefits. The contributions to the defined benefit plans are recognised in the Statement of Profit or Loss, based on an actuarial valuation carried out for the gratuity liability in accordance with LKAS 19.

The basis of measurement, assumptions used in actuarial valuations are given in detail in Note 40 to these Financial Statements.

For the year ended 31 December	Note	2023 Rs. '000	2022 Rs. '000
Salary and bonus		767,980	681,341
Contributions to defined contribution plans	15.1	106,149	93,989
Provision for defined benefit obligations	40	34,901	25,242
Other staff related expenses		163,769	114,713
<b>Total personnel expenses</b>		<b>1,072,799</b>	<b>915,285</b>

**15.1** Personnel expenses reported above include emoluments and post employment benefit expenses incurred on behalf of Executive Directors amounting to Rs. 45.8 Mn and Rs. 6.7 Mn, respectively (2022 - Rs. 58.4 Mn and 8.6 Mn, respectively).

## Notes to the Financial Statements

### 16. DEPRECIATION AND AMORTISATION EXPENSES

#### Accounting Policy

##### Useful Life Time of Property, Plant & Equipment and Depreciation

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

The estimated useful lives and depreciation rates of the assets for the year ended 31 December 2023 and 2022 are as follows:

Class of asset	Period	Depreciation Percentage per annum
Furniture and Fittings	5 years	20%
Office Equipment	5 years	20%
Computer Hardware	4 years	25%
Motor Vehicle	4 years	25%
Machinery	5 years	20%
Improvements to Leasehold Buildings	8 - 15 years	6.67% - 12.5%

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

The depreciation rates are determined separately for each significant part of an item of property, plant and equipment and depreciation commences when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the Management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised.

All classes of property, plant and equipment together with the reconciliation of carrying amounts and accumulated depreciation at the beginning and at the end of the year and other relevant information are given in Note 31 to the Financial Statements.

##### Amortisation of Intangible Assets

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

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

##### Depreciation of Right of Use Asset

Depreciation is calculated using the straight line method over the tenure of the lease agreement and it is recognised in the Statement of Profit of Loss.

An analysis of the depreciation and amortisation expenses are given below,

For the year ended 31 December	Note	2023 Rs. '000	2022 Rs. '000
Depreciation of property, plant and equipment*	31	200,523	319,648
Amortisation of intangible assets	32	131,381	117,366
<b>Total depreciation and amortisation expenses</b>		<b>331,904</b>	<b>437,014</b>

\*Depreciation of property, plant and equipment includes Rs. 100,273 (2022 - 100,084) recognised in respect of depreciation of Right-of-Use Assets.

## Notes to the Financial Statements

### 17. OTHER OPERATING EXPENSES

#### Accounting Policy

These expenses are recognised in the Statement of Profit or Loss on the basis of a direct association between the cost incurred and the earning of specific items of income and are recognised on an accrual basis.

For the year ended 31 December	Note	2023 Rs. '000	2022 Rs. '000
Directors' emoluments	17.1	21,140	14,552
Auditors' remunerations		11,622	10,141
Audit fees and expenses		3,100	2,600
Audit related fees and expenses		2,812	2,075
Non-audit fees and expenses		5,710	5,466
Professional and legal expenses		83,894	55,196
Contribution to Sri Lanka Deposit Insurance Scheme		41,655	37,951
Office administration and establishment expenses		1,328,583	884,345
<b>Total Other operating expenses</b>		<b>1,486,894</b>	<b>1,002,185</b>

17.1 Directors' emoluments represent the fee paid to Non-Executive Directors of the Bank.

### 18. TAXES ON FINANCIAL SERVICES

#### Accounting Policy

Tax on Financial Services include Value Added Tax and Social Security Contribution Levy on financial services.

#### Value Added Tax (VAT) on Financial Services

Value Added Tax (VAT) on financial services is calculated in accordance with Value Added Tax Act, No.14 of 2002 and subsequent amendments thereto. The base for the computation of Value Added Tax on financial services is the accounting profit before income tax and emoluments payable to employees, which is adjusted for the depreciation of property, plant & equipment computed at the prescribed rates. The emoluments payable include aggregate of both benefits in money and benefits not in money payable to the employees and any contribution or provision in relating to terminal benefits. The regulatory tax rate applicable is 18%.

#### Social Security Contribution Levy (SSCL) on Financial Services

SSCL on financial services is calculated in accordance with Social Security Contribution Levy Act, No. 25 of 2022. The base applicable for Value Added Tax on financial services is as explain above applied for the computation of the SSCL on financial services and the regulatory tax rate is 2.5%.

For the year ended 31 December	2023 Rs. '000	2022 Rs. '000
Value Added Tax (VAT) on financial services	347,417	241,338
Social Security Contribution Levy	57,412	14,943
<b>Total</b>	<b>404,829</b>	<b>256,281</b>

## Notes to the Financial Statements

### 19. INCOME TAX EXPENSE

#### Accounting Policy

As per Sri Lanka Accounting Standard - LKAS 12, Income Taxes, income tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognised in the Statement of Profit or Loss, except to the extent it relates to items recognised directly in equity or other comprehensive income in which case it is recognised in equity or in other comprehensive income.

The Bank has determined that interest and penalties, if any related to income tax including uncertain tax treatments do not meet the definition of Income Tax, and therefore are accounted under LKAS 37 Provisions, Contingent Liabilities and Contingent Assets.

#### Current Taxation

'Current tax' comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

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. 24 of 2017 and the amendments thereto, at the rates specified.

#### IFRIC Interpretation 23 "Uncertainty over Income Tax Treatment"

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of LKAS 12, Income Taxes. It does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

#### Deferred Taxation

Refer Note 34 to the Financial Statements.

Details of current and deferred tax expenses are given below,

For the year ended 31 December	Note	2023 Rs. '000	2022 Rs. '000
<b>Current tax expense</b>			
Income tax on current year profit	19.1	161,972	-
<b>Deferred tax expense</b>			
Origination and reversal of temporary differences	34	127,884	(281,327)
<b>Total income tax expenses</b>		<b>289,856</b>	<b>(281,327)</b>

## Notes to the Financial Statements

### 19.1 Reconciliation of the Accounting Profit/(Loss) to Income Tax Expense

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

For the year ended 31 December	2023		2022	
	Rs. '000	%	Rs. '000	%
Accounting profit/(loss) before tax from operations	1,134,705	100	462,718	100
Tax effect at the statutory income tax rate	340,412	30	(116,557)	26
Tax effect of exempt income	-	-	-	-
Tax effect of non-deductible expenses	399,234	35	529,500	(118)
Tax effect of deductible expenses	(331,718)	(29)	(383,257)	86
Taxable profit/(loss) on disposal of lease/fixed assets	(30)	(0)	(4)	-
Tax losses utilised during the year	(192,576)	(17)	(29,682)	7
Qualifying payments utilised during the year	(53,350)	(5)	-	-
Income tax on current year profit	161,972	-	-	-
Deferred tax expense/(reversal)	127,884	-	(281,327)	-
Income tax expense/(reversal)	289,856	-	(281,327)	-

**19.2** In terms of provision of Inland Revenue Act No. 24 of 2017 and amendments thereto, the Bank is liable for income tax at 30% for the year of 2023 (2022 - 24% for the first half and 30% for the second half).

### 19.3 Tax Expense Recognised in Other Comprehensive Income

For the year ended 31 December	Note	2023	2022
		Rs. '000	Rs. '000
Deferred tax on net actuarial gains/(losses) on defined benefit plans		(1,351)	266
Deferred tax on net gains/(losses) on investment in financial assets measured at fair value through other comprehensive income		(542,396)	36,540
<b>Total recognised in other comprehensive income</b>	34.2	<b>(543,747)</b>	<b>36,806</b>

### 19.4 Tax Losses/Credits Carried Forward

Tax losses brought forward	672,458	1,658,958
Adjustment to tax losses	(30,537)	2,901
Tax losses utilized during the year	(641,921)	(989,401)
<b>Unutilised Tax losses/credits carried forward</b>	<b>-</b>	<b>672,458</b>

## Notes to the Financial Statements

### 20. EARNINGS PER SHARE

#### Accounting Policy

The Bank presents basic and diluted Earnings Per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Bank by the weighted-average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

#### 20.1 Basic Earnings Per Share

For the year ended 31 December	Note	2023 Rs. '000	2022 Rs. '000
<b>Amount used as the numerator</b>			
Profit after tax attributable for equity holders of the Bank		440,020	487,764
<b>Amount used as the denominator</b>			
Weighted average number of ordinary shares in issue during the year	20.1.1	884,512,721	883,142,858
Basic earning/(loss) per share (Rs.)		0.50	0.55

#### 20.1.1 Weighted average number of ordinary shares

Issued ordinary shares at 1 January		883,142,858	883,142,858
Add:-Weighted average effect of number of ordinary shares issued at initial public offering (Note 42.2)		1,369,863	-
Weighted average number of ordinary shares as at 31 December		884,512,721	883,142,858

#### 20.2 Diluted Earnings Per Share

Potential ordinary shares on conversion of Fifteen million (15,000,000) Basel III Additional Tier 1 Compliant Unlisted Unsecured Subordinated Perpetual Convertible Debentures (Note 39.2.1) are anti-dilutive and hence excluded from the calculation of diluted EPS. In the event, the aforesaid perpetual debenture could be dilutive, the effect of dilution of EPS would be disclosed as appropriately in future periods.

Therefore, diluted earnings per share is the same as basic earnings per share as shown in Note 20.1.

## Notes to the Financial Statements

### 21. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

#### Accounting Policy

Financial instruments in the Statement of Financial Position are measured on an ongoing basis either at fair value or at amortised cost. The Accounting Policies describe how each category of financial instrument is measured and how income and expenses, including fair value gains and losses are recognised.

The tables below provide a reconciliation between line items in the Statement of Financial Position and categories of financial assets and financial liabilities of the Bank.

As at 31 December	Note	Fair Value through P/L Rs. '000	Fair Value through OCI Rs. '000	Amortised Cost Rs. '000	Total Rs. '000
<b>(a) 2023</b>					
<b>Financial Assets</b>					
Cash and cash equivalents	23	-	-	1,963,321	1,963,321
Balances with Central Bank of Sri Lanka	24	-	-	432,805	432,805
Securities purchased under resale agreements	25	-	-	730,566	730,566
Derivative financial instruments	26	6	-	-	6
Financial assets measured at fair value through profit or loss	27	2,468,401	-	-	2,468,401
Financial assets at amortised cost - Loans and advances to other customers	28	-	-	40,559,438	40,559,438
Financial assets at amortised cost - Debt and other financial instruments	29	-	-	2,050,119	2,050,119
Financial assets at fair value through other comprehensive income - Government securities	30	-	17,758,832	-	17,758,832
Financial assets at fair value through other comprehensive income - Equity instruments	30	-	20,688	-	20,688
Other assets*	35	-	-	2,174,512	2,174,512
<b>Total financial assets</b>		<b>2,468,407</b>	<b>17,779,520</b>	<b>47,910,761</b>	<b>68,158,688</b>
<b>Financial Liabilities</b>					
Due to banks	36	-	-	717,667	717,667
Derivative financial instruments	37	27	-	-	27
Financial liabilities at amortised cost - Due to depositors	38	-	-	50,728,853	50,728,853
Financial liabilities at amortised cost - Other borrowings	39	-	-	3,669,925	3,669,925
Lease liability	33	-	-	335,781	335,781
Other liabilities**	41	-	-	1,710,916	1,710,916
<b>Total financial liabilities</b>		<b>27</b>	<b>-</b>	<b>57,163,142</b>	<b>57,163,169</b>

## Notes to the Financial Statements

As at 31 December	Note	Fair Value through P/L Rs. '000	Fair Value through OCI Rs. '000	Amortised Cost Rs. '000	Total Rs. '000
<b>(b) 2022</b>					
<b>Financial Assets</b>					
Cash and cash equivalents	23	-	-	1,232,272	1,232,272
Balances with Central Bank of Sri Lanka	24	-	-	1,311,926	1,311,926
Securities purchased under resale agreements	25	-	-	-	-
Derivative financial instruments	26	-	-	-	-
Financial assets measured at fair value through profit or loss	27	-	-	-	-
Financial assets at amortised cost - Loans and advances to other customers	28	-	-	35,960,080	35,960,080
Financial assets at amortised cost - Debt and other financial instruments	29	-	-	1,996,950	1,996,950
Financial assets at fair value through other comprehensive income - Government securities	30	-	10,235,480	-	10,235,480
Financial assets at fair value through other comprehensive income - Equity instruments	30	-	18,016	-	18,016
Other assets*	35	-	-	775,904	775,904
<b>Total financial assets</b>		-	10,253,496	41,277,132	51,530,628
<b>Financial Liabilities</b>					
Due to banks	36	-	-	514,193	514,193
Derivative financial instruments	37	30	-	-	30
Financial liabilities at amortised cost - Due to depositors	38	-	-	37,802,680	37,802,680
Financial liabilities at amortised cost - Other borrowings	39	-	-	3,688,924	3,688,924
Lease liability	33	-	-	340,542	340,542
Other liabilities**	41	-	-	1,158,596	1,158,596
<b>Total financial liabilities</b>		30	-	43,504,935	43,504,965

\*Other assets only include other receivables.

\*\*Other liabilities exclude accrued expenditure and impairment on commitments and contingencies.

## Notes to the Financial Statements

### 22. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

#### Accounting Policy

##### Fair Value Hierarchy

The Bank measures the fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement.

- Level 1 : Fair value measurement using unadjusted quoted market prices

Inputs that are quoted market prices (unadjusted) in an active market for identical instruments.

- Level 2 : Fair value measurement using significant observable inputs

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;

- (a) quoted prices in active markets for similar instruments,
  - (b) quoted prices for identical or similar instruments in markets that are considered to be less active, or
  - (c) other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.
- Level 3 : Fair value measurement using significant unobservable inputs

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.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes that a third party market participant would take them into account in pricing a transaction.

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

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

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

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

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

## Notes to the Financial Statements

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

### 22.1 Financial Instruments Measured at Fair Value - Fair Value Hierarchy

The following table provides an analysis of assets and liabilities measured at fair value as at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. These amounts were based on the values recognised in the Statement of Financial Position.

As at 31 December	Note	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
<b>(a) 2023</b>					
<b>Financial Assets</b>					
Derivative financial instruments	26	-	6	-	6
Financial assets measured at fair value through profit or loss	27	-	2,468,401	-	2,468,401
Financial assets measured at fair value through other comprehensive income	30				
Government securities*		17,758,832	-	-	17,758,832
Equity securities		-	-	20,688	20,688
<b>Total assets at fair value</b>		<b>17,758,832</b>	<b>2,468,407</b>	<b>20,688</b>	<b>20,247,927</b>
<b>Liabilities</b>					
Derivative financial instruments	37	-	27	-	27
<b>Total liabilities at fair value</b>		<b>-</b>	<b>27</b>	<b>-</b>	<b>27</b>
<b>(b) 2022</b>					
<b>Financial Assets</b>					
Derivative financial instruments	26	-	-	-	-
Financial assets measured at fair value through profit or loss	27	-	-	-	-
Financial assets measured at fair value through other comprehensive income	30				
Government securities		10,235,480	-	-	10,235,480
Equity securities		-	-	18,016	18,016
<b>Total assets at fair value</b>		<b>10,235,480</b>	<b>-</b>	<b>18,016</b>	<b>10,253,496</b>
<b>Liabilities</b>					
Derivative financial instruments	37	-	30	-	30
<b>Total liabilities at fair value</b>		<b>-</b>	<b>30</b>	<b>-</b>	<b>30</b>

## Notes to the Financial Statements

### 22.2 Valuation Techniques And Inputs in Measuring Fair Values

Table below provides information on the valuation techniques and inputs used in measuring the fair values of derivative financial assets and liabilities in the Level 2 and Level 3 of the fair value hierarchy as given in Note 22.1 above.

Level	Type of Financial Instruments	Fair Value as at		Valuation Technique	Significant Valuation Inputs
		31 December 2023 (Rs. '000)	31 December 2022 (Rs. '000)		
Level 2	Derivative Financial Assets	6	-	Adjusted Forward Rate Approach is used and this approach considers the present value of projected forward exchange rate as at the reporting date as the fair value. The said forward rate is projected based on the spot exchange rate and the forward premium/discount calculated using extrapolated interest rates of the currency pairs under consideration. In computing the present value, interest rate differential between two currencies under consideration is used as the discount rate.	<ul style="list-style-type: none"> <li>Spot exchange rate between Rs. 319/USD to 329/USD</li> <li>Interest rate differentials between currencies under consideration</li> </ul>
	Derivative Financial Liabilities	27	30		
Level 3	Unquoted Equities	20,688	18,016	<p>Fair value is based on net assets value per share as per latest audited Financial Statements of these companies as at following dates;</p> <p>Lanka Clear (Pvt) Limited - 31 March 2023 Credit Information Bureau - 31 December 2022</p> <p>The investments and related gains/(losses) are not material to the Bank.</p>	Net asset value per share are between Rs. 200 to Rs. 300 range and Rs. 20,000 to Rs. 25,000 range respectively.

#### 22.2.1 Reconciliation of Level 3 asset balance

	2023 Rs. '000	2022 Rs. '000
Balance as at 01 January	18,016	16,441
Total gains/(losses) recognised in other comprehensive income	2,672	1,575
Balance as at 31 December	20,688	18,016

## Notes to the Financial Statements

### 22.3 Financial Instruments Not Measured at Fair Value

For financial assets and liabilities with short term maturities or with short term re-pricing intervals, it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings deposits which do not have a specific maturity.

The following table sets out the fair values of financial assets and liabilities not measured at fair value and analyses them by the level in fair value hierarchy into which each fair value measurement is categorised.

As at 31 December					Carrying Amount Fair value
	Note	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Rs. '000
<b>(a) 2023</b>					
<b>Assets</b>					
Cash and cash equivalents	23	-	1,963,321	-	1,963,321
Balances with Central Bank of Sri Lanka	24	-	432,805	-	432,805
Securities purchased under resale agreements	25	-	730,566	-	730,566
Financial assets at amortised cost - Loans and advances to other customers	28	-	-	40,559,438	40,559,438
Financial assets at amortised cost - Debt and other financial instruments	29	1,910,262	-	139,857	2,050,119
Other assets*	35	-	-	2,174,513	2,174,513
<b>Total financial assets not at fair value</b>		<b>1,910,262</b>	<b>3,126,692</b>	<b>42,873,808</b>	<b>47,910,762</b>
<b>Liabilities</b>					
Due to banks	36	-	717,667	-	717,667
Financial liabilities at amortised cost - Due to depositors	38	-	-	50,728,853	50,728,853
Financial liabilities at amortised cost - Other borrowings	39	-	3,669,925	-	3,669,925
Lease liability	33	-	-	335,781	335,781
Other liabilities**	41	-	-	1,710,916	1,710,916
<b>Total financial liabilities not at fair value</b>		<b>-</b>	<b>4,387,592</b>	<b>52,775,550</b>	<b>57,163,142</b>
<b>(b) 2022</b>					
<b>Assets</b>					
Cash and cash equivalents	23	-	1,232,272	-	1,232,272
Balance with Central Bank of Sri Lanka	24	-	1,311,926	-	1,311,926
Financial assets at amortised cost - Loans and advances to other customers	28	-	-	35,960,080	35,960,080
Financial assets at amortised cost - Debt and other financial instruments	29	1,849,824	-	147,125	1,996,950
Other assets*	35	-	-	775,904	775,904
<b>Total financial assets not at fair value</b>		<b>1,849,824</b>	<b>2,544,198</b>	<b>36,883,109</b>	<b>41,277,132</b>
<b>Liabilities</b>					
Due to banks	36	-	514,193	-	514,193
Financial liabilities at amortised cost - Due to depositors	38	-	-	37,802,680	37,802,680
Financial liabilities at amortized cost - Other borrowings	39	-	3,688,924	-	3,688,924
Lease liability	33	-	-	340,542	340,542
Other liabilities**	41	-	-	1,158,596	1,158,596
<b>Total financial liabilities not at fair value</b>		<b>-</b>	<b>4,203,117</b>	<b>39,301,818</b>	<b>43,504,935</b>

\*Other assets only include other receivables.

\*\*Other liabilities exclude accrued expenditure and impairment on commitments and contingencies.

## Notes to the Financial Statements

### 23. CASH AND CASH EQUIVALENTS

#### Accounting Policy

Cash and cash equivalents include cash in hand, placements with banks and at short notice that are subject to an insignificant risk of changes in their fair value and are used by the Bank in the management of its short-term commitments. These items are brought to Financial Statements at face values or the gross values, where appropriate.

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

As at 31 December	Note	2023 Rs. '000	2022 Rs. '000
Cash in hand			
Coins and notes held in local currency		940,465	606,491
Coins and notes held in foreign currency		9,933	21,651
Balances with banks		1,076,511	632,198
<b>Gross cash and cash equivalents</b>		<b>2,026,909</b>	<b>1,260,340</b>
Less: Provision for impairment	23.1	(63,588)	(28,068)
<b>Total cash and cash equivalents</b>		<b>1,963,321</b>	<b>1,232,272</b>

Provision for impairment on cash and cash equivalent balances are measured based on PDs determined with reference to S&P credit ratings and regulatory loss given default rates.

#### 23.1 Movement in Provision for Impairment During the Year

##### Stage 1

Balance as at 01 January		28,068	7,705
Charge/(write back) to Statement of Profit or Loss	14	35,520	20,363
<b>Balance as at 31 December</b>		<b>63,588</b>	<b>28,068</b>

### 24. BALANCES WITH CENTRAL BANK OF SRI LANKA

#### Accounting Policy

Balances with Central Bank consist of Statutory/Non-statutory balances with Central Bank and are carried at amortised cost in the Statement of Financial Position.

The Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain a statutory reserve on all deposit liabilities denominated in Sri Lankan Rupees. As required by the provisions of the Monetary Law Act, a cash balance is maintained with the Central Bank of Sri Lanka. Balances with Central Bank of Sri Lanka is carried at amortised cost in the statement of Financial Position.

The minimum cash reserve requirement to be maintained by the Bank during the year was as follows;

	2023		2022	
	Period	Reserve Requirement (SRR)	Period	Reserve Requirement (SRR)
All rupee deposit liabilities	01.01.2023 - 15.08.2023	4%	01.01.2022 - 31.12.2022	4%
	16.08.2023 - 31.12.2023	2%		

## Notes to the Financial Statements

There is no reserve requirement for foreign currency deposits liabilities of the Domestic Banking Unit (DBU) and the deposit liabilities of the Offshore Banking Centre (OBC) in Sri Lanka.

As at 31 December	2023 Rs. '000	2022 Rs. '000
Statutory balances with Central Bank of Sri Lanka	432,805	1,311,926
<b>Total balances with Central Bank of Sri Lanka</b>	<b>432,805</b>	<b>1,311,926</b>

### 25. SECURITIES PURCHASED UNDER RESALE AGREEMENTS

Securities purchased under resale agreements	730,566	-
<b>Total Securities purchased under resale agreements</b>	<b>730,566</b>	<b>-</b>

Refer Note 50 for further disclosures made in terms of the directive No.1 of 2019 on repurchase and reverse repurchase transactions of dealer direct participants in scripless treasury bonds and scripless treasury bills issued by the Central Bank of Sri Lanka.

### 26. DERIVATIVE FINANCIAL INSTRUMENTS

#### Accounting Policy

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract.
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Bank enters into derivative transactions with various counterparties. These mainly include, cross-currency swaps, forward foreign exchange contracts, etc.

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The changes in the fair value of any derivative instrument which do not qualify for hedge accounting are recognised immediately in 'Net gains/(losses) from trading' in the Statement of Profit or Loss.

As at 31 December	2023 Rs. '000	2022 Rs. '000
Foreign currency derivatives		
Forward foreign exchange contracts	6	-
<b>Total derivative financial instruments</b>	<b>6</b>	<b>-</b>

## Notes to the Financial Statements

### 27. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

#### Accounting Policy

The Bank classifies financial assets as financial assets recognised through profit or loss when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit making.

Financial assets recognised through profit or loss are recorded and measured in the Statement of Financial Position at fair value. The changes in fair value are recognised in the Statement of Profit or Loss under Net gains/(losses) from financial assets at fair value through profit or loss.

Financial assets recognised through profit or loss consist of investment in unit trusts, private equity funds, etc. that have been acquired principally for the purpose of selling or repurchasing in the near term and are recorded at fair values based on the change in the net asset value of the funds and is recognised through profit or loss.

As at 31 December	2023 Rs. '000	2022 Rs. '000
Investments in unit trusts	2,468,401	-
Total financial assets measured at fair value through profit or loss	2,468,401	-

### 28. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES TO OTHER CUSTOMERS

#### Accounting Policy

Financial assets at amortised cost - Loans and advances to other customers includes, loans and advances portfolio of the Bank.

As per SLFRS 9, "Loans and advances to other customers" are assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows and the contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding.

After initial measurement, loans and advances to other customers are subsequently measured at gross carrying amount using the EIR, less provision for impairment, except when the Bank designates loans and advances at fair value through profit or loss. EIR is calculated by taking into account any discount or premium on acquisition and fees and costs. The amortisation is included in "Interest Income", while the losses arising from impairment are recognised in "Impairment losses on financial instruments and other assets" in the Statement of Profit or Loss.

As at 31 December	2023				2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Individually impaired loans	-	6,134,244	7,338,220	13,472,464	-	9,224,763	4,862,176	14,086,939
Collectively impaired loans	27,806,354	2,856,887	1,417,389	32,080,630	22,138,056	2,805,171	1,219,551	26,162,778
Total gross loans and receivables to other customers (a)	27,806,354	8,991,131	8,755,609	45,553,094	22,138,056	12,029,934	6,081,727	40,249,717
Individual impairment provision	-	519,340	3,597,563	4,116,903	-	819,064	2,680,245	3,499,309
Collective impairment provision	188,024	190,394	498,335	876,753	132,422	207,921	449,985	790,328
Total impairment provision (b)	188,024	709,734	4,095,898	4,993,656	132,422	1,026,985	3,130,230	4,289,637
Net loans and receivables to other customers (a-b)	27,618,330	8,281,397	4,659,711	40,559,438	22,005,634	11,002,949	2,951,497	35,960,080

## Notes to the Financial Statements

### 28.1 Analysis of Financial Assets at Amortised Cost - Gross Loans and Advances to Other Customers

#### 28.1.1 Gross loans and advances to other customers - By product

As at 31 December	2023		2022	
	Rs. '000		Rs. '000	
	Amount		Amount	
Overdrafts	6,191,438		5,857,717	
Trade finance	4,119,620		2,944,972	
Housing loans	1,067,547		1,282,296	
Personal loans	2,805,144		3,507,052	
Staff loans	305,365		263,202	
Term loans	18,470,654		17,789,016	
Loans against property	1,519,567		1,725,097	
Agriculture loans	592,400		456,584	
Money market loans/Revolving loans	8,203,896		4,405,443	
Vehicle loans	96,927		71,476	
Credit cards	1,640,656		1,554,323	
Micro finance	41,896		49,095	
Others	497,984		343,444	
<b>Total gross loans and advances to other customers</b>	<b>45,553,094</b>		<b>40,249,717</b>	

#### 28.1.2 Gross loans and advances to other customers - By currency

As at 31 December	2023		2022	
	Rs. '000		Rs. '000	
	Amount		Amount	
Sri Lankan Rupee	41,350,868		36,344,437	
United States Dollar	4,156,079		3,848,723	
Great Britain Pounds	10,075		11,487	
Singapore Dollars	36,072		45,070	
<b>Total gross loans and advances to other customers</b>	<b>45,553,094</b>		<b>40,249,717</b>	

#### 28.1.3 Gross loans and advances to other customers - By industry

As at 31 December	2023		2022	
	Rs. '000	%	Rs. '000	%
	Amount		Amount	
Agriculture and fishing	7,157,004	15.71	4,542,854	11.29
Manufacturing	1,847,140	4.05	2,242,689	5.57
Tourism	3,330,522	7.31	3,631,928	9.02
Transport	394,620	0.87	435,348	1.08
Construction	6,593,140	14.47	6,495,549	16.14
Traders	9,214,834	20.23	7,094,881	17.63
New economy	351,897	0.77	394,541	0.98
Financial and business services	7,440,463	16.33	4,785,674	11.89
Infrastructure	18,333	0.04	24,648	0.06
Other services	1,792,350	3.93	1,927,285	4.79
Other customers	7,412,791	16.27	8,674,320	21.55
<b>Total gross loans and advances to other customers</b>	<b>45,553,094</b>	<b>100.00</b>	<b>40,249,717</b>	<b>100.00</b>

## Notes to the Financial Statements

### 28.1.4 Gross loans and advances to other customers - By province

	2023 Rs. '000	2022 Rs. '000
Western Province	36,315,577	30,415,635
Central Province	2,498,680	3,079,014
North Western Province	1,794,303	1,782,297
Southern Province	1,759,375	2,286,624
North Central Province	1,394,016	664,839
Northern Province	619,883	769,917
Uva Province	616,194	622,477
Sabaragamuwa Province	434,122	468,971
Eastern Province	120,944	159,943
<b>Total gross loans and advances to other customers</b>	<b>45,553,094</b>	<b>40,249,717</b>

### 28.2 Impairment Allowance for Loans and Advances to Other Customers at Amortised Cost - Stage Wise Analysis

	Note	Stage 1	Stage 2	Stage 3	Total
<b>(a) 2023</b>					
Balance as at 01 January		132,422	1,026,985	3,130,230	4,289,637
Charge/(Write back) to Statement of Profit or Loss	14.1	95,540	(313,235)	1,039,593	821,898
Exchange rate variance on foreign currency provision		(39,938)	(4,016)	(73,925)	(117,879)
<b>Balance as at 31 December</b>		<b>188,024</b>	<b>709,734</b>	<b>4,095,898</b>	<b>4,993,656</b>
<b>(b) 2022</b>					
Balance as at 01 January		152,309	617,283	2,421,903	3,191,495
Charge/(Write back) to Statement of Profit or Loss	14.1	(77,730)	357,527	155,150	434,947
Exchange rate variance on foreign currency provision		57,843	52,175	553,177	663,195
<b>Balance as at 31 December</b>		<b>132,422</b>	<b>1,026,985</b>	<b>3,130,230</b>	<b>4,289,637</b>

### 28.3 Movement in Impairment Allowance During the Year

<b>(a) 2023</b>	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
<b>Loans and advances to other customers at amortised cost</b>				
Balance as at 01 January	132,422	1,026,985	3,130,230	4,289,637
Transfer to Stage 1	43,150	(17,475)	(25,675)	-
Transfer to Stage 2	(8,626)	128,135	(119,509)	-
Transfer to Stage 3	(1,230)	(252,496)	253,726	-
Net remeasurement of loss allowance	(36,724)	(93,116)	669,224	539,384
Impairment on new loans granted during the year	98,180	363,965	665,783	1,127,928
Financial assets that have been derecognised	(39,148)	(446,264)	(505,214)	(990,626)
Write offs	-	-	27,333	27,333
<b>Balance as at 31 December</b>	<b>188,024</b>	<b>709,734</b>	<b>4,095,898</b>	<b>4,993,656</b>

## Notes to the Financial Statements

(b) 2022	Stage 1	Stage 2	Stage 3	Total
Loans and advances to other customers at amortised cost	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01 January	152,309	617,283	2,421,903	3,191,495
Transfer to Stage 1	60,808	(53,295)	(7,513)	-
Transfer to Stage 2	(18,761)	26,959	(8,198)	-
Transfer to Stage 3	(1,388)	(110,493)	111,881	-
Net remeasurement of loss allowance	(53,525)	423,958	(588,872)	(218,439)
Impairment on new loans granted during the year	55,511	329,980	314,261	699,752
Financial assets that have been derecognised	(62,532)	(207,407)	(144,317)	(414,256)
Write offs	-	-	1,031,085	1,031,085
Balance as at 31 December	132,422	1,026,985	3,130,230	4,289,637

### 29. FINANCIAL ASSETS AT AMORTISED COST - DEBT AND OTHER FINANCIAL INSTRUMENTS

#### Accounting Policy

As per SLFRS 9, financial assets are measured at amortised cost if it meets both of the following conditions and is not designated at Fair Value Through Profit or Loss (FVTPL):

The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these assets are subsequently measured at amortised cost (gross carrying amount using the EIR, less provision for impairment). Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in interest income while the losses arising from impairment are recognised in "Impairment losses on financial instruments and other assets" in the Statement of Profit or Loss.

As at 31 December	Note	2023 Rs. '000	2022 Rs. '000
Government treasury bonds		1,910,262	1,849,824
Investment in Debentures	29.1	156,012	160,353
<b>Gross financial assets at amortised cost</b>		<b>2,066,274</b>	<b>2,010,177</b>
Less: Provision for impairment	29.2	(16,155)	(13,227)
<b>Net financial assets at amortised cost</b>		<b>2,050,119</b>	<b>1,996,950</b>

#### 29.1 Investment in Debenture

Resus Energy PLC	156,012	160,353
<b>Total investment in debentures</b>	<b>156,012</b>	<b>160,353</b>

#### 29.2 Movement in Provision for Impairment During the Year

Stage 1		
Balance as at 01 January		13,227
Charge/(Write back) to Statement of Profit or Loss		2,928
<b>Balance as at 31 December</b>		<b>16,155</b>

## Notes to the Financial Statements

### 30. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

#### Accounting Policy

As per SLFRS 9, this comprises debt instruments measured at Fair Value through Other Comprehensive Income (FVOCI) and equity instruments designated at FVOCI.

#### Debt instruments measured at FVOCI

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

- The instrument is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding.

Debt instruments at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income, foreign exchange gains and losses, ECL and reversals are recognised in Statement of Profit or Loss. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to Statement of Profit or Loss.

#### Equity instruments at FVOCI

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments held for strategic purpose, as equity instruments at FVOCI when they meet the definition of Equity under LKAS 32 "Financial Instruments: Presentation" and are not held for trading. Such classification is determined on an instrument-by- instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss instead directly transferred to retained earnings at the time of derecognition. Dividends are recognised in Statement of Profit or Loss in "Net other operating income" when the right to receive payment has been established. Equity instruments at FVOCI are not subject to an impairment assessment.

As at 31 December	Note	2023 Rs. '000	2022 Rs. '000
<b>Government securities</b>			
Treasury bills		7,172,401	7,018,927
Treasury bonds		10,586,431	3,216,553
<b>Total government securities</b>		<b>17,758,832</b>	<b>10,235,480</b>
<b>Equity securities</b>			
Unquoted shares	30.1	20,688	18,016
<b>Total equity securities</b>		<b>20,688</b>	<b>18,016</b>
<b>Financial assets measured at fair value through other comprehensive income</b>		<b>17,779,520</b>	<b>10,253,496</b>

#### 30.1 Unquoted Shares

As at 31 December	No. of Shares	2023 (Rs.'000)		2022 (Rs.'000)	
		Market Value	Cost	Market Value	Cost
Lanka Clear (Pvt) Ltd	50,000	14,328	3,500	11,656	3,500
Credit Information Bureau of Sri Lanka	300	6,360	2,383	6,360	2,383
<b>Total Unquoted shares</b>	<b>50,300</b>	<b>20,688</b>	<b>5,883</b>	<b>18,016</b>	<b>5,883</b>

None of these strategic investments were disposed of during the year ended 31 December 2023 (2022-Nil) and there were no transfers of any cumulative gain or loss within equity relating to these investments (2022-Nil).

## Notes to the Financial Statements

### 31. PROPERTY, PLANT AND EQUIPMENT AND RIGHT OF USE ASSET

#### Accounting Policy

The Bank applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 on "Property, Plant and Equipment" in accounting for its owned assets which are held for and used in the provision of services, for rental to others or for administrative purposes and are expected to be used for more than one year.

#### Basis of recognition

Property, plant and equipment is recognised if it is probable that future economic benefits associated with the asset will flow to the Bank and cost of the asset can be reliably measured.

#### Basis of measurement

An item of property, plant and 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) as explained below.

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, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

#### Cost Model

The Bank applies the Cost Model to all property, plant and equipment and these are recorded at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and accumulated impairment losses, if any.

#### Subsequent expenditure

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

#### Revaluation Model

Revaluation Model needs to apply for the entire class of freehold land for measurement after initial recognition. Such properties shall carry 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 shall revalue 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 shall recognise in Other Comprehensive Income and present in Revaluation Reserve in Equity or used to reverse a previous loss on revaluation of the same asset, which was charged to the Statement of Profit or Loss. In this circumstance, the increase shall recognise as income only to the extent of the previous write down in value. Any decrease in the carrying amount shall recognise as an expense in the Statement of Profit or Loss 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, shall transferred directly to Retained Earnings on retirement or disposal of the asset.

## Notes to the Financial Statements

### Capital work-in-progress

These are expenses of 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 less any accumulated impairment losses. Capital work-in-progress is transferred to the relevant asset when it is in the location and condition necessary for it to be capable of operating in the manner intended by Management (i.e., available for use).

The accounting policy and the estimates used in the computation of depreciation of the property, plant and equipment are explained in detail in Note 16 on page 219.

### Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset), is recognised in "Net other operating income" in the Statement of 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 and equipment, the remaining carrying amount of the replaced part is derecognised as required by Sri Lanka Accounting Standard – LKAS 16 on "Property, Plant and Equipment".

### Borrowing Costs

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

### Right-of-Use Assets

Right-of-Use Assets are presented together with property, plant and equipment in the Statement of Financial Position.

### Depreciation and Amortisation

The accounting policy and the judgements and estimates used in the computation of depreciation and amortisation of property plant and equipment are explained in Note 16, page 219.

## Notes to the Financial Statements

## 31.1 The Movement in Property Plant and Equipments

(a) 2023	Improvements to Leasehold Buildings Rs. '000	Computer Hardware Rs. '000	Office Furniture & Fittings Rs. '000	Motor Vehicles Rs. '000	Machinery Rs. '000	Work in Progress Rs. '000	Right-of-Use Asset Rs. '000	Total Rs. '000
<b>Cost</b>								
Balance as at 01 January	125,037	771,682	278,574	22,960	92,970	1,486	819,568	2,112,277
Additions during the year	-	73,647	19,922	-	3,528	-	91,190	188,287
Disposals during the year	-	(206)	(206)	-	-	-	-	(412)
Transfers/ Adjustments	-	-	-	-	-	-	-	-
Write-off	-	-	-	-	-	-	-	-
<b>Balance as at 31 December</b>	<b>125,037</b>	<b>845,123</b>	<b>298,290</b>	<b>22,960</b>	<b>96,498</b>	<b>1,486</b>	<b>910,758</b>	<b>2,300,152</b>
<b>Accumulated Depreciation</b>								
Balance as at 01 January	99,974	684,796	221,309	17,905	82,718	-	529,807	1,636,509
Charge for the year (Note 16)	11,451	56,350	24,686	2,027	5,736	-	100,273	200,523
Disposals during the year	-	(117)	(58)	-	-	-	-	(175)
Transfers/ Adjustments	-	-	-	-	-	-	-	-
Write-off	-	-	-	-	-	-	-	-
<b>Balance as at 31 December</b>	<b>111,425</b>	<b>741,029</b>	<b>245,937</b>	<b>19,932</b>	<b>88,454</b>	<b>-</b>	<b>630,080</b>	<b>1,836,857</b>
<b>Less: Provision for Impairment</b>								
Balance as at 01 January	-	-	589	-	-	-	-	589
Charge/(write back) to income statement	-	-	-	-	-	-	-	-
<b>Balance as at 31 December</b>	<b>-</b>	<b>-</b>	<b>589</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>589</b>
<b>Carrying amount as at 31 December 2023</b>	<b>13,612</b>	<b>104,094</b>	<b>51,764</b>	<b>3,028</b>	<b>8,044</b>	<b>1,486</b>	<b>280,678</b>	<b>462,706</b>

## Notes to the Financial Statements

(b) 2022	Improvements to Leasehold Buildings		Computer Hardware		Office Furniture & Fittings		Motor Vehicles		Machinery		Work in Progress		Right-of-Use Asset		Total	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cost</b>																
Balance as at 01 January	126,391	732,958	242,629	22,957	90,434	1,486	625,329	1,842,184								
Additions during the year	1,692	39,828	37,711	3	3,522	-	99,380	182,137								
Disposals during the year	-	(871)	(270)	-	(986)	-	-	(2,127)								
Transfers/ Adjustments	-	-	-	-	-	-	-	94,859								
Write-off	(3,046)	(233)	(1,496)	-	-	-	-	(4,775)								
<b>Balance as at 31 December</b>	<b>125,037</b>	<b>771,682</b>	<b>278,574</b>	<b>22,960</b>	<b>92,970</b>	<b>1,486</b>	<b>819,568</b>	<b>2,112,278</b>								
<b>Accumulated Depreciation</b>																
Balance as at 01 January	89,790	613,305	192,613	15,877	74,414	-	337,324	1,323,323								
Charge for the year (Note 16)	13,213	72,399	30,235	2,028	9,290	-	100,084	227,249								
Disposals during the year	-	(725)	(265)	-	(986)	-	-	(1,976)								
Transfers/ Adjustments	-	-	-	-	-	-	-	92,399								
Write-off	(3,029)	(183)	(1,274)	-	-	-	-	(4,486)								
<b>Balance as at 31 December</b>	<b>99,974</b>	<b>684,796</b>	<b>221,309</b>	<b>17,905</b>	<b>82,718</b>	<b>-</b>	<b>529,807</b>	<b>1,636,509</b>								
<b>Less: Provision for Impairment</b>																
Balance as at 01 January	-	-	589	-	-	-	-	589								
Charge/(write back) to income statement	-	-	-	-	-	-	-	-								
<b>Balance as at 31 December</b>	<b>-</b>	<b>-</b>	<b>589</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>								
<b>Carrying amount as at 31 December 2022</b>	<b>25,063</b>	<b>86,886</b>	<b>56,676</b>	<b>5,056</b>	<b>10,252</b>	<b>1,486</b>	<b>289,761</b>	<b>475,180</b>								

**31.2 Impairment of Property, Plant and Equipment**

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

**31.3 Title Restrictions on Property, Plant and Equipment**

There were no restrictions on the title of the property, plant and equipment of the Bank as at the reporting date (2022 - Nil).

**31.4 Property, Plant and Equipment Pledged as Security for Liabilities**

There were no items of property, plant and equipment pledged as securities for liabilities of the Bank as at the reporting date (2022- Nil).

**31.5 Borrowing Costs**

There were no capitalised borrowing cost related to the acquisition of property plant and equipment during the year 2023 (2022 - Nil).

## Notes to the Financial Statements

### 31.6 Cost of Fully Depreciated Property, Plant and Equipment and Intangible Assets

The cost of fully depreciated property, plant and equipment of the Bank which are still in use are as follows:

As at 31 December	2023 Rs. '000	2022 Rs. '000
Improvements to leasehold buildings	23,978	11,502
Computer hardware	620,850	554,220
Office equipment, furniture and fittings	201,006	124,477
Machinery	80,385	47,585
Motor vehicles	14,850	14,850
Core Banking system	191,111	-
Computer software	332,801	509,132
<b>Total</b>	<b>1,464,981</b>	<b>1,261,766</b>

### 31.7 Right of Use Assets and Lease Liability

#### Accounting Policy

#### Basis of Recognition

The Bank applies Sri Lanka Accounting Standard SLFRS 16 "Leases" in accounting for all lease hold rights except for short term leases, which are held for use in the provision of services.

#### Basis of Measurement

The Bank recognises right-of-use assets at the date of commencement of the lease, which is the present value of lease payments to be made over the lease term. Right-of-use assets are measured at cost less any accumulated amortisation and impairment losses and adjusted for any re-measurement of lease liabilities. The cost of the right-of-use assets includes the amount of lease liabilities recognised, initial direct cost incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are amortised on a straight line basis over the term of the lease.

#### Lease Liability

Refer Note 33 for the detailed explanation.

Right of Use Asset	2023 Rs. '000	2022 Rs. '000
Balance as at 1 January	289,761	288,005
Additions during the year	91,190	99,380
Terminations	-	-
Adjustments	-	2,460
Depreciation charge during the year	(100,273)	(100,084)
<b>Balance as at 31 December</b>	<b>280,678</b>	<b>289,761</b>

The right-of-use assets are depreciated over 04-15 Years. Incremental Borrowing rates used range between 6%-21%, (2022 -6%-12%)

Refer Note 33 to the Financial Statements for lease liability.

## Notes to the Financial Statements

### 32. INTANGIBLE ASSETS

#### Accounting Policy

The Bank's intangible assets include the value of computer software and software under development

#### Basis of Recognition

An intangible asset is recognised if it is probable that future economic benefits associated with the asset 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”.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, these assets are stated in the Statement of Financial Position at cost, less accumulated amortisation and accumulated impairment losses, if any.

Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

#### Subsequent Expenditure

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

#### Useful Economic Lives and Amortisation

The useful economic lives of intangible assets are assessed to be either finite or indefinite. Useful economic lives, amortisation and impairment of finite intangible assets are described below;

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative period is 4-8 years. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

The Bank did not hold intangible assets with indefinite useful-life as at the reporting date.

(a) 2023	Core Banking Software Rs. '000	Other Computer Software Rs. '000	Other Computer Software- Work In Progress Rs. '000	Total Rs. '000
<b>Cost</b>				
Balance as at 01 January	330,773	796,650	20,806	1,148,229
Additions during the year	19,322	60,353	-	79,675
Transfers	-	-	-	-
<b>Balance as at 31 December</b>	<b>350,095</b>	<b>857,003</b>	<b>20,806</b>	<b>1,227,904</b>
<b>Accumulated Depreciation</b>				
Balance as at 01 January	198,582	614,497	-	813,079
Charged for the year	32,292	99,088	-	131,380
<b>Balance as at 31 December</b>	<b>230,874</b>	<b>713,585</b>	<b>-</b>	<b>944,459</b>
<b>Carrying amount as at 31 December 2023</b>	<b>119,221</b>	<b>143,418</b>	<b>20,806</b>	<b>283,445</b>

## Notes to the Financial Statements

(b) 2022	Core Banking Software Rs. '000	Other Computer Software Rs. '000	Other Computer Software- Work In Progress Rs. '000	Total Rs. '000
<b>Cost</b>				
Balance as at 01 January	207,389	735,642	11,622	954,653
Additions during the year	123,384	34,490	35,702	193,576
Transfers	-	26,518	(26,518)	-
<b>Balance as at 31 December</b>	<b>330,773</b>	<b>796,650</b>	<b>20,806</b>	<b>1,148,229</b>
<b>Accumulated Depreciation</b>				
Balance as at 01 January	169,205	526,508	-	695,713
Charged for the year	29,377	87,989	-	117,366
<b>Balance as at 31 December</b>	<b>198,582</b>	<b>614,497</b>	<b>-</b>	<b>813,079</b>
<b>Carrying amount as at 31 December 2022</b>	<b>132,191</b>	<b>182,153</b>	<b>20,806</b>	<b>335,150</b>

Other computer software - work in progress includes the software under development.

## Notes to the Financial Statements

### 33. LEASE LIABILITY

#### Accounting Policy

At the commencement date of the lease, the Bank recognises lease liabilities, measured at present value of lease payments to be made over the lease term. The Bank applied modified retrospective approach in accordance with SLFRS 16 when accounting for right-of-use assets and operating lease liabilities. The interest expense on the lease liabilities and the depreciation expense on the right-of-use assets are recognised separately in the Statement of Profit or Loss in line with the requirements of SLFRS 16-Leases.

Further the lease liabilities will be remeasured upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The Bank will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Set out below are the carrying amounts of lease liabilities disclosed in terms of SLRS 16 - Leases

	2023 Rs. '000	2022 Rs. '000
<b>33.1 Movement During the Year</b>		
Balance as at 01 January	340,542	332,675
Additions	91,190	99,380
Accretion of interest	44,442	34,271
Adjustments	-	7,479
Payments	(140,393)	(133,263)
<b>Balance as at 31 December</b>	<b>335,781</b>	<b>340,542</b>
<b>33.2 Maturity Analysis - Contractual Undiscounted Cash Flows</b>		
Less than one year	114,188	128,531
One to five years	315,249	269,464
More than five years	78,080	101,786
<b>Total undiscounted lease liability</b>	<b>507,517</b>	<b>499,781</b>
<b>33.3 Lease Liability Recognised in the Statement of Financial Position</b>		
Current	71,857	92,153
Non-current	263,924	248,389
<b>Total</b>	<b>335,781</b>	<b>340,542</b>
<b>33.4 Amounts Recognised in the Statement of Profit or Loss</b>		
Interest on lease liabilities	44,442	34,271
<b>Total</b>	<b>44,442</b>	<b>34,271</b>
<b>33.5 Amounts Recognised in the Statement of Cash Flows</b>		
Total cash outflow of leases	140,393	133,263
<b>Total</b>	<b>140,393</b>	<b>133,263</b>

## Notes to the Financial Statements

### 33.6 Sensitivity Analysis of Lease Liabilities

Asset Class	Increase/ (Decrease) in Interest Rate	Sensitivity Effect on the	
		Profit or loss Increase/ (Decrease) for the Year	Financial position Increase/ (Decrease) in Lease Liabilities
	%	Rs. '000	Rs. '000
Land and Building	1	(487)	(7,768)
	-1	380	8,096

### 34. DEFERRED TAX ASSETS

#### Accounting Policy

Deferred tax is recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except;

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carried forward unused tax credits and unused tax losses (if any), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward unused tax credits and unused tax losses can be utilised except;

- Where the deferred tax asset relating to the deductible temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is probable that sufficient taxable profit will be available to allow the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intentions to settle on a net basis and it is allowed under the tax laws of the relevant jurisdiction.

#### 34.1 Summary of Net Deferred Tax Assets/(Liabilities)

As at 31 December	Note	2023 Rs. '000	2022 Rs. '000
Recognised under assets	34.2	284,090	955,721
Recognised under liabilities		-	-
<b>Net deferred tax assets</b>		<b>284,090</b>	<b>955,721</b>

## Notes to the Financial Statements

### 34.2 Movement in Net Deferred Tax Assets/(Liabilities)

	Note	2023		2022	
		Temporary difference Rs. '000	Tax effect Rs. '000	Temporary difference Rs. '000	Tax effect Rs. '000
Balance as at 01 January		3,420,312	955,721	2,359,867	637,588
Recognised in profit or loss					
Amount recognised during the year	34.3	(426,280)	(127,884)	937,757	281,327
Recognised in other comprehensive income					
Effect on actuarial (gains)/losses on defined benefit plans	34.3	(4,503)	(1,351)	888	266
Effect on fair value (gains)/ losses on financial investments measured at FVOCI	34.3	(1,805,314)	(541,594)	123,633	37,090
Effect on fair value (gains)/losses on equity instruments measured at FVOCI	34.3	(2,672)	(802)	(1,833)	(550)
Balance as at 31 December		1,181,543	284,090	3,420,312	955,721

### 34.3 Reconciliation of Net Deferred Tax Asset

For the year ended/ as at 31 December Rs. '000	Statement of Financial Position		Statement of Profit or Loss		Statement of Profit or Loss and Other Comprehensive Income	
	2023	2022	2023	2022	2023	2022
<b>Deferred Tax Assets on:</b>						
Defined benefit plans	32,582	29,042	4,890	9,255	(1,351)	266
Unrealised loss on financial assets measured at Fair Value through Other Comprehensive Income (FVOCI)	-	53,751	-	-	(53,751)	37,090
Carried forward tax losses	-	201,737	(201,737)	(196,219)	-	-
Impairment provision	752,354	691,779	60,574	468,560	-	-
Impact from SLFRS 16 - Lease Liability	100,734	102,163	(1,428)	22,320	-	-
	885,670	1,078,472	(137,701)	303,916	(55,102)	37,356
<b>Deferred Tax Liabilities on:</b>						
Accelerated depreciation for tax purposes	27,873	34,964	(7,091)	4,782	-	-
Unrealised gains on Financial assets measured at Fair Value through Other Comprehensive Income (FVOCI) - Financial investments	487,843	-	-	-	487,843	-
Unrealised gains on Financial assets measured at Fair Value through Other Comprehensive Income (FVOCI) - Equity instruments	1,661	859	-	-	802	550
Impact from SLFRS 16 - Right of use assets	84,203	86,928	(2,726)	17,807	-	-
	601,580	122,751	(9,817)	22,589	488,645	550
Deferred tax effect on Statement of Profit or Loss and Other Comprehensive Income			(127,884)	281,327	(543,747)	36,806
Net deferred tax asset as at 31 December	284,090	955,721		-		-

## Notes to the Financial Statements

**34.4** The total temporary differences arising from tax losses and tax credits as at 31 December 2023 is Nil. The aforesaid temporary difference as at 31 December 2022 was Rs. 672 Mn and the resulting deferred tax asset was Rs. 202 Mn. The same was recognised in the Financial Statements for the comparative period based on an internal cash flow assessment carried out by the Board of Directors.

### 35. OTHER ASSETS

#### Accounting Policy

The Bank classifies other assets as “other financial assets” and “other non-financial assets”. Other assets mainly comprise of deposits and prepayments, unamortised staff costs and sundry receivables. Deposits are carried at historical cost less impairment allowance. Prepayments are amortised during the period in which they are utilised and are carried at historical cost less impairment allowance.

As all staff loans granted at below market interest rates are recognised at fair value, the difference between the fair value and the amount disbursed was treated as the Day 1 difference. The Day 1 difference is classified as “unamortised staff cost” and is amortised over the loan period by using the Effective Interest Rate (EIR). The staff loans are subsequently measured at amortised cost.

As at 31 December	2023 Rs. '000	2022 Rs. '000
Deposits and prepayments	325,233	312,249
Other receivables	2,174,512	775,904
Prepaid staff cost	131,485	53,643
Tax recoverable	90,648	90,238
<b>Total other assets</b>	<b>2,721,878</b>	<b>1,232,034</b>

## Notes to the Financial Statements

### 36. DUE TO BANKS

#### Accounting Policy

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

As at 31 December	2023 Rs. '000	2022 Rs. '000
Borrowings		
Local currency borrowings	420,225	233,565
Foreign currency borrowings	297,442	280,628
<b>Total due to banks</b>	<b>717,667</b>	<b>514,193</b>

### 37. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial liabilities are classified as held for trading. This category includes derivative financial instruments entered into by the Bank that are not designated as hedging instruments in hedge relationships.

Derivatives are recorded at fair value with corresponding gains or losses are recognised in net gains/(losses) on trading in the Statement of Profit or Loss. Refer Note 26 for more details of the accounting policy.

As at 31 December	2023 Rs. '000	2022 Rs. '000
Derivative financial liabilities - Held for trading		
Forward foreign exchange contracts	27	30
<b>Total</b>	<b>27</b>	<b>30</b>

## Notes to the Financial Statements

### 38. FINANCIAL LIABILITIES AT AMORTISED COST - DUE TO DEPOSITORS

#### Accounting Policy

These include non-interest bearing deposits, savings deposits, term deposits, deposits payable at call, certificates of deposit and other deposits. Subsequent to initial recognition, deposits are measured at amortised cost using the EIR method, except where the Bank designates liabilities at Fair Value Through Profit or Loss. Interest paid/payable on these deposits is recognised in "Interest expense" in the Statement of Profit or Loss.

As at 31 December	2023 Rs. '000	2022 Rs. '000
Local currency deposits	46,788,716	34,626,091
Foreign currency deposits	3,940,137	3,176,589
<b>Total due to depositors</b>	<b>50,728,853</b>	<b>37,802,680</b>

#### 38.1 Analysis of Due to Depositors

##### 38.1.1 Financial Liabilities at Amortised Cost - Due to Depositors - By Product

Demand deposits	2,889,569	1,991,503
Savings deposits	9,259,694	5,945,969
Time deposits	38,490,886	29,613,127
Certificate of deposits	66,237	172,541
Margin deposits	22,467	79,540
<b>Total due to depositors</b>	<b>50,728,853</b>	<b>37,802,680</b>

##### 38.1.2 Financial Liabilities at Amortised Cost - Due to Depositors - By Currency

Sri Lanka Rupees	46,788,717	34,626,091
United States Dollars	3,876,460	3,099,188
Great Britain Pound	4,557	4,623
Euro	15,252	15,366
Australian Dollars	13,175	7,924
Other currencies	30,692	49,488
<b>Total due to depositors</b>	<b>50,728,853</b>	<b>37,802,680</b>

##### 38.1.3 Financial Liabilities at Amortised Cost - Due to Depositors - By Institution/Customers

Deposits from banks	946,953	971,038
Deposits from finance companies	1,396,603	1,104,088
Deposits from other corporates	16,413,913	12,815,078
Deposits from other customers	31,971,384	22,912,476
<b>Total due to depositors</b>	<b>50,728,853</b>	<b>37,802,680</b>

##### 38.1.4 Financial Liabilities at Amortised Cost - Due to Depositors - By Province

Central Province	2,573,477	2,164,149
Eastern Province	100,309	3,672,301
North Province	4,564,691	119,486
North Central Province	583,952	219,459
North Western Province	1,848,176	1,396,019
Sabaragamuwa Province	644,162	408,189
Southern Province	1,820,392	1,309,269
Uwa Province	731,120	265,620
Western Province	37,862,574	28,248,188
<b>Total due to depositors</b>	<b>50,728,853</b>	<b>37,802,680</b>

## Notes to the Financial Statements

### 39. FINANCIAL LIABILITIES AT AMORTISED COST - OTHER BORROWINGS

#### Accounting Policy

Other borrowings include funds borrowed by the Bank for long-term and short-term liquidity funding requirements and includes repo borrowing, debt securities issued and other funds borrowed by the Bank. Subsequent to initial recognition, these are measured at their amortised cost using the EIR method. Interest paid /payable on these borrowings is recognised in Interest Expense in the Statement of Profit or Loss.

As at 31st December	Note	2023 Rs. '000	2022 Rs. '000
Securities sold under repurchase (repo) agreements	39.1	2,169,925	2,188,924
Perpetual Debenture	39.2	1,500,000	1,500,000
<b>Total other borrowings</b>		<b>3,669,925</b>	<b>3,688,924</b>

#### 39.1 Securities Sold Under Repurchase (Repo) Agreements

Refer Note 50 for further disclosures made in terms of the directive No.1 of 2019 on repurchase and reverse repurchase transactions of dealer direct participants in scripless treasury bonds and scripless treasury bills issued by the Central Bank of Sri Lanka.

#### 39.2 Perpetual Debenture

As at 31st December		2023 Rs. '000	2022 Rs. '000
Debenture issued	39.2.1	1,500,000	1,500,000
		1,500,000	1,500,000

##### 39.2.1 The principal terms of the debenture is as follows;

The Bank issued Fifteen Million (15,000,000) Basel III Additional Tier 1 Compliant Unlisted Unsecured Subordinated Perpetual Convertible Debentures with a conversion at the option of the debenture holder and Non-Viability Conversion upon the occurrence of a trigger event at the par value of Sri Lankan Rupees One Hundred (LKR 100/-).

The interest is cumulative and will be paid only if the Bank has distributable profits. The Bank has discretion at all times to cancel the interest payments and any such cancellation of interest in accordance with No (7) (i) of the Web Based Return Code 20.2.2.1.1.1 of the Banking Act Direction No.1 of 2016 will not result in an event of default. However, such interest shall be paid as soon as the underlying factors for the non-payment are no longer prevalent. Therefore, the Bank cannot avoid its obligation to pay interest.

"The debenture holder has the right to convert the debenture to ordinary shares of the Bank during the conversion period. The conversion option does not meet the fixed-for-fixed requirement as a variable number of shares would be issued".

Based on the above factors, the Bank has classified this debenture as a liability.

These Debentures are included within the Bank's regulatory capital base as Tier 1 capital in terms of the directions issued by the Central Bank of Sri Lanka.

## Notes to the Financial Statements

The Bank did not have any default of principal or interest or other breaches with respect to its debentures for the years ended 31 December 2023 and 2022.

Interest Rate (Per Annum)	Tenor	Date of Issue	Floor Rate on the Interest Rate	Interest Payment Frequency	No. of Debentures	Face Value Rs. '000	Amortised Cost Rs. '000	
							2023	2022
Weighted Average Twelve-Month Net Treasury Bill Rate + 2% p.a.	Perpetual	15-Dec-21	9.50% p.a. (2022 - 9.50% p.a.)	Annually	15,000,000	1,500,000	1,500,000	1,500,000

### 40. RETIREMENT BENEFIT OBLIGATIONS

#### Accounting Policy

Retirement benefit obligations include the provisions made for retirement gratuity in compliance with the Gratuity Act No.12 of 1983. The costs of retirement gratuities are determined by a qualified Actuary using the projected unit credit method. Actuarial gains and losses are recognised as income or expense in the Statement of Comprehensive Income, during the financial year in which it arose.

#### Basis of Measurement

The cost of the defined benefit plan is determined using an actuarial valuation. The actuarial valuation involves making various assumptions, which may differ from actual developments in the future. These include the determination of discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainties. All assumptions are reviewed at each reporting date. The assumptions used to arrive at the value of defined benefit obligation is given in Note 40.2. In determining the appropriate discount rate, the Management considers the interest rates of Sri Lanka Government Bonds with extrapolated maturities, corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Estimated future salary increases are based on expected future inflation rates and the policy on salary revisions of the Bank.

	Note	2023 Rs. '000	2022 Rs. '000
Balance as at 1 January		96,806	81,336
Expenses recognised in the Statement of Profit or Loss	40.1	34,901	25,242
Benefits paid on defined benefits plan		(18,599)	(12,674)
Benefits payable for those who left during the period		-	(2,799)
Actuarial (gains)/losses recognised in OCI		(4,503)	5,701
(Gains)/losses due to change in experience assumptions		(2,352)	2,092
(Gains)/losses due to change in financial assumptions		(2,412)	3,106
(Gains)/losses due to change in demographic assumptions		261	503
<b>Balance as at 31 December</b>		<b>108,605</b>	<b>96,806</b>

#### 40.1 Expense Recognised in the Statement of Profit or Loss – Gratuity

Current service cost	17,476	16,295
Past service cost	-	-
Interest cost	17,425	8,947
	<b>34,901</b>	<b>25,242</b>

#### 40.2 Details of Actuarial Assumptions

Discount rate per annum	13%	18%
Future salary increases	11%	16%
Retirement age (years)	60 Years	60 Years

The discount rate used as at 31 December 2023 was determined with reference to applicable market interest rates on Government Securities adjusted for anticipated long-term rate of inflation and other factors, where applicable.

## Notes to the Financial Statements

Further, in determining the liability as at 31 December 2022, as proposed by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) in terms of its 'Frequently Asked Questions (FAQs) on Use of Discount rate under the Uncertain Economic Conditions' issued in January 2023, an adjustment was made to risk spread in the discount rate used for valuation of employee benefit obligations as per LKAS 19. Accordingly, an adjusted discount rate of 18% per annum was used while the actual treasury bill/bond rates during the latter part of the year 2022 were hovering around 30%.

Staff turnover, the probability of a member withdrawing from the employment prior to the retirement age was considered in arriving at the above liability.

As at 31 December 2023, the weighted-average duration of the defined benefit obligation of the permanent cadre was 4 years (2022 - 4.1 years).

An actuarial valuation of the retirement benefit obligation was carried out as at 31 December 2023 by Mr. M. Poopalanathan, AIA, of Messrs Actuarial and Management Consultants (Pvt) Ltd, a firm of professional actuaries. The valuation method used by the actuary to value the fund is the 'Projected Unit Credit Method (PUC)', the method prescribed by the Sri Lanka Accounting Standard LKAS 19 on 'Employee Benefits'.

Type of Assumption	Criteria	Description
Demographic Assumption	Mortality - in Service	A 1967/70 Mortality Table issued by the institute of actuaries, London
	Staff Turnover	The staff turnover rate at an age represents the probability of an employee leaving within one year of that age due to reasons other than death, ill health and normal retirement. Staff turnover rates used for the valuation is based on the staff turnover statistics of the Bank.
	Disability	The disability rate at an age represents the probability of an employee-leaving with one year of that age due to ill health/disability. Assumptions similar to those used in other comparable plans for disability were used as the data required to do a "Scheme Specific" study was not available.
	Normal Retirement Age	60 years as specified by the Bank.
Financial Assumption	Rate of Discount	Long term discount rate of 13% per annum.
	Salary Escalation Rates	A salary increment rate of 11% p.a ( 2022- 16% p.a) has been used in respect of the active employees.

The liability is not externally funded.

### 40.3 Sensitivity Analysis

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

As at 31 December	Note	Sensitivity effect on defined benefit obligation	
		2023 Rs. '000	2022 Rs. '000
1% increase in discount rate		(105,151)	(93,535)
1% decrease in discount rate		112,286	100,312
1% increase in salary escalation rate		112,755	100,734
1% decrease in salary escalation rate		(104,649)	(93,085)

## Notes to the Financial Statements

### 41. OTHER LIABILITIES

#### Accounting Policy

Other liabilities include other financial liabilities and other non-financial liabilities. These include accrued expenses, amounts payable for deposit insurance and other provisions. These liabilities are recorded at amounts expected to be payable at the reporting date.

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Details of other liabilities are summarised below:

	Note	2023 Rs. '000	2022 Rs. '000
Accrued expenditure		452,943	316,560
Cheques sent on clearing/PO issued		52,966	9,065
Impairment provision in respect of undrawn credit commitments and financial guarantees	45.1.2	74,964	114,173
Other payables		1,651,781	1,149,531
<b>Total other liabilities</b>		<b>2,232,654</b>	<b>1,589,329</b>

### 42. STATED CAPITAL

#### Accounting Policy

Ordinary shares of the Bank are recognised at the amount paid per ordinary share after deducting incremental costs that are directly attributable to the issue of the equity instrument.

As at 31 December	2023 Rs. '000	2022 Rs. '000
Balance as at 01 January*	11,394,421	11,394,421
Issue of ordinary shares through the Initial Public Offering	500,000	-
<b>Balance as at 31 December</b>	<b>11,894,421</b>	<b>11,394,421</b>

#### 42.1 Movement in Number of Ordinary Shares

Balance as at 01 January	883,142,858	883,142,858
Issue of ordinary shares through the Initial Public Offering (IPO)	62,500,000	-
<b>Balance as at 31 December</b>	<b>945,642,858</b>	<b>883,142,858</b>

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

#### 42.2 Issue of New Shares

The Bank successfully concluded its Initial Public Offering of ordinary voting shares in December 2023, where a total of 62,500,000 shares were allotted at Rs. 8.00 per share as approved by the shareholders of the Bank at the Extraordinary General Meeting held on 27 September 2023.

Accordingly, Rs. 500 Mn was raised through the Initial Public Offering (IPO) (2022 – Nil), the shares were allotted on 22 December 2023 and accounted for with a corresponding receivable being recognised under other assets. Refer "Investor Relations" on pages 303 to 307 for more details.

## Notes to the Financial Statements

The ordinary shares of the Bank are now listed on the Main Board of the Colombo Stock Exchange (CSE).

### 43. RETAINED EARNINGS/ (LOSSES)

As at 31 December	2023 Rs. '000	2022 Rs. '000
Balance as at 01 January	(1,598,139)	(2,055,814)
Total comprehensive income		
Profit/(loss) for the year	440,020	487,764
Other comprehensive income	3,152	(5,701)
Transfer to statutory reserves	(22,001)	(24,388)
<b>Balance as at 31 December</b>	<b>(1,176,968)</b>	<b>(1,598,139)</b>

### 44. OTHER RESERVES

#### 44.1 Statutory Reserve Fund

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

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

As at 31 December	2023 Rs. '000	2022 Rs. '000
Balance as at 01 January	56,774	32,386
Transfers during the year, net of tax	22,001	24,388
<b>Balance as at 31 December</b>	<b>78,775</b>	<b>56,774</b>

#### 44.2 Fair Value through Other Comprehensive Income Reserve (FVOCI Reserve)

The fair value reserve comprises the cumulative net change in the fair value of equity securities measured at FVOCI and the cumulative net change in the fair value of debt securities measured at FVOCI until the assets are derecognised or reclassified.

As at 31 December	2023 Rs. '000	2022 Rs. '000
Balance as at 01 January	(132,751)	(46,132)
Net change in fair value during the year in equity instruments	1,870	1,292
Net change in fair value during the year in debt instruments	1,277,436	(87,911)
Net impact during the year	1,279,306	(86,619)
<b>Balance as at 31 December</b>	<b>1,146,555</b>	<b>(132,751)</b>

## Notes to the Financial Statements

### 45. CONTINGENT LIABILITIES AND COMMITMENTS

All discernible risks are accounted for in determining the amount of all known liabilities.

Contingent liabilities are possible obligations whose existence will be confirmed only by an uncertain future event or present obligation 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.

No any pending legal claims against the Bank form a part of contingencies as at 31 December 2023. (Refer Note 46)

#### 45.1 Contingent Liabilities

	Note	2023 Rs. '000	2022 Rs. '000
As at 31 December			
Guarantees	45.1.1	6,422,420	7,716,489
Documentary credits		1,545,523	541,681
Bills for collection		87,886	1,270,467
Forward exchange contracts		-	961,452
Other		44,151	6,474
<b>Total gross contingent liabilities</b>		<b>8,099,980</b>	<b>10,496,563</b>
Less: Provision for impairment	45.1.2	(74,964)	(114,173)
<b>Total net contingent liabilities</b>		<b>8,025,016</b>	<b>10,382,390</b>

#### 45.1.1 Guarantees and loan commitments

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

#### 45.1.2 Movement in provision for impairment during the year

(a) 2023	Stage 1	Stage 2	Stage 3	Total
Balance as at 01 January	46,252	43,284	24,637	114,173
Charge/(write back) to Statement of Profit or Loss	1,987	(32,412)	(8,784)	(39,210)
<b>Balance as at 31 December</b>	<b>48,239</b>	<b>10,872</b>	<b>15,853</b>	<b>74,964</b>
(b) 2022				
Balance as at 01 January	33,655	17,970	99,609	151,234
Charge/(write back) to Statement of Profit or Loss	12,597	25,314	(74,972)	(37,060)
<b>Balance as at 31 December</b>	<b>46,252</b>	<b>43,284</b>	<b>24,637</b>	<b>114,173</b>

## Notes to the Financial Statements

### 45.2 Commitments

As at 31 December	Note	2023 Rs. '000	2022 Rs. '000
Undrawn commitments		8,626,315	11,643,163
<b>Capital commitments</b>			
Commitments in relation to property, plant & equipment		12,855	51,793
Commitments in relation to intangible assets		32,871	215,392
<b>Total capital commitments</b>		45,726	267,185
<b>Total commitments</b>		8,672,041	11,910,348
Total net contingent liabilities	45.1	8,025,016	10,382,390
<b>Total commitments and contingencies</b>		16,697,057	22,292,738

### 46. LITIGATION AGAINST THE BANK

In the normal course of business, the Bank is a party to various types of litigation, including litigation with borrowers who are in default in terms of their facility agreements. Based on the assessment carried out, the Bank is of the view that the legal cases filed against the Bank will not have a material impact on the reported financial results or the future operations of the Bank.

#### 46.1 Tax Matters

##### Income Tax - Year of Assessment 2013/2014

The Commissioner General of Inland Revenue (CGIR) issued a Notice of Assessment for the Year of Assessment 2013/2014 disallowing some expenses and capital allowances stating that the Bank was not in its commercial operations to deduct such expenses to arrive at Taxable Income.

The Bank has appealed to the Court of Appeal and the Bank awaits the hearing. Management is of the opinion that the above will not have an unfavorable impact to the Bank.

##### Income Tax - Year of Assessment 2017/2018

The Commissioner General of Inland Revenue (CGIR) issued a Notice of Assessment for the Year of Assessment 2017/2018. The Bank has lodged an appeal against the said assessment. The appeal is currently determination stage at the Inland Revenue Department. Management is of the opinion that the above will not have an unfavorable impact to the Bank.

##### VAT on Financial Service - Years of Assessment 2016/2017 & 2017/2018 and NBT on Financial Service - Years of Assessment 2017/2018

The Commissioner General of Inland Revenue (CGIR) issued above notices, disallowing some expenses and capital allowances to arrive at VAT on Financial Services and NBT on Financial Services.

The Bank has appealed to the Tax Appeals Commission and the Bank awaits the hearing of the Appeal from the Tax Appeals Commission.

Management is of the opinion that the above amounts are not material and will not have an unfavorable impact to the Bank.

## Notes to the Financial Statements

### 47. NET ASSETS VALUE PER SHARE

	2023	2022
Amount used as the numerator		
Total equity attributable to equity holders of the Bank (Rs.'000)	11,942,783	9,720,305
Amount used as the denominator		
Total number of ordinary shares	945,642,858	883,142,858
Net assets value per ordinary share (Rs.)	12.63	11.01

## Notes to the Financial Statements

### 48. ANALYSIS OF ASSETS AND LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The table below summarises the maturity profile of the discounted cash flows of the Bank's assets and liabilities;

#### 48.1

As at 31 December 2023	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-23 Rs. '000
<b>Interest earning assets</b>						
Derivative financial instruments	6	-	-	-	-	6
Securities purchased under resale agreements	730,566	-	-	-	-	730,566
Financial assets measured at fair value through profit or loss	2,468,401	-	-	-	-	2,468,401
Financial assets at Amortized costs- Loans & Advances to other customers	15,315,131	6,235,575	9,156,333	5,096,811	4,755,588	40,559,438
Financial assets at Amortized costs - Debt and other Instruments	6,011	-	-	133,845	1,910,263	2,050,119
Financial assets measured at fair value through other comprehensive income	3,070,610	4,424,076	6,272,601	3,640,172	351,373	17,758,832
<b>Total interest earning assets</b>	<b>21,590,725</b>	<b>10,659,651</b>	<b>15,428,933</b>	<b>8,870,828</b>	<b>7,017,224</b>	<b>63,567,362</b>
<b>Non-interest earning assets</b>						
Cash and cash equivalents	1,963,321	-	-	-	-	1,963,321
Balances with Central Bank of Sri Lanka	195,180	130,449	41,809	39,405	25,961	432,805
Financial assets measured at fair value through other comprehensive income	-	-	-	-	20,688	20,688
Property, plant and equipment	-	-	-	-	462,706	462,706
Intangible assets	-	-	-	283,445	-	283,445
Deferred tax assets	-	-	-	-	284,090	284,090
Other assets	2,721,878	-	-	-	-	2,721,878
<b>Total non-interest earning assets</b>	<b>4,880,380</b>	<b>130,449</b>	<b>41,809</b>	<b>322,850</b>	<b>793,445</b>	<b>6,168,933</b>
<b>Total assets</b>	<b>26,471,105</b>	<b>10,790,100</b>	<b>15,470,743</b>	<b>9,193,678</b>	<b>7,810,668</b>	<b>69,736,295</b>
<b>Interest bearing liabilities</b>						
Due to banks	497,972	62,156	106,911	50,628	-	717,667
Derivative financial instruments	27	-	-	-	-	27
Financial liabilities at amortized cost - Due to depositors	22,876,986	15,289,840	4,900,431	4,618,663	3,042,933	50,728,853
Financial liabilities at amortized cost - Due to other borrowers	2,169,925	-	-	-	1,500,000	3,669,925
<b>Total interest bearing liabilities</b>	<b>25,544,909</b>	<b>15,351,996</b>	<b>5,007,342</b>	<b>4,669,291</b>	<b>4,542,933</b>	<b>55,116,472</b>
<b>Non-interest bearing liabilities</b>						
Derivative financial instruments	-	-	-	-	-	-
Retirement benefit obligations	-	-	-	-	108,605	108,605
Lease Liability	36,982	34,875	143,251	58,134	62,539	335,781
Other liabilities	2,232,654	-	-	-	-	2,232,654
Stated capital	-	-	-	-	11,894,421	11,894,421
Statutory reserves	-	-	-	-	78,775	78,775
Accumulated losses	-	-	-	-	(1,176,968)	(1,176,968)
Other Reserves	-	-	-	-	1,146,555	1,146,555
<b>Total non-interest bearing liabilities</b>	<b>2,269,636</b>	<b>34,875</b>	<b>143,251</b>	<b>58,134</b>	<b>12,113,927</b>	<b>14,619,824</b>
<b>Total liabilities and equity</b>	<b>27,814,545</b>	<b>15,386,872</b>	<b>5,150,593</b>	<b>4,727,426</b>	<b>16,656,860</b>	<b>69,736,295</b>

## Notes to the Financial Statements

### 48.2

As at 31 December 2022	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-22 Rs. '000
<b>Interest earning assets</b>						
Derivative financial instruments	-	-	-	-	-	-
Financial assets measured at fair value through profit or loss	-	-	-	-	-	-
Financial assets at Amortized costs-Loans & Advances to Banks	-	-	-	-	-	-
Financial assets at Amortized costs- Loans & Advances to other customers	11,344,084	7,051,615	4,172,929	8,806,797	4,584,655	35,960,080
Financial assets at Amortized costs - Debt and other Instruments	10,353	-	-	136,773	1,849,824	1,996,950
Financial assets measured at fair value through other comprehensive income	1,740,033	5,278,894	1,806,923	971,751	437,879	10,235,480
<b>Total interest earning assets</b>	<b>13,094,470</b>	<b>12,330,509</b>	<b>5,979,852</b>	<b>9,915,321</b>	<b>6,872,357</b>	<b>48,192,509</b>
<b>Non-interest earning assets</b>						
Cash and cash equivalents	1,232,272	-	-	-	-	1,232,272
Balances with Central Bank of Sri Lanka	520,601	459,497	149,757	112,514	69,557	1,311,926
Financial assets measured at fair value through other comprehensive income	-	-	-	-	18,016	18,016
Property, plant and equipment	-	-	-	-	475,180	475,180
Intangible assets	-	-	-	335,150	-	335,150
Deferred tax assets	-	-	-	-	955,721	955,721
Other assets	1,232,034	-	-	-	-	1,232,034
<b>Total non-interest earning assets</b>	<b>2,984,908</b>	<b>459,497</b>	<b>149,757</b>	<b>447,665</b>	<b>1,518,473</b>	<b>5,560,299</b>
<b>Total assets</b>	<b>16,079,377</b>	<b>12,790,006</b>	<b>6,129,609</b>	<b>10,362,985</b>	<b>8,390,830</b>	<b>53,752,809</b>
<b>Interest bearing liabilities</b>						
Due to banks	281,953	49,676	96,075	86,489	-	514,193
Derivative financial instruments	30	-	-	-	-	30
Financial liabilities at amortized cost - Due to depositors	15,000,940	13,240,241	4,315,183	3,242,063	2,004,253	37,802,680
Financial liabilities at amortized cost - Due to other borrowers	2,188,924	-	-	-	1,500,000	3,688,924
<b>Total interest bearing liabilities</b>	<b>17,471,847</b>	<b>13,289,917</b>	<b>4,411,259</b>	<b>3,328,552</b>	<b>3,504,253</b>	<b>42,005,827</b>
<b>Non-interest bearing liabilities</b>						
Derivative financial instruments	-	-	-	-	-	-
Retirement benefit obligations	-	-	-	-	96,806	96,806
Lease Liability	36,120	56,033	99,962	48,910	99,517	340,542
Other liabilities	1,589,329	-	-	-	-	1,589,329
Stated capital	-	-	-	-	11,394,421	11,394,421
Statutory reserves	-	-	-	-	56,774	56,774
Accumulated losses	-	-	-	-	(1,598,139)	(1,598,139)
Other Reserves	-	-	-	-	(132,751)	(132,751)
<b>Total non-interest bearing liabilities</b>	<b>1,625,449</b>	<b>56,033</b>	<b>99,962</b>	<b>48,910</b>	<b>9,916,628</b>	<b>11,746,982</b>
<b>Total liabilities and equity</b>	<b>19,097,296</b>	<b>13,345,950</b>	<b>4,511,220</b>	<b>3,377,462</b>	<b>13,420,881</b>	<b>53,752,809</b>

## Notes to the Financial Statements

### 49. OPERATING SEGMENTS

#### Accounting Policy

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the Corporate Management Team headed by the Managing Director/ Chief Executive Officer (being the Chief Operating Decision Maker - CODM) to make decisions about resources allocated to each segment and assess its performance, and for which Segment results that are reported to the CEO include items that are discrete financial information is available.

Segment results that are reported to the Bank's CEO (being the CODM) include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Bank's headquarters), head office expenses and tax assets and liabilities.

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

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

- Banking
- Treasury and Investments
- Unallocated

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

The following table presents the income, profit and asset and liability information on the Bank's business segments.

For the year ended 31 December	Banking		Treasury and Investments		Unallocated		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Net interest income	3,367,377	2,852,644	14,014	351,607	-	-	3,381,391	3,204,251
Net fee and commission income	790,469	853,662	8,299	8,706	-	-	798,768	862,368
Foreign exchange profit	117,555	26,652	129,152	162,629	-	-	246,707	189,281
Other income	4,663	2,938	441,895	20,814	1,670	1,035	448,228	24,787
<b>Operating income by segment</b>	<b>4,280,065</b>	<b>3,735,897</b>	<b>593,359</b>	<b>543,756</b>	<b>1,670</b>	<b>1,035</b>	<b>4,875,094</b>	<b>4,280,687</b>
Impairment losses on financial instruments and other assets	(810,344)	(2,125,543)	(38,448)	(644)	-	-	(848,792)	(1,463,485)
<b>Net operating income</b>	<b>3,469,721</b>	<b>2,273,055</b>	<b>554,911</b>	<b>543,112</b>	<b>1,670</b>	<b>1,035</b>	<b>4,026,302</b>	<b>2,817,202</b>
Personnel expenses	(1,056,368)	(901,927)	(16,431)	(13,358)	-	-	(1,072,799)	(915,285)
Depreciation and amortisation	(331,736)	(433,537)	(168)	(3,477)	-	-	(331,904)	(437,014)
Other operating expenses	(1,475,592)	(992,649)	(11,302)	(9,535)	-	-	(1,486,894)	(1,002,184)
<b>Total operating expenses</b>	<b>(2,863,696)</b>	<b>(2,328,113)</b>	<b>(27,901)</b>	<b>(26,371)</b>	<b>-</b>	<b>-</b>	<b>(2,891,597)</b>	<b>(2,354,484)</b>
<b>Operating profit/(loss) before taxes</b>								
on financial services	606,025	(54,023)	527,010	516,741	1,670	1,035	1,134,705	462,718
Less: Taxes on financial services	404,829	256,281	-	-	-	-	404,829	256,281
<b>Segment result</b>	<b>201,196</b>	<b>(310,304)</b>	<b>527,010</b>	<b>516,741</b>	<b>1,670</b>	<b>1,035</b>	<b>729,876</b>	<b>206,437</b>
Income tax expense							289,856	(281,327)
<b>Profit for the year</b>							<b>440,020</b>	<b>487,764</b>
<b>Other information</b>								
Segment assets	47,473,794	38,948,114	22,268,670	14,804,695	-	-	69,742,464	53,752,809
Segment liabilities	54,032,441	40,062,922	3,767,240	3,969,582	-	-	57,799,681	44,032,504

## Notes to the Financial Statements

### 50. REPURCHASE AND REVERSE REPURCHASE TRANSACTIONS IN SCRIPLESS TREASURY BONDS AND SCRIPLESS TREASURY BILLS

Directive No. 1 of 2019, issued by the Central Bank of Sri Lanka, requires licensed banks/primary dealers to disclose following additional information on repurchase and reverse repurchase transactions in scripless treasury bonds and bills.

#### 50.1 Carrying Value of Securities Allocated for Repurchase Transactions

As at 31 December	Note	Amortised Cost		Fair Value	
		2023 Rs. '000	2022 Rs. '000	2023 Rs. '000	2022 Rs. '000
Financial assets measured at fair value through other comprehensive income		1,904,776	2,371,069	2,327,050	2,255,684

#### 50.2 Market Value of Securities Received for Reverse Repurchase Transactions

As at 31 December	Note	Amortised Cost		Fair Value	
		2023 Rs. '000	2022 Rs. '000	2023 Rs. '000	2022 Rs. '000
Financial assets measured at fair value through other comprehensive income		705,000	-	818,742	-

#### 50.3 Bank's Policy on Haircuts for Repurchase and Reverse Repurchase Transactions

In terms of the minimum haircut for Repo (Borrowing) and Reverse repo (Lending) transactions, security allocation is carried out based on remaining maturity of the security and it is required to offer and accept Treasury Bills and Bonds only with maturity of less than 03 years.

At the time of entering into a Repo/Reverse repo transaction, the market value of eligible securities should adequately cover the maturity value of transaction and hair cut requirement should be 10% from the dirty price and should not fall less than the below mentioned CBSL haircut levels over its tenor.

Remaining Term to Maturity of the Eligible Security	Minimum Haircut requirement (%)
Up to 1 Year	4
More than 1 year and up to 3 years	6

#### 50.4 Any Penalties Imposed During the Period Under Review

None.

## Notes to the Financial Statements

### 51. RELATED PARTY DISCLOSURES

#### 51.1 Parent and Ultimate Controlling Party

The Bank does not have identifiable parent of its own.

#### 51.2 Terms and Conditions

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

The pricing applicable to such transactions is based on the risk and pricing model of the Bank and is comparable with what is applied to transactions between the Bank and its unrelated customers.

#### 51.3 Key Management Personnel and their Close Family Members (CFMs)

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank directly or indirectly. Accordingly the Bank's KMP include the Board of Directors (Including Executive and Non-Executive Directors).

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

#### 51.4 Transactions with Key Management Personnel (KMP)

##### 51.4.1 Compensation of directors

For the year ended 31 December	2023 Rs. '000	2022 Rs. '000
Non-Executive Director emoluments	21,140	14,552
Executive Director emoluments	45,791	58,364
Post employee benefits	6,698	8,601
	<b>73,629</b>	<b>81,517</b>

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

## Notes to the Financial Statements

### 51.5 Transactions, Arrangements and Agreements Involving KMP, and their CFMs

As at 31 December	2023	2022
Items in the Statement of Financial Position	Rs. '000	Rs. '000
<b>Assets</b>		
Financial assets at amortised cost - Loans and advances to other customers	-	-
Credit cards	76	395
<b>Total</b>	<b>76</b>	<b>395</b>
<b>Liabilities</b>		
Financial liabilities at amortised cost - Due to depositors	41,698	211,515
<b>Total</b>	<b>41,698</b>	<b>211,515</b>
<b>Commitments and Contingencies</b>		
Undrawn facilities	1,924	3,105
<b>Total</b>	<b>1,924</b>	<b>3,105</b>
<b>Net accommodation as a percentage of the Bank's regulatory capital</b>		
Direct and indirect accommodations	0%	0%
<b>Items in the Statement of Profit or Loss</b>		
Interest income	13	27
Interest expense	(9,126)	(25,948)
Fee and commission income	27	2
Compensation to KMP	(81,517)	(81,517)
	<b>(90,603)</b>	<b>(107,436)</b>
<b>Shareholdings of KMP and CFM</b>		
Number of shares		1,100,000
Shareholding %		0.12%

## Notes to the Financial Statements

### 51.6 Transactions with Related Companies

The Bank carries out transactions with parties who are defined as related parties in Sri Lanka Accounting Standard - LKAS - 24 "Related Party Disclosures", the details of which are disclosed below.

#### 51.6.1 Transactions with Significant Shareholders

As at 31 December/ For the year ended 31 December	2023	2022
Items in the Statement of Financial Position	Rs. '000	Rs. '000
<b>Assets</b>		
Financial assets at amortised cost - Loans and advances to other customers	73	14
Other receivables	4,611	3,458
<b>Total</b>	<b>4,684</b>	<b>3,472</b>
<b>Liabilities</b>		
Financial liabilities at amortised cost - Due to depositors	938,036	225,013
Perpetual Debenture	1,500,000	1,500,000
Other payables	6,005	45,792
<b>Total</b>	<b>2,444,041</b>	<b>1,770,805</b>
<b>Commitments and contingencies</b>		
Undrawn facilities	1,927	1,986
<b>Total</b>	<b>1,927</b>	<b>1,986</b>
<b>Net accommodation as a percentage of the Bank's regulatory capital</b>		
Direct and indirect accommodations	0%	0%
<b>Items in the Statement of Profit or Loss</b>		
Interest expense	(508,476)	(226,145)
Fee and commission income	13	316
Rent expense	(9,549)	(8,145)
Reimbursement of expenses	(25,056)	(23,271)
Other expenses	(150)	(10,721)
<b>Total</b>	<b>(543,218)</b>	<b>(267,966)</b>
<b>Shareholdings of related companies</b>		
Number of shares	574,042,858	574,042,858
Shareholding %	65%	65%
Voting rights %	30%	30%

## Notes to the Financial Statements

### 51.6.2 Transactions with Subsidiaries of Significant Shareholders

As at 31 December/ For the year ended 31 December	2023	2022
Items in the Statement of Financial Position	Rs. '000	Rs. '000
<b>Assets</b>		
Financial assets at amortised cost - Loans and advances to other customers	2,139	92,302
Other receivables	3,526	20,327
<b>Total</b>	<b>5,665</b>	<b>112,629</b>
<b>Liabilities</b>		
Financial liabilities at amortised cost - Due to depositors	1,598,742	1,608,948
Other payables	18,641	18,810
<b>Total</b>	<b>1,617,383</b>	<b>1,627,758</b>
<b>Commitments and contingencies</b>		
Off balance sheet	308,635	70,269
Undrawn commitment	923,987	1,011,366
<b>Total</b>	<b>1,232,622</b>	<b>1,081,635</b>
<b>Net accommodation as a percentage of the Bank's regulatory capital</b>		
Direct and indirect accommodations	0%	0%
<b>Items in the Statement of Profit or Loss</b>		
Interest income	38,152	27,252
Interest expense	(289,946)	(291,457)
Fee and commission income	36,023	42,849
Rent expense	(36,177)	(29,600)
Reimbursement of expenses	(6,093)	(5,618)
Other expenses	(62,685)	(36,062)
<b>Total</b>	<b>(320,726)</b>	<b>(292,636)</b>
<b>Shareholdings of related companies</b>		
Number of shares	-	-
Shareholding %	0%	0%

## Notes to the Financial Statements

### 51.6.3 Transactions with Provident Fund of Significant Shareholders

As at 31 December/ For the year ended 31 December	2023	2022
Items in the Statement of Financial Position	Rs. '000	Rs. '000
<b>Assets</b>		
Financial assets at amortised cost- Loans and advances to other customers	-	-
Other receivables	-	-
<b>Total</b>	-	-
<b>Liabilities</b>		
Financial liabilities at amortised cost - Due to depositors	14,282	6,971
Securities sold under repurchase agreements	-	-
Other investments	-	-
Other payables	-	-
<b>Total</b>	14,282	6,971
<b>Commitments and contingencies</b>		
Undrawn commitments	-	-
<b>Total</b>	-	-
<b>Net accommodation as a percentage of the Bank's regulatory capital</b>		
Direct and indirect accommodations	0%	0%
<b>Items in the Statement of Profit or Loss</b>		
Interest income	267	-
Interest expense	(201,414)	(3,664)
Net gains from derecognition of financial assets	3,715	18,874
<b>Total</b>	(197,432)	15,210
<b>Shareholdings of related companies</b>		
Number of shares	-	-
Shareholding %	0%	0%

### 52. NON-CASH ITEMS INCLUDED IN PROFIT BEFORE TAX

As at 31 December	Note	2023	2022
		Rs. '000	Rs. '000
Depreciation of property, plant and equipment	16	200,523	319,648
Amortisation of intangible assets	16	131,381	117,366
Interest cost - Leases	33	44,442	34,271
Impairment losses on loans and advances	14	821,898	434,947
Foreign exchange revaluation gain/(losses)	28.2	(117,880)	663,194
Impairment losses on other financial instruments		(762)	(3,469)
Write off other assets	14	323	923
Interest cost - Perpetual Debenture	8	469,650	152,517
Direct Write-offs	14	27,333	1,031,085
Charge for defined benefit plans	15	34,901	25,242
<b>Total</b>		1,611,809	2,775,724

## Notes to the Financial Statements

### 53. CHANGE IN OPERATING ASSETS

As at 31 December	2023 Rs. '000	2022 Rs. '000
Change in balances with Central Bank of Sri Lanka	879,121	(744,124)
Change in derivative financial instruments	(6)	3,200
Change in securities purchased under resale agreements	(730,566)	-
Change in financial assets -at fair value through profit or loss	(2,468,401)	-
Change in repurchase agreement	26,001	-
Change in loans and advances to other customers	(5,276,044)	2,401,429
Change in debt and other instruments	(56,097)	(1,834,296)
Change in financial assets -at fair value through OCI	(5,531,871)	406,687
Change in deposits & pre-payments	(12,984)	(154,831)
Change in other assets	(1,476,861)	(402,647)
<b>Total</b>	<b>(14,647,708)</b>	<b>(324,582)</b>

### 54. CHANGE IN OPERATING LIABILITIES

As at 31 December	2023 Rs. '000	2022 Rs. '000
Change in derivative financial instruments	(3)	(2,979)
Change in deposits from banks, customers and debt securities issued	13,129,647	(2,791,934)
Change in accruals and deferred income	136,385	(54,704)
Change in other liabilities	630,739	731,539
<b>Total</b>	<b>13,896,768</b>	<b>(2,118,078)</b>

### 55. EVENTS OCCURRING AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the Financial Statements are authorised for issue.

No circumstances have arisen since the reporting date which would require adjustments to or disclosure in the Financial Statements. (2022-Nil)

### 56. COMPARATIVE INFORMATION

The comparative information is reclassified whenever necessary to conform with the current year's presentation and to be in compliance with the Circular No. 2 of 2019 issued by Central Bank of Sri Lanka on publication of Annual and Quarterly Financial Statements and other disclosures by licensed banks in order to provide a better presentation.

Comparative amounts in the Statement of Profit or Loss totaling Rs. 14.9 Mn were reclassified from other operating expenses to taxes on financial services whilst an amount of Rs. 152.5 Mn in the Statement of Cash Flows was reclassified from operating activities to financing activities for consistency.

## Notes to the Financial Statements

### 57. FINANCIAL RISK MANAGEMENT

This note presents the information about the Bank's exposure to financial risks and the Bank's management of capital.

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# Notes to the Financial Statements

## 57.1 Introduction

Risk is inherent in any activity that the Bank undertakes to fulfill a broader spectrum of stakeholder expectations. It is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls.

The risk appetite, limits, and tolerance levels are closely tied to the Bank's strategic objectives, as Bank aims to balance risk and reward to maximise financial soundness while ensuring the safety and knitted of their operations.

Strategically, the Bank employs various methods to manage and mitigate risks, including diversification of their loan portfolios across different sectors and geographies, implementing robust risk management frameworks, and employing sophisticated financial instruments such as derivatives to hedge against adverse market movements.

Risk management involves identifying, assessing, and monitoring various types of risks, including;

- Credit risk;
- Market risk;
- Operational risk; and
- Liquidity risk;

Banks use quantitative models, stress testing, and scenario analysis to measure and evaluate these risks, allowing them to make informed decisions about capital allocation and risk tolerance.

Pursuing higher returns often entails taking on more risk, which may expose the Bank to potential losses during economic downturns or adverse market conditions. Conversely, adopting overly conservative risk management practices may limit profitability and hinder growth opportunities.

Capital allocation plays a crucial role in managing risk, as the Bank must allocate sufficient capital to support their risk-bearing activities while maintaining regulatory capital requirements and satisfying investor expectations. Banks optimize capital allocation by weighing the potential returns of various business lines against their associated risks, ensuring that capital is deployed efficiently to maximize shareholder value. Ultimately, the effectiveness of a bank's risk management practices directly impacts its profitability and long-term viability. By carefully balancing associated risks with prudent risk management, banks are able to enhance its soundness while safeguarding against adverse outcomes and maintaining the trust and confidence of stakeholders.

## 57.2 Risk Management Framework

The Board has delegated its authority to the Board Integrated Risk Management Committee (BIRMC) for the overall Risk Management approach and for approving the Risk Management strategies and principles.

The overarching responsibility for capital and risk management approaches, along with the approval of risk management strategies and principles, lies with the Board of Directors. An oversight body known as the Integrated Risk Management Committee (IRMC), appointed by the Board, is tasked with monitoring and supervising the Bank's overall risk processes. This committee holds the primary responsibility for formulating the risk strategy and implementing associated frameworks, policies, and limits. Additionally, the IRMC manages risks, tracks risk levels, and provides quarterly reports to the Board.

Execution and maintenance of risk-related procedures to ensure an independent control process are within the purview of the Risk Management Department (RMD). Collaborating closely with the IRMC, this department ensures procedural compliance within the overarching framework. Moreover, the RMD oversees adherence to risk principles, policies, and limits across the Bank, to ensure that the risks are captured within measurement and reporting systems. Any exceptions identified are reported as necessary on a period basis to the IRMC or its sub-committees, with requisite actions to be taken to address exceptions and rectify weaknesses.

## Notes to the Financial Statements

Material data related to risk management by business units undergoes thorough analysis and processing to promptly identify and manage risks. This information is then presented to the relevant Risk Committees, IRMC and ultimately to the Board of Directors. Regular reports cover a range of aspects including aggregate credit exposures, credit concentration, operational and market risks, liquidity ratios, and stress test results. Detailed assessments of industry, customer, and geographic risks are conducted quarterly. Senior management reviews the adequacy of credit loss provisions on a monthly basis. On a monthly basis, comprehensive risk reports are submitted to the Board to facilitate informed decision-making regarding the Bank's risk profile. The IRMC meets once in two months or as and when necessary to review and assess the Bank's overall risk profile, to focus on policy recommendations and strategies in an integrated manner and the Board of Directors are duly updated of its activities as per the regulatory guidelines.

Detailed insights over the Bank's risk management infrastructure and governance framework are discussed in the section on Risk Management (Pages 148 to 161).

### 57.3 Credit Risk

Credit risk is the risk of financial loss to the Bank in the event a customer or counter-party to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, and investments in debt securities and other financial instruments. In addition to the credit risk from direct funding exposure (i.e. on balance sheet exposure), indirect liabilities such as Letters of Credit, Guarantees, etc. would also expose the Bank to credit risk. The objective of credit risk management is to optimize the Bank's risk-adjusted return by keeping credit risk exposure within acceptable boundaries. The Bank therefore oversees the credit risk across the entire portfolio as well as in individual transactions, ensuring that it remains within manageable levels. Additionally, Bank analyzes the interplay between credit risk and other types of risks. Successful credit risk management is integral to a holistic risk management strategy and is fundamental to the sustained success of any banking institution.

The Bank ensures stringent credit risk management practices to manage overall elements of credit risk exposures (such as individual obligor default risk, country and sector concentration risks etc.). Loans typically represent the primary and most conspicuous source of credit risk for the Bank. However, credit risk pervades various facets of a bank's operations, extending beyond traditional lending activities. It manifests in both the banking book and the trading book, as well as on and off the balance sheet. Nowadays, the Bank encounters credit risk, also known as counter-party risk, in a multitude of financial instruments beyond loans. The diverse nature of these exposures underscores the necessity for the Bank to adopt comprehensive risk management practices to effectively identify, assess, and mitigate credit risk across their entire spectrum of activities.

#### 57.3.1 Credit related commitments risk

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These may include acceptances, interbank transactions, trade financing, foreign exchange transactions, financial derivatives, as well as in the provision of commitments and guarantees, and the settlement of transactions. Even though these obligations may not be recognised as part of on balance sheet exposures, they do contain credit risk and are therefore part of the overall risk profile of the Bank.

#### 57.3.2 Consideration of the stressed market conditions

Following the economic crisis, the financial sector encountered significant challenges amid a challenging economic landscape in the year 2023. The downturn was characterized by economic contraction, heightened taxes, and soaring prices, all of which placed immense strain on balance sheets across multiple sectors. This strain resulted in a notable decrease in financial intermediation, hampering the flow of funds through the economy.

Moreover, the financial sector faced increased exposure to government entities, exacerbating concerns regarding sovereign debt restructuring and necessitating comprehensive bank diagnostics to assess and address vulnerabilities. These factors compounded the complexity of the operating environment, fostering uncertainty among market participants.

However, in March 2023, the approval of the International Monetary Fund's Extended Fund Facility (IMF-EFF) injected a sense of confidence into the financial sector. Despite this positive development, lingering uncertainties persisted, casting a shadow over the sector's prospects.

## Notes to the Financial Statements

While monetary policy measures were implemented to alleviate economic pressures, indicators such as the private sector credit-to-GDP gap signaled a transition from the depths of the downturn towards a gradual recovery phase in the credit cycle. This shift indicated a potential resurgence in lending activity, albeit against the backdrop of lingering economic uncertainties and ongoing challenges within the financial sector.

Given the challenging economic conditions prevailing in the country, the Bank undertook a comprehensive analysis of various sectors to proactively manage potential stresses within its lending portfolio. As part of this initiative, the Bank diversified its lending portfolio in alignment with the Central Bank of Sri Lanka's (CBSL) designated sectors.

Continual assessment of sectors experiencing stress is a key aspect of the Bank's risk management strategy. By closely monitoring these sectors, the Bank aims to identify emerging risks and potential defaults in its lending activities. As part of this process, the Bank makes necessary adjustments to its Expected Credit Loss (ECL) models to accurately reflect the increased impairment provisions required to mitigate credit risk.

This proactive approach allows the Bank to adapt swiftly to changing economic conditions and sector-specific challenges, thereby enhancing its ability to mitigate potential credit losses. By closely aligning its lending practices with the CBSL sectors and regularly reassessing stressed sectors, the Bank seeks to strengthen its risk management framework and safeguard its financial stability in the face of economic uncertainties. Considering the stressed economic condition of the country, the Bank performed a detailed analysis of sectors with a view of managing portfolio stresses. In this regard, the Bank diversifies the lending portfolio considering the CBSL sectors. The Bank makes continuous assessment on stressed sector to manage the probable default of the lending and considers necessary adjustment to ECL models on a need basis, to capture additional to impairment provision in order to mitigate the credit risk.

### 57.3.3 Impairment assessment

At each reporting date, a loss allowance or Expected Credit Loss (ECL) will be recognised based on either 12-month ECLs or lifetime ECLs, depending on whether or not there has been a significant increase in credit risk of the financial instrument since initial recognition. The changes in the loss allowance are recognised in profit or loss as an impairment charge or reversal.

Input, assumptions and techniques used for estimating impairment under SLFRS 9 is disclosed under accounting policies and Note 14 to the Financial Statements.

#### 57.3.3.1 Key input into the measurement of ECL

The key input into the measurement of ECL are the term structure of the following variables:

- Probability of Default (PD)
- Loss Given Default (LGD) and
- Exposure At Default (EAD)

#### Probability of Default (PD)

Probability of Default (PD) is the estimate of the likelihood of default over a given time horizon. A default may only happen at a time horizon if the facility has not been previously derecognised and is still in the portfolio.

#### 12 Months PD (12M PD)

This is the estimated probability of default occurring within the next 12 months. The 12 months PD is applied for the "Current" and "1-30 days" buckets since there is no significant deterioration in credit risk.

Age Bucket	Probability of Default
Current	12 Months PD
1- 30 Days	12 Months PD

## Notes to the Financial Statements

### Lifetime PD (LTPD)

This is the estimated probability of default occurring over the remaining life of the financial instrument. The lifetime PD is applied for the 31-60 days and 61-90 days buckets since there is a significant deterioration in credit risk.

Age Bucket	Probability of Default
31 – 60 Days	Lifetime PD
61 – 90 Days	Lifetime PD
Above 90 Days*	Lifetime PD

\* The PD for the above 90 days category is 100% since there is objective evidence of impairment as the default has occurred.

### Exposure at Default (EAD)

The Exposure At Default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments, if any.

To measure ECLs on revolving facilities, such as credit cards, and other revolving facilities, it will be necessary to estimate several components that make up the EAD.

- The contracts which have exceeded 90 days past due
- The Credit Utilisation Rate or Credit Conversion Factor

These components are estimated based on past experience, for sections of the portfolio that are segmented so that they have similar credit characteristic. The Bank considered the regulatory ratios as per the BASEL III direction as credit conversion factor to arrive the EAD of the revolving facility.

### Loss Given Default (LGD)

Loss Given Default (LGD) is the magnitude of likely loss on exposure and is expressed as a percentage of exposure. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Bank segments its lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g. product type, wider range of collateral types) as well as borrower characteristics.

For each year, closed contracts which have crossed above 90 days at least once in their lifetime are considered for LGD. LGD will factor in all cash flows subsequent to the point of default until the full settlement of the loan.

Virtually closed contracts are also added to this data set. Virtually closed contracts are active loans which have been long outstanding. A contract is determined to be virtually closed at the point the Bank determines that the cash flows have dried up.

#### 57.3.3.2 Significant increase in credit risk

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

The Bank continuously monitors all assets subject to Expected Credit Losses (ECL). In order to determine whether an instrument or a portfolio of instruments is subject to 12M ECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

## Notes to the Financial Statements

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/ facility to the watch list, or the account having been restructured.

### 57.3.3.3 Staging of credit facilities

The Bank applies the following in the categorization of credit facilities/ exposures into stages for computation of expected credit losses.

Stage 1	All accounts which have not shown any sign of deterioration since origination. All accounts which have been identified as Low Credit Risk (LCR) (under low credit risk expedient) shall be classified as Stage 1. The Bank computes ECLs based on the delinquency method where all facilities which are less than or equal to 30 days past due are considered under Stage 1. 12 months ECL shall be calculated for stage 1 facilities.
Stage 2	All accounts which have shown a significant deterioration in credit quality since origination. Lifetime losses are computed for all accounts classified as Stage 2. The Bank computes ECLs based on the delinquency method where all facilities which are more than 30 days past due upto 90 days past due are considered under Stage 2 and the qualitative factors that are being considered to classify as stage 2 are as follows; <ul style="list-style-type: none"> <li>- Loans that have been restructured once or twice (Subject to upgrading)</li> <li>- Existence of any other objective evidences other than mentioned for stage 3 classification</li> </ul>
Stage 3	All impaired assets (purchased impaired and originally credit impaired assets).  Lifetime losses are computed for all accounts classified as Stage 3. The Bank computes ECLs based on the delinquency method and the qualitative factors that are being considered to classify as stage 2 are as follows; <ul style="list-style-type: none"> <li>- Loans that have been restructured more than twice (subject to upgrading)</li> <li>- All rescheduled credit facilities, other than upgraded credit facilities</li> <li>- NPCF Facilities less than 90 DPD awaiting upgrading to PCF</li> <li>- Existence of any of the following objective evidence indicator, <ul style="list-style-type: none"> <li>• The auditors have qualified their audit opinion due to a going concern issue.</li> <li>• Liquidation has already been commenced or is about to commence.</li> </ul> </li> </ul>

It is the Bank's policy to consider a financial instrument as 'cured' and therefore reclassified out of a higher stage to a lower stage (e.g. from stage 3 to stage 2) other than normal movement of a contract based on the change of DPD on an exceptional basis:

- Credit facilities in Stage 3 other than restructured credit facilities in Stage 3 and rescheduled credit facilities are upgraded if due payments are fully settled by the customer
- Rescheduled and restructured contracts are upgraded only upon satisfactory performance during the relevant monitoring period where customer complies with the applicable terms of repayment

#### 57.3.3.4 Assessment of impairment allowances

Bank calculates ECLs either on a individual or collective basis.

For the loans and advances above a predetermined threshold, the Bank individually assesses for significant increase in credit risk.

Exposures that are assessed for individual impairment and for which an impairment provision has been recognised are not included in the collective assessment of impairment. If it is determined that no objective evidence of expected loss exists for an individually assessed exposure, or assessed for objective evidence and there is no requirement for individual impairment, whether significant or not, this is included in a group of exposures with similar credit risk characteristics that are collectively assessed for impairment under the relevant bucket.

A collective assessment is performed for exposures as follows:

- Exposures that have not been individually assessed i.e. falling below the individually significant threshold
- Exposures that have been assessed for Objective Evidence of incurred loss and indicators of increase in credit risk and were found to have no such evidence/ indicators
- Exposures that have been individually assessed and were found not to be impaired on an individual basis based on the cash flow estimation.”

The Bank groups these exposures into homogeneous portfolios to the extent possible so as to ensure that data points are available for meaningful calculations.

#### 57.3.3.5 Analysis of risk concentration

The Bank ensures stringent credit risk management practices to manage overall elements of credit risk exposures (such as individual obligor default risk, country and sector concentration risks, etc.). The Bank's concentration of risks are managed by business segment and industry sector.

### 57.3.3.5.1 Industry Analysis

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

As at 31 December 2023	Agriculture & fishing	Manufacturing	Tourism	Transport	Construction	Traders	New economy	Financial & business services	Government	Infrastructure	Other services	Other customers	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>													
Cash and cash equivalents	-	-	-	-	-	-	-	2,026,909	-	-	-	-	2,026,909
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-	-	432,805	-	-	-	432,805
Placements with Banks	-	-	-	-	-	-	-	-	-	-	-	-	-
Securities purchased under resale agreements	-	-	-	-	-	-	-	730,566	-	-	-	-	730,566
Derivative financial instruments	-	-	-	-	-	-	-	6	-	-	-	-	6
Financial assets measured at fair value through profit or loss	-	-	-	-	-	-	-	2,468,401	-	-	-	-	2,468,401
Financial assets at amortised cost - Loans and advances to other customers													
- Business Banking	4,641,725	800,316	1,593,295	154,226	1,970,661	3,241,724	183,422	4,996,216	-	-	625,754	73,803	18,281,142
- SME	1,560,948	1,001,804	1,737,227	192,918	1,152,514	5,711,394	164,059	2,351,169	-	18,333	1,145,511	282,870	15,318,747
- Retail Banking	160,861	35,960	-	47,476	3,465,353	255,173	4,416	93,078	-	-	21,011	7,019,507	11,102,835
- Agri	793,470	9,061	-	-	4,612	6,543	-	-	-	-	74	36,610	850,370
<b>Gross loans and receivables to other customers</b>	<b>7,157,004</b>	<b>1,847,141</b>	<b>3,330,522</b>	<b>394,620</b>	<b>6,593,140</b>	<b>9,214,834</b>	<b>351,897</b>	<b>7,440,463</b>	<b>-</b>	<b>18,333</b>	<b>1,792,350</b>	<b>7,412,790</b>	<b>45,553,094</b>
Financial assets at amortised cost - Debt and other financial instruments	-	-	-	-	-	-	-	2,066,274	-	-	-	-	2,066,274
Financial assets - measured at fair value through other comprehensive income	-	-	-	-	-	-	-	20,688	17,758,831	-	-	-	17,779,520
<b>Total</b>	<b>7,157,004</b>	<b>1,847,141</b>	<b>3,330,522</b>	<b>394,620</b>	<b>6,593,140</b>	<b>9,214,834</b>	<b>351,897</b>	<b>14,753,307</b>	<b>18,191,636</b>	<b>18,333</b>	<b>1,792,350</b>	<b>7,412,790</b>	<b>71,057,575</b>

## Notes to the Financial Statements

As at 31 December 2022	Agriculture & fishing	Manufacturing	Tourism	Transport	Construction	Traders	New economy	Financial & business services	Government	Infrastructure	Other services	Other customers	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>													
Cash and cash equivalents	-	-	-	-	-	-	-	1,260,340	-	-	-	-	1,260,340
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-	-	1,311,926	-	-	-	1,311,926
Placements with Banks	-	-	-	-	-	-	-	-	-	-	-	-	-
Securities purchased under resale agreements	-	-	-	-	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets measured at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets at amortised costs- Loans and Advances to other customers													
- Business Banking	2,959,380	719,755	1,871,840	131,089	1,717,161	2,859,015	315,796	3,987,836	-	-	485,153	167,136	15,214,161
- SME	868,689	1,502,486	1,760,089	243,969	938,204	3,986,318	78,412	716,572	-	24,648	1,394,478	282,822	11,796,687
- Retail Banking	125,635	17,773	-	48,013	3,828,075	248,497	-	81,266	-	-	47,524	8,155,793	12,552,576
- Agri	589,149	2,675	-	12,276	12,109	1,051	333	-	-	-	129	68,571	686,293
Net loans and receivables to other customers	4,542,853	2,242,689	3,631,929	435,347	6,495,549	7,094,881	394,541	4,785,674	-	24,648	1,927,284	8,674,322	40,249,717
Financial assets at amortised costs - Debt and other financial instruments	-	-	-	-	-	-	-	2,010,177	-	-	-	-	2,010,177
Financial assets - measured at fair value through other comprehensive income / Available for sale	-	-	-	-	-	-	-	18,016	10,235,480	-	-	-	10,253,496
	4,542,853	2,242,689	3,631,929	435,347	6,495,549	7,094,881	394,541	8,074,207	11,547,406	24,648	1,927,284	8,674,322	55,085,656

## Notes to the Financial Statements

### 57.3.3.5.2 Credit quality analysis

The following table sets out the information about the credit quality of financial assets measured at amortised cost, debt instruments measured at FVOCI and contingent liabilities and commitments.

#### On Balance Sheet

As at 31 December	2023					2022
	Carrying Amount	Subject to ECL	12-Month ECL (Stage 1)	Life-time ECL- Not Credit Impaired - (Stage 2)	Life-time ECL- Credit Impaired - (Stage 3)	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Cash and cash equivalents (balances with Banks) *</b>						
Balances with local banks	482,405	-	482,405	-	-	196,799
Balances with foreign banks	594,106	-	514,998	79,108	-	435,399
<b>Total balances with banks</b>	<b>1,076,511</b>	<b>-</b>	<b>997,403</b>	<b>79,108</b>	<b>-</b>	<b>632,198</b>
Expected credit loss allowance	(63,587)	-	(27,988)	(35,599)	-	(28,068)
<b>Net balances with banks</b>	<b>1,012,924</b>	<b>-</b>	<b>969,415</b>	<b>43,509</b>	<b>-</b>	<b>604,130</b>
<b>Balances with Central Bank of Sri Lanka*</b>	<b>432,805</b>	<b>432,805</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,311,926</b>
<b>Financial assets at amortised cost</b>						
- Loans and advances to other customers						
Grade 0 – 2 performing loans	36,797,485	-	27,806,354	8,991,131	-	34,167,990
Grade 3: NPCF special mention	3,043,473	-	-	-	3,043,473	739,143
Grade 4: NPCF substandard	143,035	-	-	-	143,035	178,439
Grade 5: NPCF doubtful	680,804	-	-	-	680,804	389,349
Grade 6: NPCF loss	4,888,297	-	-	-	4,888,297	4,774,796
<b>Total gross loans and advances</b>	<b>45,553,094</b>	<b>-</b>	<b>27,806,354</b>	<b>8,991,131</b>	<b>8,755,609</b>	<b>40,249,717</b>
Expected credit loss allowance/impairment	(4,993,656)	-	(188,024)	(709,734)	(4,095,898)	(4,289,637)
<b>Total net loans and advances</b>	<b>40,559,438</b>	<b>-</b>	<b>27,618,330</b>	<b>8,281,397</b>	<b>4,659,711</b>	<b>35,960,080</b>
<b>Financial assets at amortised costs</b>						
- Debt and other financial instruments**						
Investment in Debenture	156,011	-	156,011	-	-	160,353
Treasury bonds	1,910,262	1,910,262	-	-	-	1,849,824
<b>Total debt and other financial instruments</b>	<b>2,066,274</b>	<b>1,910,262</b>	<b>156,011</b>	<b>-</b>	<b>-</b>	<b>2,010,177</b>
Expected credit loss allowance/impairment	(16,155)	-	(16,155)	-	-	(13,227)
<b>Net debt and other financial instruments</b>	<b>2,050,119</b>	<b>1,910,262</b>	<b>139,856</b>	<b>-</b>	<b>-</b>	<b>1,996,950</b>
<b>Financial assets measured at fair value through other comprehensive income</b>						
Government securities**	17,758,832	17,758,832	-	-	-	10,235,480
Equity securities	20,688	20,688	-	-	-	18,016
<b>Total Financial assets measured at fair value through other comprehensive income</b>	<b>17,779,520</b>	<b>17,779,520</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,253,496</b>

## Notes to the Financial Statements

### Financial assets at amortised costs - Debt and other financial instruments\*\*

As at 31 December	2023					2022
	Carrying Amount	Subject to				
		Not Subject to ECL	12-Month ECL (Stage 1)	Life-time ECL- Not Credit Impaired - (Stage 2)	Life-time ECL- Credit Impaired - (Stage 3)	
Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	

#### Off Balance Sheet

#### Contingent liabilities and commitments

#### Gross contingent liabilities and commitments

##### (i) Contingent liabilities

Grade 0 – 2 performing loans	7,519,293	-	7,218,072	301,221	-	10,455,488
Grade 3: NPCF special mention	536,535	-	-	-	536,535	-
Grade 4: NPCF substandard	-	-	-	-	-	-
Grade 5: NPCF doubtful	-	-	-	-	-	-
Grade 6: NPCF loss	-	-	-	-	-	34,600
Gross carrying amount	8,055,828	-	7,218,072	301,221	536,535	10,490,088

##### (ii) Undrawn commitments

Grade 0 – 2 performing loans	8,665,615	45,727	8,508,599	111,289	-	11,865,733
Grade 3: NPCF special mention	35,137	-	-	-	35,137	20,456
Grade 4: NPCF substandard	3,750	-	-	-	3,750	7,851
Grade 5: NPCF doubtful	1,707	-	-	-	1,707	1,308
Grade 6: NPCF loss	9,984	-	-	-	9,984	21,475
Gross carrying amount	8,716,193	45,727	8,508,599	111,289	50,578	11,916,823
Total gross contingent liabilities and undrawn commitments	16,772,021	45,727	15,726,671	412,510	587,113	22,406,911
Expected credit loss allowance	(74,964)	-	(48,239)	(10,872)	(15,853)	(114,173)
Total net contingent liabilities and commitments	16,697,057	45,727	15,678,432	401,638	571,260	22,292,738

\* External risk gradings as at 31 December 2023 and 2022 were investment grading or above.

\*\* Subject to sovereign guarantees.

#### 57.3.3.5.3 Sensitivity analysis of impairment, provision on loans and advances to other customers

In the computation of impairment, the Bank formulates multiple economic scenarios to reflect base case, best case and worst case.

The scenario probability weightings applied in measuring ECL are as follows.

As at 31 December	2023			2022		
	Base	Best	Worse	Base	Best	Worse
Scenario probability weighting	15%	5%	80%	15%	5%	80%

The economic factor scenario weights were kept unchanged in 2023.

Economic factor scenario weightage was changed in 2022 for Base Case (decrease from 58% to 15%), Best Case (decrease from 14% to 5%) and Worst Case (increase from 28% to 80%), in response to the current adverse economic condition prevailed.

## Notes to the Financial Statements

The key drivers for credit risk are GDP growth, unemployment rates, inflation rates and interest rates.

The table below lists the macroeconomic assumptions used in the base, best and worse case scenarios over the five-year forecasted period. The assumptions represent the absolute percentages,

Year	GDP Growth	Inflation (YoY) (CCPI)	Interest Rate (RF)	Unemployment
Base case				
Average 5-year forecast				
2022	-11.80%	46.40%	29.27%	5.00%
2023	-3.6%	17.90%	12.93%	5.00%
Best Case				
Average 5-year forecast				
2022	-10.80%	45.40%	28.27%	4.00%
2023	-2.60%	16.90%	11.93%	4.00%
Worst Case				
Average 5-year forecast				
2022	-12.80%	47.40%	30.27%	6.00%
2023	-4.60%	18.90%	13.93%	6.00%

### 57.3.3.5.4 Sensitivity of ECL to future economic conditions

The table below shows the loss allowance on loans and advances to corporate and retail customers coming under collective impairment assuming that each forward-looking scenario (e.g. Best, Base and Worse) was weighted 100% instead of applying scenario probability weights across the three scenarios. For ease of comparison, the table also includes the probability-weighted amounts that are reflected in the financial statements. The amounts are inclusive of post-model adjustments, as appropriate to each scenario.

As at 31 December	2023				2022			
	Best	Base	Worse	Probability weighted	Best	Base	Worse	Probability weighted
Exposure (Rs. '000)								
Corporate	22,082,719	22,082,719	22,082,719	22,082,719	14,651,390	14,651,390	14,651,390	14,651,390
Retail	9,997,911	9,997,911	9,997,911	9,997,911	12,262,137	12,262,137	12,262,137	12,262,137
Loss Allowance (Rs. '000)								
Corporate	250,741	297,177	349,992	337,077	369,655	394,393	421,409	414,723
Retail	495,223	519,868	546,024	539,675	740,987	763,837	785,751	780,462
Loss Allowance as % of Exposure								
Corporate	1%	1%	2%	2%	3%	3%	3%	3%
Retail	5%	5%	5%	5%	6%	6%	6%	6%

## Notes to the Financial Statements

### 57.3.4 Collaterals held and other credit enhancement and their valuation

The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. The main types of collateral obtained are as follows:

- Reverse repurchase transactions, cash or securities
- For corporate and small business lending, cash, charges over real estate properties, inventory and trade receivables and, in special circumstances, government guarantees
- For retail lending, cash, mortgages over residential properties

The management monitors the market value of collateral and will request additional collateral if the market values are not sufficient in accordance with the underlying agreement. The Bank's Collateral Policy is covered in the Bank's Credit Policy Manual and is reviewed annually. There have been no significant changes to the collateral policy.

The tables below demonstrates the maximum exposure to credit risk by class of financial assets, the total fair value of collateral, any surplus collateral (the extent to which the fair value of collateral held is greater than the exposure to which it relates), and the net exposure to credit risk.

As at 31 December Rs. '000	2023				2022			
	Total maximum exposure to credit risk	Value of collateral	Stage 3 - maximum exposure to credit risk	Stage 3 - Value of collateral	Total maximum exposure to credit risk	Value of collateral	Stage 3 - maximum exposure to credit risk	Stage 3 - Value of collateral
Financial Assets								
Cash and cash equivalent	2,026,909	-	-	-	1,260,340	-	-	-
Securities purchased under resale agreements	730,566	-	-	-	-	-	-	-
Derivative financial instruments	6	-	-	-	-	-	-	-
Financial assets measured at fair value through profit or loss	2,468,401							
Financial assets at amortised cost								
Loans and advances	45,553,094	18,757,095	8,755,609	3,781,197	40,249,717	20,542,507	6,081,727	2,614,473
Debt and other financial instruments	2,050,119	-	-	-	1,996,950	-	-	-
Financial assets - fair value through other comprehensive income	17,779,520	-	-	-	10,253,496	-	-	-
Other assets	2,721,878	-	-	-	1,232,034	-	-	-
	73,330,493	18,757,095	8,755,609	3,781,197	54,992,537	20,542,507	6,081,727	2,614,473

Approximately 21% and 6% of the total loans and advances of the Bank are secured against immovable properties and cash/deposits held within the Bank respectively. Further, 15% of the loans and advances are secured against other securities including movable properties, gold, stocks, etc. Approximately 30% of stage 3 loans and advances of the Bank are secured against immovable properties, cash/deposits held within the Bank.

Extend to which the loans and advances were covered by cash/deposits held within the Bank, no loss allowance has been recognised in the Financial Statements. Value of the cash collateral held as at 31 December 2023 was stood at Rs. 2,519 Mn. (2022 Rs. 3,468 Mn.)

The Bank held cash and cash equivalents of Rs. 2,027 Mn as at 31 December 2023 (2022 - Rs. 1,260 Mn), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with banks, which are rated AAA to CCC/C by external rating agencies.

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The table below sets out the carrying amount and the value of identifiable collateral (mainly residential and commercial properties) held against loans and advances to customers at amortised cost, other than reverse sale and repurchase agreements. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

As at 31 December Rs' 000	2023		2022	
	Carrying amount	Collateral value	Carrying amount	Collateral value
Stage 1	27,806,354	10,307,126	22,138,056	10,187,645
Stage 2	8,991,131	4,668,772	12,029,934	7,740,389
Stage 3	8,755,609	3,781,197	6,081,727	2,614,472
	45,553,094	18,757,095	40,249,717	20,542,506

### Collateral Repossessed

The Bank's policy is to dispose collaterals repossessed at the earliest possible opportunity and any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded in the Statement of Financial Position and not treated as non-current assets held for sale.

The Bank holds collateral and other credit enhancements against its credit exposures. The following table sets out the principal types of collateral held and their approximate collateral percentages against different types of financial assets.

Type of credit exposure	Principal type of collateral held for secured lending	Percentage of exposure that is subject to collateral requirements	
		2023	2022
<b>Loans and advances to retail customers</b>			
Mortgage lending	Residential property	100%	100%
Credit cards	None/Limited cash deposits	-	-
Personal loans	None/Guarantors	-	-
<b>Loans and advances to corporate customers</b>			
Corporate loans	Commercial property, Floating charges over other loans and advances	41%*	54%*

\*Based on the exposure covered with collateral.

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

## Notes to the Financial Statements

### 57.4 Market Risk

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

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

The market risk could be further sub-divided into trading and non-trading risks.

#### 57.4.1 Exposure to market risk - trading and non-trading portfolios

The table below sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios:

As at 31 December	Note	2023			2022		
		Carrying Amount	Market Risk Measurement		Carrying Amount	Market Risk Measurement	
			Trading Portfolios	Non-Trading Portfolios		Trading Portfolios	Non-Trading Portfolios
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Assets subject to market risk</b>							
Placements with banks	25	-	-	-	-	-	-
Derivative financial instruments	26	6	6	-	-	-	-
Financial assets measured at fair value through profit or loss	27	2,468,401	2,468,401	-	-	-	-
Financial assets at amortised cost - Loans and advances to other customers	28	40,559,438	-	40,559,438	35,960,080	-	35,960,080
Financial assets at amortised cost - Debt and other financial instruments	29	2,050,119	-	2,050,119	1,996,950	-	1,996,950
Financial assets measured at fair value through other comprehensive income	30	17,779,520	-	17,779,520	10,253,496	-	10,253,496
		62,857,484	2,468,407	60,389,077	48,210,526	-	48,210,526
<b>Liabilities subject to market risk</b>							
Due to banks	36	717,667	-	717,667	514,193	-	514,193
Derivative financial instruments	37	27	27	-	30	30	-
Financial liabilities at amortised cost - Due to depositors	38	50,728,853	-	50,728,853	37,802,680	-	37,802,680
Financial liabilities at amortised cost - Other borrowings	39	3,669,925	-	3,669,925	3,688,924	-	3,688,924
		55,116,472	27	55,116,445	42,005,827	30	42,005,797

## Notes to the Financial Statements

### 57.4.2. Exposure to interest rate risk - sensitivity analysis

#### (a) Exposure to interest rate risk - Non trading portfolio

The possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments gives rise to interest rate risk. The Bank's policy is to continuously monitor portfolios and adopt hedging strategies to ensure that interest rate risk is managed within prudent levels.

The following is a summary of the Bank's interest rate gap position on non-trading portfolios. The interest rate repricing gap table analyses the full-term structure of interest rate mismatches within the Bank's balance sheet based on either (i) the next repricing date or the maturity date if floating rate or (ii) the maturity date if fixed rate.

As at 31 December 2023	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Non-Sensitive Rs. '000	Total as at 31.12.2023 Rs. '000
<b>Financial Assets</b>							
Cash and cash equivalents	-	-	-	-	-	1,963,322	1,963,322
Balance with Central Bank of Sri Lanka	-	-	-	-	-	432,805	432,805
Reverse repo agreements	730,566	-	-	-	-	-	730,566
Derivative financial instruments	6	-	-	-	-	-	6
Financial assets measured at fair value through profit or loss	2,468,401	-	-	-	-	-	2,468,401
Financial assets at amortised cost - Loans and advances to Banks	-	-	-	-	-	-	-
Financial assets at amortised cost - Loans and advances to other customers	22,741,852	11,365,480	2,308,969	1,967,521	1,818,963	356,653	40,559,438
Financial assets at Amortized costs - Debt and other Instruments	6,011	-	-	133,845	1,910,263	-	2,050,119
Financial assets - measured at fair value through other comprehensive income	3,070,610	4,424,076	6,272,601	3,640,172	351,372	20,688	17,779,519
Other assets	-	-	-	-	-	2,721,878	2,721,878
<b>Total Financial Assets</b>	<b>29,017,446</b>	<b>15,789,556</b>	<b>8,581,570</b>	<b>5,741,538</b>	<b>4,080,598</b>	<b>5,495,346</b>	<b>68,706,054</b>
<b>Financial Liabilities</b>							
Due to banks	200,530	62,156	106,911	50,628	-	297,442	717,667
Derivative financial instruments	27	-	-	-	-	-	27
Financial liabilities at amortised cost - Due to depositors	20,559,448	10,525,313	627,646	137,078	4,593,081	14,286,286	50,728,853
Financial liabilities at amortised cost - Due to other borrowers	2,169,925	-	-	-	1,500,000	-	3,669,925
Retirement benefit obligations	-	108,605	-	-	-	-	108,605
Lease liability	-	-	-	-	-	335,781	335,781
Other liabilities	-	-	-	-	-	2,232,654	2,232,654
<b>Total Financial Liabilities</b>	<b>22,929,930</b>	<b>10,696,075</b>	<b>734,557</b>	<b>187,706</b>	<b>6,093,081</b>	<b>17,152,163</b>	<b>57,793,512</b>
<b>Interest rate sensitivity gap</b>	<b>6,087,516</b>	<b>5,093,481</b>	<b>7,847,012</b>	<b>5,553,832</b>	<b>(2,012,483)</b>	<b>(11,656,815)</b>	<b>10,912,543</b>
1% increase	60,875	50,935	78,470	55,538	(20,125)	-	225,694
1% decrease	(60,875)	(50,935)	(78,470)	(55,538)	20,125	-	(225,694)

## Notes to the Financial Statements

As at 31 December 2022	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Non-Sensitive Rs. '000	Total as at 31.12.2022 Rs. '000
<b>Financial Assets</b>							
Cash and cash equivalents	-	-	-	-	-	1,232,272	1,232,272
Balance with Central Bank of Sri Lanka	-	-	-	-	-	1,311,926	1,311,926
Derivative financial instruments	-	-	-	-	-	-	-
Financial assets measured at fair value through profit or loss	-	-	-	-	-	-	-
Financial assets at amortised cost - Loans and advances to other customers	22,499,972	3,305,106	3,715,988	2,907,542	1,953,526	1,577,946	35,960,080
Financial assets at amortised cost - Debt and other financial instruments	10,353	-	269,883	379,048	1,337,666	-	1,996,950
Financial assets measured at fair value through other comprehensive income	1,740,033	5,278,894	1,806,923	971,751	437,879	18,016	10,253,496
Other assets	-	-	-	-	-	1,232,034	1,232,034
<b>Total Financial Assets</b>	<b>24,250,358</b>	<b>8,584,000</b>	<b>5,792,794</b>	<b>4,258,341</b>	<b>3,729,071</b>	<b>5,372,194</b>	<b>51,986,758</b>
<b>Financial Liabilities</b>							
Due to banks	1,325	49,676	96,075	86,489	-	280,628	514,193
Derivative financial instruments	30	-	-	-	-	-	30
Financial liabilities at amortised cost - Due to depositors	17,245,723	10,525,313	627,646	137,078	4,593,081	4,673,839	37,802,680
Financial liabilities at amortised cost - Other borrowings	2,188,924	-	-	-	1,500,000	-	3,688,924
Retirement benefit obligations	-	96,806	-	-	-	-	96,806
Lease liability	-	-	-	-	-	340,542	340,542
Other liabilities	-	-	-	-	-	1,589,329	1,589,329
<b>Total Financial Liabilities</b>	<b>19,436,002</b>	<b>10,671,795</b>	<b>723,722</b>	<b>223,567</b>	<b>6,093,081</b>	<b>6,884,338</b>	<b>44,032,504</b>
<b>Interest rate sensitivity gap</b>	<b>4,814,356</b>	<b>(2,087,795)</b>	<b>5,069,073</b>	<b>4,034,774</b>	<b>(2,364,010)</b>	<b>(1,512,144)</b>	<b>7,954,254</b>
1% increase	48,144	(20,878)	50,691	40,348	(23,640)	-	94,664
1% decrease	(48,144)	20,878	(50,691)	(40,348)	23,640	-	(94,664)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and financial liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered include a 100bp parallel fall or rise in all yield curves across the board. The above table contains the Bank's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position.

## Notes to the Financial Statements

### 57.4.2 (b) Exposure to interest rate risk

As at 31 December	2023 Rs. '000	2022 Rs. '000
Savings deposits	9,259,694	5,945,969
Time deposits	38,490,886	29,613,127
Certificate of deposits	66,237	172,541
<b>Total</b>	<b>47,816,817</b>	<b>35,731,637</b>

As at the reporting date, there were no significant foreign currency exposures in the non-trading book, other than following foreign currency exposure as set out in the table below. The below table further contains the Bank's sensitivity to 5% depreciation or appreciation in foreign currencies in the forex market, assuming no asymmetrical movement in other variables and a constant financial position.

### 57.4.3 Exposure to currency risk

As at 31 December	Sensitivity		2023	2022	
	5% increase	5% decrease	Amount Rs. '000	Amount Rs. '000	
Foreign exchange position - USD	USD	7,562	(7,562)	151,233	1,153,522
Foreign exchange position - AUD	AUD	1,266	(1,266)	25,324	3,449
Foreign exchange position - AED	AED	38	(38)	754	243
Foreign exchange position - EUR	EUR	426	(426)	8,529	15,422
Foreign exchange position - SGD	SGD	7,746	(7,746)	154,919	129,315
Foreign exchange position - GBP	GBP	621	(621)	12,429	35,483
Foreign exchange position - JPY	JPY	14,829	(14,829)	296,586	585,390
Foreign exchange position - CAD	CAD	0	(0)	1	1
Foreign exchange position - SEK	SEK	11	(11)	225	167
Foreign exchange position - DKK	DKK	5	(5)	105	-
Foreign exchange position - CNY	CNY	94	(94)	1,873	16,987
Foreign exchange position - MYR	MYR	-	-	-	642
Foreign exchange position - INR	INR	10,339	(10,339)	206,785	6,000
Foreign exchange position - TRY	TRY	-	-	-	1,596

## Notes to the Financial Statements

### 57.5 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 audits and an external audit conducted by Messrs. 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.

### 57.6 Liquidity Risk and Fund Management

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk stems from mismatched cash flows related to assets and liabilities as well as the behavioral characteristics of certain products, such as savings and current accounts and non-fixed term deposits.

The Bank understands the importance of a vigorous liquidity risk management policy and constantly monitors the liquidity position of the Bank in line with the regulatory guidelines.

#### 57.6.1 Exposure to liquidity risk

As per the regulations by the Bank Supervision Department of Central Bank of Sri Lanka, the Bank is required to maintain minimum liquid assets, not less than 20%. Statutory Liquid Assets Ratio (SLAR) calculates the percentage of liquid assets to total liabilities excluding shareholders' funds. For this purpose, 'liquid assets' include cash and cash equivalents, Placements with banks and Government Securities (net). Details of the reported ratio of liquid assets to external liabilities as at the reporting date are as follows:

	2023	2022
	%	%
Statutory Liquid Asset Ratio - Domestic Banking Unit	39.45	26.70
Average for the period - Domestic Banking Unit	34.45	22.95
Statutory Liquid Asset Ratio - Consolidated *	39.82	27.00
Statutory minimum requirement	20.00	20.00

\* According to the Banking Act Directions No. 08 of 2022, issued on regulatory requirements on Liquidity Ratio dated 18 November 2022, the Bank is required to maintain liquid assets of an amount not less than 20% of total adjusted liabilities, on a consolidated basis for the overall Bank.

#### Composition of Liquid Assets - Domestic Banking Unit

As at 31 December	2023	2022
	Rs. '000	Rs. '000
Cash	994,539	644,668
Money at call in Sri Lanka	16,129	-
Treasury bills and securities issued or guaranteed by the government of Sri Lanka	8,012,055	5,917,932
Goods receipts/ Liquid assets permitted under extraordinary policy measures due to Covid-19	-	-
Balances with licensed commercial banks	228,164	202,408
Balances with banks abroad	694,891	638,713
Treasury bonds	9,585,647	3,865,752
Sri Lanka development bonds	-	-
<b>Total</b>	<b>19,531,425</b>	<b>11,269,473</b>

## Notes to the Financial Statements

### 57.6.2 Analysis of financial assets and liabilities by remaining contractual maturities

The tables below summarise the maturity profile of the discounted cash flows of the Bank's financial assets and liabilities as at 31 December 2023 and 2022.

2023	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-23 Rs. '000
<b>Interest Earning Assets</b>						
Derivative financial instruments	6	-	-	-	-	6
Reverse repo agreements	730,566	-	-	-	-	730,566
Financial assets measured at fair value through profit or loss	2,468,401	-	-	-	-	2,468,401
Financial assets at amortised cost - Loans and advances to other customers	15,315,131	6,235,575	9,156,333	5,096,812	4,755,587	40,559,438
Financial assets at amortised cost - Debt and other Instruments	6,011	-	-	133,845	1,910,263	2,050,119
Financial assets measured at fair value through other comprehensive income	3,070,610	4,424,076	6,272,601	3,640,172	351,372	17,758,831
<b>Total Interest Earning Assets</b>	<b>21,590,725</b>	<b>10,659,651</b>	<b>15,428,934</b>	<b>8,870,829</b>	<b>7,017,222</b>	<b>63,567,361</b>
<b>Non-Interest Earning Assets</b>						
Total non-interest earning assets	4,880,381	130,449	41,809	322,850	793,445	6,168,934
<b>Total Assets</b>	<b>26,471,106</b>	<b>10,790,100</b>	<b>15,470,743</b>	<b>9,193,679</b>	<b>7,810,667</b>	<b>69,736,295</b>
<b>Interest Bearing Liabilities</b>						
Due to banks	497,972	62,156	106,911	50,628	-	717,667
Derivative financial instruments	27	-	-	-	-	27
Financial liabilities at amortised cost - Due to depositors	22,876,986	15,289,840	4,900,431	4,618,663	3,042,933	50,728,853
Financial liabilities at amortised cost - Due to other borrowers	2,169,925	-	-	-	1,500,000	3,669,925
<b>Total interest Bearing Liabilities</b>	<b>25,544,910</b>	<b>15,351,996</b>	<b>5,007,342</b>	<b>4,669,291</b>	<b>4,542,933</b>	<b>55,116,472</b>
<b>Non-Interest Bearing Liabilities</b>						
Total non-interest bearing liabilities	2,269,636	34,875	143,251	58,134	12,113,927	14,619,823
<b>Total Liabilities and Equity</b>	<b>27,814,546</b>	<b>15,386,871</b>	<b>5,150,593</b>	<b>4,727,425</b>	<b>16,656,860</b>	<b>69,736,295</b>

## Notes to the Financial Statements

2022	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-22 Rs. '000
<b>Interest Earning Assets</b>						
Derivative financial instruments	-	-	-	-	-	-
Financial assets measured at fair value through profit or loss	-	-	-	-	-	-
Financial assets at amortised cost						
- Loans and advances to other customers	11,344,085	7,051,615	4,172,929	8,806,797	4,584,654	35,960,080
Financial assets at amortised cost - Debt and other financial instruments	10,353	-	269,883	379,048	1,337,666	1,996,950
Financial assets - measured at fair value through other comprehensive income	1,740,033	5,278,894	1,806,923	971,751	437,879	10,235,480
<b>Total Interest Earning Assets</b>	<b>13,094,471</b>	<b>12,330,509</b>	<b>6,249,735</b>	<b>10,157,596</b>	<b>6,360,199</b>	<b>48,192,510</b>
<b>Non-Interest Earning Assets</b>						
Non-interest earning assets	2,984,908	459,497	149,757	447,665	1,518,472	5,560,299
<b>Total Assets</b>	<b>16,079,379</b>	<b>12,790,006</b>	<b>6,399,492</b>	<b>10,605,261</b>	<b>7,878,671</b>	<b>53,752,809</b>
<b>Interest Bearing Liabilities</b>						
Due to banks	281,953	49,676	96,075	86,489	-	514,193
Derivative financial instruments	30	-	-	-	-	30
Financial liabilities at amortised cost - Due to depositors	15,000,940	13,240,241	4,315,183	3,242,063	2,004,253	37,802,680
Financial liabilities at amortised cost - Other borrowings	2,188,924	-	-	-	1,500,000	3,688,924
<b>Total Interest Bearing Liabilities</b>	<b>17,471,847</b>	<b>13,289,917</b>	<b>4,411,258</b>	<b>3,328,552</b>	<b>3,504,253</b>	<b>42,005,827</b>
<b>Non-Interest Bearing Liabilities</b>						
Non-interest bearing liabilities	1,625,450	56,033	99,962	48,910	9,916,627	11,746,982
<b>Total Liabilities</b>	<b>19,097,297</b>	<b>13,345,950</b>	<b>4,511,220</b>	<b>3,377,462</b>	<b>13,420,880</b>	<b>53,752,809</b>

The Bank's policy is to monitor portfolios and adopt appropriate hedging strategies to ensure that liquidity risk is maintained within prudent levels. Liquidity risk is mainly monitored through a stock approach and a flow approach. Under the stock approach liquidity is measured in terms of key ratios showing the liquidity stored on the Balance Sheet. Under the flow approach the Bank monitors contractual and behavioral liquidity mismatches through static and dynamic maturity analyses. Less than 1-year buckets include a sizable proportion of saving balances which may not be withdrawn within a short period of time based on its behavioral pattern.

## Notes to the Financial Statements

### 57.6.3 Undiscounted cash flow of financial assets and financial liabilities

The following tables show the expected undiscounted cash flows for financial assets and financial liabilities at 31 December 2023 and 2022.

2023	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-23 Rs. '000
<b>Financial Assets</b>						
Cash and cash equivalents	1,963,321	-	-	-	-	1,963,321
Balances with Central Bank of Sri Lanka	195,180	130,449	41,809	39,405	25,962	432,805
Securities purchased under resale agreements	754,041	-	-	-	-	754,041
Derivative financial instruments	6	-	-	-	-	6
Financial assets measured at fair value through profit or loss	2,468,401	-	-	-	-	2,468,401
Financial assets at amortised cost - Loans and advances to other customers	14,774,298	8,438,770	15,589,635	5,312,788	10,238,402	54,353,893
Financial assets at amortised cost - Debt and other financial instruments	153,843	200,448	954,581	1,928,420	180,000	3,417,292
Financial assets - at fair value through other comprehensive income	3,263,295	5,044,483	3,058,844	4,321,952	314,207	16,002,781
<b>Financial Liabilities</b>						
Due to banks	342,931	113,137	56,616	232,124	-	744,808
Derivative financial instruments	27	-	-	-	-	27
Financial liabilities at amortised cost - Due to depositors	33,338,278	13,824,270	3,376,177	4,086,682	-	54,625,407
Financial liabilities at amortised cost - Other borrowings	2,131	-	-	-	1,500,000	1,502,131
Lease liability	38,761	39,710	202,510	82,183	88,410	451,574

## Notes to the Financial Statements

2022	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-22 Rs. '000
<b>Financial Assets</b>						
Cash and cash equivalents	1,232,272	-	-	-	-	1,232,272
Balances with Central Bank of Sri Lanka	520,601	459,497	149,757	112,514	69,557	1,311,926
Securities purchased under resale agreements	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-
Financial assets measured at fair value through profit or loss	-	-	-	-	-	-
Financial assets at amortised cost - Loans and Advances to other customers	15,160,038	11,027,557	13,331,684	8,720,367	8,648,537	56,888,183
Financial assets at amortised cost - Debt and other financial instruments	153,729	200,334	1,008,125	865,712	1,563,157	3,791,057
Financial assets - at fair value through other comprehensive income	7,795,487	675,009	3,233,137	1,515,950	639,075	13,858,658
<b>Financial Liabilities</b>						
Due to banks	328,690	99,386	103,867	251,314	-	783,257
Derivative financial instruments	30	-	-	-	-	30
Financial liabilities at amortised cost - Due to depositors	21,924,519	13,008,159	4,133,754	3,317,992	-	42,384,424
Financial liabilities at amortised cost - Other borrowings	2,597,438	-	-	-	1,500,000	4,097,438
Lease liability	37,368	62,043	131,168	64,179	130,584	425,342

### 57.7 Capital Management

#### 57.7.1 Objective

The Bank is required to manage its capital taking into account the need to meet the regulatory requirements as well as the current and future business needs, stakeholder expectations and available options for raising capital.

## Notes to the Financial Statements

### 57.7.2 Regulatory capital

Capital Adequacy Ratio (CAR) is calculated based on the CBSL Directions stemming from Basel III Accord. These guidelines require the Bank to maintain a Capital Adequacy Ratio (CAR) of not less than 7% with Common Equity Tier I capital (CET I) in relation to total risk-weighted assets and a minimum overall CAR of 12.50% inclusive of Tier I and Tier II in relation to total risk-weighted assets.

As at 31 December	2023 Rs. '000	2022 Rs. '000
<b>Common Equity Tier 1 (CET 1) Capital</b>		
Paid-up ordinary shares/Common stock/Assigned capital	11,894,421	11,394,421
Statutory reserve fund	78,775	56,774
Published retained profits/(accumulated losses)	(1,176,968)	(1,598,139)
General and other reserves	682,027	(140,724)
	<b>11,478,255</b>	<b>9,712,332</b>
<b>Deductions/Adjustments</b>		
Net deferred tax assets	(284,090)	(955,721)
Other intangible assets	(283,445)	(335,150)
Advances granted to employees of the Bank for the purchase of shares of the Bank (ESOP)	-	-
50% of Investments in unconsolidated banking and financial subsidiary companies	-	-
50% Investments in the capital of other banks and financial institutions	-	-
Qualifying Additional Tier 1 Capital Instruments	1,500,000	1,500,000
<b>Total Tier 1 Capital</b>	<b>12,410,720</b>	<b>9,921,461</b>
<b>Tier II Capital</b>		
Revaluation reserves (as approved by Central Bank of Sri Lanka)	-	-
General provisions	283,221	236,382
Approved subordinated term debt	-	-
<b>Deductions/Adjustments</b>		
50% of investments in unconsolidated banking and financial subsidiary companies	-	-
50% investments in the capital of other banks and financial institutions	-	-
<b>Total Tier II Capital</b>	<b>283,221</b>	<b>236,382</b>
<b>Total Capital</b>	<b>12,693,941</b>	<b>10,157,843</b>
<b>Capital adequacy ratios</b>		
Common Equity Tier 1 Capital Ratio (%)	19.89	18.95
Tier 1 Capital Ratio (%)	22.63	22.32
Total Capital Ratio (%)	23.15	22.85

#### 57.7.2.1 Minimum capital requirement

As per this directive, issued by the CBSL regarding the enhancement of minimum capital requirements for banks, locally incorporated licensed commercial banks are mandated to maintain a minimum capital of LKR 20 Bn. The Monetary Board has granted an extension to Cargills Bank until 31 December 2025 to meet the minimum capital requirement stipulated by the CBSL. The Bank should maintain Total Tier 1 Capital Ratio 250 basis points above the minimum applicable until it complies with the regulatory minimum capital requirement of LKR 20 Billion by end 2025.

In order to meet the said requirement, the Bank in December 2021 issued 15 Mn Basel III Additional Tier 1 Compliant Unlisted Unsecured Subordinated Perpetual Convertible Debentures at the par value of Rs. 100.00 totaling to Rs. 1.5 Bn with a conversion at the option of the debenture holder and non-viability conversion upon the occurrence of a trigger event.

The Bank raised a further sum of Sri Lanka Rupees Five Hundred Million (LKR 500,000,000/-) via an initial public offering of Sixty-Two Million Five Hundred Thousand (62,500,000) new Ordinary Voting Shares in the month of December 2023.

## Basel III - Pillar III Market Disclosures

Disclosures under Pillar III as per the Banking Act Direction No. 01 of 2016 mainly include the regulatory capital requirements and liquidity, risk weighted assets, discussion on adequacy to meet current and future capital requirements of banks and linkages between financial statements and regulatory exposures. It is required to disclose the templates specified by the Central Bank of Sri Lanka as per Basel III – Minimum disclosure requirements with effective from July 1, 2017.

### TEMPLATE 01

#### Key Regulatory Ratios – Capital and Liquidity

Item	2023	2022
<b>Regulatory Capital (Rs. '000)</b>		
Common Equity Tier 1	10,910,720	8,421,461
Total Tier 1 Capital	12,410,720	9,921,461
Total Capital	12,693,941	10,157,843
<b>Regulatory Capital Ratios (%)*</b>		
Common Equity Tier 1 Capital Ratio (Minimum Requirement – 2023: 7 & 2022: 7)	19.89	18.95
Total Tier 1 Capital Ratio (Minimum Requirement – 2023: 8.5 & 2022: 8.5)	22.63	22.32
Total Capital Ratio (Minimum Requirement – 2023: 12.5 & 2022: 12.5)	23.15	22.85
Leverage Ratio (Minimum Requirement - 2023: 3 & 2022: 3)	14.67	14.45
<b>Regulatory Liquidity</b>		
Statutory Liquid Assets (Rs. '000)	19,717,993	11,061,874
<b>Statutory Liquid Ratio (Minimum Requirement – 20%)</b>		
Domestic Banking Unit (%)	39.45	26.70
Off-Shore Banking Unit (%)	90.65	90.79
Statutory Liquid Assets Ratio - Bank (%)	39.82	27.00
Liquidity Coverage Ratio (%) – Rupee (Minimum Requirement – 2023: 100 & 2022: 90)	360	176
Liquidity Coverage Ratio (%) – All Currency (Minimum Requirement – 2023: 100 & 2022: 90)	289	141
Net Stable Funding Ratio (Minimum Requirement: 2023: 100 & 2022: 90)	123	127

\* The Bank should maintain Total Tier 1 Capital Ratio 250 basis points above the minimum applicable until it complies with the regulatory minimum capital requirement of LKR 20 Bn. by end 2025.

## Basel III - Pillar III Market Disclosures

### TEMPLATE 02

#### Basel III Computation of Capital Ratios

Item	2023	2022
	Rs. '000	Rs. '000
Common Equity Tier 1 (CET1) Capital after Adjustment	10,910,720	8,421,461
Common Equity Tier 1 (CET1) Capital	11,478,255	9,712,332
Equity Capital (Stated Capital)/Assigned Capital	11,894,421	11,394,421
Reserve Fund	78,775	56,774
Published Retained Earnings/(Accumulated Retained Losses)	(1,176,968)	(1,598,139)
Published Accumulated Other Comprehensive Income (OCI)	682,027	(140,724)
General and other Disclosed Reserves	-	-
Unpublished Current Year's Profit/Loss and Gains reflected in OCI	-	-
Ordinary Shares issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
<b>Total Adjustments to CET1 Capital</b>	<b>567,535</b>	<b>1,290,871</b>
Goodwill (net)	-	-
Intangible Assets (net)	283,445	335,150
Others (specify) – Deferred tax asset	284,090	955,721
<b>Additional Tier 1 (AT1) Capital after Adjustments</b>	<b>1,500,000</b>	<b>1,500,000</b>
<b>Additional Tier 1 (AT1) Capital</b>	<b>1,500,000</b>	<b>1,500,000</b>
Qualifying Additional Tier 1 Capital Instruments	1,500,000	1,500,000
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
<b>Total Adjustments to AT1 Capital</b>	<b>-</b>	<b>-</b>
Investment in Own Shares	-	-
Others (Specify)	-	-
<b>Tier 2 Capital after Adjustments</b>	<b>283,221</b>	<b>236,382</b>
<b>Tier 2 Capital</b>	<b>283,221</b>	<b>236,382</b>
Qualifying Tier 2 Capital Instruments	-	-
Revaluation Gains	-	-
Loan Loss Provisions	283,221	236,382
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
<b>Total Adjustments to Tier 2</b>	<b>-</b>	<b>-</b>
Investment in Own Shares	-	-
Others (Specify)	-	-
<b>CET1 Capital</b>	<b>11,478,255</b>	<b>9,712,332</b>
<b>Total Tier 1 Capital</b>	<b>12,410,720</b>	<b>9,921,461</b>
<b>Total Capital</b>	<b>12,693,941</b>	<b>10,157,843</b>

## Basel III - Pillar III Market Disclosures

### TEMPLATE 02 - Contd.

	2023 Rs. '000	2022 Rs. '000
<b>Total Risk Weighted Assets (RWA)</b>		
RWAs for Credit Risk	47,226,113	39,898,474
RWAs for Market Risk	2,972,977	1,097,152
RWAs for Operational Risk	4,645,715	3,451,568
<b>CET1 Capital Ratio (Including Capital Conservation Buffer, Countercyclical Capital Buffer &amp; Surcharge on D-SIBs) (%)</b>	<b>19.89</b>	<b>18.95</b>
Of which: Capital Conservation Buffer (%)	2.50	2.50
Of which: Countercyclical Buffer (%)	-	-
Of which: Capital Surcharge on D-SIBs (%)	-	-
<b>Total Tier 1 Capital Ratio</b>	<b>22.63</b>	<b>22.32</b>
<b>Total Capital Ratio (Including Capital Conservation Buffer, Countercyclical Capital Buffer &amp; Surcharge on D-SIBs) (%)</b>	<b>23.15</b>	<b>22.85</b>
Of which: Capital Conservation Buffer (%)	2.50	2.50
Of which: Countercyclical Buffer (%)	-	-
Of which: Capital Surcharge on D-SIBs (%)	-	-

### TEMPLATE 03

#### Computation of Leverage Ratio

Item	2023 Rs. '000	2022 Rs. '000
<b>Tier 1 Capital</b>	<b>10,910,720</b>	<b>8,421,461</b>
<b>Total Exposures</b>	<b>74,380,070</b>	<b>58,299,707</b>
On-Balance Sheet Items (Excluding Derivatives and Securities Financing Transactions, but including Collateral)	69,168,754	52,461,938
Derivative Exposure	-	-
Securities Financing Transaction Exposure	-	-
Other Off-Balance Sheet Exposure	5,211,317	5,837,769
<b>Basel III Leverage Ratio (%) (Tier 1/ Total Exposure)</b>	<b>14.67</b>	<b>14.45</b>

## Basel III - Pillar III Market Disclosures

### TEMPLATE 04

#### 4.1 Basel III Computation of Liquidity Coverage Ratio (Rupee)

Item	2023		2022	
	Rs. '000		Rs. '000	
	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
Total Stock of High Quality Liquid Assets (HQLA)	19,139,573	19,139,573	9,087,222	9,087,222
Total Adjusted Level 1 Assets	19,025,831	19,025,831	9,476,069	9,476,069
Level 1 Assets	19,139,573	19,139,573	9,087,222	9,087,222
Total Adjusted Level 2A Assets	-	-	-	-
Level 2 Assets	-	-	-	-
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	60,295,311	12,976,806	51,013,930	8,753,424
Deposits	32,702,620	3,270,262	23,278,572	2,327,857
Unsecured Wholesale Funding	12,709,369	9,131,745	8,184,504	5,512,613
Secured Funding Transactions	-	-	-	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	14,883,323	574,798	19,550,854	912,954
Additional Requirements	-	-	-	-
<b>Total Cash Inflows</b>	<b>11,730,268</b>	<b>7,652,825</b>	<b>6,024,892</b>	<b>3,596,080</b>
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	11,730,268	7,652,825	6,024,892	3,596,080
Operational Deposits	-	-	-	-
Other Cash Inflows	-	-	-	-
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days) * 100		360		176

## Basel III - Pillar III Market Disclosures

### TEMPLATE 04 - Contd.

#### 4.2 Basel III Computation of Liquidity Coverage Ratio (All Currency)

Item	2023		2022	
	Rs. '000		Rs. '000	
	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
Total Stock of High Quality Liquid Assets (HQLA)	19,149,507	19,149,507	9,108,873	9,108,873
Total Adjusted Level 1 Assets	19,035,765	19,035,765	9,497,720	9,497,720
Level 1 Assets	19,149,507	19,149,507	9,108,873	9,108,873
Total Adjusted Level 2A Assets	-	-	-	-
Level 2 Assets	-	-	-	-
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	66,089,010	14,571,662	54,886,905	10,398,271
Deposits	35,034,242	3,503,424	24,644,776	2,464,478
Unsecured Wholesale Funding	14,473,384	10,414,423	10,326,708	7,050,362
Secured Funding Transactions	-	-	-	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	16,581,384	653,815	19,915,421	883,432
Additional Requirements	-	-	-	-
Total Cash Inflows	12,238,232	7,946,491	6,628,769	3,915,456
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	12,238,232	7,946,491	6,628,769	3,915,456
Operational Deposits	-	-	-	-
Other Cash Inflows	-	-	-	-
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days) * 100		289		141

#### 4.3 Net Stable Funding Ratio (NSFR)

Item	2023	2022
	Rs. '000	Rs. '000
Total available stable funding (ASF)	44,295,242	34,887,292
Total required stable funding (RSF)	36,064,555	27,522,187
Required stable funding – On balance sheet assets	35,708,546	27,071,164
Required stable funding – Off balance sheet items	356,009	451,023
NSFR (%) (Minimum Requirement – 2023: 100 & 2022: 90)	123	127

## Basel III - Pillar III Market Disclosures

### TEMPALTE 05

#### Main Features of Regulatory Capital Instruments

Description of the Capital Instrument	BASEL III Additional Tier 1 Compliant Unlisted Unsecured Subordinated Perpetual Convertible Debentures
Issuer	Cargills Bank PLC
Governing Law(s) of the Instrument	Companies Act No. 07 of 2007, Banking Act No. 30 of 1988 and other applicable laws and regulations
Original Date of Issuance	15 December 2021
Par Value of Instrument	LKR 100/-
Perpetual or Dated	Perpetual
Original Maturity Date, if Applicable	N/A
Amount Recognised in Regulatory Capital (in Rs. '000 as at the Reporting Date)	1,500,000
Accounting Classification (Equity/Liability)	Liability
Issuer Call subject to Prior Supervisory Approval	
Optional Call Date, Contingent Call Dates and Redemption Amount (Rs. '000)	*
Subsequent Call Dates, if Applicable	1 May to 31 May of each year from 2028 to 2031
Coupons/Dividends	
Fixed or Floating Dividend/Coupon	Floating
Coupon Rate and any Related Index	Weighted average twelve-month Net Treasury Bill rate + 2.00% p.a with the floor rate of 9.5% p.a.
Non-Cumulative or Cumulative	Cumulative
Convertible or Non-Convertible	Convertible
If Convertible, Conversion Trigger (s)	*
If Convertible, Fully or Partially	*
If Convertible, Mandatory or Optional	*
If Convertible, Conversion Rate	*

\* The debenture may be convertible by the debenture holder (subject to satisfaction of regulatory requirements), at any time during the conversion periods after a minimum of 05 years from the date of issue or a non viability conversion arising from an occurrence of a trigger event at a par value of LKR 100 per debenture.

## Basel III - Pillar III Market Disclosures

### TEMPLATE 06

#### Summary Discussion on Adequacy/ Meeting Current and Future Capital Requirements

The Bank has set up an internal threshold on minimum CARs and ensures that appropriate measures are employed to maintain the CARs above the said threshold when preparing the budget. The Bank has a well established monitoring mechanism to periodically ensure the level of achievement against the predetermined targets and corrective action is taken for any deviations.

Methods of improving the CARs are being evaluated on an ongoing basis and in extreme situations, the Bank will deliberate on strategically curtailing the expansion of risk weighted assets. Prior to taking such decisions, the Bank will assess the impact on the internally developed thresholds of minimum CARs resulting from the short-term asset expansion plans. The Bank takes every endeavour to ensure maintaining the internal CAR thresholds.

Further, in December 2021, The Bank issued Fifteen Million (15,000,000) Basel III Additional Tier 1 Compliant Unlisted Unsecured Subordinated Perpetual Convertible Debentures with a conversion option to raise Rs. 1.5 Bn. to meet the regulatory minimum capital requirement.

### TEMPLATE 07

#### Credit Risk under Standardised Approach –

#### Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

Asset Class	Amount as at 31 December 2023 (Rs. '000)					
	Exposure before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA & RWA Density (%)	
	On-Balance Sheet Amount	Off-Balance Sheet Amount	On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density
Claims on Central Government and CBSL	17,654,185	-	17,654,185	-	-	0.00%
Claims on Foreign Sovereigns and Their Central Banks	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-
Claims on Banks Exposures	1,152,780	-	1,152,780	-	461,816	40.06%
Claims on Financial Institutions	9,422,758	-	9,422,758	-	7,018,685	74.49%
Claims on Corporates	13,621,794	11,827,719	13,621,794	2,496,573	15,079,771	93.56%
Retail Claims	14,825,810	4,944,302	14,825,810	2,663,014	14,608,555	83.53%
Claims Secured by Residential Property	1,109,167	-	1,162,859	31,000	1,140,167	95.50%
Claims Secured by Commercial Real Estate	-	-	-	-	-	-
Non-Performing Assets (NPAs)	4,656,981	-	4,603,289	20,729	5,732,534	123.97%
High-risk Categories	-	-	-	-	-	-
Cash Items and Other Assets	4,134,983	-	4,134,983	-	3,184,585	77.02%
<b>Total</b>	<b>66,578,458</b>	<b>16,772,021</b>	<b>66,578,458</b>	<b>5,211,316</b>	<b>47,226,113</b>	<b>65.78%</b>

## Basel III - Pillar III Market Disclosures

### TEMPLATE 08

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

Asset Classes	Risk Weight	Amount as at 31 December 2023 (Post CCF and CRM) (Rs. '000)							Total Credit Exposure Amount
		0%	20%	50%	75%	100%	150%	>150%	
Claims on Central Government and CBSL	17,654,185	-	-	-	-	-	-	-	17,654,185
Claims on Foreign Sovereigns and Their Central Banks	-	-	-	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-	-	-	-
Claims on Banks Exposures	-	526,943	582,327	-	-	43,509	-	-	1,152,779
Claims on Financial Institutions	-	-	4,808,146	-	4,614,612	-	-	-	9,422,758
Claims on Corporates	-	1,298,245	-	-	14,820,122	-	-	-	16,118,367
Retail Claims	-	-	2,144,182	8,090,385	7,254,257	-	-	-	17,488,824
Claims Secured by Residential Property	-	-	-	-	1,140,167	-	-	-	1,140,167
Claims Secured by Commercial Real Estate	-	-	-	-	-	-	-	-	-
Non-Performing Assets (NPAs)	-	-	53,692	-	2,460,678	2,163,339	-	-	4,677,709
High-risk Categories	-	-	-	-	-	-	-	-	-
Cash Items and Other Assets	950,398	-	-	-	3,184,585	-	-	-	4,134,983
<b>Total</b>	<b>18,604,583</b>	<b>1,825,188</b>	<b>7,588,347</b>	<b>8,090,385</b>	<b>33,474,421</b>	<b>2,206,848</b>	<b>-</b>	<b>-</b>	<b>71,789,772</b>

### TEMPLATE 09

#### Market Risk under Standardised Measurement Method

Item	RWA Amount Rs. '000 As at 31 Dec 2023
<b>(a) RWA for Interest Rate Risk</b>	<b>2,972,977</b>
General Interest Rate Risk	
i. Net Long or Short Position	371,372
ii. Horizontal Disallowance	-
iii. Vertical Disallowance	-
iv. Options	-
Specific Interest Rate Risk	-
<b>(b) RWA for Equity</b>	<b>-</b>
i. General Equity Risk	-
ii. Specific Equity Risk	-
<b>(c) RWA for Foreign Exchange &amp; Gold</b>	<b>250</b>
Capital Charge for Market Risk [(a) + (b) + (c)] * CAR	371,622

## Basel III - Pillar III Market Disclosures

### TEMPLATE 10

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

Business Lines	Capital Charge Factor	Fixed Factor	Gross Income as at 31 December 2023 (Rs. '000)		
			1st Year	2nd Year	3rd Year
Basic Indicator Approach	15%		4,875,095	4,280,687	2,458,507
The Standardised Approach			-	-	-
Corporate Finance	18%		-	-	-
Trading and Sales	18%		-	-	-
Payment and Settlement	18%		-	-	-
Agency Services	15%		-	-	-
Asset Management	12%		-	-	-
Retail Brokerage	12%		-	-	-
Retail Banking	12%		-	-	-
Commercial Banking	15%		-	-	-
The Alternative Standardised Approach			-	-	-
Corporate Finance	18%		-	-	-
Trading and Sales	18%		-	-	-
Payment and Settlement	18%		-	-	-
Agency Services	15%		-	-	-
Asset Management	12%		-	-	-
Retail Brokerage	12%		-	-	-
Retail Banking	12%	0.035	-	-	-
Commercial Banking	15%	0.035	-	-	-
Capital Charge for Operational Risk (Rs. '000)					
The Basic Indicator Approach	580,714				
The Standardised Approach	-				
The Alternative Standardised Approach	-				
Risk Weighted Amount for Operational Risk (Rs. '000)					
The Basic Indicator Approach	4,645,715				
The Standardised Approach	-				
The Alternative Standardised Approach	-				

## Basel III - Pillar III Market Disclosures

### TEMPLATE 11

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

Item	Amount as at 31 December 2023 (Rs. '000)				
	a	b	c	d	e
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Capital Requirements or Subject to Deduction from Capital
<b>Assets</b>					
Cash and Cash Equivalents	1,963,321	1,963,321	1,963,321		
Balances with Central Banks	432,805	432,805	432,805		
Placements with Banks	-	-	-		
Derivative Financial Instruments	6	6		6	
Financial Assets Designated at Fair Value through Profit or Loss	2,468,401	2,468,401	2,468,401		
Loans and Receivables to Banks	-	-			
Loans and Receivables to Other Customers	40,559,438	40,559,438	40,559,438		8,677,645
Financial Investments - Available-For-Sale	17,779,520	17,779,520	17,779,520	17,779,520	
Financial Investments - Held-To-Maturity	2,050,119	2,050,119	2,050,119		-
Investments in Subsidiaries	-	-			
Investments in Associates and Joint Ventures	-	-			
Property, Plant and Equipment	462,706	462,706	462,706		
Investment Properties	-	-			
Goodwill and Intangible Assets	283,445	283,445			283,445
Deferred Tax Assets	284,090	284,090			284,090
Other Assets	2,721,878	2,971,153	2,971,153		
<b>Liabilities</b>					
Due to Banks	717,667	517,512			
Derivative Financial Instruments	27	27			
Other Financial Liabilities Held-For-Trading	-	-			
Financial Liabilities Designated at Fair Value Through Profit or Loss	-	-			
Due to Other Customers	50,728,853	50,729,885			
Other Borrowings	3,669,925	3,870,079			
Debt Securities Issued	-	-			
Current Tax Liabilities	-	-			
Deferred Tax Liabilities	-	-			
Other Provisions	108,605	108,605			
Other Liabilities	2,568,435	2,568,435			
Due to Subsidiaries	-	-			
Subordinated Term Debts	-	-			

## Basel III - Pillar III Market Disclosures

### TEMPLATE 11 - Contd.

Item	Amount as at 31 December 2023 (Rs. '000)				
	a	b	c	d	e
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Capital Requirements or Subject to Deduction from Capital
<b>Off-Balance Sheet Liabilities</b>					
Guarantees	6,422,420	6,422,420	6,422,420		
Performance Bonds	-	-			
Letters of Credit	1,545,523	1,545,523	1,545,523		
Other Contingent Items	132,038	132,038	132,038		
Undrawn Loan Commitments	6,584,766	6,584,766	6,584,766		
Other Commitments	45,727	45,727			
<b>Shareholders' Equity</b>					
Equity Capital (Stated Capital)/Assigned Capital	11,894,421	13,394,421			
of which Amount Eligible for CET1	11,894,421	11,894,421			
of which Amount Eligible for AT1	-	1,500,000			
Retained Earnings	(1,176,968)	(1,176,968)			
Accumulated Other Comprehensive Income	1,146,555	1,146,555			
Other Reserves	78,775	78,775			
<b>Total Shareholders' Equity</b>	<b>11,942,783</b>	<b>13,442,783</b>			

\* The difference is due to the BASEL III Additional Tier 1 Compliant Unlisted Unsecured Subordinated Perpetual Convertible Debentures issued in December 2021 (Refer Template 05)

# Investor Relations

## 1) 25 LARGEST REGISTERED SHAREHOLDERS OF THE BANK AS AT 31 DECEMBER

### Ordinary Shareholders

#### Share Information - Voting

No.	Full Name	2023		2022	
		No of Shares	%	No of Shares	%
1	Cargills (Ceylon) PLC*	350,696,905	37.09	350,696,905	39.71
2	CT Holdings PLC*	223,345,953	23.62	223,345,953	25.29
3	Monetary Board of Sri Lanka – on behalf of EPF	44,000,000	4.65	44,000,000	4.98
4	Multitex Investment Limited	30,800,000	3.26	30,800,000	3.49
5	MJF Foundation Investments (Pvt) Ltd	28,000,000	2.96	28,000,000	3.17
6	Softlogic Life Insurance PLC	26,600,000	2.81	26,600,000	3.01
7	MAS Amaliya (Private) Limited	22,000,000	2.33	22,000,000	2.49
8	Rosewood (Pvt) Ltd	17,477,900	1.85	16,000,000	1.81
9	Phoenix Ventures (Private) Limited	13,200,000	1.40	13,200,000	1.49
10	Aindri Holdings Pte Ltd	11,000,000	1.16	11,000,000	1.25
11	A I A Holdings Lanka (Pvt) Ltd	11,000,000	1.16	11,000,000	1.25
12	Softlogic Holdings PLC	10,000,000	1.06	10,000,000	1.13
13	Gardiya Lokuge Harris Premaratne	9,089,000	0.96	9,089,000	1.03
14	Merrill Joseph Fernando (Late)	7,800,000	0.82	7,800,000	0.88
15	Softlogic Capital PLC	7,400,000	0.78	7,400,000	0.84
16	Distilleries Company of Sri Lanka PLC	7,312,700	0.77	-	-
17	GF Capital Global Limited	6,410,900	0.68	6,100,000	0.69
18	Melstacorp PLC	5,854,200	0.62	-	-
19	Periyasamipillai Barathakumar	4,400,000	0.47	4,400,000	0.50
20	Periyasamipillai Muruganandhan	4,400,000	0.47	4,400,000	0.50
21	Periyasamipillai Anandarajah	4,400,000	0.47	4,400,000	0.50
22	Periyasamipillai Devaraj	4,400,000	0.47	4,400,000	0.50
23	Periyasamipillai Barathamackam	4,400,000	0.47	4,400,000	0.50
24	Ishara Chinthaka Nanayakkara	4,400,000	0.47	4,400,000	0.50
25	Lalan Rubber Holdings (Pvt) Ltd	4,400,000	0.47	4,400,000	0.50
	<b>Sub Total</b>	<b>862,787,558</b>	<b>91.24</b>	<b>847,831,858</b>	<b>96.00</b>
	<b>Other Shareholders</b>	<b>82,855,300</b>	<b>8.76</b>	<b>35,311,000</b>	<b>4.00</b>
	<b>TOTAL</b>	<b>945,642,858</b>	<b>100.00</b>	<b>883,142,858</b>	<b>100.00</b>

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

## 2) PERCENTAGE OF THE SHARES HELD BY THE PUBLIC

	As at 31 December 2023	As at 31 December 2022
** Float adjusted market capitalization (total market capital-share not available for trading)* share price	NA	NA
Public holding percentage (%)	39.13%	34.86%
Number of public shareholders	2,247	261
Applicable option under which the Listed Entity complies with the Minimum Public Holding requirement	NA	NA

\*\* The ordinary shares were listed on the Main Board of the Colombo Stock Exchange on 09 January 2024.

## Investor Relations

### 3) NUMBER OF SHARES REPRESENTING THE ENTITY'S STATED CAPITAL AS AT 31 DECEMBER 2023

Year	Details	No. of Shares	Stated capital Rs.
2011	Share issue	2	20
2013	Share issue	439,999,998	4,968,849,980
2015	Rights issue	43,000,000	623,500,000
2016	Rights issue	400,142,858	5,802,071,441
2023	Initial Public Offering (IPO)*	62,500,000	500,000,000
Total		945,642,858	11,894,421,441

Note\*

Initial Public Offering (IPO)

The Initial Public Offering of the Company for 62,500,000 Ordinary Voting Shares at Rs. 8/- per share opened on 14 December 2023 and the Issue having been oversubscribed closed on the same day. The Company was listed on the Main Board of the Colombo Stock Exchange on 09 January 2024.

#### 3.1) Utilisation of IPO Proceeds as at 31 December 2023 is as follows.

Objective of the IPO as per prospectus	Amount allocated as per prospectus (Rs. '000)	Proposed date of utilisation as per prospectus	Amount allocated upon the receipt of proceeds (Rs. '000)	As a % of total proceeds	Amount Utilised in the objective (Rs. '000)	% of utilisation against allocation	Clarification if not fully utilised including where the funds are invested
To enhance the capital base of the Bank with the intention of complying with the minimum capital requirement as specified in the Banking Act Directions No. 05 of 2017.	500,000	Within three months	500,000	100%	IPO proceeds were transferred to the Bank on 02 January 2024		

### 4) ANALYSIS OF ORDINARY SHAREHOLDERS AS AT 31 DECEMBER

#### 4.1) Distribution of shareholding

Share Holding Range	As at 31 December 2023				As at 31 December 2022			
	No of shareholders	%	No of Shares	%	No of shareholders	%	No of Shares	%
1-1,000	510	22.51	269,500	0.03	195	73.58	19,500	0.00
1,001-10,000	866	38.22	4,898,900	0.52	0	0.00	0	0.00
10,001-100,000	796	35.13	19,071,400	2.02	23	8.68	1,560,000	0.18
100,001-1,000,000	47	2.07	14,461,600	1.53	9	3.40	2,675,800	0.30
Over 1,000,000	47	2.07	906,941,458	95.91	38	14.34	878,887,558	99.52
Total	2,266	100.00	945,642,858	100.00	265	100.00	883,142,858	100

## Investor Relations

### 4.2) Resident/Non - resident shareholding

	As at 31 December 2023				As at 31 December 2022			
	No of shareholders	%	No of Shares	%	No of shareholders	%	No of Shares	%
Resident	2,256	99.56	890,437,258	94.16	259	97.73	830,531,858	94.04
Non -Resident	10	0.44	55,205,600	5.84	6	2.27	52,611,000	5.96
Total	2,266	100	945,642,858	100	265	100	883,142,858	100

### 4.3) Individual/Institutional shareholding

	As at 31st December 2023				As at 31st December 2022			
	No of shareholders	%	No of Shares	%	No of shareholders	%	No of Shares	%
Individuals	2,194	96.82	102,828,600	10.87	247	93.21	74,760,000	8.47
Institutions	72	3.18	842,814,258	89.13	18	6.79	808,382,858	91.53
Total	2,266	100	945,642,858	100	265	100	883,142,858	100

## 5) SHARE PRICE INFORMATION

	As at 31 December 2023
Highest price (Rs)	NA
Lowest price (Rs)	NA
Last Traded Price (Rs.)	NA

## 6) KEY SHAREHOLDER RETURN INDICATORS

Year	2023	2022	2021	2020	2019
Net asset value per share (Rs.)	12.63	11.01	10.56	11.02	11.81
Market value per share (Rs)	-	-	-	-	-
Return on equity %	4.12	5.28	(2.99)	(7.14)	5.96
Return on assets (before income tax) %	1.10	0.36	(0.74)	(2.03)	(2.41)
Net interest margin %	5.61	5.99	3.97	3.88	5.55
Credit Rating of the Bank (Fitch)	A (lka)	A (lka)	AA- (lka)	AA- (lka)	-

## 7) DEBT SECURITIES

7.1) Details of the debenture issued by the Bank are given in the Note 39.2 to the financial statements.

### 7.2) Key indicators of liquidity position of the Bank

	2023	2022
Debt to Equity (Times)	4.48	4.57
Interest Cover (Times)	1.10	1.04
Statutory Liquid Assets Ratio - Bank (%) (Minimum Requirement -20%)	39.82	27.00
Domestic Banking Unit (%) (Minimum Requirement -20%)	39.45	26.70
Off-Shore Banking Unit (%) (Minimum Requirement -20%)	90.65	90.79
Liquidity Coverage Ratio (%) - Rupee (Minimum Requirement - (2023 - 100%, 2022 - 90%))	360	176
Liquidity Coverage Ratio (%) - All Currency (Minimum Requirement - (2023 - 100%, 2022 - 90%))	289	140



## Investor Relations

Rule no	Disclosure Requirement	Reference Page/s in this Annual Report
7.6 (xii)	Significant changes of entity and subsidiaries' fixed assets including substantial difference between market value and book value of lands.	Pages 237 to 241
7.6 (xiii)	Details of funds raised via IPO and further issues <ol style="list-style-type: none"> <li>the manner in which the funds of such issue/s have been utilised in conformity with the format provided by the Exchange from time to time;</li> <li>if any shares or debentures have been issued, the number, class and consideration received and the reason for the issue; and</li> <li>any material change in the use of funds raised through an issue of Securities</li> </ol>	Page 304
7.6 (xiv)	<ol style="list-style-type: none"> <li>Details of Employee Share Option Schemes (ESOS)</li> <li>Details of Employee Share Purchase Schemes (ESPS)</li> </ol>	NA
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of the listing Rules	Pages 93 to 118
7.6 (xvi)	Related party transactions exceeding 10% of equity or 5% of total assets as per audited Financial Statements, whichever is lower	NA
7.6 (xvii)	Relevant details, if Foreign Currency Denominated Securities are listed	NA
7.6 (xviii)	Relevant details, if Sustainable Bonds are listed	NA
7.6 (xix)	Relevant details, if Perpetual Debt Securities are listed	NA
7.6 (xx)	Relevant details, if Infrastructure Bonds are listed	NA
7.6 (xxi)	Relevant details, if Shariah Compliant Debt Securities are listed	NA

# GRI Content Index

Statement of use		Cargills Bank PLC has reported the information cited in this GRI content index for the period 1 January 2023 to 31 December 2023 with reference to the GRI Standards.
GRI 1 used GRI STANDARD/ OTHER SOURCE	DISCLOSURE	GRI 1: Foundation 2021 LOCATION
GRI 2: General Disclosures 2021	2-1 Organizational details	324
	2-2 Entities included in the organization's sustainability reporting	4
	2-3 Reporting period, frequency and contact point	4, 5
	2-4 Restatements of information	4
	2-5 External assurance	Sustainability reporting is not externally assured
	2-6 Activities, value chain and other business relationships	34, 35, 72, 73
	2-7 Employees	52, 53
	2-8 Workers who are not employees	53
	2-9 Governance structure and composition	93, 22-27
	2-10 Nomination and selection of the highest governance body	101, 121-123
	2-11 Chair of the highest governance body	22
	2-12 Role of the highest governance body in overseeing the management of impacts	93
	2-13 Delegation of responsibility for managing impacts	93
	2-14 Role of the highest governance body in sustainability reporting	69
	2-15 Conflicts of interest	131 - 133
	2-16 Communication of critical concerns	62
	2-17 Collective knowledge of the highest governance body	22-27
	2-18 Evaluation of the performance of the highest governance body	96, 121-123
	2-19 Remuneration policies	125-127
	2-20 Process to determine remuneration	125-127
	2-21 Annual total compensation ratio	Confidentiality constraints
	2-22 Statement on sustainable development strategy	17
	2-23 Policy commitments	40, 41, 64, 95
	2-24 Embedding policy commitments	40, 41, 64, 95
	2-25 Processes to remediate negative impacts	62
	2-26 Mechanisms for seeking advice and raising concerns	62
	2-27 Compliance with laws and regulations	93-118
	2-28 Membership associations	79
	2-29 Approach to stakeholder engagement	36-39
	2-30 Collective bargaining agreements	60
GRI 3: Material Topics 2021	3-1 Process to determine material topics	42
	3-2 List of material topics	42
Economic performance		
GRI 3: Material Topics 2021	3-3 Management of material topics	11
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	11 - 12
	201-3 Defined benefit plan obligations and other retirement plans	218

## GRI Content Index

<b>Indirect economic impacts</b>		
GRI 3: Material Topics 2021	3-3 Management of material topics	75
GRI 203: Indirect Economic Impacts 2016	203-1 Infrastructure investments and services supported	75-77
	203-2 Significant indirect economic impacts	75-77
<b>Anti-corruption</b>		
GRI 3: Material Topics 2021	3-3 Management of material topics	62
GRI 205: Anti-corruption 2016	205-2 Communication and training about anti-corruption policies and procedures	62
	205-3 Confirmed incidents of corruption and actions taken	There were no incidents of corruption reported
<b>Tax</b>		
GRI 3: Material Topics 2021	3-3 Management of material topics	220
GRI 207: Tax 2019	207-1 Approach to tax	45, 206, 220, 221
	207-2 Tax governance, control, and risk management	220, 221
	207-3 Stakeholder engagement and management of concerns related to tax	38, 256
<b>Energy</b>		
GRI 3: Material Topics 2021	3-3 Management of material topics	66
GRI 302: Energy 2016	302-1 Energy consumption within the organization	66
	302-4 Reduction of energy consumption	66
<b>Water and effluents</b>		
GRI 3: Material Topics 2021	3-3 Management of material topics	66
GRI 303: Water and Effluents 2018	303-1 Interactions with water as a shared resource	67
	303-5 Water consumption	67
<b>Biodiversity</b>		
GRI 3: Material Topics 2021	3-3 Management of material topics	66
GRI 304: Biodiversity 2016	304-2 Significant impacts of activities, products and services on biodiversity	68
<b>Waste</b>		
GRI 3: Material Topics 2021	3-3 Management of material topics	66
GRI 306: Waste 2020	306-5 Waste directed to disposal	67
<b>Supplier environmental assessment</b>		
GRI 3: Material Topics 2021	3-3 Management of material topics	78
GRI 308: Supplier Environmental Assessment 2016	308-1 New suppliers that were screened using environmental criteria	79

## GRI Content Index

Employment		
GRI 3: Material Topics 2021	3-3 Management of material topics	51
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	54, 55
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	57, 58
Training and education		
GRI 3: Material Topics 2021	3-3 Management of material topics	51
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	57
	404-2 Programs for upgrading employee skills and transition assistance programs	56
Diversity and equal opportunity		
GRI 3: Material Topics 2021	3-3 Management of material topics	51
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	59
	405-2 Ratio of basic salary and remuneration of women to men	60
Non-discrimination		
GRI 3: Material Topics 2021	3-3 Management of material topics	51
GRI 406: Non-discrimination 2016	406-1 Incidents of discrimination and corrective actions taken	59
Local communities		
GRI 3: Material Topics 2021	3-3 Management of material topics	75
GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs	75-77
Supplier social assessment		
GRI 3: Material Topics 2021	3-3 Management of material topics	78
GRI 414: Supplier Social Assessment 2016	414-1 New suppliers that were screened using social criteria	79
Marketing and labeling		
GRI 3: Material Topics 2021	3-3 Management of material topics	70
GRI 417: Marketing and Labeling 2016	417-1 Requirements for product and service information and labeling	73
	417-2 Incidents of non-compliance concerning product and service information and labeling	73
	417-3 Incidents of non-compliance concerning marketing communications	73
Customer privacy		
GRI 3: Material Topics 2021	3-3 Management of material topics	70
GRI 418: Customer Privacy 2016	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	There were no complaints concerning breaches of customer privacy and losses of customer data reported

# Glossary of Financial and Banking Terms

## A

### Acceptances

Promise to pay, created when the drawee of a time draft, stamps or writes the word 'accepted' above his signature and a designated payment date.

### Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

### Accrual Basis

Recognising the effects of transaction and other events when they occur without waiting for receipt or payment of cash or its equivalent.

### Actuarial Gain/Loss

Gains or losses arising from the difference between estimates and actual experience in the entity's pension plan and retirement gratuity.

### Actuarial Assumptions

An entity's unbiased and mutually compatible best estimates of the demographic and financial variable that will determine the ultimate cost of providing post-employment benefits.

### Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

### Amortised Cost

The amount at which the financial asset or financial liability is measured at initial recognition minus principal prepayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

### Asset and Liability Committee (ALCO)

A risk-management committee in a bank that generally comprises the Senior Management of the institution. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors considered are liquidity risk, interest rate risk, operational risk and external events that may affect the Bank's forecast and strategic balance sheet allocations.

### Average Weighted Deposit Rate (AWDR)

AWDR is calculated by the Central Bank weekly, based on Commercial bank's deposit rates offered to their prime customers during the week.

### Average Weighted PRIME Lending Rate (AWPLR)

AWPLR is calculated by the Central Bank weekly based on commercial banks' lending rates offered to their prime customers during the week.

## B

### Basel III

The Basel Committee on Banking Supervision (BCBS) issued the Basel III rules text, which represent the details of strengthened global regulatory standards on Bank capital adequacy and liquidity

### Basis point (bps)

One hundredth of a percentage point, i.e. 100bps equals 1%, used in quoting movements in interest rates, security yields, etc.

## C

### Capital Adequacy Ratios

The relationship between capital and risk weighted assets as defined in the framework developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

### Capitals

Refer to any stock of value such as customer base, staff strength, relationships with the community, etc. that will increase, decrease or transform through the activities of an organisation and that will help it generate earnings in the future.

### Cash Equivalents

Short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### Cash flows

Cash flows are inflows and outflows of cash and cash equivalents.

### Cash Generating Unit (CGU)

The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Collectively Assessed Impairment Allowance Provisions Also known as portfolio impairment provisions.

Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date. Typically assets within the Retail Banking business (housing, personal, leasing, credit cards etc.) are assessed on a portfolio basis.

### Commitments

Credit facilities approved but not yet utilised by the clients at the date of the Statement of Financial Position.

### Contract

An agreement between two or more parties that creates enforceable rights and obligations.

## Glossary of Financial and Banking Terms

### Contingencies

A condition or situation existing at the date of the Statement of Financial Position where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

### Contractual Maturity

Contractual Maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

### Control

Control is the power over an investee, exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its powers over the investee to affect the amount of the investor's returns.

### Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

### Cost to Income Ratio

Operating expenses excluding impairment for loans and receivables and other losses as a percentage of total operating income.

### Credit Ratings

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

### Credit Risk

Credit risk or default risk is most simply defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

### Credit Risk Mitigation

A technique to reduce the credit risk associated with an exposure by application of credit risk mitigates such as collateral, guarantee and credit protection.

### Currency Risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

### Currency swaps

The simultaneous purchase of an amount of currency for spot settlement and the sale of the same amount of the same currency for forward settlement.

### Customers Deposits

Money deposited by account holders. Such funds are recorded as liabilities.

## D

### Debt Restructuring/Rescheduling

This is when the terms and provisions of outstanding debt agreements are changed. This is often done in order to improve cash flow and the ability of the borrower to repay the debt. It can involve altering the repayment schedules as well as debt or interest charge reduction.

### Deferred Taxation

Sum set aside for tax in the Financial Statements that may become payable/receivable in a financial year other than the current financial year.

### Delinquency

A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and receivables are considered to be delinquent when consecutive payments are missed. Also known as 'Arrears'.

### Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

### Derecognition

Removal of a previously recognised financial asset or financial liability from an entity's Statement of Financial Position.

### Derivatives

A derivative is a financial instrument or other contract, the value of which changes in response to some underlying variable (e.g., an interest rate).

### Discount Rate

A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value.

### Documentary Credits

Commercial letters of credit provided for payment by a bank to the named beneficiary usually the seller of merchandise, against delivery of documents specified in the credit.

## E

### Earnings per Share (EPS)

Profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue.

### Effective Interest Rate (EIR)

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

### Embedded Derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

## Glossary of Financial and Banking Terms

### Equity risk

The risk arising from positions, either long or short, in equities or equity-based instruments, which create exposure to a change in the market price of the equities or equity instruments.

### Equity Instrument

Equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

### Events after the Reporting Period

Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the Financial Statements are authorised for issue.

### Expected Credit Loss

The amount expected to be lost on an exposure over the life of the asset. ECL is calculated by multiplying the Probability of Default (a percentage) by the Exposure at Default (an amount) and Loss Given Default (a percentage).

### Exposure

A claim, contingent or position which carries a risk of financial loss.

## F

### Fair Value

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

### Fair Value Measurement

An adjustment to the fair value of a financial instrument which is determined using a valuation technique (level 2 and level 3) to include additional factors that would be considered by a market participant that are not incorporated within the valuation model.

### Fair Value Through Profit or Loss

A financial asset/liability: Acquired/incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of a short-term profit taking, or a derivative (except for a derivative that is a financial guarantee contract).

### Financial Assets

Any assets that is cash, equity instrument of another entity, a contractual right to receive cash or contractual right to receive another financial asset from another entity

### Financial Instruments

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another entity.

### Financial Liabilities

A contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

### Financial Risk

The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates or credit rating or credit index or other variable that the variable is not specific to the party to the contract

### Foreign Exchange Income

The realised gains recorded when assets or liabilities denominated in foreign currencies are translated into Sri Lankan rates which differ from those rates in force at inception or on the previous reporting date. Foreign exchange income also arises from trading in foreign currencies.

### Forward Exchange Contract

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

## G

### Global Reporting Initiative (GRI)

GRI is a leading organisation in the sustainability field. GRI promotes the use of sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development.

### Going Concern

The Financial Statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially or the scale of its operations.

### Group

A Group is a parent and all its subsidiaries and associates.

### Guarantees

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.

## H

### Hedging

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (Interest rate, Prices and Commodities, etc.).

### Held-for-Trading

Debt and equity investments that are purchased with the intent of selling them within a short period of time (usually less than one year).

## Glossary of Financial and Banking Terms

### Held-to-Maturity

Investments and debt securities that a Company has the ability and intent to hold until maturity.

### High Quality Liquid Assets (HQLA)

HQLA are assets that can be easily and immediately converted into cash at little or no loss of value that can be readily sold or used as collateral to obtain funds in a range of stress scenarios and are unencumbered, i.e. without legal, regulatory or operational impediments.

### Historical Cost

Historical cost is the original nominal value of an economic item.

## I

### Impaired Loans

Loans where identified impairment allowances have been raised and also include loans which are collateralised or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans, which, while impaired, are still performing.

### Impairment charges for Loans and advances

Amounts set aside against possible losses on loans, receivables and other credit facilities as a result of such facilities becoming partly or wholly uncollectible.

### Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

### Impairment Allowances

Impairment allowances are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred (under LKAS 39)/ expected (under SLFRS 9) loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio).

### Individually Significant Loans

Exposures which are above a certain threshold decided by the Bank's management which should be assessed for objective evidence, measurement, and recognition of impairment on an individual basis.

### Intangible Asset

An intangible asset is an identifiable non monetary asset without physical substance.

### Integrated Reporting

A methodology of reporting an organisation's strategy, governance, financial performance and prospects in relation to the creation of value over the short, medium and long term in its economic, social and environmental context

### Interest Cover

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

### Interest Margin

Net interest income expressed as a percentage of average interest earning assets.

### Interest Rate Risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

## K

### Key Management Personnel (KMP)

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity and key employees who are holding directorships in subsidiary companies and other key employees who meet the criteria mentioned above.

## L

### Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, Bills of Exchange, Treasury Bills and Bonds.

### Liquidity coverage ratio (LCR)

Ratio of stock of high quality liquid assets available to total net cash outflows over next 30 calendar days. LCR is expected to improve the banking sector's ability to absorb shocks arising from financial and economic stress, thus, reducing the risk of spillover from the financial sector to the real economy.

### Loss Given Default (LGD)

The estimated ratio (percentage) of the loss on an exposure to the amount outstanding at default (EAD) upon default of counterparty.

### Liquidity Risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

### Loan-to-Value Ratio

The loan-to-value (LTV) ratio is a financial term used by lenders to express the ratio of a loan to the value of an asset purchased. The term is commonly used to represent the ratio of the first mortgage lien as a percentage of the total appraised value of real property.

## M

### Market Capitalisation

Number of ordinary shares in issue multiplied by the market value of a share as at a date.

### Market Risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

## Glossary of Financial and Banking Terms

### Materiality

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

## N

### Net Assets Value per Share

Shareholders' funds divided by the number of ordinary shares in issue.

### Net Interest Income (NII)

The difference between the amounts a bank earns on assets such as loans and securities and the amount it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

### Net Interest Margins (NIM)

Net interest income expressed as a percentage of average interest earning assets.

### Net Stable Funding Ratio (NSFR)

The ratio of available stable funding to required stable funding over a one year time horizon, assuming a stressed scenario. Available stable funding would include items such as equity capital, preferred stock with a maturity of over one year and liabilities with an assessed maturity of over one year. The Basel III rules require this ratio to be over 90% with effect from 01 January 2019. The NSFR is still subject to an observation period and review to address any unintended consequences.

### Non-Performing Credit Facilities (NPCF)

A loan or a receivable placed on cash basis (i.e. Interest income is only recognised when cash is received) because, in the opinion of management, there is reasonable doubt regarding the collectability of principal or interest.

### Nostro Account

A bank account held in a foreign country by a domestic bank, denominated in the currency of that country. Nostro accounts are used to facilitate the settlement of foreign exchange trade transactions.

## O

### Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

## P

### Past Due

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

### Probability of Default (PD)

The probability that an obligor will default on an obligation within a given period of time.

### Projected Unit Credit Method (PUC)

An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. (sometimes known as the accrued benefit method pro-rated on service or as the benefit/ years of service method). Prudence Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

## R

### Related Parties

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

### Related Party Transactions (RPT)

RPT is a transfer of resources, services or obligations between a reporting entity and a related party, regardless whether a price is charged.

### Remittances

A remittance is a transfer of money by a foreign worker to an individual in his or her home country

### Repurchase Agreement

Contract to sell and subsequently repurchase securities at a specified date and price.

### Return on Average Assets (ROA)

Profit after tax divided by the average assets.

### Return on Average Equity (ROE)

Net profit for the year, less preference share dividends, if any, expressed as a percentage of average ordinary shareholders' equity

### Risk-Weighted Assets

The sum total of assets as per the Statement of Financial Position and the credit equivalent of assets that are not on the Statement of Financial Position multiplied by the relevant risk weighting factors.

## S

### Segment Reporting

Segment reporting indicates the contribution to the revenue derived from business segments such as banking operations, leasing operations, stock broking and securities dealing, property and insurance.

### Shareholders' Funds

Total of stated capital and reserves.

### Statutory Reserve Fund

A capital reserve created as per the provisions of the Banking Act, No. 30 of 1988.

## Glossary of Financial and Banking Terms

### T

#### **Tier I Capital**

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses

#### **Tier II Capital**

Supplementary capital representing revaluation reserves, general provisions and other capital instruments, which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

#### **Total Capital**

Capital base is summation of the core capital (Tier I) and the supplementary capital (Tier II).

#### **Transaction Costs**

Incremental costs that is directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

### U

#### **Unit Trust**

An undertaking formed to invest in securities under the terms of a trust deed.

#### **Useful Life**

Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

### V

#### **Value Added**

Value of wealth created by providing banking and other related services less the cost of providing such services.

# Acronyms and Abbreviations

&	And
12mECL	12 Months Expected Credit Loss
24/7, 365	At any time, all year round
1H/2H	First Half/Second Half
AED	United Arab Emirates Dirham
AGM	Annual General Meeting
ALCO	Asset and Liability Management Committee
AML	Anti-Money Laundering
AT1	Additional Tier I
ATL	Above the Line
ATM	Automated Teller Machine
AUD	Australian Dollar
AWPLR	Average Weighted Prime Lending Rate
BAC	Board Audit Committee
BHRRC	Board Human Resources and Remuneration Committee
BIRMC	Board Integrated Risk Management Committee
BIS	Bank for International Settlement
Bn	Billion
BNC	Board Nomination Committee
bps	Basis Points
BRPTRC	Board Related Party Transactions Review Committee
BTL	Below the Line
CA Sri Lanka/ ICASL	Institute of Chartered Accountants of Sri Lanka
CAD	Credit Administration Department
CAPEX	Capital Expenditure
CAR	Capital Adequacy Ratio
CASA	Current Accounts and Savings Accounts
CBSL	Central Bank of Sri Lanka
CCC	Customer Care Centre
CCPI	Colombo Consumer Price Index
CEFT	Common Electronic Fund Transfer
CEO	Chief Executive Officer
CET I	Common Equity Tier I
CFM	Close Family Members
CFO	Chief Financial Officer
CIO	Chief Information Officer
CRM	Cash Recycler Machine
CSE	Colombo Stock Exchange
CSP	Customer Security Programme
CSR	Corporate Social Responsibility
DBU	Domestic Banking Unit
DPD	Days Past Due
D-SIB	Domestic Systemically Important Bank
EAD	Exposure at Default
ECL	Expected Credit Loss
EDB	Export Development Board

EIR	Effective Interest Rate
EMDE	Emerging Market and Developing Economies
EPF	Employees' Provident Fund
EPS	Earnings per Share
ESG	Environmental, Social and Governance
ESMS	Environmental and Social Management System
ESOP	Employee Share Ownership/Option Plan
ESOS	Employee Share Option Scheme
ESPS	Employee Share Purchase Scheme
EUR	Euro
FD	Fixed Deposit
FMCG	Fast-Moving Consumer Goods
FVOCI	Fair Value through Other Comprehensive Income
FVPL	Fair Value Through Profit or Loss
FX/FOREX	Foreign Exchange
FY	Financial Year
GBP	British Pound Sterling
GDP	Gross Domestic Product
GRI	Global Reporting Initiative
HQLA	High Quality Liquid Assets
HR	Human Resources
HRIS	Human Resource Information System
i.e.	That is
ICAAP	Internal Capital Adequacy Assessment Process
IFC	International Finance Corporation
IMF	International Monetary Fund
IMF-EFF	International Monetary Fund-Extended Fund Facility
IPG	Internet Payment Gateway
IR	Integrated Reporting
IRR	Interest Rate Risk
ISO	International Organisation for Standardisation
IT	Information Technology
JPY	Japanese Yen
Kg	Kilograms
KMP	Key Management Personnel
KPI	Key Performance Indicators
KRI	Key Risk Indicators
kWh	Kilowatt-hour
KYC	Know-Your-Customer
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LKR	Sri Lankan Rupee
LTECL	Life Time Expected Credit Loss
MD	Managing Director
MIS	Management Information System
Mn	Million
MSME	Micro, Small and Medium Scale Entrepreneurs
MTM	Mark to Market

## Acronyms and Abbreviations

NIC	National Identity Card
NII	Net Interest Income
NIM	Net Interest Margin
NPA	Non-Performing Advances
NSFR	Net Stable Funding Ratio
OBU	Offshore Banking Unit
OCI	Other Comprehensive Income
OD	Overdraft
OTP	One-Time-Password
p.a.	Per Annum
PAM	Privileged Access Management
PAT	Profit After Tax
PBT	Profit Before Tax
PD	Probability of Default
PLC	Public Limited Company
PPE	Property, Plant and Equipment
PUC	Projected Unit Credit
PVBP	Present Value Basis Points
Q1/Q2/Q3/ Q4	Quarter 1/Quarter 2/Quarter 3/Quarter 4
RBP	Risk Based Pricing
RCSA	Risk and Control Self-Assessment
ROA	Return on Assets
ROE	Return on Equity
RPT	Related Party Transactions
RWA	Risk Weighted Assets

SGD	Singapore Dollar
SLAR	Statutory Liquid Assets Ratio
SLDB	Sri Lanka Development Bond
SLFRS/ LKAS	Sri Lanka Accounting Standards
SLSAE	Sri Lanka Standard on Assurance Engagements
SME	Small and Medium-sized Enterprises
SMS	Short Message/Messaging Service
SOC	Security Operation Centre
SPPI	Solely Payments of Principal and Interest
Sri Lanka NCPD	National Cleaner Production Centre of Sri Lanka
SRR	Statutory Reserve Ratio
SWIFT	Society for Worldwide Interbank Financial Telecommunications
T-Bill	Treasury Bill
T-Bond	Treasury Bond
Tn	Trillion
UK	United Kingdom
US	United States
USD/US\$	United States Dollar
VaR	Value at Risk
VAT	Value Added Tax
Vis-à-vis	In relation to, counterpart
w.e.f.	With Effect From
YoY	Year-on-Year

# Notice of Meeting

NOTICE IS HEREBY GIVEN THAT the Twelfth Annual General Meeting of Cargills Bank PLC will be held at the Institute of Chartered Accountants of Sri Lanka, No: 30 A, Malalasekara Mawatha, Colombo 07, on Friday, 26 April 2024 at 10.30 a.m. for the following purposes;

1. To receive and consider the Annual Report of the Board of Directors and Statement of Audited Accounts for the year ended 31 December 2023 with Report of the Auditors thereon.
2. To re-elect as a Director Mr. R A Ebell who retires by rotation in terms of Article 86 of the Articles of Association of the Bank.
3. To re-elect as a Director Mr. Y Kanagasabai who retires by rotation in terms of Article 86 of the Articles of Association of the Bank.
4. To elect as a Director Mr. R A Jayawardena in terms of Article 92 of the Articles of Association of the Bank.
5. To elect as a Director Mrs. S Gnanapragasam in terms of Article 92 of the Articles of Association of the Bank.
6. To elect as a Director Mr. A Herath in terms of Article 92 of the Articles of Association of the Bank.
7. To re-appoint Messrs. KPMG, Chartered Accountants, as Auditors of the Bank for the ensuing financial year at a remuneration to be determined by the Directors.

By Order of the Board,



Ms. Amendra de Silva  
Company Secretary

Colombo  
26 March 2024

## Notes:

1. A shareholder is entitled to attend and vote at the meeting or appoint a Proxy holder to attend and vote at the meeting instead of him/her. The Proxy holder need not be a shareholder of the Company.
2. A Form of Proxy accompanies this notice.
3. The completed Form of Proxy must be lodged at the Registered Office of the Company not less than 48 hours before the meeting.
4. Shareholders/Proxy holders attending the meeting are requested to bring their National Identity Cards.
5. Voting at a Meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by-
  - (i) The Chairman of the meeting; or
  - (ii) Not less than five persons present in person or by attorney or representative or by proxy and entitled to vote; or
  - (iii) A Member or Members present in person or by attorney or representative or by proxy and representing not less than one-tenth of the total voting rights of all the Members having the right to vote at the Meeting.A demand for a poll may be withdrawn. Unless a poll be demanded (and the demand be not withdrawn) a declaration by the Chairman of the Meeting that a resolution has been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the minute book, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against such resolution.
6. If a poll is taken, every member who is present in person or by proxy or by attorney or by representative shall be entitled to one vote for each share held by him, subject to any rights or restrictions for the time being attached to the shares. In the case of an equality of votes, whether on a show of hands or poll, the Chairman of the Meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to a second or casting vote.



# Form of Proxy

I/We ..... of

being a Member/Members of Cargills Bank PLC hereby appoint .....

(holder of NIC No : .....) of .....or failing him/her ;

Mr. Richard Ebell (Chairman)	or failing him
Mr. Senarath Bandara (MD/CEO)	or failing him
Ms. Marianne Page	or failing her
Mr. Yudhishtran Kanagasabai	or failing him
Mr. Buwaneka Perera	or failing him
Mr. Asoka Pieris	or failing him
Mr. Ravindra Jayawardena	or failing him
Mrs. Shanti Gnanapragasam	or failing her
Mr. Arjuna Herath	

as my/our Proxy to represent me/us to speak and vote whether on a show of hands or on a poll for me/us and on my/our behalf at the twelfth Annual General Meeting of the Bank to be held on Friday, 26 April 2024 and at any adjournment thereof and at every poll which may be taken in consequence thereof (Please indicate your preference with “✓”);

		For	Against
1.	To re-elect as a Director Mr. R A Ebell who retires by rotation in terms of Article 86 of the Articles of Association of the Bank.	<input type="checkbox"/>	<input type="checkbox"/>
2.	To re-elect as a Director Mr. Y Kanagasabai who retires by rotation in terms of Article 86 of the Articles of Association of the Bank.	<input type="checkbox"/>	<input type="checkbox"/>
3.	To elect as a Director Mr. R A Jayawardena in terms of Article 92 of the Articles of Association of the Bank.	<input type="checkbox"/>	<input type="checkbox"/>
4.	To elect as a Director Mrs. S Gnanapragasam in terms of Article 92 of the Articles of Association of the Bank.	<input type="checkbox"/>	<input type="checkbox"/>
5.	To elect as a Director Mr. A Herath in terms of Article 92 of the Articles of Association of the Bank.	<input type="checkbox"/>	<input type="checkbox"/>
6.	To re-appoint Messrs. KPMG, Chartered Accountants, as Auditors of the Bank for the ensuing financial year at a remuneration to be determined by the Directors.	<input type="checkbox"/>	<input type="checkbox"/>

Signed on this ..... day of ..... 2024

.....  
Signature/s of Shareholder/s

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

## Note:

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

**Instructions as to Completion of the Proxy Form**

1. Please perfect the Form of Proxy by filling legibly your full name and address, by signing in the space provided and filling in the date of signature.
2. The completed Form of Proxy should be deposited at the registered office of the Bank, No: 696, Galle Road, Colombo - 03 or scan of the signed document emailed to [amendra.d@cargillsbank.com](mailto:amendra.d@cargillsbank.com) with the subject title "Annual General Meeting - Cargills Bank PLC" or sent to facsimile number + 94 117640507 not less than 48 hours before the time appointed for holding of the meeting.
3. If the Proxy Form is signed by an Attorney, the relevant Power of Attorney or a notarially certified copy thereof, should also accompany the completed Form of Proxy, if it has not already been registered with the Bank.
4. If the appointer is a Company or Corporation, this form must be executed under the Common Seal or in such other manner prescribed by its Articles of Association or other constitutional documents.
5. In the case of joint holders, only one need to sign.



# Corporate Information

## Name of the Company

Cargills Bank PLC

## 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 as amended from time to time.

## Stock Exchange Listing

The ordinary shares are listed on the Colombo Stock Exchange

## Registration Number

PQ00293614 (Previously PB 4847)

## Accounting Year-End

December 31

## Head Office and Registered Office

No. 696, Galle Road,  
Colombo 03,  
Sri Lanka

## Telephone

+9411 - 7 640 000

## Facsimile

+9411 - 7 640 507

## Swift Code

CGRBLK LX

## E-Mail

info@cargillsbank.com

## Web Page

www.cargillsbank.com

## Credit Rating:

Fitch Rating A(lka)

## Tax Payer Identification Number (TIN)

134048476

## VAT Registration Number

134048476 - 7000

## Board of Directors

Richard Ebell – *Chairman*  
Senarath Bandara (*MD/CEO*)  
Ms. Marianne Page  
Yudhishtan Kanagasabai  
Buwaneka Perera  
Asoka Pieris  
Ravindra Jayawardena  
Mrs. Shanti Gnanapragasam  
Arjuna Herath

## Board Sub-Committees

### Board Human Resources and Remuneration Committee

Mrs. Shanti Gnanapragasam- *Committee Chairperson*  
Richard Ebell  
Asoka Pieris  
Ravindra Jayawardena  
Arjuna Herath  
Ms. Amendra de Silva - *Secretary*

### Board Integrated Risk Management Committee

Yudhishtan Kanagasabai - *Committee Chairperson*  
Richard Ebell  
Mrs. Shanti Gnanapragasam  
Arjuna Herath  
Senarath Bandara - *MD/CEO*  
Prabhu Mathavan - *COO*  
Chandrasa Amarasinghe- *DGM Retail and Business Banking*  
Gayantha Wijekoon - *Head of Compliance*  
Wimal Karunaarachchi – *Head of Risk Management- Secretary*

## Board Nominations & Governance Committee

Buwaneka Perera - *Committee Chairman*  
Richard Ebell  
Asoka Pieris  
Arjuna Herath  
Ms. Amendra de Silva - *Secretary*

## Board Audit Committee

Arjuna Herath - *Committee Chairman*  
Richard Ebell  
Yudhishtan Kanagasabai  
Buwaneka Perera  
Kusala Karunaratne - *Secretary*

## Board Credit Committee

Buwaneka Perera - *Committee Chairman*  
Ms. Marianne Page  
Asoka Pieris  
Mrs. Shanti Gnanapragasam  
Ms. Amendra de Silva - *Secretary*

## Board Strategic Planning Committee

Richard Ebell- *Committee Chairman*  
Senarath Bandara - *MD/CEO*  
Ms. Marianne Page  
Yudhishtan Kanagasabai  
Buwaneka Perera  
Asoka Pieris  
Ravindra Jayawardena  
Mrs. Shanti Gnanapragasam  
Arjuna Herath  
Ms. Amendra de Silva - *Secretary*

## Board Related Party Transactions Review Committee

Yudhishtan Kanagasabai - *Committee Chairperson*  
Richard Ebell  
Mrs. Shanti Gnanapragasam  
Ms. Amendra de Silva – *Secretary*

## Other Information

### Auditors

Messrs. KPMG  
Chartered Accountants,  
No. 32A, Sir Mohamed Macan Markar  
Mawatha,  
Colombo 03  
Sri Lanka

### Lawyers

Messrs. Julius & Creasy  
No. 371, R.A. de Mel Mawatha,  
Colombo 03  
Sri Lanka

### Compliance Officer

Gayantha Wijekoon

### Company Secretary

Ms. Amendra de Silva  
No. 696, Galle Road,  
Colombo 03  
Sri Lanka

E-mail: amendra.d@cargillsbank.com

Tel: +94117 640170

### Registrar

S S P Corporate Services (Pvt) Ltd,  
No. 101 Inner Flower Road,  
Colombo 03  
Sri Lanka

Tel: +94-11-2513894

Fax: +94-11-2573609

E-mail: sspsec@slt.net.lk

## Queries

### On the 2023 Annual Report

Mrs. Dilhani Gajanayaka  
Head of Finance  
No. 696, Galle Road,  
Colombo 03  
Sri Lanka

dilhani.g@cargillsbank.com

Tel: +94 11 7 640140

### On Investor Relations

Mr. Talaal Maruzook  
Chief Strategy Officer  
No. 696, Galle Road,  
Colombo 03  
Sri Lanka

E-mail: talaal.m@cargillsbank.com

Tel: +94 11 7 640510



[www.cargillsbank.com](http://www.cargillsbank.com)