CargillsBank
Banking on the Human Spirit

CARGILLS BANK LIMITED

ANNUAL REPORT 2019

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Vision

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

Mission

We aim to directly engage every customer at their convenience by a unique and far reaching network, through efficient and innovative technology.

To facilitate and empower small and medium entrepreneurs, enhance industry standards through a highly motivated team of innovative bankers.

Our Heritage

Founded on the belief that uplifting the people in the rural sector will strengthen our nation, and on the basis that our nation has always been an agrarian society, once renowned as the granary of the east, the fortunes of our nation have always centred around agriculture. **Thus, the Cargills Bank logo portrays an ear of paddy, a symbol of prosperity and agriculture in Sri Lanka.**

The upward movement of the logo depicts prosperity and growth. The colour, a hue of Red and Orange, denotes a bright future. As we look closer, we also see people standing behind one another, symbolic of supporting each other, giving significance to the nature of the human spirit, that an individual's success is built on support of the community, of which Cargills Bank is also a part.

The largest shareholders of Cargills Bank Limited are Cargills (Ceylon) PLC and CT Holdings PLC,

both highly diversified conglomerates listed in the Colombo Stock Exchange, with interests in entertainment, the hospitality trade, property development, manufacturing, food processing and retailing.

Our Partners

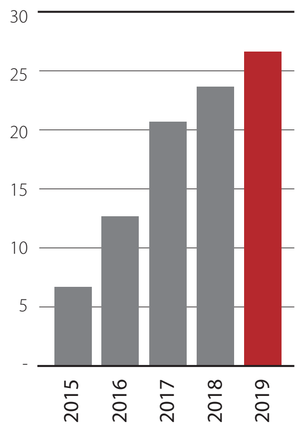
Cargills Ceylon PLC, a Sri Lankan corporate established in 1844

is built on a strong foundation of values and ethics.

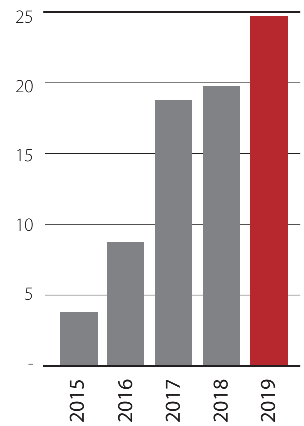
Cargills Bank is also well partnered through investments of leading corporates in the country whose brands, financial performance, market share and business foresight have placed them at the highest levels of their respective fields.

Year in Review

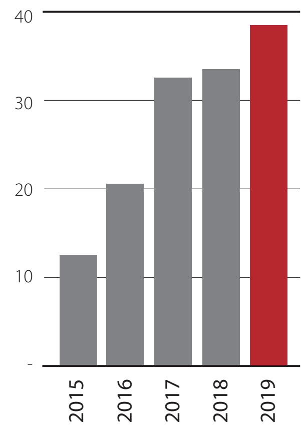
Loans and Advances
(Rs. Bn)



Total Deposits
(Rs. Bn)



Total Assets
(Rs. Bn)



Loans and Advances

LKR. 27,013 Mn

13% ▲

Total Deposits

LKR. 25,042 Mn

26% ▲

Total Assets

LKR. 39,138 Mn

16% ▲

Gross Income

LKR. 4,959 Mn

15% ▲

Operating Income

LKR. 2,452 Mn

4% ▲

400+
Access Points

20
Branches

650
Employees

27%
Capital Adequacy Ratio

	2019 Rs’ 000	2018 Rs’ 000	Change %
Operating Results			
Gross income	4,959,253	4,300,243	15
Net interest income	2,043,651	2,029,307	1
Net fees and other income	408,663	328,674	24
Total operating income	2,452,314	2,357,981	4
Operating (loss)/profit before taxes	(887,919)	336,586	(364)
(Loss)/ profit for the year	(666,600)	122,805	(643)
Assets and Liabilities			
Loans and advances	27,013,673	23,917,397	13
Customers deposits	25,042,562	19,902,741	26
Total assets	39,138,534	33,803,120	16
Total liabilities	28,706,069	22,779,158	26
Shareholder’s funds	10,432,465	11,023,962	(5)
Key Indicators			
(Loss)/ earning per share	(0.75)	0.14	
Net asset value per share	11.81	12.48	
Net Interest Margin %	5.55	5.88	
Return on assets (before income tax) %	(2.41)	0.97	
Return on equity %	(5.96)	1.09	
NPL ratio	12.79	6.04	
Regulatory Ratios			
Tier 1 capital adequacy ratio %	26.37	32.27	
Tier 1 & 2 capital adequacy ratio %	26.87	32.62	
Liquid asset ratio %	32.65	23.34	

Chairman's Message

"Our goal was to introduce inclusive banking to Sri Lanka. Leveraging on the distribution system of Cargills and its brand strength, we sought to implement a business model - built on our intrinsic passion - to promote greater accessibility to mainstream financial services."

"We introduced digitally enabled services such as Cargills Cash and Tab-based Banking and established a far-reaching agency banking distribution network, supplemented by the extensive retail footprint of Cargills Food City."

Dear shareholder,
We are pleased to present the annual report and audited financial statements of Cargills Bank for the year 2019.

During the year under review, which marked the completion of our fifth year of commercial operations, various challenges in the operating environment were not unique to Cargills Bank. However, the journey to realising our fullest potential – of our business model - is beginning.

Even though we are the most recent local entrant into the Sri Lankan banking sector, we share a deep bond with our brand Cargills across the country. Therefore, we feel this is an opportune moment to revisit our initial vision and reflect on how these strategies have evolved over the years.

Connecting our Customers to Financial Inclusivity

Ever since Cargills Bank was conceptualised, we understood that our definition of value would be to offer convenience and accessibility with regards to banking services. We felt we had to do more than simply emulate the success of our industry peers. So we envisioned a business model that was financially inclusive at its core.

Inspired by our brand's 175-year story centred on inclusivity, we needed to ensure that the business model we developed would be grounded and could reach out to and serve customers across the country.

Therefore, our goal was to introduce inclusive banking to Sri Lanka. Leveraging on the distribution system of Cargills and its brand strength, we sought to implement a business model - built on our intrinsic passion - to promote greater accessibility to mainstream financial services.

Proving Commitment in the Face of Adversity

Despite the challenges faced, our shareholders did not hold back on critical investments and proceeded with the roll-out of the Bank on schedule, offering a fully-fledged portfolio of products and services to our customers. We introduced digitally enabled services such as Cargills Cash and Tab-based Banking and established a far-reaching agency banking distribution network, supplemented by the extensive retail footprint of Cargills Food City.

The management is confident that we are on the right track to unlocking the true potential of the Bank's business model and are also committed to meeting all the Bank's future capital requirements as they have in the past, despite the immense challenges faced. This commitment and inherent support of our promoters have enabled us to secure a multi-notch upgrade by Fitch Ratings to A- (lkr) with a Stable Outlook during 2019.

Re-validating the Past, Re-aligning to the Future

Over the past five years, the financial services paradigm has seen a significant transformation. With this comes new challenges, particularly regarding data privacy protection and cyber security. However, they also bring unprecedented opportunities to the Bank.

In order to ensure that the Bank is optimally positioned to capitalise on these dynamics, we have commissioned an independent and external review and re-validation of our business model by acquiring the services of a highly reputed international firm of consultants. This review will be undertaken during 2020 and will provide an outside perspective and objective analysis of the Bank's overall vision and strategic direction.

Another future target will be to raise the Bank's capital to meet the enhanced regulatory requirements. We intend to achieve this through selected partnerships with globally reputed DFIs and other strategic partners. Similarly, plans are also in place to list Cargills Bank by way of an introduction to the Diri Savi Board of the Colombo Stock Exchange.

A Heartfelt Group-effort

Cargills Bank's progress is the result of the dedication and hard work of many people. I wish to warmly thank our outgoing Chairman, Mr. Louis Page, whose visionary leadership, guidance and professionalism served as the backbone of the Bank from its inception. We owe him a lasting debt of gratitude for successfully navigating the Bank through innumerable challenges and laying a strong foundation, while ensuring that it remains firmly aligned to the spirit and values of Cargills.

I would like to place on record our appreciation for the contribution made by Dr. Dushni Weerakoon who resigned from the Board following her appointment as a member of the Monetary Board of the Central Bank of Sri Lanka. I wish her success in her future endeavours.

During the year under review, Mr. Yudhishtran Kanagasabai and Ms. Marianne Page joined the Board of Cargills Bank in the capacity of Non-Independent Non-Executive Directors. I take this opportunity to welcome them to our Board and am confident their experience will positively contribute to the development of the Bank.

I also wish to thank our spirited team and my colleagues on the Board of Directors for tirelessly contributing their time and expertise towards the Bank's progress in the year and beyond. We will focus the team's energy to build on the foundation of this unique product portfolio and drive the business to the next stage.

My gratitude also goes out to our valued shareholders for their support and the confidence they place in Cargills Bank, as we forge ahead to attain our vision.

I also wish to convey our deep gratitude to the Central Bank of Sri Lanka for understanding the challenges we've had to endure, and the continuous support and guidance it has given us throughout the past five years. We look forward to maintaining this vital and productive engagement in order to ensure that, as our Bank grows, we remain strictly compliant with all necessary regulations.

Most importantly, I wish to convey our sincere appreciation to all our customers and stakeholders for believing in our business model. We remain undeterred and are cautiously optimistic that we will be able to showcase the uniqueness of our business model. Going forward, post COVID-19, we are re-engineering our business to further enable cashless banking, in order to meet the changing consumer patterns.

Ranjit Page
Chairman

25 March 2020

CEO's Statement

"It is worthwhile to acknowledge the resilience that Cargills Bank has displayed and we are pleased to report that, backed by the resounding support of our parent, Cargills Bank continued to maintain its focus in the key thrust area of Agricultural and SME lending leveraging on the vast Cargills eco-system and remains committed in building a retail centric bank."

Dear Stakeholder

While the period in review brought with it mixed fortunes for Sri Lanka and for Cargills Bank, we conclude this year with a sense of pride in the unwavering resilience and perseverance shown by our nation, our organisation, and the people who power it. While we have faced setbacks arising out of a uniquely challenging operating environment, we maintain our confidence in the potential of this organisation and its mission to redefine the role of banking in the lives of ordinary Sri Lankans, particularly those at the fringes of economic prosperity.

By the end of the year in review, GDP growth had slumped to 2.7% Year-on-Year (YoY) - its lowest point in well over a decade, as compared with 3.5% YoY in 2018. Services sector growth dropped from a robust 4.6% YoY in 2018 down to 2.3% YoY by the end of the year in review.

A notable macroeconomic development during the year in review included the first instance in a decade of the Sri Lankan rupee appreciating marginally against the dollar. Following successive years of drastic exchange volatility, this improvement was a welcome development for the domestic economy.

The year in review was also notable in that it marked the first departure from the Central Bank of Sri Lanka's policy of monetary tightening over the past two years. Responding to an economy that was sluggish, the decision was made to lower interest and lending rates in order to provide stimulus to flagging growth.

Regulatory intervention commenced with deposit rates and followed through into lending rates during the first quarter.

Several macroeconomic developments had ramifications on the performance of the banking sector, with the most pressing concern for the entire industry being the persistent increase in Non-Performing Loans which rose to 4.7%, as compared with 3.4% in 2018.

Deposit growth was also impacted by the challenging economic environment dropping from a robust 14.8% in 2018 down to 7.9% across the entire banking sector.

While the overall outlook for the Sri Lankan economy appears more positive, the economy as well as the banking sector are anticipated to face further short-term instability owing to rising global economic and political volatility in 2020. Nevertheless, the economy is currently projected to improve in performance over the coming year, with GDP anticipated to rebound to 3.3% YoY.

Financial Performance and Operational Highlights

Given the highly challenging conditions prevailing throughout 2019, Cargills Bank was able to register reasonable top-line performances. Gross income for the year in review expanded by 15% YoY up to Rs. 4.96 Bn while Net Interest Income held steady at Rs. 2 Bn.

The Bank benefited from the roll out of Cargills Bank Credit and Debit cards in 2018 which also assisted in the 70% YoY expansion in Fee and Commission Income and 42% YoY increase in Net Fee and Commission Income up to Rs. 384 Mn and 223.9 Mn respectively.

Total operating income during the year posted a marginal growth of 4% YoY up to Rs. 2.45 Bn but was harshly impacted by rising impairment charges. Impairment charge rose substantially from Rs. 313.9 Mn up to Rs. 1.15 Bn pursuant to higher non performing assets and impact of revised provisioning resulting from the adoption of SLFRS 09.

The increase in non performing assets presents a significant challenge and the Bank is expediting recovery actions in this regard. The slowdown in the economy and some key customers being adversely affected by specific circumstances impacting their businesses in an acute manner resulted in the increase in non performing assets. The fact that 75% of NPLs arose out of 25 customers enabled the Bank to create specific plans of action for recovery on each of these loan tickets and we remain positive that most of these would be progressively recovered in the ensuing financial years.

Net Operating Income was negatively impacted by these conditions, reducing by 36% YoY down to Rs. 1.3 Bn. Personnel expenses during this period marked a 17% YoY increase up to Rs. 873.42 Mn while depreciation and amortisation expenses cost the Bank a further Rs. 416.3 Mn – reflecting an incline of 69% YoY while other operating expenses rose by 26% YoY to Rs. 902.2 Mn. Consequently, the previous year's operating profit of Rs. 336.6 Mn was reversed into a Rs. 888 Mn operating loss.

Hence at the conclusion of an extremely challenging year, the Bank registered a Loss Before Tax of Rs. 887 Mn and a Loss After Tax of Rs. 666.6 Mn.

Nonetheless, the Bank's total assets have positively grown by 16% to Rs. 39 Bn from Rs. 34 Bn in 2018 while the loan book grew by 13% to Rs. 27 Bn from 24 Bn reported in 2018. Liabilities to deposit holders also recorded a growth of 26% to 25 Bn from 20 Bn in 2018.

While several macroeconomic conditions contributed to this subdued performance, it is worthwhile to acknowledge the resilience that Cargills Bank has displayed and we are pleased to report that, backed by the resounding support of our parent, Cargills Bank continued to maintain its focus in the key thrust areas of Agricultural and SME lending, leveraging on the vast Cargills eco-system and remains committed in building a retail centric bank.

Agri-empowerment and Lending to the Dairy Sector

Cargills Bank places special emphasis on channelling much needed credit into Sri Lanka's agriculture and dairy sector. The Bank is cognisant of the need to structure products to cater to the needs of the farming community, the majority of which should be small ticket size, short term and wherever possible by participation in refinance schemes. While this sector is typically unable to offer collateral, the fact that our unique business model is to build on the strength of buy-back arrangements between our parent and its suppliers, facilitates easy access to the farmers whilst enhancing the credit quality of our portfolio. Besides financing growers and cultivators, we provide financial inclusivity to those storing and supplying fresh vegetables, fruit and milk directly to the Cargills Food Company network and we anticipate sustainable growth in this sector through these back to back lending arrangements.

Dairy production is another sector with vibrant growth potential which Cargills Bank is actively working to support in partnership with our parent, which itself has grown to become the single largest dairy collector in Sri Lanka. Such a notable expansion provides Cargills Bank even greater confidence to focus its resources towards increasing lending to this sector which would also be in alignment with national priorities.

During the year in review, the agri and dairy sector lending faced a moderation in growth as greater emphasis and focus was placed on asset quality. Although, borrowers in this segment are usually consistent and systematic in their repayment, there were notable instances of non-performance, many of which were concentrated around particular geographic areas. Consequently, much of the Bank's efforts were focused on recovery. In order to mitigate such problems in the future, the Bank has taken a strategic decision that new business growth in the agri-sector will be sourced mostly from enterprises and suppliers that are already within the Cargills eco-system.

CEO's Statement contd.

"To promote and develop the Small and Medium Enterprises (SME), provide them with multiple benefits and spur their businesses to economic prosperity."

Small and Medium Enterprises

One of the basic premises for the formation of Cargills Bank was to promote and develop the Small and Medium Enterprises (SME), provide them with multiple benefits and spur their businesses to economic prosperity. This is a sector in which our links to the trusted legacy of the Cargills Group has proved especially invaluable, given the parent's long-standing partnerships across an entire agriculture, dairy and SME based network that supplies the retail and manufacturing companies within the group which in turn markets the manufactured products to trade outlets and distributors in every corner of Sri Lanka.

Moving forward, this is a segment in which Cargills Bank will continue to channel extensive support with a view to enhancing the entire SME eco-system in a holistic manner. Our focus for 2020 is to continue to enhance this sector, leveraging on strategic business opportunities that are informed by data and backed by the trusted relationships and network of the Cargills Group.

Retail Banking

Retail banking is another key thrust area apart from the focus on the agriculture and SME segment. Cargills Bank was founded on the principle that diverse segments of society require equally diverse products to serve their needs. In furtherance of this, the Bank continues to innovate and deliver products that appeal to the retail segment and focusses in utilising the opportunities made available by our parent's retail network to expand its customer base. During the year in review, although the Bank expanded its brick-and-mortar footprint with the opening of 2 new branches, the primary thrust of the Bank's expansion program was in popularising the agency banking arrangement with Cargills Food City and increase the activation of online banking.

The Cargills Cash Agency Banking model is now fully operational and is accessible at more than 400 Food City locations island wide and offers a unique low cost model for the Bank to capitalise on and provide banking services to the thousands who patronise the Food City chain on a daily basis. A conscious effort is being made to further optimise usage of this unique proposition and as customers become increasingly familiar and aware of the convenience Cargills Cash offers them in fulfilling their banking needs we are confident that the coming years will witness a significant growth in this product and there would be a meaningful impact towards the financial performance of the Bank. Systematic efforts were made to promote Cargills Cash primarily to attract more retail customers including conversion of existing customers during the period under review. The ability of the Bank to onboard customers at approved Food City outlets via a tab account opening facility is expected to increase the customer base of the Bank further complementing Cargills cash.

A growing customer base would no doubt assist in the maintenance of a sticky retail deposit portfolio. Cargills Bank was successful in growing the deposit portfolio which is commendable given the extremely challenging economic environment. A tailor made product with special interest rates on fixed deposits for senior citizens was launched. Account holders of this product were granted special discounts on pharmaceutical purchases at any Cargills Food City outlet providing benefits in the form of cheaper cost of essential medicines, over and above enhanced interest income. This product created excitement in the market and was well received by the target segment.

The Bank also focuses on the inward remittance business and rolled out a targeted strategy on remittances that favoured partnerships with a small number of telco-centric remitters over the established exchange houses. An example of this system is our partnership with blockchain based channel, Ripple, which has quickly become the second largest source of remittances in terms of volume for Cargills Bank. As volumes continue to be generated, we are confident that this segment would also contribute towards generating revenue and income.

Business Banking

Once again, the challenging microenvironment was a major factor in the moderation of growth and targets in the Bank's corporate and business banking portfolio. However, we are pleased to report that the portfolio was ultimately able to deliver growth to match our revised targets. Overall, business banking constitutes 43% of the Bank's portfolio, and we intend to maintain our exposure at comparative levels, hence the Bank was not aggressive in the pursuit of further corporate business.

Technology and Business Innovation

Cargills Bank in its five years of operations had a unique competitive advantage in that the Information Technology (IT) infrastructure did not require complex restructuring and reconfiguration of legacy systems. The fast-pace of technological innovation and customer adoption, and the need to introduce technology that continues to provide a competitive edge to the Bank makes it imperative that the Bank's information technology infrastructure is constantly reviewed and modernised. Combined with a strategic outlook that places a central emphasis on technology, Cargills Bank has been bold on customer-facing digital banking innovation while placing an equal emphasis on back-end administrative and analytics processes from its very inception.

This is evidenced by the fact that Cargills Bank has been at the forefront of integrating and supporting initiatives of Lanka Clear and the Central Bank of Sri Lanka. With this forward-leaning stance on technology the Bank stepped forward to support the National Payments Roadmap 2020-2022, including support for Lanka QR Code payments.

In addition to being an early supporter of direct integration with Sri Lanka Customs, we were also first in line to engage with innovative platforms like Just-Pay low-value acquiring with LankaPay, which holds the potential to energise the fin-tech industry in Sri Lanka by enabling a stream of large volume, low ticket payments that are anticipated to growth over the medium term through social inclusion.

Additionally, we were also successful in the roll out of our Card POS and Internet Payment Gateway acquiring, which will further complement our growing Credit and Debit Card base.

We were also quick to support the launch of the National Card Scheme (NCS) which will be operated by Lanka Clear in partnership with the international payment card operator JCB International of Japan.

Cargills Bank is acknowledged as the banker of choice to Fin-tech companies operating in Sri Lanka. While we understand that this is a segment which many view as a threat to their business model, we see immense potential from partnering with these disruptive new tech-enabled services in order to enhance access to finance, while simultaneously lowering the cost of such services to the end-customer and optimising delivery on such services.

To that end, Cargills Bank is also actively involved with the regulator in nurturing the National Sandbox Framework on Fintech innovation. Over the year in review, we were active in our participation around the framing of requirements for a National Know Your Customer Blockchain system.

Over time, this system could potentially become a single, secure integrated platform for essential customer information overseen by a Central Bank approved entity, and operated on a subscription-based model. Such systems will serve to radically streamline administrative processes, enabling customers to smoothly gain access to a wider array of products and services through online platforms, which in turn will help to expand access to finance on the scale necessary to mobilise grassroots development in good measure.

"Cargills Bank was founded on the principle that diverse segments of society require equally diverse products to serve their needs. In furtherance of this, the Bank continues to innovate and deliver products that appeal to the retail segment and focusses in utilising the opportunities made available by our parent's retail network to expand its customer base."

The common thread running through the technology strategy of Cargills Bank is a willingness to enter into collaborative partnerships – as opposed to closed loop partnerships. We aim to add value to our customers, while growing the overall market by embracing disruption and disintermediation instead of fighting it. These are dynamics which align perfectly with our own mission to redefine the role of banking in Sri Lanka.

Digitisation of our offices itself is another critical aspect of the Bank's tech strategy. Utilising the globally renowned Google G-Suite platform and IBM Watson, Cargills Bank has already reaped multiple benefits in terms of digitisation and optimisation of day-to-day administrative processes, with several processes digitised during the year in review.

CEO's Statement contd.

Moving forward, our goal is to precisely align Cargills Bank to capitalise on the emerging paradigms connected to the Fourth Industrial Revolution (4IR), as it relates to the optimisation of our own industry, as well as innovations connected to the agriculture sector, particularly in terms of the Internet of Things.

Another area with important implications for our industry is centred around biometric identification of individuals, which will play a major role in non-face-to-face on-boarding (i.e. e-KYC) of customers. Given the grassroots-FMCG centric positioning of Cargills Bank, e-KYC could drastically enhance our ability to engage with rural and semi-rural communities. This will undoubtedly be a watershed moment for the banking industry and for all Sri Lankans. In this regard, the much heralded e-NIC project is keenly awaited.

The visionary approach of Cargills Bank to technological opportunity continues to be one of the key differentiators, as evidenced by our performance at the LankaPay Technovation Awards 2019 when we won Gold in the coveted category of 'Bank of the Year for Financial Inclusivity', as well as two Merit awards as the acquiring bank for 'Best Mobile Application for Retail Payments'.

Recognition of our achievements is global as well as local, with Google showcasing some of the more innovative aspects of Cargills Bank at the Future of Digitisation Summit 2020.

CBSL Risk Resilience Framework

We are also actively implementing the Central Bank Risk Resilience Framework which we believe represents the next frontier in risk analysis and mitigation of technology and cyber-security related threats. Such a framework will undoubtedly be vital in not just safeguarding domestic customers, but also in providing international investors with confidence in the entire Sri Lankan banking system. Particularly given the long-term target of establishing Sri Lanka as a regional financial hub, we believe such best-in-class initiatives are essential.

Human Capital

Over the past five years, Cargills Bank continued to focus to attract and retain talent, inspired by our shared ambition to create new and innovative approaches to banking. Our key positions have been filled by leading industry veterans and emerging leaders. Hence over the year in review, recruitment was primarily at entry-level and with an emphasis on staffing our most recently established branches.

Consequently, special emphasis was directed towards training and skills development of our team. Several programmes were focused on ensuring that our employees develop a detailed understanding of the fundamentals of our business. However, a conscious effort is also being directed towards mapping our training strategy to support our unique approach to banking, and with an eye to the nexus of emerging technologies that are already reshaping our industry.

Equally important in our induction processes is ensuring that each trainee gains intensive exposure to the entire spectrum of operations and connected business ecosystems of the Cargills Group to facilitate synergies across.

Training and development programmes were further supplemented over the year in review with the introduction of online training tools that promote self-learning, based on the success of similar initiatives carried out in previous years.

Strategic Outlook

The conclusion of the year in review brings with it many reasons to be positive. From a business perspective, there is a clear expectation of greater policy consistency in the coming year, while the Government has expressed a clear commitment towards development – a prospect for which we believe Cargills Bank can play an impactful role given that grassroots development has been a focused consideration in every aspect of our organisation's business model.

Moving forward, Cargills Bank will be undertaking a careful analysis of the core principles and strategies driving its business model. This will include a re-evaluation of our existing portfolio, and the distribution of our branch network with an emphasis on realignment for greater profitability and with an eye to the increased focus on digital banking.

We will also maintain our strong focus on retail and FMCG supply chains, utilising a combination of data analytics and long-standing relationships in order to optimise financing across entire supply chains – spanning the entire ecosystem from transport and logistics, packaging, warehousing and storage – all of which will support the visionary initiatives of the Cargills Group that are focused on reinvigorating the country's agrarian economy.

Acknowledgements

We begin by acknowledging the monumental contributions made over the past five years by our outgoing Chairman, Mr. Louis Page who has been the guiding light of our organisation since its establishment. On behalf of the entire team at Cargills Bank, we express our heartfelt gratitude for his visionary leadership and for setting our organisation on a path which will undoubtedly serve to enhance the lives of all Sri Lankans in the years and decades to come.

We also warmly welcome the incoming Chairman, Mr. Ranjit Page, and look forward in great anticipation to working with him in achieving our common vision.

During the year, Dr. Dushni Weerakoon resigned from the Board of Cargills Bank following her appointment as a member of the Monetary Board of the Central Bank of Sri Lanka. Although serving a brief tenure on the Board, Dr. Weerakoon extended her vast experience to the Management team, for which we extend our appreciation.

On behalf of the team at Cargills Bank, I welcome Mr. Yudhishtran Kanagasabai and Ms. Marianne Page to the Board and look forward to their guidance and support.

We also place on record our sincere gratitude to the officials at the Central Bank of Sri Lanka for their invaluable guidance, oversight and assistance in the continuing development of Cargills Bank, and the confidence they continue to place in our vision for this organisation and the role it will grow to play in our nation in the years to come.

I also wish to thank the senior management and my entire team for their dedicated efforts and unwavering commitment that has helped Cargills Bank endure and overcome the challenges placed before us.

Finally, on behalf of Cargills Bank, I wish to thank our customers and stakeholders for their unreserved support and complete confidence in our abilities. As Sri Lanka's most recent local entrant into the banking industry, we have a great deal left to prove, but with five years under our belt, we stand resolutely ready to authentically serve their needs in an increasingly digital future.

Rajendra Theagarajah
Managing Director / CEO

25 March 2020

Profile of Directors

Ranjit Page
Chairman
(Non- Executive Director)

Ranjit Page possesses over 35 years of management experience with expertise in food retailing, food service and manufacturing, having introduced the concept of super marketing to the Sri Lankan masses. He is the Deputy Chairman/Managing Director of C T Holdings PLC and Deputy Chairman/ Chief Executive Officer of Cargills (Ceylon) PLC and also serves on the Boards of several other companies.

Rajendra Theagarajah
Managing Director/Chief Executive Officer

Rajendra Theagarajah is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and a Fellow Member of the Chartered Institute of Management Accountants (UK).

He is a veteran banker with a wealth of experience in the Banking and Financial services sector. He counts over 36 years in banking both locally and overseas.

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

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

Prabhu Mathavan
(Executive Director)

Prabhu Mathavan is an Associate Member of the Chartered Institute of Management Accountants (UK) and the Institute of Chartered Accountants of Sri Lanka. He also holds a Bachelor's Degree in Commerce. He possesses over 26 years of experience in the fields of Finance, Auditing, Accounting and Taxation.

Mangala Boyagoda
Senior Director
(Non-Executive Independent Director)

Mangala Boyagoda is a Senior Banker, possessing over 38 years' experience holding key positions in the field of Financial Services. He is the former CEO of Standard Chartered Bank. He is the present Chairman of Wealth Lanka Management (Pvt) Ltd., Director of SAFE Holdings (Pvt) Ltd., Wealth Trust Securities Ltd., Asset Trust Management (Pvt) Ltd., Ceylon Hotels Corporation PLC, Sierra Constructions (Pvt) Ltd., Ambeon Holdings PLC, Dankotuwa Porcelain PLC, Sri Lanka Gateway Industries (Pvt) Ltd., CA Crushing (Pvt) Ltd., Ceylinco General Insurance Ltd., Faber Capital Lanka (Pvt) Ltd., Royal Fernwood Porcelain Ltd., United Hotel (Pvt) Ltd., Chemanex PLC, Asset Holding (Pvt) Ltd., Dhamma Parami Trust and CIESOT.

He has served as a Consultant to the Asian Development Bank (ADB), the World Bank, the Central Bank of Sri Lanka and the Securities and Exchange Commissions of Sri Lanka and Bangladesh.

He is a former President of the FOREX Association of Sri Lanka. He holds a Master's Degree in Business Administration from the Irish International University (European Union).

Faizal Salieh

(Non-Executive Independent Director)

Faizal Salieh is well known for the outstanding leadership role he has played in initiating, developing and furthering the practice of interest-free banking in Sri Lanka based on the principles of profit and loss sharing. In 2004 he took a tremendously challenging job as Managing Director of an unregulated non-bank financial institution, transformed its entire business and led the formation and establishment of Amana Bank in 2011, as the country's first commercial bank operating entirely on the principles of Islamic banking. He also played a key role in facilitating appropriate changes to the country's regulatory, fiscal and legislative framework to support interest-free banking. He was the founder Managing Director and CEO of Amana Bank and retired in June 2014 after 10 years of outstanding contribution to the first Islamic finance initiative in Sri Lanka. He was the first Chairman of the Technical Committee on Islamic Banking of the Sri Lanka Banks' Association, a committee which he initiated and led.

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

Faizal has well over three decades of extensive experience in commercial and development banking both in Sri Lanka and overseas; has held top management positions in global and local banks such as Grindlays Bank, ANZ Bank and National Development Bank; Board Director of several companies in the business of banking, finance, insurance, fund management, stockbroking, manufacturing, trading, and education; has served on State University Boards, and several Government and Non-Governmental Committees in the fields of finance, economic affairs, housing, construction and tertiary education. In addition, he has served on the Boards of Lanka Clear (Private) Limited which is the country's automated cheque clearing house, The Institute of Bankers of Sri Lanka, and The Ceylon Chamber of Commerce.

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

He holds a Bachelor's Degree in Economics with First Class Honours, a Master's Degree in Business Administration and is a Fellow of the Institute of Chartered Professional Managers in Sri Lanka.

Richard Ebell

(Non - Executive Independent Director)

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

He is a Past President of CIMA, Sri Lanka Division. He is active in an Audit Committee Forum and an Independent Directors Forum both associated with the Sri Lanka Institute of Directors, and in the Corporate Governance Committee of CA Sri Lanka. He serves as an Independent Non-Executive Director of Asiri Hospital Holdings PLC and chairs its Audit Committee. He has previously served in the same capacities on the Boards of other listed and regulated entities.

Profile of Directors contd.

Ms. Ruvini Fernando

(Non-Executive Independent Director)

Ms. Fernando is employed at PricewaterhouseCoopers Colombo as Director PPP Advisory and Deals Strategy and was formerly an Executive Director of Ceylon Guardian Investment Trust PLC and several of its group companies and the Chief Executive Officer of Guardian Fund Management Limited, heading the investment business of Carson Cumberbatch PLC.

Prior to that she was employed within the Carsons Group as head of planning and various other positions; as well as within the Hayleys Group as a management accountant.

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

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

Ms. Marianne Page

(Non-Executive Director)

Ms. Marianne Page is a Fellow Member of the Chartered Institute of Management Accountants, UK.

She has been promoting Sri Lanka as an investment destination to Foreign Institutional Investors (FII's) since the liberalisation of the Colombo Stock Exchange (CSE) in 1990.

With a career spanning over 30 years in senior positions at global financial institutions (Credit Lyonnais, Smith New Court and Lehman Brothers) and her long standing experience and involvement in Asian financial markets, she has a strong network of relationships with leading International Fund Managers and Sri Lankan Corporates.

Marianne has been at the forefront of coordinating foreign road shows for leading Sri Lankan companies, and has been instrumental in the success of several marquee transactions.

Based in Singapore and closely associated to Sri Lankan Capital Markets, she continues to promote and showcase Sri Lanka to FII's in Asia, EMEA and the US.

She currently acts as a Consultant to CT CLSA group of companies which she helped establish in 1992.

Yudhishtran Kanagasabai

(Non-Executive Director)

Yudhishtran Kanagasabai is a fellow member of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). He counts over 35 years of experience at PricewaterhouseCoopers, Sri Lanka and the Maldives, and Singapore, before he retired as the Senior Partner of PricewaterhouseCoopers, Sri Lanka and the Maldives on 31 March 2017. He has served on several committees of the Institute of Chartered Accountants of Sri Lanka.

As an Independent Non-Executive Director, he currently serves as the Chairman of the Board Audit Committee and Related Party Transaction Committee of Ceylon Tobacco Company PLC and as the Chairman of the Board Audit Committee of Millenium IT ESP (Pvt) Limited. He also serves as a Non-Executive Independent Director, and as a Member of the Board Audit Committees of Cargills (Ceylon) PLC, Hunter & Company PLC and Lanka Canneries Limited. He continues to serve on the Board of Cargills Foods Company (Pvt) Ltd., as a Non-Executive Director and on the Board of EAP Holdings Limited as a Non-Executive Independent Director.

Yudhishtran was Chairman of the Audit Committee of Union Bank PLC from August 2016 to 31 December 2018. He also served as a Commissioner of the Insurance Regulatory Commission of Sri Lanka from February 2018 to November 2019.

Corporate Governance

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

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

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

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

Annual Corporate Governance Report of Cargills Bank Limited

For the year ended 31 December 2019

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

The below mentioned numbering aligns with numbering in "Section 3" of the Banking Act Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka, Sections 1 & 2 are not applicable for this document.

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

Corporate Governance contd.

No.	Rule	Degree of Compliance
	b) Approve the overall business strategy of the Bank including Risk Policy and Risk Management Procedures and Mechanisms	Complied with The overall business strategy was approved by the Board in the Bank's Business Plan for FY 2019-2022. Risk Management Policies and Risk Management Procedures and Mechanisms with measurable goals are available.
	c) Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently	Complied with. The Board Integrated Risk Management Committee is responsible for overseeing the implementation of the risk management function. Board approved Risk Frameworks, Policies, Key Risk Indicators (KRIs) and monthly and quarterly risk monitoring and reporting mechanisms are in place.
	d) Policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers	Complied with. A Board approved Communication Policy is in place.
	e) Review the Bank's internal control systems and management information systems	Complied with. Internal Control system has been reviewed on a regular basis by the Internal Audit division and findings are directly reported to the Board by the Board Audit Committee. Further, specific Information Systems (IS) audits have been conducted by the Internal Audit division and an IS audit with limited scope was outsourced to an external firm.
	f) Identify and designate Key Management Personnel	Complied with. The Bank has identified and designated Key Management Personnel (KMP) as per LKAS 24. Board approval has been obtained for the KMPs list.

No.	Rule	Degree of Compliance
	g) Define the area of authority and key responsibilities for the Board Directors themselves and for the Key Management Personnel	Complied with. The Bank has a Board approved Code of Corporate Governance which includes the roles and responsibilities of the Directors and KMPs. Areas of authority and responsibilities for members of the Corporate Management are stated in the Job Descriptions of each member.
	h) Ensure appropriate oversight of the affairs of the Bank by Key Management Personnel	Complied with. The Board has formulated the following subcommittees to exercise appropriate oversight of the affairs of the Bank by the Key Management Personnel, that is consistent with Board policy • Board Audit Committee • Board Human Resources and Remuneration Committee • Board Nomination Committee • Board Integrated Risk Management Committee • Board Credit Committee • Board Strategic Planning Committee • Board Related Party Transactions Review Committee
	i) Periodically assess the effectiveness of the Board of Directors' own governance practices	Complied with. An evaluation specifically designed to cover this direction was completed by the Directors for the purpose of evaluating the effectiveness of governance practices in 2019. This is done on an annual basis and appropriate steps are taken to strengthen the governance practices.
	j) Ensure an appropriate succession plan for Key Management Personnel	Complied with. A succession plan was reviewed by the Board Human Resource and Remuneration Committee and approved by the Board.
	k) Regular meetings with the Key Management Personnel	Complied with. The Board sub committees have regular meetings with the Key Management Personnel on matters coming within their remit. Additionally, KMPs are called to explain matters arising from their respective areas when required at Board meetings.

Corporate Governance contd.

No.	Rule	Degree of Compliance
	l) Understand the regulatory environment and maintain relationship with regulators.	Complied with. The Board collectively, as well Directors individually, recognize their duties to comply with laws and regulations which are applicable to the Bank. The Compliance Report includes an update on new laws and regulations which is provided monthly to the Board, and these laws/regulations are also uploaded on the Banks intranet, shared with Corporate Management and discussed as required at Corporate Management meetings.
	m) Exercise due diligence in the hiring and over sight of External Auditors	Complied with. As per the Audit Committee Charter, the Audit Committee has the primary responsibility for making the recommendation on the appointment, re-appointment or termination of the external auditors in line with professional standards and regulatory requirements. Further the Audit Committee monitors and reviews the external auditor's independence, objectivity and the effectiveness of the audit process taking into account relevant professional and regulatory requirements. The external auditors submit a statement annually confirming their independence as required by Section 163 (3) of the Companies Act No. 07 of 2007 in connection with the external audit.
3 (1) (ii)	The Board shall appoint the Chairman and the Chief Executive Officer (CEO)	Complied with. Positions of the Chairman and the Chief Executive Officer (CEO) are separated. The functions and responsibilities of the Chairman and the CEO are defined in line with Direction 3(5) of these Directions. The Bank has a Board approved Code of Corporate Governance which sets out the roles and responsibilities and the separation of duties/functions of the Chairman and CEO.
3 (1) (iii)	The Board shall meet regularly	Complied with. The Board usually meets at monthly intervals, but meets more frequently whenever it is needed. The Board met 12 times during the year.

No.	Rule	Degree of Compliance
3 (1) (iv)	The Board shall ensure arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board Meetings	Complied with. All Board members are given equal opportunity in this regard where proposals relate to the promotion of business and the management of risks of the Bank. Directors could thus submit proposals for inclusion in the agenda on matters relating to the business of the Bank.
3 (1) (v)	The Board shall ensure notice of at least 7 days for a regular Board meeting and for all other Board Meetings, adequate notice may be given	Complied with. Board meeting dates are agreed at the beginning of the year. The Agenda, together with associated papers are sent to Board members at least 7 days prior to the meeting.
3 (1) (vi)	Action on Directors who have not attended at least two- thirds of the meetings	Complied with. All Directors have attended at least two-thirds of meetings held during 2019. Further no Director has been absent from three consecutive regular Board meetings during 2019.
3 (1) (vii)	Appoint a Company Secretary and set our clear responsibilities and ensure the secretariat services to the Board and shareholders are carried out in line with statutes and applicable regulations.	Complied with. An Attorney-at-Law functions as the Secretary of the Board and complies with the requirements under the Banking Act No. 30 of 1988. She has ensured that proper Board procedures are followed and that applicable rules and regulations are adhered to.
3 (1) (viii)	All Directors to have access to advice and services of the Company Secretary	Complied with. As set out in the Bank's Code of Corporate Governance, all Board members have full access to advice and assistance of the Company Secretary to ensure that proper Board procedures are followed and all applicable rules and regulations are complied with.
3 (1) (ix) and (x)	Maintain the minutes of Board Meetings with sufficient detail and serve as a reference for regulators and supervisory authorities	Complied with. Minutes of Board meetings are maintained in sufficient detail to satisfy the requirements of this direction by the Company Secretary, and are open for inspection by any Director. The minutes are read together with the corresponding Board papers, which supplement information in the minutes.

Corporate Governance contd.

No.	Rule	Degree of Compliance
3 (1) (xi)	Seeking independent professional advice in appropriate circumstances	Complied with. This requirement is included in the Code of Corporate Governance of the Bank and is used when required by the Directors.
3 (1) (xii)	Avoid conflicts of interests, or the appearance of conflicts of interest due to commitments to other organizations and related parties	Complied with. Directors make declarations of interest when they join the Bank Board and annually thereafter. They also update their declaration quarterly. Conflicts of interest (if any) are addressed based on this information. The Board has taken steps to ensure that conflicts and potential conflicts of interest of directors are disclosed to the Board by way of a self-declaration at the Board meeting. Directors do not participate in making decisions on matters, in which they have an interest and thus avoid conflicts of interest with the activities of the Bank. Their presence is disregarded in assessing existence of a quorum for the agenda item at meetings at which such issues are considered.
3 (1) (xiii)	Formal schedule of matters to ensure the direction and control of the Bank.	Complied with. This is included in the Bank's Code of Corporate Governance.
3 (1) (xiv)	Inform the Director of Bank Supervision in a possible insolvency	Not applicable. No such situation has arisen during the year.
3 (1) (xv)	The Board shall ensure the Bank is capitalised at levels as required by the Monetary Board	Complied with. The Bank has duly complied with Capital Adequacy requirements throughout the year 2019.
3 (1) (xvi)	Publish Corporate Governance report	Complied with. This report serves the said requirement.
3 (1) (xvii)	Adopt a scheme of self-assessment of Directors	Complied with. The Board has adopted a scheme of self-assessment undertaken by directors annually, and maintains records of same.

No.	Rule	Degree of Compliance
3 (2)	The Board's Composition	
3 (2) (i)	The Board shall comprise not less than 7 and not more than 13 Directors	Complied with. There were 9 Directors on the Board as at 31 December 2019.
3 (2) (ii)	The total period of service of a Director other than a Director who holds the position of CEO, does not exceed nine years	Complied with. The period of service of all Directors is under 9 years.
3 (2) (iii)	The number of Executive Directors does not exceed one- third of the number of Directors of the Board	Complied with. As at 31 December 2019, the Board consists of nine Directors of which two are Executive Directors. All other Directors are Non-Executive.
3 (2) (iv)	The Board shall have at least three Independent Non- Executive Directors or one third of the total number of Directors, whichever is higher	Complied with. As at 31 December 2019, the Board had 4 Independent Non-Executive Directors, which is over one-third of the total number of Directors. The following individuals are Independent, Non-Executive Directors. 1. Mangala Boyagoda 2. Faizal Salieh 3. Richard Ebell 4. Ms. Ruvini Fernando
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 2019.
3 (2) (vi)	Non Executive Directors shall be persons with credible track record and have necessary skills and experience.	Complied with. Whenever such need arises the Directors nominate names of eminent professionals or academics from various disciplines to the Nomination Committee who consider their profiles and recommend the suitable candidate to the Board. The Bank has a Board approved Policy for appointment of new Directors.

Corporate Governance contd.

No.	Rule	Degree of Compliance
3 (2) (vii)	A meeting of the Board shall not be duly constituted, although the number of directors required to constitute the quorum at such meeting is present, unless more than one half of the number of directors present at such meeting are non-executive directors.	Complied with. All Board meetings held during 2019 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 December 2019 is as follows: 1. Ranjit Page - Chairman/NED (Appointed as Chairman w.e.f 19 September 2019) 2. Rajendra Theagarajah - MD/CEO 3. Prabhu Mathavan - ED 4. Mangala Boyagoda - Senior Director/INED 5. Faizal Salieh - INED 6. Richard Ebell - INED 9. Ms. Ruvini Fernando - INED 10. Ms. Marianne Page - NED (Appointed w.e.f 10th October 2019) 11. Yudhishtran Kanagasabai - NED (Appointed w.e.f 28 October 2019) Profiles are given on pages 14 to 16 The following Directors retired/resigned during 2019. Mr. Louis Page - Chairman/ NED (Retired w.e.f. 18 September 2019) Dr. Dushni Weerakoon - INED (Resigned w.e.f.17 July 2019)
3 (2) (ix)	The procedure for the appointment of new Directors to the Board	Complied with. The Bank has a Board approved Policy for appointment of new Directors and new appointments to the Board are based on the recommendations made by the Board Nomination Committee.
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.

No.	Rule	Degree of Compliance
3 (2) (xi)	Proper procedure to be followed for resignation or removal of a Director	Complied with. Dr. Dushni Weerakoon resigned w.e.f. 17 July 2019, due to personal reasons.
3 (2) (xii)	A process to identify whether a Director or an Employee of the Bank is appointed, elected or nominated as a Director of another bank	Complied with. Declarations signed by Directors on quarterly and annual basis will identify any issues arising. None of the Directors are Directors or employees of any other bank. Employees are prohibited from taking up any other appointment according to their Letters of Appointment.
3 (3)	Criteria to assess the fitness and propriety of Directors	
3 (3) (i)	Age of a person who serves as Director does not exceed 70 years	Complied with. The Chairman Mr. Louis Page retired on 18 September 2019, on reaching 70 years of age.
3 (3) (ii)	Directors of the Bank shall not hold Directorships in more than 20 companies/ entities/ institutions inclusive of subsidiaries or associate companies of the Bank	Complied with. No Director holds Directorship in more than 20 companies/ entities/ institutions inclusive of subsidiaries or associate companies of the Bank.
3 (3) (iii)	A Director or a Chief Executive Officer of a licensed bank operating in Sri Lanka shall not be appointed as a Director or a Chief Executive Officer of another licensed bank operating in Sri Lanka before the expiry of a period of 6 months from the date of cessation of his/her office at the licensed bank in Sri Lanka.	Not applicable.

Corporate Governance contd.

No.	Rule	Degree of Compliance
3 (4)	Management functions delegated by the Board	
3 (4) (i)	The Directors shall understand the delegation arrangements in place	Complied with. The Board takes ultimate responsibility for activities of the Bank. The Board has delegated certain responsibilities to Board Sub Committees (refer 3 (1) (i) (h)) and Management Committees as set out in their respective Terms of References.
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)	The Chairman and CEO	
3 (5) (i)	The roles of Chairman and CEO shall be separate and not be performed by the same individual	Complied with. The roles of Chairman and CEO are separate and not performed by the same individual.
3 (5) (ii)	The Chairman is a Non-Executive Director. In the case where the Chairman is not an Independent Director, the Board shall designate an Independent Director as the Senior Director with suitably documented Terms of Reference	Complied with. Mr. Louis Page (Chairman up to 18 September 2019) and Mr. Ranjit Page (Chairman from 19 September 2019) was/is a non-executive non-independent director. Therefore a senior independent director Mr. Mangala Boyagoda was appointed (w.e.f. June 2015). The Bank's Code of Corporate Governance covers the role and functions of the Senior Director.
3 (5) (iii)	Disclose relationships, if any, between the Chairman and the CEO and Board Members and the nature of any relationships including among members of the Board	Complied with. The Board is aware that there are no relationships, whether financial, business or family or any other material/relevant relationship between the Chairman and the CEO. The Board is aware that there is family, financial and business relationship between Mr. Louis Page (Former chairman), Mr. Ranjit Page (Chairman) and Ms. Marianne Page.

No.	Rule	Degree of Compliance
3 (5) (iv), (vi), (vii) and (viii)	The role of Chairman to be in line with the duties and responsibilities set out in the Directive	Complied with. The duties and responsibilities of the Chairman are included in the Bank's Code of Corporate Governance. 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.
3 (5) (v)	Formal Agenda is approved by the Chairman prior to circulation by the Secretary	Complied with. The Company Secretary circulates the formal agenda after obtaining the approval of the Chairman.
3 (5) (ix)	The Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever	Complied with. Chairman is a non-executive director. The Chairman does not directly get involved in the supervision of key management personnel or any other executive duties.
3 (5) (x)	The Chairman shall ensure effective communication with shareholders and that the views of shareholders are communicated to the Board	Complied with. At general meetings, shareholders are given the opportunity to take up matters for which clarification is required. These matters are adequately clarified by the Chairman and/or CEO and/or any other officer.
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 function 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)	Board Appointed Committees	
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 Committee reports are addressed 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 contd.

No.	Rule	Degree of Compliance
3 (6) (ii)	Audit Committee (BAC)	
	a) The Chairman of the Committee shall be an Independent Non-Executive Director (INED) and possess qualifications and related experience	Complied with. Current Chairman Mr. Richard Ebell is an independent non-executive director and possesses required qualifications. Mr. Ebell is a Fellow of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Chartered Institute of Management Accountants (CIMA), UK. He also holds a Diploma in Marketing from the Chartered Institute of Marketing (CIM), UK.
	b) All members of the Committee shall be Non- Executive Directors (NED)	Complied with. Members are; Richard Ebell (Chairman) Faizal Salieh Dr. Dushni Weerakoon (resigned w.e.f 17 July 2019) Ms. Ruvini Fernando (appointed w.e.f 6 September 2019) All members are non-executive directors
	c) Make recommendations on matters in connection with the External Auditor, Central Bank guidelines, the relevant accounting standards and the service period, audit fee and any resignation or dismissal of the Auditor	Complied with. The Committee has recommended re-appointment of the External Auditors the fees payable to the auditors, implementation of the Central Bank guidelines, application of the relevant accounting standards and compliance with other statutory requirements.
	d) Review and monitor the External Auditors' on their independence, and objectivity and effectiveness of the audit processes	Complied with. The Audit Committee had discussed with the External Auditors the scope and nature of the audit, independence of the Auditors and the conduct of the audit in accordance with SLAuS. The Committee received a declaration from KPMG as required by the Companies Act No. 7 of 2007, confirming that they do not have any relationship or interest in the Company, which may have a bearing on their independence
	e) Develop and implement a policy on the engagement of an External Auditor to provide non-audit services in accordance with relevant regulations	Complied with. A policy on non-audit related services was developed and approved by the Board. Compliance with the policy is monitored by the Board Audit Committee.

No.	Rule	Degree of Compliance
	f) Discuss and finalise the nature and scope of the audit, with the External Auditors	Complied with. The Committee met with the external auditors to discuss and finalise the scope and to ensure that the Bank is in compliance with the relevant Directions in relation to corporate governance and the management's 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.
	g) Review the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its annual report, accounts and quarterly reports before submission to the Board	Complied with. Quarterly Financial Statements and year-end Financial Statements are circulated to the members of the Audit Committee. Discussions take place at committee meetings regarding such Financial Statements prior to a recommendation being made to the Board for their adoption. The Audit Committee reviews Financial Statements for disclosures, major judgemental areas, changes in accounting policies and practices, validity of the going concern assumption, compliance with relevant accounting standards and other legal requirements, and in respect of the Audited Financial Statements, any significant adjustments arising from audit.
	h) Discuss independently without presence of executive management with the External Auditors any issues with relation to the audit	Complied with. The Audit Committee met the external auditors twice during the year without executive management present.
	i) Review the External Auditors' management letter and the management's response thereto	Complied with. The Audit Committee has reviewed the management letter relating to 2018 and management responses thereto and also the follow-up thereafter.
	j) Internal Audit function of the Bank review the adequacy of the scope, functions and resources of the Internal Audit Department	Complied with. The Internal Audit scope, functions and resource availability has been reviewed and the Internal Audit Plan has been approved by the Board Audit Committee.
	• Review the Internal Audit program and results of the Internal Audit Process.	Complied with. The Board Audit Committee has reviewed the internal audit reports and directed that necessary action be taken where necessary to implement audit recommendations.

Corporate Governance contd.

No.	Rule	Degree of Compliance
	• Review the appraisal and performance of Head of Audit and Senior staff in Internal Audit.	Complied with. Performance of the Head of Internal Audit for year 2018 was reviewed by the Board Audit Committee. Performance Evaluations Process for 2019 is in progress.
	• Recommend any appointment or termination of Head of Audit and Senior staff in Internal Audit.	Complied with. There had been no requirement to appoint or terminate Senior Internal Audit staff during the year.
	• Committee is apprised of resignation of senior staff in Internal Audit department.	Complied with. There had been no resignation of senior staff in Internal Audit department.
	• Internal Audit is independent of the function it Audits.	Complied with. Head of Internal Audit reports functionally to the Board Audit Committee that ensures independence of Internal Audit and its functions.
	k) Consider major findings of internal investigations and management's responses thereto	Complied with. Significant findings on investigations carried out by the Internal Auditors along with the responses of the management are tabled and discussed at Audit Committee Meetings.
	l) The Committee would have at least two meetings with the External Auditors without the Executive Directors being present	Complied with. The Audit Committee met the external auditors twice during the year without executive directors present.
	m) Terms of Reference of the Committee	Complied with. 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. The charter was reviewed and approved during the year.
	n) Regular committee meetings	Complied with. The Audit Committee met nine times during the year. Refer 'Audit Committee Report' on page 53.

No.	Rule	Degree of Compliance
	o) The Board shall disclose details of the activities of the Audit Committee, number of Audit Committee Meetings held in the year, and details of attendance of each individual Director at such meetings.	Complied with. Refer 'Audit Committee Report' on page 53. The Board was briefed with regard to items discussed at Audit Committee meetings.
	p) The Secretary of the Committee may be the Company Secretary or the Head of the Internal Audit function	Complied with. The Head of Internal Audit acts as the Secretary to the Audit Committee and maintains detailed minutes of all meetings.
	q) Review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters	Complied with. The Bank has a Whistleblowing Policy approved by the Audit Committee and the Board of Directors. A process and proper arrangements are in place to conduct fair and independent investigations and appropriate follow up action.
3 (6) (iii)	Human Resources and Remuneration Committee (HRRC)	
	a) The Committee shall have a policy to determine the remuneration relating to Directors, CEO and Key Management Personnel of the Bank.	Complied with. A remuneration policy for all employees has been reviewed by the BHRRC and approved by the Board.
	b) The Committee shall set documented goals and targets for the Directors, CEO and the Key Management Personnel	Complied with.
	c) The Committee shall evaluate the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives	Complied with. A Standard Performance Evaluations Process which is linked to year end remuneration and performance based incentives is in place. The cycle for year 2018 has been concluded and the final Performance Evaluations of KMPs and salary increments were approved by the Board. Evaluation process for 2019 is in progress.

Corporate Governance contd.

No.	Rule	Degree of Compliance
	d) The CEO shall be present at meetings of the committee, except when matters relating to the CEO are being discussed	Complied with. The Terms of Reference state that the CEO should not be present at meetings when matters relating to CEO is being discussed.
3 (6) (iv)	Nomination Committee (BNC)	
	a) Implement a procedure to select/ appoint new Directors, CEO and Key Management Personnel b) Consider and recommend (or not recommend) the re- election of current Directors	Complied with. The Policy on selecting and appointing new directors/CEO/KMPs has been approved by the Board Nominations Committee and approved by the Board. The BNC recommended the re-election of current Directors.
	c) Set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the Key Management Personnel	Complied with. The nominations committee sets the criteria such as qualifications, experience and key element required for eligibility to be considered for appointment or promotion to the post of CEO and KMP's.
	d) Ensure the Directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in the Statutes	Complied with. Declarations and affidavits have been obtained by the Company Secretary and all appointments have been approved as fit and proper by CBSL.
	e) Consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel	Complied with. The Nomination Committee peruses the profiles and recommends suitable candidates to the Board to replace retiring directors and KMPs, as required. The Bank has a succession plan for KMPs that was presented to the BHRRC and approved by the Board.

No.	Rule	Degree of Compliance
	f) The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors	Complied with. Committee is chaired by Mr. Mangala Boyagoda – Senior Director, who is an Independent Non-Executive Director. The Committee comprises 3 Independent Directors and one Non-Independent Non -Executive Director. The CEO was present at Nomination Committee meetings by invitation.
3 (6) (v)	Integrated Risk Management Committee (IRMC):	
	a) Composition of Board Integrated Risk Management Committee (BIRMC)	Complied with. Composition of the Committee is as follows: 1. Faizal Salieh - Chairman (Independent Non-Executive Director) 2. Richard Ebell (Independent Non- Executive Director) 3. Ms. Ruvini Fernando (Independent Non-Executive Director) 4. Rajendra Theagarajah – (Managing Director /Chief Executive Officer) 5. Prabhu Mathavan (Executive Director) 6. Alex Perera – (Head of Risk Management) 9. Ms. Summaiya Macan Markar (Compliance Officer)- Resigned w.e.f 15 October 2019 10. Gayantha Wijekoon (Compliance Officer) -Appointed w.e.f 10 October 2019. Compliance Officer of the Bank acts as the Secretary of the Committee while Corporate Management personnel participate by invitation when required.

Corporate Governance contd.

No.	Rule	Degree of Compliance
	b) Assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information.	Complied with. The IRM framework, credit risk, liquidity risk, interest rate risk, operational risk, foreign exchange risks, strategic risk, reputational 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. The Assets and Liabilities Committee (ALCO) reviewed the risks such as market and liquidity risk monthly and key matters were discussed at the BIRMC on a quarterly basis. Operational risk Key Risk Indicators have been developed (covering Risk Register, Operational Loss reporting and KRI) and presented to the BIRMC. The Risk Management team updates the Board monthly, highlighting key macro and strategic risks observed during the month.
	c) Review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset-Liability Committee	Complied with. Review of adequacy and effectiveness on all management level risk related committees such as ALCO, ERMC and Executive Credit Committee have been carried out. Head of Risk Management sits in all these committees. Performance against qualitative and quantitative risk limits are reviewed in these committees.
	d) Take prompt corrective action to mitigate the effects of specific risks in case such risks are at levels beyond the prudent levels decided by the committee on the basis of the Bank's policies and regulatory and supervisory requirements	Complied with. The relevant committees reviewed the KRI dashboard and specifically discussed indicators at level beyond approved internal limits.
	e) Meet at least quarterly to assess all aspects of risk management including updated business continuity plans	Complied with. The committee met 8 times during 2019.
	f) Take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions	Complied with. The Terms of Reference of the BIRMC which was reviewed and adopted by the Board has special provisions to cover this.

No.	Rule	Degree of Compliance
	g) Submit a risk assessment report within a week of each meeting to the Board	Complied with. The risk assessment reports from BIRMC are presented to the next Board meeting, by way of Board Committee minutes and reports within reasonable time lines.
	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 reports to BIRMC periodically and to the Board on a monthly basis.
3 (7)	Related party transactions	
3 (7) (i) & (ii)	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person 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 updated to the Bank's Intranet. Monthly confirmation is obtained from the relevant branches and departments confirming that they have complied with the Related Party Transaction Policy. Additionally, the compliance department conducts periodic reviews of the process and transactions to ensure that the RPT policy is being adhered to.

Corporate Governance contd.

No.	Rule	Degree of Compliance
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"
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 situation had arisen.

No.	Rule	Degree of Compliance
3 (8)	Disclosures	
3 (8) (i)	Financial reporting, statutory reporting and regulatory reporting	Complied with. Annual Audited Financial Statements and Interim Financial Statements of the Bank were prepared and published in the newspapers (in Sinhala, Tamil and English) in accordance with the formats prescribed by the Supervisory and Regulatory Authorities and applicable accounting standards.
3 (8) (ii)	The Board shall ensure that the following minimum disclosures are made in the Annual Report:	
	a) A statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures	Complied with. Disclosures on compliance with applicable accounting standards and regulatory requirements in preparation of the Annual Audited Financial Statements have been made in the statements of 'Directors Responsibility for Financial Reporting' and 'CEO's and CFO's Responsibility for Financial Reporting' on page 60 and 65.
	b) A report by the Board on the Bank's Internal Control Mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements	Complied with. Report by the Board on the effectiveness of the Bank's Internal Control Mechanism to ensure that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting is given in the 'Directors Statement of Internal Controls Over Financial Reporting' on page 61.
	c) The external auditor's report on the effectiveness of the Internal Control Mechanism referred to in Direction 3 (8) (ii) (b) above	Complied with. The Bank has obtained an Assurance Report from the External Auditors on the effectiveness of the Internal Control Mechanism. Refer page 64.
	d) Details of Directors, including names, qualifications, age, experience fulfilling the requirements of the guidelines on fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank	Complied with. Profiles of Directors are given on pages 14 to 16 Directors transactions with the Bank and their remunerations have been disclosed in the Note 47 of the Financial Statements on pages 115 and 116.

Corporate Governance contd.

No.	Rule	Degree of Compliance
	e) Total net accommodation as defined in 3 (7) (iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital	Complied with. The net accommodation granted and the net accommodation granted as a percentage of the Bank's regulatory capital is disclosed in Note 47 in pages 116 and 117.
	f) The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the Bank with its Key Management Personnel	Complied with. The remuneration of the Bank's Key Management Personnel and transactions with the Bank's Key Management Personnel as defined by LKAS 24 have been disclosed in Note 47 to the Financial Statements on pages 115 and 116. In addition to the above total deposits made and accommodation obtained as at 31 December 2019 by the other Key Management Personnel (selected members of corporate management) amounted to Rs. 25.5 Mn and Rs. 30.5 Mn respectively.
	g) External Auditors' report on compliance with Corporate Governance Directions	Complied with. A Factual Findings Report from the External Auditors' has been obtained to comply with the requirements of these Directions.
	h) A report setting out details of compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances	Complied with. Refer statement of 'Directors' Responsibility for Financial Reporting' on page 60.
	i) A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision to be disclosed to the Public	Not Applicable. There were no regulatory lapses that have been pointed out by the Director of Bank Supervision to be disclosed to the Public during the year.

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

Risk Management

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

Risk Management is a discipline at the core of the Bank and encompasses all activities that affect its risk profile. We therefore attach considerable importance to the enhancement of our ability to identify measure, monitor, control and mitigate the overall business risks. The Bank has in place a comprehensive Integrated Risk Management Framework and a dedicated Risk Management Unit where the scope of its activities is enhanced continuously to cover various risks that the Bank is exposed to.

The Bank's risk profiling and management focuses on, but is not limited to, the key risk categories such as credit risk, market risk, liquidity risk, operational risk, legal risk, strategic and business risk, reputational risk, information security management risk, human resource risk and outsourcing risk. We continuously work on improving our understanding of the risks that arise from both existing and new business activities.

The Bank's risk appetite is pro-actively expressed and monitored both in terms of qualitative and quantitative measures. Risk Monitoring is carried out by robust and effective management information systems. This facilitates timely review of risk positions and exceptions. Risk Control is carried out by establishing and communicating risk limits and Key Risk Indicators (KRI) through policies, standards and procedures that define responsibility and authority for the various risks assumed by the Bank. The Bank's risk management process leverages a range of tools to identify, measure and manage risk in an ongoing basis.

Integrated Risk Management Framework (IRMF)

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

Risk Governance and Management Structure

Risk Appetite
Risk Management Tools
A culture of risk awareness

Risk Governance and Management Structure of the Bank

The risk management structure of the Bank includes three lines of defense comprising the business operation, integrated risk management / compliance functions and internal / external audit functions. These operate under the guidelines issued by the regulator and the Board of Directors, aimed at safeguarding the Bank against unacceptable risk exposures. The Board oversight, senior management supervision, the policies and procedures governing risk management, and the risk measurement and controls framework constitute the main building blocks of the risk management structure within the Bank.

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

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

Role of the Board and Board Committees

The Board of Directors holds the ultimate responsibility for oversight of the risk management of the Bank and determines the risk appetite and reviews the governance structure, policy framework, risk management process and other matters related to the effective management of risk on a regular basis.

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

Risk Management contd.

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

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

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

The objectives of the IRMF are to:

a) Explicitly stipulate overall risk management objectives, risk tolerance levels, policies, guidelines and approaches for the management of risk exposures.
b) Define responsibilities of different parties involved in the integrated risk management function.
c) Integrate and aggregate different risk exposures such as credit, market, operational, strategic risks etc. to develop an overall risk view.
d) Ensure compliance with regulatory guidelines issued by the CBSL in the area of risk management.
e) Create staff awareness and inculcate a risk culture throughout the Bank.

Integrated Risk Management Division (IRMD)

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

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

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

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

Credit Risk

- Implementation of credit risk framework, policies and tools
- Independent credit risk reviews prior to approval
- Post disbursement review mechanism and recommendations
- Monitoring stressed credits and excesses
- Risk analytics reviews for key products

Operational Risk

- Identification, assessment, measurement & monitoring of operational risk and introducing mitigation effects.
- Management of risks arising from the controls placed within the Bank
- Monitoring and governance of IT and IS risks

Market Risk

- Treasury Middle Office independent review of positions and limits
- Stress testing based on Interest rate, FX rate, Liquidity gap, Maturity mismatch, Repricing gap
- Monitoring asset and liability management
- Analyzing market performance

The risk appetite of Cargills Bank has been clearly defined with internal limits and tolerance levels set under each risk type, approved by the Board of Directors, and is being monitored monitoring by responsible officers on a regular basis.

IRMD independently monitors the limits set and reports breaches to line managers, the senior management and the Board.

Key Implementations During 2019

- Strengthening of existing Risk Management Policy Framework
- Improvements to the ICAAP process and report
- Automating of reports using Excel VBA, Google Data Studio and Google Script
- Risk model review and validation in line with IFRS 9 – Providing guidance on alignment of the Bank's risk appetite with financial reporting
- Operational Loss and Event reporting move to workflow system
- Bank wide eLearning on risk management
- Introduced Risk Data Analytics team and IT Risk unit. Automation and central repository for bank's risk rating of customers
- Strengthening the credit process through continuous process Improvements
- Publishing periodic reviews on key Industries/segments

Bank's Priorities for 2020

- Expansion of the Integrated Risk Management Framework
- Development, validation and calibration of risk models
- Risk data centralization, back-testing and analytics
- Development and improvement of the ICAAP framework
- Centralization the stress testing framework
- Making the LRM process robust and increase the coverage
- Strategic risk evaluation
- Risk Register move to workflow system
- Expansion of the role of IT and IS risk management and governance. Implementation of strategy in line with CBSL Technology Risk Resilience initiative.
- Focus on key risks related to Information Security
- Implementation of end-to-end Workflow based credit approval

Credit Risk

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

Credit risk management of the Bank is focused on setting acceptable credit standards for borrowers and counterparties and identifying emerging risks which could impact business activities of clients well in advance. The credit risk management team develops risk assessment and monitoring tools used in credit orig-

Risk Management contd.

ination and portfolio, including stressed credit, management. Moreover, close monitoring of the usage of working capital facilities and continuous attention to changes in economic or other circumstances that can lead to risk deterioration are key areas of focus. Moreover the team plays a key role in the IFRS9 model governance process.

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

IRMD uses internally developed risk scoring models to rate Business Banking, SME, 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. During 2019, the Bank developed a workflow based centralized risk rating system which enables central storing of risk ratings of bank wide all customers

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

During 2019, Cargills Bank further strengthen the Loan Review Mechanism unit under the Integrated Risk Management Division, to independently review the quality of the loan book and encourage qualitative improvements in credit administration. The unit reviews loans, usually within three months of sanction, in key areas such as the credit approval and monitoring processes, risk rating, compliance, and portfolio quality.

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

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

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

Details of Product Wise Exposure and Sector Wise Exposure are provided in page 122 of the Annual Report.

Operational Risk

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

Operational Risk Governance Structure

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

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

To be in line with Central Bank of Sri Lanka direction, ORMF has recruited staff to oversee Information Technology risk management. It will review existing IT processes and framework and recommend improvement if necessary to respective forums.

Operational Risk Reporting

In order to cover the broad range of risk types underlying operational risk, our framework contains a number of operational risk management techniques. These aims to efficiently manage the operational risk in our business and are used to identify, assess and mitigate operational risks.

Risk Control Self-Assessment is a process of assessing operational risks in all the products and processes which have been 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 Operational Risk Management Unit. The Risk Control Self-Assessment process will identify issues that need attention of the management and remain outstanding for considerable period of time. Findings of the Risk Control Self-Assessment will get reported in Risk Register.

To achieve these goals the Operational Risk Unit has established the following risk reporting structure across the Bank:

A. A Risk Register is the main depository of key risks and controls identified across all the departments in the Bank. It also looks at the actions to mitigate each risk event identified by the departments. These identified risks are result of systematic or ad hoc risk assessments performed at a given point of time through Risk Control Self-Assessment or any other mean. The Risk Register is essential to the successful management of risk and it plays an important part in Risk Management plan, helping to track issues and address problems as they arise.

Risk Register also provides a systematic means of identifying control gaps that threaten the achievement of defined business or process objectives and monitoring what management is actually doing to close these gaps. The findings from a Risk Register will be used to formulate appropriate action plans to address identified control gaps.

B. Key Risk Indicators are used to enhance the monitoring and mitigation of risks and facilitate risk reporting. A Key Risk Indicator is a measure use to indicate how risky an activity is. It is a tool used to monitor the trend on selected areas or events. This tool is used to monitor the operational risk profile and alert the organization to impending problems in a timely manner. Key Risk Indicators enable the monitoring of the Bank's control culture and business environment and trigger risk mitigating actions based on actual month-on- month data comparison.

C. Operational Loss and Event Reporting is a mechanism stipulated in the Basel Committee guidelines. The continuous collection of data on operational losses and events, support timely action on key observations. This process Includes, but not limited to systematic risk analyses, including a description of the business environment in which the loss occurred, previous events, near misses and event-specific KRI. The corrective action from the responsible departments including root caused analysis also part of the reporting.

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

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

The Operational Risk Management Committee (ORMC)

The committee was more active and energized in 2019 providing link between department level and the management. This approach enabled shorter issue resolution time. Any unresolved issues were referred to ERMC for necessary action.

The ORMC is further authorized by the ERMC to:-

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

Internal Audit periodically validates the effectiveness of the Bank's operational risk management framework and its implementation. Operational Risk Unit was a critical unit at the implementation stage of the Business Continuity Plan together with a Disaster Recovery

Risk Management contd.

Plan aimed at ensuring that the critical operations of the Bank will function with minimal disruption. Information Technology related operational risks are managed primarily through the IT Steering Committee and IT system security policies.

Market Risk

Market Risk is the potential loss arising from changes in the fair value of financial instruments due to fluctuations in market variables. The main market risk factors include interest rates, foreign exchange rates and other market benchmarks. The main objective is to manage and control market risk exposures within acceptable levels in line with the Bank's risk appetite.

The Bank has developed a comprehensive framework for market risk management which includes limits, KRIs and risk management tools. Moreover, the Bank conducts stress testing and sensitivity analyses to review the Bank's performance under various stress conditions.

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

Liquidity Risk

Liquidity risk is the risk that the Bank will not be able to efficiently meet both expected and unexpected current and future cash flows and collateral needs without affecting either the daily operations or the financial condition of the Bank. The primary aspect in liquidity risk is the risk that the Bank is unable to meet its financial obligations as they fall due.

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

Strategic Risk

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

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

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

Reputational Risk

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

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

Compliance Risk

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

Bank's Compliance objective is to ensure compliance with applicable laws, rules and standards, regulatory directions and circulars, proper market conduct, managing conflicts of interest, adherence to Bank's Customer Charter, as well as to ensure adherence to Anti Money Laundering (AML), Know Your Customer (KYC) and Customer Due Diligence (CDD), Combating terrorist financing

(CTF), and Sanctions laws and standards.

Tone from the top driven by Bank's Board of Directors and Senior Management, together with Policies, Procedures, Processes and workflows, are put in place to mitigate the Compliance Risk of the Bank.

The Bank has adopted the "Three Lines of Defense" model to mitigate the Compliance Risk. Further, The Head of Compliance submits monthly /quarterly reports on the compliance status of the Bank to the Board and the BIRMC to enable oversight. A culture of Compliance permeating all levels of the Bank is targeted, with regular training including E- learning modules developed as mandatory learning across the staff cadre.

Legal Risk

Legal risk is the risk of financial or reputational loss that can result from lack of awareness or misunderstanding of, ambiguity in, or reckless indifference to, the way laws and regulations apply to our business, its relationships, processes, products and services. The Bank's internal legal team covers all legal related activities, with external expertise obtained when required. The Risk Management Division provides feedback on improvements through review mechanisms.

Information Security Management

The Bank is focused on emerging information security risks and has taken steps to mitigate them. The increased frequency of financial institutions being targeted globally, requiring the Banking Sector in Sri Lanka to deploy internationally proven security tools and processes. The Bank is investing in appropriate people, technology, and processes and has made Information Security a core component of the operational risk management.

The Bank has implemented state of the art Security solutions that enable early detections, and response, while strengthening measures to mitigate effectively and efficiently. As an ISO27001 : 2013 and PCI-DSS certified organization, the Bank has implemented Information Security policies, procedures, audits compliance, in line with regulatory requirements and fosters staff awareness through E-Learning and specialized training programs.

Capital Adequacy

Capital adequacy is a measure of the Bank's ability to withstand the risks associated with its activities. The Capital Adequacy Ratio (CAR) is measured on the basis of credit, market and operational risks, as guided by the regulatory directions issued under Basel III.

At present, credit, operational and market risks are being calculated based on the standardized approach, basic indicator approach and standardized measurement approach respectively. The Bank will move towards a more advanced approach when the scale of operations and the availability of data warrant and support implementation of the same.

The disclosure requirement as per the Banking Act Direction No. 1 of 2016, is included in page 130 of the annual report.

Board Integrated Risk Management Committee Report

The Board Integrated Risk Management Committee (BIRMC) was established as a Committee of the Board of Directors in compliance with Section 3 (6) of the Banking Act Direction No. 11 of 2007 on "Corporate Governance for Licensed Commercial Banks in Sri Lanka".

Composition

The Committee comprises seven (7) members of which three (3) members are Independent Non-Executive Directors. The Head of Compliance is the Secretary to the Committee.

The following are the members of the Committee:

1. Faizal Salieh - Chairman (Independent Non-Executive Director)
2. Richard Ebell (Independent Non-Executive Director)
3. Ruvini Fernando (Independent Non-Executive Director)
4. Rajendra Theagarajah – Managing Director (Chief Executive Officer)
5. Prabhu Mathavan (Executive Director)
6. Alex Perera – (Head of Risk Management)
7. Summaiya Macan Markar (AGM Compliance) Secretary to the Committee resigned w.e.f 15 October 2019; Gayantha Wijekoon (Head of Compliance) appointed as Secretary w.e.f 10 October 2019,

Chief Operating Officer (Rohan Muttiah) attended the BIRMC meetings as a permanent invitee and other members of the Corporate Management attended meetings as and when required.

Role & Responsibilities

In accordance with the Terms of Reference (TOR) set by the Board, the primary role of the Committee is the oversight of the Bank's governance of enterprise-wide risks, the risk management framework, policies, procedures and work practices and its key responsibilities include:

- Assisting the Board of Directors in understanding the risk management function adopted by the Bank in operating the banking business and seeking to ensure its effectiveness and adequacy.
- Ensuring the Bank has a comprehensive risk management framework and periodically reviewing the risk appetite set by the Board.
- Reviewing and recommending for the approval of the Board of Directors the Bank's key risk policies on the establishment of risk limits and receiving reports on the Bank's adherence to limits.
- Reviewing the Bank's credit, market, liquidity, operational, strategic and other risk management frameworks, including significant policies, processes and systems that the Management uses to manage risk exposures as well as the risk measurement methodologies and approaches to stress testing.
- Reviewing, assessing, monitoring and providing feedback to the Management on the various categories of risk the Bank faces, including but not limited to credit, market, liquidity, operational and strategic risk, the exposures in each category, significant concentrations within those risk categories, metrics used to monitor the exposures and the Management's views and actions on the acceptable and appropriate levels of the risk exposures.
- Reviewing the independence and authority of the Risk Management and Compliance functions.
- Reviewing and assessing the Bank's Risk Capital Framework
- Reviewing the adequacy and effectiveness of Management level committees such as the Executive Risk Management Committee (ERMC), the Assets & Liabilities Management Committee (ALCO) and the Executive Credit Committee (ECC) in assessing, mitigating and managing the enterprise-wide risks within the quantitative and qualitative risk limits specified.

The BIRMC through its oversight role monitors the Bank's internal risk control environment and works in conjunction with the Board Audit Committee in the assessment and mitigation of internal control risks. While the governance of risk rests with the BIRMC and the Board, the management and mitigation of risks are carried out by the various Management level committees.

Performance

In 2019, the year under review, the Committee

- Further strengthened the Integrated Risk Management Framework by reviewing and developing policies related to credit, market, liquidity and operational risks, risk based delegation of authorities and pricing mechanism.
- Reviewed and improved the risk management tools such as rating models and dashboards. Technol-

ogy based automation was used to increase the accuracy and efficiency of the risk quantification tools, and advanced quantitative risk evaluation techniques based on global best practices were developed. In line with the quantitative risk measures the Bank continues to be focused on risk data centralization and analytics and developing a predictive analytical model for consumer credit risk evaluation.

- Assessed and monitored the Bank's overall risk profile by way of a comprehensive risk indicator system and monitored the compliance with internally set risk appetite limits. There is greater focus on the assessment and management of the residual risks through the BORM structure.
- Strengthened credit risk management through independent loan reviews and portfolio management.
- Strengthened the Credit Risk Monitoring Processes on stressed credit, watch-listed customers, and credit excesses enabling early identification of warning signals in order to enable the Management to proactively address and remedy stressed credits. The BIRMC works in tandem with the Board Credit Committee (BCC) in this regard.
- Improved the rigor and adequacy of the stress testing framework.
- Further improved the Internal Capital Adequacy Assessment Process (ICAAP) to review capital adequacy under stressed scenarios for budgeted performances.
- Strengthened the operational risk management framework through a comprehensive Risk Control Self-Assessment process where Key Risk Indicators, Operational Loss reporting and Risk Register were used to arrive at integrated risk rating and reporting.
- Strengthened the Compliance risk management framework by establishing a Bank-wide Risk Assessment (BWRA) process on products, Departments/Business units, Transaction types, Delivery types, Customer segments from a Compliance perspective.
- Reviewed and assessed the Anti-Money Laundering and Sanctions Compliance measures undertaken for customers, products, processes and procedures.

Meetings

The total number of meetings held for the year is eight (8), with a minimum of one meeting in each quarter in accordance with the BIRMC's TOR.

Reporting

The discussions and conclusions reached at Committee meetings are recorded in the BIRMC minutes and are regularly reported to the Board for information and notification. Risk and Compliance Reports are also tabled regularly at Board meetings. Recommendations made by the BIRMC during the year under review were approved by the Board without any material changes.

Performance Evaluation

The Committee carried out a structured self evaluation exercise at the end of the year and obtained constructive feedback from the members and the Management for its continuous improvement.

Faizal Salieh
Chairman - Board Integrated Risk Management Committee

Colombo
25 March 2020

Board Nomination Committee Report

Composition of the Committee

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

1. Mangala Boyagoda - Committee Chairman
   (Independent Non- Executive Director)
2. Ranjit Page
   (Non- Independent Non-Executive Director)
3. Faizal Salieh
   (Independent Non-Executive Director)
4. Richard Ebell
   (Independent Non-Executive Director)

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

Profiles of the Members of the Committee are given on pages 14 to 16 of this report.

Role & Responsibilities

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

- Establish a procedure to select/ appoint new Directors and Key Management Personnel.
- Consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.
- Set criteria such as qualifications, experience and key attributes required to be considered for appointment or promotion to the post of CEO and to Key Management Positions.
- Ensure that Directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified and set out in the Banking Act and other relevant statutes, and the directions issued by the Central Bank of Sri Lanka from time to time.
- Consider and recommend from time to time, the requirements of additional/ new expertise and the succession arrangements for retiring Directors and Key Management Personnel.
- Regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and make recommendations to the Board with regard to any changes.

Authority

The Committee is empowered by the Board to seek any information that it requires from any officer or employee of the Bank in connection with its role and responsibilities and to obtain independent external advice, including legal and/ or other professional advice, at the Bank's expense as it considers necessary.

Frequency of Meetings and Quorum

The Committee meets at least twice during the Financial Year, as and when deemed necessary.
The quorum for meetings of the Committee is three (03) members including at least two Independent- Non-Executive Directors including its Chairperson.

The Committee met three (3) times during the year and all the members attended the meetings.

Activities of the Committee

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

- Terms of Reference of the Committee
- Procedure to select/appoint Directors/CEO/KMP
- Appointment of new KMPs
- Re-election of Directors
- Appointment of Chairman/new Directors
- Board composition
- Committee evaluation for 2018

Mangala Boyagoda
Chairman - Board Nomination Committee

Colombo
25 March 2020

Board Human Resources and Remuneration Committee Report

Composition of the Committee

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

1. Ranjit Page - Committee Chairman (Non-Independent Non-Executive Director)
2. Mangala Boyagoda (Independent Non-Executive Director)
3. Faizal Salieh (Independent Non-Executive Director)
4. Dr. Dushni Weerakoon (member till 17 July 2019) (Independent Non-Executive Director)
5. Yudhishtran Kanagasabai (member from 29 November 2019) (Non-Independent Non-Executive Director)

Permanent Attendee

Rajendra Theagarajah (Managing Director/CEO)

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

Profiles of the Members of the Committee are given on pages 14 to 16 of this report.

Purpose of Establishing the Committee

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

- The Company's Human Resources strategy and associated policies
- The Remuneration Policy of the Bank
- The Remuneration of Directors
- The performance and remuneration of the Executive Directors, including the Chief Executive Officer, and Members of Key Management
- The Succession Plan of the Bank

In performing this role, the Committee shall also:

- Review and assess Human Resources & Remuneration Risk
- Review Policies on Occupational Health & Safety, Code of Conduct & Ethics, Communication, Performance Evaluation and Employment Policies (including the "Fit and Proper" assessment)
- Review and assess HR and Remuneration Risk
- Determine the basis for revising remuneration, benefits and other payments of performance-based incentives

Frequency of Meetings and Quorum

Committee meetings shall be held half yearly or more frequently if required.

The CEO shall be present at all Meetings of the Committee, except when matters relating to the CEO are being discussed.

The quorum required at a meeting shall be three (3) one of whom shall be a Non-Executive Independent Director.

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

Activities of the Committee

The Committee considered, reviewed following;

- The Organisation Chart of the Bank
- Terms of Reference of the Committee
- KPIs for the Key Management Personnel
- The Succession Plan for Corporate Management
- Staff Retention Policy
- Staff remuneration and promotions for 2019
- Committee Evaluation for 2018
- Appointment of Key Management Personnel

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

1. Staff Housing Loan Policy
2. Policy on Learning and Growth
3. HR and Remuneration Policy

Ranjit Page
Chairman - Board HR and Remuneration Committee

Colombo
25 March 2020

Board Strategic Planning Committee Report

Composition of the Committee

The Board Strategic Planning Committee (BSPC) comprises nine Directors, seven of whom are Non-Executive Directors. The Committee is comprised of the following Directors of the Bank;

1. Ranjit Page - Committee Chairman (Non-Independent Non-Executive Director)
2. Mangala Boyagoda (Independent Non-Executive Director)
3. Faizal Salieh (Independent Non-Executive Director)
4. Richard Ebell (Independent Non-Executive Director)
5. Rajendra Theagarajah (MD/CEO)
6. Prabhu Mathavan (Executive Director)
7. Ms. Ruvini Fernando (Independent Non-Executive Director)
8. Dr. Dushni Weerakoon - (Member till 17 July 2019) (Independent Non-Executive Director)
9. Ms. Marianne Page (Member from 29 November 2019) (Non-Independent Non-Executive Director)
10. Yudhishtran Kanagasabai (Member from 29 November 2019) (Non-Independent Non-Executive Director)

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

Profiles of the Members of the Committee are given on pages 14 to 16 of this report.

Purpose of Establishing the Committee

The purpose of the Committee is to assist the Board to fulfil its 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.

In performing this role, the Committee shall inter alia:

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

Frequency of Meetings and Quorum

Committee meetings shall be held every quarter or more frequently if required.

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

The Committee met twice during the year and all the members (except for Mr. Prabhu Mathavan who was excused for one meeting) attended the meetings.

Activities of the Committee

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

- Progress on Business Plan for 2019
- Business Forecast and Budget 2020-2022
- Committee evaluation for 2018

Ranjit Page
Chairman - Board Strategic Planning Committee

Colombo
25 March 2020

Board Related Party Transactions Review Committee Report

Composition of the Committee

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

1. Ms. Ruvini Fernando - Committee Chairperson
   (Independent Non-Executive Director)
2. Faizal Salieh - Member
   (Independent Non-Executive Director)
3. Richard Ebell - Member
   (Member till 29 November 2019)
   (Independent Non-Executive Director)
4. Mangala Boyagoda
   (Member from 29 November 2019)
   (Independent Non-Executive Director)

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

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

Profiles of the Members of the Committee are given on pages 14 to 16 of this report.

Role & Responsibilities

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

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

Frequency of Meetings and Quorum

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

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

The Committee met thrice during the year and all members attended the meeting. Additionally, the Committee reviewed Related Party Transactions by circulation.

Activities of the Committee

The Committee considered and/or reviewed the following;

- Related Party Transactions Policy
- Agreements proposed with Related Parties
- Related parties of the Bank
- Related Party Transactions entered in to by the Bank

Ruvini Fernando

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

Colombo
25 March 2020

Board Credit Committee Report

The primary role of the Board Credit Committee (BCC) is to oversee the Bank's credit and lending strategies, in order to meet the overall objectives of the Bank. The Committee oversees the Credit Risk Management of the Bank, including the review of internal credit policies and establishing portfolio limits, whilst monitoring the quality and performance of the Bank's credit portfolio and making appropriate recommendations. Seven BCC meetings were held during the year 2019.

Composition

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

Members

The following are the members of the Committee:

1. Yudhishtran Kanagasabai (Non-Executive Director) - Chairman of the Committee since 29 November 2019
2. Ranjit Page (Non-Executive Director) – Chairman of the Board
3. Mangala Boyagoda (Non-Executive Independent Director) - Chairman of the Committee till 29 November 2019
4. Ms. Ruvini Fernando (Non-Executive Independent Director)
5. Prabhu Mathavan (Executive Director) - Member of the Committee till 29 November 2019

Role and Responsibilities

The roles and responsibilities of the committee Includes:

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

Areas of Focus in 2019

- Evaluation of credit proposals above the predetermined management limit for the approval of Board of Directors.
- Greater focus by compliance in lending activities, credit policies and regulatory requirements.
- Assessment and making of recommendation of sector exposures of the risk assets.
- Ensuring implementation of appropriate credit controls to maintain the quality of the portfolio
- Review of the watch listed clients and ensured that they are in-line with the Bank's lending policies and credit risk appetite,
- Assessment of credit proposal with regards to related party transactions.
- Evaluation and approval of credit terms, policies and the lending guidelines of the Bank.
- Ensured that the lending portfolios were managed as per the stipulated credit risk parameters.

Yudhishtran Kanagasabai
Chairman - Board Credit Committee

Colombo
25 March 2020

Board Audit Committee Report

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

The BAC comprised:
Richard Ebell
(Independent Non-Executive Director, as Chairman)
Faizal Salieh
(Independent Non-Executive Director)
Dr. Dushni Weerakoon
(Independent Non-Executive Director) - resigned w.e.f 17 July 2019
Ms. Ruvini Fernando
(Independent Non-Executive Director) - appointed w.e.f 6 September 2019
Chandima Samarasinghe, AGM Internal Audit, served as the Committee's Secretary through the year.

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

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

Regulatory Compliance

The roles and functions of the BAC are regulated by the Banking Act Direction No. 11 of 2007 and the mandatory Code of Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka.

Qualifications

The Chairman of the BAC, Richard Ebell, is a Fellow of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Chartered Institute of Management Accountants (CIMA), UK, and has experience in finance and operations since qualifying as a Chartered Accountant in 1977. The other members of the BAC have in-depth experience in banking and other relevant areas. The profiles of BAC members are included on pages 14 to 16 of the Annual Report.

Duties and Role of the Board Audit Committee

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

- The integrity of the annual and quarterly Financial Statements of the Bank and the appropriateness of accounting policies adopted, which it assessed by reviewing these statements with the management and external auditors
- The effectiveness of the Bank's systems of internal controls including internal controls over financial reporting, which it assessed through review of internal audit reports and discussion with management and the external auditors.
- Independence and performance of internal audit, which it assessed through review of audit plans and work done, and internal audit reports provided.
- Monitoring the independence and performance of the External Auditor, which it assessed through multiple interactions during the year, and making recommendations on their reappointment and the fees payable to them.
- The Bank's Whistle Blowing Process

Meetings of the Board Audit Committee

The Committee met nine (9) times in 2019.

Attendance at these meetings was:

Richard Ebell	9 / 9 Meetings
Faizal Salieh	9 /9 Meetings
Dr. Dushni Weerakoon	5 / 5 Meetings
Ms. Ruvini Fernando	2/2 Meetings

KPMG were present at six of these meetings.

Financial Reporting

The Committee reviewed with management, who provided to the BAC internal assurances of compliance, the Bank's quarterly and annual Financial Statements prior to recommending their adoption, as part of its responsibility to oversee the integrity of the Bank's financial reporting process and the Financial Statements produced. In discharging this responsibility, the Committee considered the effectiveness of the Bank's internal controls over financial reporting with the assistance of the External Auditor and the Internal Audit Department, as required by the Banking Act Direction No 11 of 2007, Corporate Governance for Licensed Commercial Banks in Sri Lanka.

Internal Audit

The BAC reviewed the scope, extent and effectiveness of the Bank's Internal Audit function and its resources. The BAC had regular interaction with the AGM Internal Audit, who serves as its Secretary.

Major findings of audits and internal investigations were considered by the BAC and appropriate recommendations

Board Audit Committee Report contd.

were made, whose implementation was followed up with management.

In addition to the Information Systems audits conducted by the Internal Auidt Deprtment, the BAC commissions an annual, outsourced Information Systems audit and monitors progress on the issues identified as requiring action, together with the Board Integrated Risk Management Committee (BIRMC).

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

External Audit

The BAC monitored the independence of the External Auditors and the objectivity and effectiveness of the audit process, and provided to the Board its recommendation on the reappointment of the auditors, KPMG. The BAC recommended the fees for audit services and reviewed the fees applicable on other services provided by KPMG. In respect of the latter, the BAC ensured these services were not prohibited services and their provision did not impair the auditors' independence and objectivity.

The Committee had two confidential meetings with the external auditors without any representative of Bank management present, to ensure they had unhindered access to information, records and staff and experienced no pressure or influence in reporting their findings.

The Committee received a declaration from KPMG as required by the Companies Act No. 7 of 2007, confirming that they did not have any relationship or interest in the Company which had a bearing on their independence. The Committee reviewed the external audit plan and audit findings, as well as the auditors' management letters and followed up on issues raised.

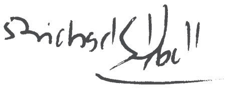
Communication with the Board

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

Evaluation of the Committee

Self- evaluations of the workings of the Committee were Initiated in December 2019. The results of these evaluations are reviewed appropriately by the BAC.

On behalf of the Audit Committee



Richard Ebell
Chairman-Board Audit Committee

Colombo
25 March 2020

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

Your Directors take pleasure in presenting this report to our stakeholders together with the audited Financial Statements for the year ended 31 December, 2019.

The details set out herein provide pertinent information as required by the Companies Act No. 7 of 2007 and according to the best accounting practices recommended by the Institute of Chartered Accountants of Sri Lanka and necessary disclosures in the best interest of stakeholders of the Bank.

General

Cargills Bank Limited is a public limited liability company and a Licensed Commercial Bank, that was incorporated in Sri Lanka on 3 November 2011 as "Cargills Agriculture and Commercial Bank Limited" under the Companies Act No. 7 of 2007 and changed its name to "Cargills Bank Limited" on 28 January 2014. It was approved as a Licensed Commercial Bank under the Banking Act No. 30 of 1988 on 21 January 2014.

The Report of the Board of Directors and the Financial Statements were approved by the Board of Directors on 25 March 2020.

Principal Activities

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

Profit and Appropriations

The Bank's profit and appropriations were as follows;

	2019 Rs. '000	2018 Rs. '000
(Loss)/profit before taxation	(887414)	161,444
Taxation	220,814	(38,639)
(Loss)/profit for the year	(666,600)	122,805
Accumulated loss brought forward	(374,608)	(236,882)
Transfer to reserve fund	-	(6,140)
Losses to be carried forward	(1,030,112)	(374,608)

Financial Statements

The Financial Statements of the Bank are given on pages 59 to 129 of this Annual Report.

Income

The Bank's main income consists of Interest on Loans and advances, interest on other interest earning assets and fee based income. The income could be shown as follows:

	2019 Rs. '000	2018 Rs. '000
Interest income	4,390,508	3,903,955
Fees and commission income	384,008	225,672
Net gains / (losses) from trading	13,662	(14,148)
Net gains / (losses) from Financial Investments	81,003	17,934
Other income	90,072	166,830

Shareholders' Funds and Reserves

The Bank's total reserves as at 31 December 2019 stood at a negative balance of Rs. 942 Mn. This comprises an accumulated loss of Rs. 1,030 Mn, statutory reserve of Rs. 32.3 Mn and fair value through OCI reserve positive balance of Rs. 35.7 Mn. The movement in reserves and accumulated loss are shown in Notes 40 and 41 to the Financial Statements.

Auditors' Report

The Auditors of the Bank are Messrs KPMG, Chartered Accountants. Their report on the Financial Statements is given on page 66. They come up for re- election at the Annual General Meeting, with the recommendation of the Audit Committee and the Board of Directors.

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

Accounting Policies
The accounting policies adopted in preparation of the Financial Statements are given on page 74.

Directors' Interest Register
Under the Provisions of Section 192 of the Companies Act No. 7 of 2007, the Interest Register is maintained by the Bank. The Directors have made the necessary declarations which are recorded in the Interest Register and are available for inspection in terms of the Act. The Directors dealings with the Bank during the accounting period are given in Note 47 to the Financial Statements.

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

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

Directorate
The names of the Directors of the Bank during the period 1 January 2019 to date are given with changes that occurred in the composition of the Board during the period under review.

The classification of Directors into Executive, Non-Executive and Non- Executive Independent Directors is made as per the Central Bank mandatory rules on Corporate Governance under the Banking Act directions.

Name of the Director	Executive/ Non Executive Status	Independence/ Non- Independence Status
Louis Page - Chairman	Non Executive	Non Independent (Retired w.e.f. 18 September 2019)
Ranjit Page - Chairman	Non Executive	Non Independent (Appointed as Chairman w.e.f. 19 September 2019)
Rajendra Theagarajah - Managing Director/CEO	Executive	Non Independent
Prabhu Mathavan - Executive Director	Executive	Non Independent
Mangala Boyagoda - Senior Director	Non Executive	Independent
Faizal Salieh	Non Executive	Independent
Richard Ebell	Non Executive	Independent
Ms. Ruvini Fernando	Non Executive	Independent
Dr. Dushni Weerakoon	Non Executive	Independent (Resigned w.e.f. 17 July 2019)
Ms. Marianne Page	Non Executive	Non Independent (Appointed w.e.f. 10 October 2019)
Yudhishtran Kanagasabai	Non Executive	Non Independent (Appointed w.e.f. 28 October 2019)

In terms of Article 86 of the Articles of Association of the Bank, Mr. Mangala Boyagoda and Mr. Faizal Salieh retire by rotation and being eligible offer themselves for re-election, on the unanimous recommendation of the Board of Directors.

Ms. Marianne Page and Mr. Yudhishtran Kanagasabai who were appointed during the year retire in terms of Article 92 of the Articles of Association of the Bank and being eligible offer themselves for election, on the unanimous recommendation of the Board of Directors.

Directors' Interest
Related party transactions of the Bank are disclosed in Note 47 to the Financial Statements on page 115 to 117. In addition, transactions with entities where Directors of the Bank hold directorates are disclosed on page 58 The Directors have no direct or indirect interest or proposed contract other than those disclosed.

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

Auditors
In accordance with the Companies Act No. 7 of 2007, a resolution for the re-appointment of Messrs KPMG, Chartered Accountants, is being proposed at the Annual General Meeting. Audit and audit related fees payable to KPMG for the year under review amounted to Rs. 3.9 Mn (Audit - Rs. 2.8 Mn and Audit related services - Rs. 1 Mn). The non-audit fees payable to KPMG for the year under review amounted to Rs. 0.6 Mn.

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

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

Directors' Responsibility For Financial Reporting
The Directors are responsible for the preparation of Financial Statements of the Bank to reflect a true and fair view of its state of its affairs. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards and Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995. Further, these Financial Statements also comply with the requirements of the Banking Act No. 30 of 1988 and amendments thereto and the mandatory Corporate Governance Code for Licensed Commercial Banks issued by the Central Bank of Sri Lanka.

Corporate Governance for Licensed Commercial Banks In Sri Lanka
The Bank has complied with the Central Bank Banking Act directions on Corporate Governance and a detailed statement is provided on pages 17 to 38 of the Annual Report.

Capital Expenditure
The Bank's expenditure on Property, Plant & Equipment at cost amounted to Rs. 124.3 Mn during 2019, details of which are given in Note 28 to the Financial Statements. Expenditure on Intangible Assets at cost amounted to Rs. 110.4 Mn during 2019, details of which are given in Note 29 to the Financial Statements.

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

Shareholding
The number of registered shareholders of the Bank as at 31 December 2019 was 70. The schedule providing information on shareholders' analysis is on pages 142 to 143 'Investor Relations'.

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

Board Committees
In keeping in line with Corporate Governance rules, transparency and accountability, the Board has appointed the required Board Committees and their composition is given in Corporate Governance Report from page 17.

New Branches
Three (3) branches were opened during the year under review.

Provision For Taxation
Total taxable profit was charged at 28% in accordance with income tax legislation. Deferred tax was calculated based on the Balance Sheet Liability Method in accordance with Sri Lanka Accounting Standards.

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

The Annual General Meeting will be held at the Sri Lanka Foundation Institute, No. 100, Padanama Mawatha, Independence Square, Colombo-07 on 24 June 2020. The Notice of Meeting can be found on page 144 of the Annual Report.

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

For and on behalf of the Board of Directors,

Ranjit Page
Chairman

Rajendra Theagarajah
Managing Director / CEO

Ms. Amendra de Silva
Company Secretary

Colombo
25 March 2020

Directors' Interest

In addition to the related party transactions disclosed in note 47 in this report, the Bank carries out transactions in the ordinary course of business on arm's length basis with entities where the Chairman or Director of the Bank is the Chairman or Director of such entities.

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

Company	Relationship	Accommadation Granted/ Deposit	Interest paid	Interest charged	Fees and expenses charged	Balance outstanding	
						31-Dec-19	31-Dec-18
			Rs' 000	Rs' 000	Rs' 000	Rs' 000	Rs' 000
Sierra Construction (Pvt) Ltd	Common Directors	Loan and Advances	77,660	-	4,980	519,942	555,732
		Off balance Sheet accomadations	-	-	-	388,144	281,473
		Undrawn limits	-	-	-	-	475,470
United Hotels Company Limited	Common Directors	Loan and Advances	74,696	-	-	722,185	354,896
		Deposits				2,261	-
		Undrawn limits			-	1,059	-
Dankotuwa Porcelain PLC	Common Directors	Deposits	-	-	-	892	3,203
Lebara Foundation	Common Directors	Deposits	-	1	-	1,012	-
Wealth Trust Securities (Pvt) Ltd	Common Directors	Deposits	-	-	-	160	-
Asiri Hospital Holdings PLC	Common Directors	Loan and Advances	49,957	-	-	375,650	-

Financial Statements

Directors' Responsibility for Financial Reporting

The responsibility of the Directors in relation to the Financial Statements of Cargills Bank Limited ('the Bank') prepared in accordance with the provisions of the Companies Act No. 7 of 2007 is set out in the following statements.

The responsibilities of the External Auditor in relation to the Financial Statements are set out in the Report of the Auditors given on page 66 of the Annual Report.

In terms of Sections 150 (1) and 151(1) of the Companies Act No. 7 of 2007, the Directors of the Bank are responsible for ensuring that the Bank prepares its Financial Statements in a manner that gives a true and fair view of the state of affairs of the Bank as at 31 December 2019 and the profit or (loss) of the Bank for the financial year ended on 31 December 2019 and places them before a General Meeting. The Financial Statements comprise the Statement of Financial Position as at 31 December 2019, and the Income Statement, and Statements of Profit or Loss and Other Comprehensive Income, Changes in Equity and Cash Flow for the year then ended, and notes thereto.

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

a) the financial position of the Bank as at 31 December 2019; and
b) the financial performance of the Bank for the financial year then ended.

The Financial Statements of the Bank have been certified by the Bank's Head of Finance, the person responsible for their preparation, as required by the Act. Financial Statements of the Bank have been signed by two Directors of the Bank on 25 March 2020 as required by Section 150 (1) of the Companies Act.

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

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

I. Appropriate accounting policies have been selected and applied in a consistent manner while material departures, if any, have been disclosed and explained
II. Judgements and estimates made are reasonable and prudent
III. All applicable accounting standards have been followed

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

The Directors have taken adequate measures with regard to inspecting financial reporting systems through Audit Committee Meetings and granting approvals for the issuing of Interim Financial Statements. The Directors have also instituted effective and comprehensive systems of internal controls. These comprises internal checks, internal audit and the whole system of financial and other controls required to carry on the banking business in an orderly manner, while safeguarding assets, preventing and detecting frauds and other irregularities and securing as far as practicable the accuracy and reliability of records. The results of such reviews carried out during the year ended 31 December 2019 are given on pages 61 to 63 of the Annual Report, 'Directors' Statement on Internal Controls over Financial Reporting'.

The External Auditors' Assurance Report on the Bank's Internal Controls over Financial Reporting is given on page 64 of the Annual Report.

The Bank's External Auditors, Messrs KPMG, carried out reviews and sample checks on the system of internal controls as they considered appropriate and necessary for expressing their opinion on the Financial Statements and maintaining accounting records. They have examined the Financial Statements made available to them together with all financial records, related data and minutes of the Shareholders' and Directors' meetings and expressed their opinion which appears as reported by them on page 66 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
25 March 2020

Directors' Statement on Internal Controls Over Financial Reporting

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

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

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

The Board is of the view that the system of internal controls over financial reporting in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The Management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

Key Features of the Process Adopted in reviewing the design and effectiveness of the Internal Control System over Financial Reporting

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Various committees are established by the Board to assist the Board in ensuring the effectiveness of the Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- With increase in banking operations, the management is in the process of updating the procedure manuals and completing documentation of key controls for selected key processes. The Bank updated internal controls to reflect the current banking operations during the year. Therefore, the testing carried out by the Internal Audit Department during the year was aligned with the internal controls in place. Policies and procedures for ensuring compliance with internal controls and the relevant laws and regulations are set out in operation manuals, guidelines and the directives issued by the Bank, which are updated from time to time.
- The Internal Audit Department of the Bank checks the compliance with policies and procedures and the effectiveness of the Internal Control Systems on an ongoing basis using samples and rotational procedures and highlights significant findings in respect of any non- compliance. Further, the Internal Audit Department evaluates the appropriateness & adequacy of procedures in place to ensure compliance with applicable laws and regulations examines the reliability and integrity of financial and other operating information and examines the status of the Bank's economical and efficient use of resources. The annual internal audit plan is reviewed and approved by the Board Audit Committee. Findings of the Internal Audit Department are submitted to the Board Audit Committee for review at their periodic meetings. Most of the key departments and all the branches were audited during the year and observations reported to the Audit Committee. Selected Information System (IS) audits were also carried out by the Internal Audit Department and Database review of internally developed systems for mobile and internet banking was outsourced to an external consultant with a predefined scope.

Directors' Statement on Internal Controls Over Financial Reporting contd.

- The Board Audit Committee of the Bank reviews internal control issues identified by the Internal Audit Department, the External Auditors, Regulatory Authorities and the Management: and evaluates the adequacy and effectiveness of internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of the same. The minutes of the Board Audit Committee meetings are forwarded to the Board on a periodic basis. Further details of the activities undertaken by the Board Audit Committee of the Bank are set out in the Audit Committee Report on page 53.
- Apart from the Audit Committee, several Board committees have been established with appropriate empowerment to ensure effective management and supervision of the Bank's core areas of business operations. These Committees include the Board Integrated Risk Management Committee, Strategic Planning Committee, Human Resource and Remuneration Committee, the Nomination Committee, the Credit Committee and the Related Party Transaction Review Committee.
- Operational committees have also been established with appropriate empowerment to ensure effective management and supervision of the Bank's core areas of business operations. These committees include the Asset and Liability Management Committee (ALCO), the Executive Credit Committee, the Executive Risk Management Committee, the Information Technology Steering Committee and the Operational Risk Management Committee.
- The Compliance Department has taken initiatives to implement a robust compliance process to address and monitor compliance with regulatory requirements.

Continuous monitoring of application of Sri Lanka Accounting Standards - SLFRS 9 - Financial Instruments

The Bank adopted SLFRS 9 -"Financial Instruments" with effect from 1 January 2018. This standard had a significant impact on the Bank's methodology on calculating the impairment losses for loans and advances.

With the introduction of "expected credit loss" under SLFRS 9, the Bank developed models to calculate Expected Credit Losses (ECLs). Number of key assumptions were made by the Bank in applying the requirements of SLFRS 9 to the models including selection and input of forward looking information.

These models are inherently complex and judgment is applied in determining the correct construction of the same. There are also number of key assumptions made by the Bank in applying the requirements of SLFRS 9 to the models including selection and input of forward looking information. These models were developed with the assistance of an external consultant.

The process for quantifying the necessary adjustments to the Financial Statements was based on spread sheet applications. However, the formal documentation of the process followed by the Bank for quantification of adjustments and testing of such process by the internal audit is not complete as at the date of this Report and this will be addressed on an ongoing basis in the ensuing financial year. The Bank's Risk Department commenced reviews and testing these processes in 2019 and will continue to do so with more focus and robust approach in 2020.

The Bank continues to focus on strengthening the review and testing process of the models developed. The Bank has documented procedures and polices relating changes made to underlying assumptions during 2019 and obtained approval of the Board Audit Committee and the Board. The Board ensured the models developed to calculate the impairment provisions have been adequately tested and calibrated.

Adoption of Sri Lanka Accounting Standards – SLFRS 16 – Leases.

Prior to 1 January 2019, the assets held under operating leases were not recognised in the Bank's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. From 1 January 2019, the Bank adopted SLFRS 16 for the first time, which requires recognition of a right-of-use-asset and a lease liability at the lease commencement date. The Bank has carried out the required reviews of all lease agreements and has assessed the impact on Financial Statements. On initial application the Bank has opted for modified retrospective approach and has made all required adjustment to the opening balance as at 1 January 2019. Accordingly, the comparatives have not been re-stated

CONFIRMATION

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

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors, Messrs. KPMG, have reviewed the above Directors' Statement on Internal Controls over Financial Reporting included in the Annual Report of the Bank for the year ended 31 December 2019 and have reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal controls over financial reporting of the Bank.

The Assurance Report of the External Auditors in connection with Internal Controls over Financial Reporting is on page 64.

Rajendra Theagarajah
Managing Director/
Chief Executive Officer

Ms. Amendra De Silva
Company Secretary

Colombo
25 March 2020

Auditors' Report on Internal Control

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

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TO THE BOARD OF DIRECTORS OF CARGILLS BANK LIMITED

We were engaged by the Board of Directors of Cargills Bank Limited ("Bank") to provide assurance on the Directors' Statement on Internal Control ("Statement") included in the annual report for the year ended 31 December 2019 set out in pages 61 to 63 in this annual report.

MANAGEMENT'S RESPONSIBILITY FOR THE STATEMENT ON INTERNAL CONTROL

Our responsibility is to issue a report to the Board on the Statement based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Report for Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

SUMMARY OF WORK PERFORMED

Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the Directors have adopted in reviewing the system of internal control for the Bank.

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

a) Inquired the Directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the Statement made by the directors in the annual report.
b) Reviewed the documentation prepared by the Directors to support their Statement made.
c) Related the Statement made by the Directors to our knowledge of the Bank obtained during the audit of the financial statements.
d) Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.
e) Attended meetings of the audit committee at which the annual report, including the Statement on Internal Control is considered and approved for submission to the Board of Directors.
f) Considered whether the Director's Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.
g) Obtained written representations from directors on matters material to the Statement on Internal Control where other sufficient appropriate audit evidence cannot reasonably be expected to exist.

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

OUR CONCLUSION

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

kpmg

Chartered Accountants

Colombo
25 March 2020

CEO’s and CFO’s Responsibility for Financial Reporting

The Financial Statements of Cargills Bank Limited (“the Bank”) for the year ended 31 December 2019 are prepared and presented in compliance with the following requirements:

- Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka
- Companies Act No. 7 of 2007
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995
- Banking Act No. 30 of 1988 and amendments thereto and the Directions, Determinations and Guidelines issued by the Central Bank of Sri Lanka (CBSL)
- Code of best practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission
- The Accounting Policies used in the preparation of the Financial Statements are appropriate and are consistently applied by the Bank.

There are no material departures from the prescribed Accounting Standards in their adoption. Comparative information has been reclassified wherever necessary to comply with the current presentation.

Significant accounting policies and estimates that involved a high degree of judgement and complexity were discussed with the Audit Committee and External Auditors. The Board of Directors and the Management of the Bank accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgements relating to the Financial Statements were made on a prudent and reasonable basis; in order that the Financial Statements reflect in a true and fair manner, the form and substance of transactions and that the Bank’s state of affairs is reasonably presented. To ensure this, the Bank has taken proper and sufficient care in installing a system of internal controls and accounting records, for safeguarding assets and with a view to preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. Our Internal Audit Department has conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Bank were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

Further the Board assessed the effectiveness of the Bank’s internal controls over financial reporting during the year ended 31 December 2019, as required by the Banking Act Direction No. 11 of 2007, the result of which is given on page 61 to 63 of the Annual Report, ‘Directors’ Statement on Internal Controls over Financial Reporting’. The ‘External Auditors’ Assurance Report on the Bank’s Internal Controls over Financial Reporting’ is given on page 64 of the Annual Report.

The Financial Statements of the Bank were audited by Messrs. KPMG, Chartered Accountants, the independent External Auditors. Their report is given on page 66 of the Annual Report. The Audit Committee of the Bank meets periodically with the Internal Audit team and the independent External Auditor to review their audit plans, assess the manner in which the auditors perform their responsibilities and discuss their reports on internal controls and financial reporting issues. To ensure complete independence, the External Auditor and the Internal Auditor have full and free access to the members of the Audit Committee to discuss any matter of substance.

The Audit Committee approves audit and non-audit services provided by the External Auditors, Messrs KPMG, in order to ensure that the provision of such services does not impair the independence of the External Auditors and does not contravene the guidelines issued by CBSL on permitted non-audit services.

We confirm to the best of our knowledge that prudential requirements have been satisfied and there are no material litigation that is pending against the Bank other than disclosed in Note 43 to the Financial Statements.

All contributions, levies and taxes paid on behalf of and in respect of the employees of the Bank as at 31 December 2019 have been paid or where relevant provided for.

Rajendra Theagarajah
Managing Director/
Chief Executive Officer

Ms. Imesha Sanjeewanie
Head of Finance

Colombo
25 March 2020

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 LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Cargills Bank Limited ("the Bank"), which comprise the statement of financial position as at December 31 2019, 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 a summary of significant accounting policies set out on pages 68 to 129 of the annual report.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at December 31 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

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

In preparing the financial statements, management is responsible for assessing the Banks'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 Banks's financial reporting process.

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Bank.

Chartered Accountants

Colombo, Sri Lanka
25 March 2020

Income Statement

For the year ended 31 December	Note	2019 Rs. '000	2018 Rs. '000	Change %
Gross income		4,959,253	4,300,243	15
Interest income		4,390,508	3,903,955	12
Less: Interest expenses		2,346,857	1,874,648	25
Net interest income	7	2,043,651	2,029,307	1
Fees and commission income		384,008	225,672	70
Less: Fees and commission expenses		160,082	67,614	137
Net fees and commission income	8	223,926	158,058	42
Net gains / (losses) from trading	9	13,662	(14,148)	197
Net gains from derecognition of financial assets	10	81,003	17,934	352
Net other operating income	11	90,072	166,830	(46)
Total operating income		2,452,314	2,357,981	4
Less: Impairment losses on financial instruments and other assets	12	1,148,299	313,937	266
Net operating income		1,304,015	2,044,044	(36)
Less: Expenses				
Personnel expenses	13	873,427	744,081	17
Depreciation and amortization expenses	14	416,271	246,583	69
Other operating expenses	15	902,236	716,794	26
Operating (loss)/profit before taxes on financial services		(887,919)	336,586	(364)
Less: Taxes on financial services	16	(505)	175,142	(100)
(Loss)/profit before income tax		(887,414)	161,444	(650)
Less: Income tax (reversal)/expense	17	(220,814)	38,639	(671)
(Loss)/profit for the year		(666,600)	122,805	(643)
Attributable to:				
Equity holders of the Bank		(666,600)	122,805	(643)
(Loss)/profit for the year		(666,600)	122,805	(643)
Basic earnings per share (Rs.)	18	(0.75)	0.14	(639)

The notes to the Financial Statements appearing on pages 74 to 129 form an integral part of these Financial Statements.

Statement of Profit or Loss and other Comprehensive Income

For the year ended 31 December	Note	2019 Rs. '000	2018 Rs. '000	Change %
(Loss)/profit for the year		(666,600)	122,805	(643)
Other comprehensive income, net of tax				
Items that will not be reclassified to profit or loss				
Net actuarial gains/ (loss) on defined benefit plans	37	18,265	(7,340)	349
Change in fair value of investment in equity measured at Fair value through other comprehensive income		1,550	1,052	47
Deferred tax asset related to the above	31.2	(5,919)	2,593	(328)
		13,896	(3,695)	476
Items that will be reclassified to profit or loss				
Net gains/(losses) on investment in financial assets measured at fair value through other comprehensive income				
Sri Lanka government securities		87,349	(59,881)	246
Deferred tax asset related to the above	31.2	(26,142)	16,767	(256)
		61,207	(43,114)	242
Total other comprehensive income/(loss) for the year, net of tax		75,103	(46,809)	260
Total comprehensive (loss)/income for the year		(591,497)	75,996	(878)
Attributable to:				
Equity holders of the Bank		(591,497)	75,996	(878)
Total comprehensive (loss)/income for the year		(591,497)	75,996	(878)

The notes to the Financial Statements appearing on pages 74 to 129 form an integral part of these Financial Statements.

Statement of Financial Position

As at 31 December	Note	2019 Rs. '000	2018 Rs. '000	Change %
ASSETS				
Cash and cash equivalents	21	993,133	1,231,655	(19)
Balances with Central Bank of Sri Lanka	22	1,040,397	994,405	5
Placements with banks	23	689,336	-	-
Derivative financial instruments	24	386	24	(1,509)
Financial assets at amortized costs - Loans & advances to other customers	25	27,013,673	23,917,397	13
Financial assets at amortized costs - Debt and other Instruments	26	477,663	524,002	(9)
Financial assets measured at fair value through other comprehensive income	27	6,667,681	5,548,169	20
Property, plant and equipment	28	858,304	488,148	76
Intangible assets	29	457,570	474,374	(4)
Deferred tax assets	31	366,648	168,776	123
Other assets	32	573,743	456,170	26
Total assets		39,138,534	33,803,120	16
LIABILITIES				
Due to banks	33	1,517,942	1,364,712	11
Derivative financial instruments	34	2,281	15,004	(85)
Financial liabilities at amortized cost - Due to depositors	35	25,042,562	19,902,741	26
Financial liabilities at amortized cost - Due to other borrowers	36	948,298	662,523	43
Retirement benefit obligations	37	43,577	51,233	(15)
Lease liability	30	444,214	-	-
Other liabilities	38	707,195	782,945	(10)
Total liabilities		28,706,069	22,779,158	26

As at 31 December	Note	2019 Rs. '000	2018 Rs. '000	Change %
EQUITY				
Stated capital	39	11,394,421	11,394,421	-
Statutory reserves	40	32,386	32,386	-
Retained loss	41	(1,030,112)	(374,608)	(175)
Other reserves	40.2	35,770	(28,237)	227
Total equity attributable to equity holders of the Bank		10,432,465	11,023,962	(5)
Total equity and liabilities		39,138,534	33,803,120	16
Contingent liabilities & commitments	42	11,638,569	17,891,677	(35)
Net asset value per share (Rs.)	44	11.81	12.48	(5)
Memorandum information				
Number of employees		650	586	
Number of branches		20	19	

The notes to the Financial Statements appearing on pages 74 to 129 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.

Ms. Imesha Sanjeewanie
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.

Rajendra Theagarajah
Managing Director/ Chief Executive Officer

Mangala Boyagoda
Senior Director

25 March 2020
Colombo

Statement of Changes in Equity

	Stated Capital Rs. '000	Statutory Reserves Rs. '000	Retained Losses Rs. '000	Other Reserves (FVOCI Reserve) Rs. '000	Total Rs. '000
Balance as at 1 January 2018	11,394,421	26,246	(236,882)	10,546	11,194,331
Adjustment of initial application of SLFRS 9, net of tax	-	-	(249,937)	3,572	(246,365)
Restated Balance as at 1 January 2018	11,394,421	26,246	(486,819)	14,118	10,947,966
Total comprehensive income for the year 2018					
Profit for the year	-	-	122,805	-	122,805
Other comprehensive income, net of tax	-	-	(4,454)	(42,356)	(46,809)
Total comprehensive income for the year 2018	-	-	118,351	(42,356)	75,996
Transactions with equity holders, recognized directly in equity					
Issue of shares	-	-	-	-	-
Transfers during the year	-	6,140	(6,140)	-	-
Total transactions with equity holders		6,140	(6,140)		
Balance as at 31 December 2018	11,394,421	32,386	(374,608)	(28,237)	11,023,962
Balance as at 1 January 2019	11,394,421	32,386	(374,608)	(28,237)	11,023,962
Total comprehensive income for the year 2019					
Loss for the year	-	-	(666,600)	-	(666,600)
Other comprehensive income, net of tax	-	-	11,096	64,007	75,103
Total comprehensive (loss)/income for the year 2019	-	-	(655,504)	64,007	(591,497)
Balance as at 31 December 2019	**11,394,421**	**32,386**	**(1,030,112)**	**35,770**	**10,432,465**

Statement of Cash Flows

For the year ended 31 December	Note	2019 Rs. '000	2018 Rs. '000
Cash flows from operating activities			
(Loss)/profit before income tax		(887,414)	161,444
Adjustments for:			
Non-cash items included in (loss)/profit before tax	48	1,634,923	564,881
Losses on sale of property, plant & equipment and other assets	11	(7,953)	(249)
Dividend income	11	(935)	(770)
Interest paid on lease liability	30.3	(57,300)	-
Benefits paid on defined benefit plans	37	(1,202)	(4,415)
Operating profits before changes in operating assets and liabilities		680,119	720,891
Increase in operating assets	49	(5,333,921)	(4,294,785)
Increase in operating liabilities	50	5,131,306	1,478,882
Cash generated from/(used in) operating activities before income tax		477,504	(2,094,972)
Income taxes paid		-	-
Net cash generated from/(used in) operating activities		477,504	(2,094,972)
Cash flows from investing activities			
Net purchase of property, plant and equipment	28	(124,301)	(306,285)
Proceeds from sale of property, plant and equipment		8,533	1,598
Net purchase of intangible assets	29	(110,416)	(243,241)
Dividends received	11	935	770
Net cash used in investing activities		(225,249)	(547,158)
Cash flows from financing activities			
Payment of lease liability	30.4	(85,107)	-
Change in securities sold under repurchase agreements		285,775	(80,471)
Net cash generated from/(used in) financing activities		200,668	(80,471)
Net increase / (decrease) in cash & cash equivalents		452,923	(2,722,601)
Cash and cash equivalents at the beginning of the year		1,234,721	3,957,322
Cash and cash equivalents at the end of the year		1,687,644	1,234,721
Reconciliation of cash & cash equivalents			
Cash & cash equivalents (Before impairment)	21	994,853	1,234,721
Placements with banks (Before impairment)	23	692,791	-
		1,687,644	1,234,721

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

Notes to the Financial Statements

1. REPORTING ENTITY

1.1 Domicile and Legal Form

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

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

1.2 Principal activities and nature of Operations

On 21 January 2014, in terms of Section 5 of the Banking Act No. 30 of 1988 (as amended from time to time), the Bank has been issued with a commercial banking license by the Central Bank of Sri Lanka (CBSL) to carry on domestic banking business and off-shore banking business.

1.3 Number of Employees

The total number of employees of the Bank as at 31 December 2019 was 650 (2018 – 586)

2. BASIS OF ACCOUNTING

2.1 Statement of Compliance

The Financial Statements of the Bank, have been prepared and presented in accordance with the Sri Lanka Accounting Standards (LKAS/SLFRS) laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 7 of 2007 and the Banking Act No. 30 of 1988 and amendments thereto. These Financial Statements, except for information on Statement of Cash Flows have been prepared following the accrual basis of accounting.

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

2.2 Responsibility for Financial Statements

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

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 55, 60 and 70 respectively.

These financial Statements include the following components,

- An Income statement and a Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Bank for the year under review. Refer pages 68 to 69.
- A Statement of Financial Position providing the information on the financial position of the Bank as at the year-end. Refer pages 70 to 71.
- A Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Bank. Refer page 72.
- a Statement of Cash Flows providing the information to the users, on the ability of the Bank to generate cash and cash equivalents and the needs of entities to utilize those cash flows. Refer page 73.
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information. Refer pages 74 to 129.

2.3 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Bank for the year ended 31 December 2019 were approved and authorized for issue by the Board of Directors on 25 March 2020.

2.4 Basis of Measurement

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

Items	Measurement basis
Derivative financial instruments	Fair value
Non-derivative financial instruments at fair value through profit or loss	Fair value
Financial assets measured at fair value through other comprehensive income	Fair value
Net defined benefit (asset) liability	Present value of the defined benefit obligation

2.5 Functional and Presentation Currency

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

2.6 Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period for all amounts reported in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter-period comparability.

The presentation and classification of the Financial Statements of the previous year is amended, where relevant for better presentation and to be comparable with those of the current year.

2.7 Presentation of Financial Statements

The assets and liabilities of the Bank presented in its Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern.

No adjustments have been made for inflationary factors affecting the Financial Statements.

2.8 Offsetting

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

2.9 Rounding

The amounts in the Financial Statements have been rounded off to the nearest Rupees thousands, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard LKAS 1 on 'Presentation of Financial Statements'.

2.10 Materiality and Aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard LKAS 1 on 'Presentation of Financial Statements'.

2.11 Use of Judgments and Estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

2.11.1. Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in the following notes.

- Note 3.2.1.3: Classification of financial assets
  Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial assets are Solely Payment of Principal and Interest (SPPI).
- Note 3.2.1.3.2 establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of Expected Credit Loss (ECL) and selection and approval models used to measure ECL.

Going Concern:

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

2.11.2 Assumptions and estimation uncertainties

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

Notes to the Financial Statements contd.

Note 3.2.5: impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward looking information.

Note 3.2.3: determination of the fair value of financial instruments with significant unobservable inputs.

Note 3.7.2: measurement of defined benefit obligations: key actuarial assumptions.

Note 3.22.2: recognition of deferred tax assets: availability of future taxable profit against which carryforward tax losses can be utilized.

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

Note 3.2.5: impairment of financial instruments: key assumptions used in estimating recoverable cash flows.

2.12 Events after the Reporting Date

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

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

2.13 Changes in accounting policies

Except for the changes below, the Bank has consistently applied the accounting policies to all periods presented in these financial statements.

The Bank has applied SLFRS 16 with an initial application date of 1 January 2019. As a result, the Bank has changed its accounting policy for lease contracts as detailed below.

The Bank has applied SLFRS 16 using the modified retrospective approach, under which the ROU asset has been measured at an amount equal to the lease liability. Therefore there will be no impact on retained earnings. The details of the changes in accounting policy are disclosed below. Additionally, the disclosures requirements in SLFRS 16 have not generally been applied to comparative information

2.13.1. SLFRS 16 – "Leases"

Definition of a lease

Previously, the Bank determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under SLFRS 16, the Bank assesses whether a contract is or contains a lease based on the definition of lease as explained in note 3.4.

As a lessee

As a lessee, the Bank previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to the ownership of the underlying asset to the Bank. Under SLFRS 16, the Bank recognizes right-of-use asset and lease liabilities for all of its leases. i.e these leases are on-balance sheet.

Leases classified as operating leases under LKAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Banks Incremental borrowing rate as at 1 January 2019. The right-of-use assets are measured at an amount equal to the lease liability. The Bank applied this approach to all leases.

The Bank used the following practical expedients when applying SLFRS 16 to leases previously classified as operating leases under LKAS 17

- Applied a single discount rate to a portfolio of leases with similar characteristics
- Excluded direct cost from measuring the right-of-use asset at the date of initial application

Impact on financial Statements

On transition to SLFRS 16, the Bank recognized an additional Rs 535,966,966 right-of-use asset and Rs 529,320,929 lease liability. Due to the transition method adopted by the Bank, there will be no impact on retained earnings.

When measuring the lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019. Increamental borrowing rate is 12%

Description	Amount (Rs'000)
Operating lease commitments as at 31 December 2018, as disclosed under LKAS 17, in the Banks financial statements.	512,899
Adjustment to update for SLFRS 16	234,852
Discounted using the incremental borrowing rate	(218,431)
Lease liability recognized at 1 January 2019	529,321

Property plant and equipment comprise owned and lease assets that do not meet the definition of investment property

	Note	Amount (Rs'000)
Lease liability	30	529,321
Right-of-use asset	28.5	535,967

3. SIGNIFICANT ACCOUNTING POLICIES - GENERAL

3.1 Foreign Currency transactions and Balances

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

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

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

ASSETS, LIABILITIES AND BASES OF THEIR VALUATION

3.2 Financial instruments

3.2.1 Initial Recognition, Classification and Subsequent Measurement

3.2.1.1 Date of recognition

The Bank initially recognizes loans and advances, deposits, debt securities issued subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognized on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the equipment.

3.2.1.2 Initial measurement of financial instruments

A financial asset or financial liability is measured at fair value plus, for items not at FVTPL, transaction cost that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

3.2.1.3 Classification and subsequent measurement

Financial Assets

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

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

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

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

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

3.2.1.3.1. Business Model Assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether Management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's Management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

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

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

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

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

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

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

3.2.1.4. Derivatives recorded at fair value through profit or loss

Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

Other derivatives

If a derivative is not held for trading, and is not designated in a qualifying hedge relationship, then all changes in its fair value are recognized immediately in profit or loss as a component of net income from other financial instruments at FVTPL.

3.2.1.5. Securities purchased under resale agreements (Reverse Repos)

When the Bank purchases a financial asset and simultaneously enters into an agreement to resale the asset (or a similar asset) at a fixed price on a future date (Reverse Repo), the arrangement is accounted for as a financial asset in the Statement of Financial Position reflecting the transaction's economic substance as a loan granted by the Bank. Subsequent to initial recognition, these securities issued are measured at their amortized cost using the EIR method with the corresponding interest receivable being recognized as interest income in profit or loss.

3.2.1.6. Cash and cash equivalents

Cash and cash equivalents include cash in hand, placements with banks and loans at call and at short notice that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

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

3.2.1.7. Balances with Central Bank

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

FINANCIAL LIABILITIES

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 amortized 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 amortized cost. The amortized 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 amortization using the effective interest method of any difference between the initial amount and the maturity amount.

3.2.2.1. Classification and subsequent measurement of financial liabilities

The subsequent measurement of financial liabilities depends on their classification.

3.2.2.1.1. Financial liabilities at amortized cost

Financial Liabilities issued by the Bank that are not designated at fair value through profit or loss are recognized 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 amortized cost using the effective interest method. Deposit liabilities including savings deposits, current deposits, fixed/time deposits, call deposits, certificates of deposit and debentures are classified as financial liabilities measured at amortized cost.

The EIR amortization is included in "Interest expense" in the income statement. Gains and losses too are recognized in the income statement when the liabilities are derecognized as well as through the EIR amortization process.

3.2.2.1.2. Financial liabilities at fair value through profit or loss

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

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

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

Due to customers
These include non-interest-bearing deposits, savings deposits, term deposits, deposits payable at call and certificates of deposit. Subsequent to initial recognition deposits are measured at their amortized 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 recognized in profit or loss.

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

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

3.2.3 Determination of Fair Value
'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize 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 recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. These portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3.2.4 Reclassification of Financial Assets & 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 SLFRS 9.

3.2.5 Impairment of Financial Assets

3.2.5.1. Recognition of ECL

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

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

No impairment loss is recognized on equity investments.

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

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

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

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

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

3.2.5.2. Measurement of ECL

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

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

3.2.5.3. Restructured Financial Assets

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

- If the expected restructuring will not result in recognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in recognition 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.

3.2.5.4. Credit-Impaired Financial Assets

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

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

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

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

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

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

- financial assets measured at amortized 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 recognized 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 recognized in the fair value reserve.

3.2.5.6. Write-off

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

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

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

3.2.6 Derecognition of Financial Assets and Financial Liabilities

3.2.6.1 Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired.
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement; and either:
- The Bank has transferred substantially all the risks and rewards of the asset, or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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 recognized in OCI is recognized 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 of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

3.2.6.2 Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as 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 recognized in profit or loss.

3.2.7 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 derecognized and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

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

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize 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 amortized 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 recognizes 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 amortized 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 derecognizes 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 recognized at fair value. The difference between the carrying amount of the financial liability derecognized and consideration paid is recognized 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 amortized 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 recognized 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 recognized as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

3.2.8 Offsetting financial instruments

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

3.3 Property, Plant and Equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

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

Any gain or loss on disposal of an item of property and equipment is recognized within other income in profit or loss.

Subsequent expenditure

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Bank will obtain ownership by the end of the lease term.

The estimated useful lives are as follows:

Furniture & Fittings	5 years
Office Equipment	5 years
Computer hardware	4 years
Motor Vehicle	4 years
Machinery	5 years
Improvements to Leasehold Buildings	8-15 years
Building	-

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

Borrowing Costs

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

3.4 Leases

The Bank has applied SLFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under LKAS 17 and IFRIC 4. The details of the accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under SLFRS 16 and the impact of changes is disclosed in Note 2.13.1.

Policy Applicable from 1 January 2019

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 assess 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 supplies 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. The Bank has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

This policy is applied to contracts entered into, or changed, on or after 1 January 2019.

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 stand-alone 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.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Bank determined whether the arrangement was or contained a lease based on the assessment of whether:

- Fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- The arrangement has conveyed the right to use the asset. An arrangement conveyed the right to sue the asset if one of the following was met:
  - The purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output
  - The purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output
  - Facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

As a lessee

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 at 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 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.

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 in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or 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 if the 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 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, extension or 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.

The Bank presents right- of - use assets in Property, plant and equipments and lease liabilities as separate line item in the Statement of financial position.

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.

Under LKAS 17

In the comparative period, as a lessee the Bank classified leases that transfer substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent.

Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Bank's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

3.5 Intangible Assets

Software acquired by the Bank is measured at cost less accumulated amortization and any accumulated impairment losses.

Expenditure on internally developed software is recognized 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 capitalized costs of internally developed software include all costs directly attributable to developing the software and capitalized borrowing costs, and are amortized over its useful life. Internally developed software is stated at capitalized cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditure

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

Amortization

Software is amortized on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is 4-8 years.

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

3.6 Impairment of Non-Financial Assets

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs.

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3.7 Employee Benefits

3.7.1 Defined Contribution Plans- Employees' Provident Fund & Employees' Trust Fund

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that is due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in accordance with the respective statutes and regulations. The Bank contributes 12% and 3% of gross emoluments of employees to the Employees' Provident Fund and Employees' Trust Fund, respectively.

3.7.2 Defined Benefit Plan-Gratuity

Based on the Sri Lanka Accounting Standard LKAS19 - Employee Benefits, the Company has adopted the actuarial valuation method for employee benefit liability an actuarial valuation is carried out every year to ascertain the full liability. A separate fund is not maintained for this purpose.

The principal assumptions, which have the most significant effects on the valuation, are the rate of discount, rate of increase in salary, rate of turnover at the selected ages, rate of disability, death benefits and expenses.

The liability is measured on an actuarial basis using the projected unit credit method, adjusted for unrecognized actuarial gains and losses. The defined benefit plan liability is discounted using rates equivalent to the market yields at the date of statement of financial position that are denominated in the currency in which benefits will be paid, and that have a maturity approximating to the terms of the related pension liability.

The Bank recognizes 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 recognize as personnel expenses in the Income Statement.

3.7.3 Short-Term Employee Benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized 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.

3.7.4 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 recognizes costs for a restructuring. If benefits are not expected to be wholly settled within 12 months of the Reporting date, then they are discounted.

3.8 Provisions

A provision is recognized 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 recognized as finance cost.

3.9 Financial guarantees and Loan Commitments

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

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

3.10 Contingent liabilities and Commitments

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

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

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

Any pending legal claims against the Bank form part of contingencies.

3.11 Restructuring

Provision for restructuring is recognized when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

3.12 Onerous Contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

3.13 Stated Capital and Reserves

3.13.1 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 recognized as interest or dividend depending on the debt or equity classification.

3.13.2 Share Issue Costs

Incremental costs that are directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

3.13.3 Reserves

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

3.14 Earnings Per Share

The Bank presents basic and diluted EPS data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Bank by the weighted-average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

3.15 Fiduciary Assets

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

RECOGNITION OF INCOME AND EXPENSES

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

3.16 Interest

Effective Interest rate

Interest income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the instrument to:

- the gross carrying amount of the financial asset or
- the amortized cost of the financial liability.

When calculating the effective interest rate, for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired 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 and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense presented in the statement of profit or loss and OCI include:

- interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis; and
- interest on FVTOCI investment securities calculated on an effective interest basis;

Fair value changes on other derivatives held for risk management purposes, and other financial assets and financial liabilities carried at FVTPL, are presented in net income from other financial instruments at FVTPL in the statement of profit or loss and OCI.

Amortised cost and gross carrying amount

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 amortization 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' us the amortized cost of a financial asset, before adjusting for any expected credit loss allowance.

Calculation of interest income and 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 amortized cost of the liability. The effective interest rate is revised s a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

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 amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverse 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 amortized 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 calculated using effective interest method presented in the statement of profit or loss and OCI includes

- Interest on financial assets and financial liabilities measured at amortized cost

3.17 Fee and Commission Income

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Other fees and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – are recognized as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognized on a straight-line basis over the commitment period.

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

3.18 Net Trading Income

'Net trading income' comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences.

3.19 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 realized and unrealized fair value changes, interest, dividends and foreign exchange differences.

3.20 Dividend Income

Dividend income is recognized when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in net trading income, net income from other financial instruments at fair value through profit or loss or other revenue based on the underlying classification of the equity investment.

3.21 Expenditure Recognition

Expenditure is recognized in the financial statements as they are incurred and recognized on an accrual basis.
All expenditure incurred in the running of the business and in maintaining the Property, Plant & Equipment in a state of efficiency has been charged to the profit or loss.

3.22 Income Tax Expenses

Income tax expenses comprises current and deferred tax. Income tax is recognized in the Income Statement except to the extent it relates to items recognized directly in equity or OCI, in which case it is recognized in equity or OCI.

3.22.1 Current Taxation

'Current tax' comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Accordingly, provision for taxation is made on the basis of the accounting profit for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 06 of 2017 and the amendments thereto, at the rates specified.

3.22.2 Deferred Taxation

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

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

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

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

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

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

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

3.22.3 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.

3.26.4 Value Added Tax on Financial Services

The base for the computation of Value Added Tax on Financial Services is the accounting profit before emoluments paid to employees and income tax, which is adjusted for the depreciation computed on prescribed rates.

3.26.5 Economic Service Charge (ESC)

As per the provisions of the Finance Act No. 11 of 2004, and amendments thereto, the ESC was introduced with effect from 1 April 2004. Currently, the ESC is payable at 0.25% on 'Exempt Turnover' and is deductible from the income tax payments. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the five subsequent years.

3.26.6 Nation Building tax on Financial Services (NBT)

With effect from 1 January 2014, NBT of 2% was introduced on supply of financial services via an amendment to the NBT Act No. 9 of 2009. NBT has been abolished with effect from 1 December 2019.

4. STATEMENT OF CASH FLOW

The Cash Flow Statement has been prepared using the 'Indirect Method' of preparing Cash Flows in accordance with the LKAS 7 - 'Cash Flow Statements.' Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

5. OPERATING SEGMENTS

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the Corporate Management Team headed by the Managing Director/ Chief Executive Officer (being the chief operating decision-maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

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

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

- Banking
- Treasury and Investments
- Unallocated

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

6. ACCOUNTING STANDARDS NOT YET EFFECTIVE

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards (SLFRSs/LKASs) which will become applicable for financial periods beginning after 1 January 2020. Accordingly, the Bank has not applied the following new standards in preparing these Financial Statements.

The following amended standards are not expected to have a significant impact on the Bank's Financial Statements.

(i) Amendments to references to conceptual framework in Sri Lanka Financial Reporting Standards
(ii) Definition of a business (Amendments to SLFRS 3)
(iii) SLFRS 17 Insurance Contracts
(iv) Interest rate benchmark reforms. (Amendments to SLFRS 9, LKAS 39, and SLFRS 7)

Notes to the Financial Statements contd.

For the year ended 31 December	Note	2019 Rs. '000	2018 Rs. '000
7 NET INTEREST INCOME			
Interest income	7.1	4,390,508	3,903,955
Less: Interest expenses	7.2	2,346,857	1,874,648
Net interest income		2,043,651	2,029,307
7.1 Interest income			
Cash & cash equivalents		11,998	28,224
Placements with banks		7,100	43,868
Financial assets measured at amortized cost- Loans & advances to customers*		3,774,650	3,334,436
Financial assets measured at amortized costs - Debt and other Instruments*		5,401	5,397
Financial investments measured at fair value through other comprehensive income		591,359	492,030
Total interest income		4,390,508	3,903,955
7.2 Interest expenses			
Due to banks		102,962	88,657
Financial liabilities measured at amortized cost - Due to depositors*		2,091,433	1,723,445
Financial liabilities measured at amortized cost - Due to other borrowers*		152,462	62,546
Total interest expenses		2,346,857	1,874,648

* The income and expenses recorded have been calculated using the Effective Interest Rate method.

	Note	2019 Rs. '000	2018 Rs. '000
8 NET FEES AND COMMISSION INCOME			
Fee and commission income	8.1	384,008	225,672
Less: Fee and commission expenses	8.2	160,082	67,614
Net fees and commission income		223,926	158,058
8.1 Fee and commission income			
Loans and advances		44,048	45,692
Debit and Credit cards		158,832	38,285
Trade and remittances		63,600	47,734
Deposits		29,671	20,576
Guarantees		59,621	56,735
Other financial services		28,236	16,650
Total fee and commission income		384,008	225,672
8.2 Fee and commission expenses			
Debit and Credit cards		107,475	31,715
Brokerage fee		10,431	10,156
Other financial services		42,176	25,743
Total fee & commission expenses		160,082	67,614

For the year ended 31 December	Note	2019 Rs. '000	2018 Rs. '000
9 NET GAINS / (LOSSES) FROM TRADING			
Derivative financial instruments			
From Banks and other customers		13,662	(14,148)
Total net gains / (losses) from trading		13,662	(14,148)
10 NET GAINS FROM DERECOGNITION OF FINANCIAL ASSETS			
Financial assets measured at fair value through other comprehensive income			
Government Securities		81,003	17,934
Total net gains from derecognition of financial assets		81,003	17,934
11 NET OTHER OPERATING INCOME			
Gain on sale of property, plant and equipment and other assets		7,953	249
Gains on revaluation of foreign exchange		79,439	153,955
Dividend Income		935	770
Rent and other income		1,745	11,856
Total net other operating income		90,072	166,830
12 IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS AND OTHER ASSETS			
Financial assets at amortized cost - Loans and advances to banks		-	(221)
Financial assets at amortized cost - Loans and advances to other customers	25.2	1,049,637	298,382
Financial assets at amortized costs - Debt and other instruments	26.2	(227)	2,500
Cash and cash equivalents	21.1	(1,346)	(8,972)
Placements with banks	23.1	3,455	(9,581)
Contingent liabilities and commitments	42.1.1	63,391	21,078
Total impairment charges		1,114,910	303,186
Direct write-offs		-	15
Property, plant and equipment		-	10,725
Write-off other assets	12.1	33,389	10
Total Impairment charges for financial instruments and other assets		1,148,299	313,937

12.1 Write-off other assets of 2019 includes net write off of Tax credits, ESC and Notional Tax Credits which cannot be carried forward/recovered.

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
12.2 Impairment charges for year 2019				
Financial assets at amortized cost				
- Loans and advances to other customers	(82,049)	(39,553)	1,171,239	1,049,637
Financial assets at amortized costs - Debt and other instruments	(227)	-	-	(227)
Cash and cash equivalents	(1,346)	-	-	(1,346)
Placements with banks	3,455	-	-	3,455
Contingent liabilities and commitments	21,721	51,146	(9,476)	63,391
Total impairment charges	(58,446)	11,593	1,161,763	1,114,910
Impairment charges for year 2018				
Financial assets at amortized cost - Loans and advances to banks	(221)	-	-	(221)
Financial assets at amortized cost				
- Loans and advances to other customers	(74,236)	147,473	225,145	298,382
Financial assets at amortized costs - Debt and other Instruments	2,500	-	-	2,500
Cash and cash equivelants	(8,972)	-	-	(8,972)
Placements with banks	(9,581)	-	-	(9,581)
Contingent liabilities and commitments	(469)	(1,951)	23,498	21,078
Total impairment charges	(90,979)	145,522	248,643	303,186

For the year ended 31 December	Note	2019 Rs. '000	2018 Rs. '000
13 PERSONNEL EXPENSES			
Salary and bonus	13.1	638,395	566,720
Contributions to defined contribution plans		90,027	75,669
Provision to defined benefit obligations	37.1	12,572	15,508
Other staff related expenses		132,433	86,184
Total Personnel expenses		873,427	744,081

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

For the year ended 31 December	Note	2019 Rs. '000	2018 Rs. '000
14 DEPRECIATION AND AMORTIZATION EXPENSES			
Depreciation of property, plant and equipment	28	289,051	134,937
Amortization of intangible assets	29.1	127,220	111,646
Total Depreciation and amortization expenses		416,271	246,583

For the year ended 31 December	Note	2019 Rs. '000	2018 Rs. '000
15 OTHER OPERATING EXPENSES			
Directors' emoluments	15.1	19,339	16,125
Auditors' remunerations		4,536	3,822
Audit fee and expenses		2,875	2,300
Audit related fee and expenses		1,060	875
Non-audit fee and expenses		601	647
Professional and legal expenses		37,381	18,602
Sri Lanka Deposit Insurance scheme contribution		16,898	14,302
Office administration and establishment expenses		824,082	663,943
Total Other operating expenses		902,236	716,794

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

16 TAXES ON FINANCIAL SERVICES

	Note	2019	2018
Value Added Tax (VAT) on financial services		(378)	139,324
Nation Building Tax (NBT) on financial services		(51)	17,997
Debt Repayment Levy (DRL)	16.1	(76)	17,821
		(505)	175,142

16.1 DRL was imposed through Finance Act No. 35 of 2018 approved by the Parliament on 1 November 2018 and was retrospectively imposed from 1 October 2018 till 31 December 2021 on banks and financial institutions only. DRL is payable at 7% on the same value base considered for VAT and NBT. DRL has been abolished with effect from 1 January 2020 subject to Parliamentary approval for amendments to Finance Act.

For the year ended 31 December	Note	2019 Rs. '000	2018 Rs. '000
17 INCOME TAX EXPENSES			
Current tax expense			
Income tax on current year (loss)/profit		-	10,989
Under provision in respect of previous years		9,119	-
Deferred tax expense			
Origination and reversal of temporary differences	30.1	(229,933)	27,650
Total Income tax (Reversal)/expenses		(220,814)	38,639

Notes to the Financial Statements contd.

17.1 Reconciliation of the accounting (loss)/profit to income tax expense

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

	2019		2018	
	Rs. '000	%	Rs. '000	%
Accounting (loss)/profit before tax from operations	(887,414)	100	161,444	100
Tax effect at the statutory income tax rate	(248,476)	28	45,204	28
Tax effect of exempt income	(6,857)	1	(4,336)	(3)
Tax effect of non-deductible expenses	461,034	(52)	206,201	128
Tax effect of deductible expenses	(315,459)	36	(111,043)	(69)
Taxable profit/(loss) on disposal of lease/fixed assets	(2,227)	-	(4,855)	(3)
Tax losses utilized during the year	-	-	(120,182)	(74)
Income tax on current year profit	-		10,989	
Under/(over) provision in respect of prior years	9,119	(1)	-	-
Deferred tax (reversal)/expense	(229,933)	26	27,650	17
Income tax (reversal)/expenses	(220,814)	24.88	38,639	23.93

17.2 In terms of provision of Inland Revenue Act No. 24 of 2017 and amendments thereto, the Bank is liable for income tax at 28%.

	Note	2019 Rs. '000	2018 Rs. '000
17.3 Tax expenses recognized in Other Comprehensive Income			
Deferred tax on net actuarial (losses)/gains on defined benefit plans		(5,919)	2,593
Deferred tax on net (losses)/gains on investment in financial assets measured at fair value through other comprehensive income		(26,142)	16,767
Total recognized OCI	31.1	(32,061)	19,360
17.4 Tax losses/ credits carried forward			
Tax losses brought forward		411,168	979,003
Add: Tax losses arising during the year		399,949	-
Less: Tax losses utilized during the year		-	(567,835)
Unutilized Tax losses/ credits carried forward	31.3	811,117	411,168

18 EARNINGS PER SHARE

18.1 Basic EPS

	2019	2018
Amount used as the numerator		
(Loss)/profit after tax attributable for equity holders of the Bank	(666,600)	122,805
Amount used as the denominator		
Weighted average number of ordinary shares in issue during the year (Refer Note 18.1.1)	883,142,858	883,142,858
Basic (loss)/earning per share (Rs.)	(0.75)	0.14

18.1.1 Weighted average number of ordinary shares

	2019	2018
Issued ordinary shares at 1 January	883,142,858	883,142,858
Weighted average number of ordinary shares as at 31 December	883,142,858	883,142,858

18.2 Diluted EPS

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

19 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

19.1 (a) 2019

	Note	Fair value through P/L Rs. '000	Fair Value through OCI Rs. '000	Amortized cost Rs. '000	Total Rs. '000
Financial assets					
Cash and cash equivalents	21	-	-	993,133	993,133
Balances with Central Bank of Sri Lanka	22	-	-	1,040,397	1,040,397
Placements with Banks	23	-	-	689,336	689,336
Derivative financial instruments	24	386	-	-	386
Financial assets at amortized costs - Loans & advances to other customers	25	-	-	27,013,673	27,013,673
Financial assets at amortized costs - Debt and other instruments	26	-	-	477,663	477,663
Financial assets measured at fair value through other comprehensive income - Government securities	27	-	6,654,235	-	6,654,235
Financial assets measured at fair value through other comprehensive income - Equity securities	27	-	13,446	-	13,446
Other assets*	32	-	-	327,094	327,094
Total financial assets		386	6,667,681	30,541,296	37,209,363
Financial liabilities					
Due to banks	33	-	-	1,517,942	1,517,942
Derivative financial instruments	34	2,281	-	-	2,281
Financial liabilities at amortized cost - Due to depositors	35	-	-	25,042,562	25,042,562
Financial liabilities at amortized cost - Due to other borrowers	36	-	-	948,298	948,298
Lease liability	30	-	-	444,214	444,214
Other liabilities**	38	-	-	403,844	403,844
Total financial liabilities		2,281	-	28,356,860	28,359,141

19.1 (b) 2018

	Note	Fair value through P/L Rs. '000	Fair Value through OCI Rs. '000	Amortized cost Rs. '000	Total Rs. '000
Financial assets					
Cash and cash equivalents	21	-	-	1,231,655	1,231,655
Balances with Central Bank of Sri Lanka	22	-	-	994,405	994,405
Derivative financial instruments	24	24	-	-	24
Financial assets at amortized costs - Loans & advances to other customers	25	-	-	23,917,397	23,917,397
Financial assets at amortized costs - Debt and other instruments	26			524,002	524,002
Financial assets measured at fair value through other comprehensive income - Government securities	27	-	5,536,273	-	5,536,273
Financial assets measured at fair value through other comprehensive income - Equity securities	27	-	11,896	-	11,896
Other assets*	32	-	-	121,287	121,287
Total financial assets		24	5,548,169	26,788,746	32,336,939

19 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES CONTD.

19.1 (b) 2018 Contd.

	Note	Fair value through P/L Rs. '000	Fair Value through OCI Rs. '000	Amortized cost Rs. '000	Total Rs. '000
Financial liabilities					
Due to banks	33	-	-	1,364,712	1,364,712
Derivative financial instruments	34	15,004	-	-	15,004
Financial liabilities at amortized cost - Due to depositors	35	-	-	19,902,741	19,902,741
Financial liabilities at amortized cost - Due to other borrowers	36	-	-	662,523	662,523
Other liabilities**	38	-	-	521,289	521,289
Total financial liabilities		15,004	-	22,451,265	22,466,269

* Other assets only includes other receivables

** Other liabilities excludes accrued expenditure and impairment on commitments and contingencies

20 FAIR VALUE OF FINANCIAL INSTRUMENTS

20.1 Financial Instruments Measured at Fair Value - Fair Value Hierarchy

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

	Note	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
As at 31 December 2019					
Financial Assets					
Derivative financial instruments	24	-	386	-	386
Financial assets measured at fair value through other comprehensive income	27				
- Government securities		6,654,235	-	-	6,654,235
- Equity securities		-	13,446	-	13,446
Total assets at fair value		6,654,235	13,832	-	6,668,067
Liabilities					
Derivative financial instruments	34	-	2,281	-	2,281
Total liabilities at fair value		-	2,281	-	2,281
As at 31 December 2018					
Financial Assets					
Derivative financial instruments	24	-	24	-	24
Financial assets measured at fair value through other comprehensive income	27				
- Government securities		5,536,273	-	-	5,536,273
- Equity securities		-	11,896	-	11,896
Total assets at fair value		5,536,273	11,920	-	5,548,193
Liabilities					
Derivative financial instruments	34	-	15,004	-	15,004
Total liabilities at fair value		-	15,004	-	15,004

20.2 Valuation Techniques and Inputs in Measuring Fair Values

Table below provides information on the valuation techniques and inputs used in measuring the fair values of Derivative financial assets and liabilities in the Level 2 of the fair value hierarchy as given in Note 20.1 above

Type of Financial Instruments	Fair Value as at 31 December 2019 (Rs.'000)	Valuation Technique	Significant Valuation inputs
Derivative financial assets	386	Adjusted Forward Rate Approach. This approach considers the present value of projected forward exchange rate as at the Reporting date as the fair value. The said forward rate is projected based on the spot exchange rate and the forward premium/ discount calculated using extrapolated interest rates of the currency pairs under consideration. In computing the present value, interest rate differential between two currencies under consideration is used as the discount rate.	Spot exchange rate
Derivative financial liabilities	2,281		
Unquoted equities	13,446	Fair value is as per latest audited Financial Statements of these companies as at following dates Credit Information Bureau - 31 December 2018 Lanka Clear (Pvt) Limited - 31 March 2019 The investments and related gains/losses are not material to the Bank	Net assets per share

20.3 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 related fair value hierarchy:

	Note	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Carrying Amount Rs. '000
As at 31 December 2019					
Assets					
Cash and cash equivalents	21	-	993,133	-	993,133
Balances with Central Bank of Sri Lanka	22	-	1,040,397	-	1,040,397
Placements with banks	23	-	689,336	-	689,336
Financial assets at amortized costs					
- Loans & advances to other customers	25	-	-	27,013,673	27,013,673
Financial assets at amortized costs					
- Debt and other instruments	26	-	-	477,663	477,663
Other assets*	32	-	-	327,094	327,094
Total financial assets not at fair value		-	2,722,866	27,818,430	30,541,296

20.3 Financial Instruments not measured at fair value Contd.

	Note	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Carrying Amount Rs. '000
As at 31 December 2019					
Liabilities					
Due to banks	33	-	1,517,942	-	1,517,942
Financial liabilities at amortized cost - Due to depositors	35	-	-	25,042,562	25,042,562
Financial liabilities at amortized cost - Due to other borrowers	36	-	948,298	-	948,298
Lease liability	30	-	-	444,214	444,214
Other liabilities**	38	-	-	403,844	403,844
Total financial liabilities not at fair value		-	2,466,240	25,890,620	28,356,860
As at 31 December 2018					
Assets					
Cash and cash equivalents	21	-	1,231,655	-	1,231,655
Balance with Central Bank of Sri Lanka	22	-	994,405	-	994,405
Financial assets at amortized costs - Loans & advances to other customers	25	-	-	23,917,397	23,917,397
Financial assets at amortized costs - Debt and other instruments	26	-	-	524,002	524,002
Other assets*	32	-	-	121,287	121,287
Total financial assets not at fair value		-	2,226,060	24,562,686	26,788,746
Liabilities					
Due to banks	33	-	1,364,712	-	1,364,712
Financial liabilities at amortized cost - Due to depositors	35	-	-	19,902,741	19,902,741
Financial liabilities at amortized cost - Due to other borrowers	36	-	662,523	-	662,523
Other liabilities**	38	-	-	521,289	521,289
Total financial liabilities not at fair value		-	2,027,235	20,424,030	22,451,265

* Other assets only includes other receivables

** Other liabilities excludes accrued expenditure and impairment on commitments and contingencies

As at 31 December	Note	2019 Rs. '000	2018 Rs. '000
21 CASH AND CASH EQUIVALENTS			
Cash in hand			
Coins and notes held in local currency		450,370	556,734
Coins and notes held in foreign currency		9,500	25,398
Balances with banks		534,983	374,406
Money at call and short notice		-	278,183
Gross Cash and cash equivalents		994,853	1,234,721
Less: Provision for Impairment	21.1	(1,720)	(3,066)
Total Cash and cash equivalents		993,133	1,231,655

As at 31 December	Note	2019 Rs. '000	2018 Rs. '000

21.1 Movement in impairment during the year

Stage 01			
Opening balance as at 1 January		3,066	-
Adjustment of initial application of SLFRS 09		-	12,038
Adjusted balance as at 1 January		**-**	**12,038**
Write back to income statement		(1,346)	(8,972)
Closing balance as at 31 December		1,720	3,066

22 BALANCES WITH CENTRAL BANK OF SRI LANKA

Statutory balances with central banks			
Central Bank of Sri Lanka		1,040,397	994,405
Total Balances with Central Bank of Sri Lanka		1,040,397	994,405

22.1 As required by the provisions of Section 93 of the Monetary Law Act, a cash balance is maintained with the Central Bank of Sri Lanka. As at 31 December 2019, the minimum cash reserve requirement was 5% (6% until 28 February 2018) of the rupee deposit liabilities.

23 PLACEMENTS WITH BANKS

Placements - within Sri Lanka		692,791	-
Placements - outside Sri Lanka		-	-
Gross Placements with banks		**692,791**	**-**
Less: Provision for Impairment	23.1	(3,455)	-
Total Placements with banks		689,336	-

23.1 Movement in impairment during the year

Stage 01			
Opening balance as at 1 January		-	-
Adjustment of initial application of SLFRS 09		-	9,581
Adjusted balance as at 1 January		**-**	**9,581**
Charge/ (write back) to income statement		3,455	(9,581)
Closing balance as at 31 December		3,455	-

24 DERIVATIVE FINANCIAL INSTRUMENTS

Foreign currency derivatives			
Forward foreign exchange contracts		386	24
Total Derivative financial instruments		386	24

	Note	2019 Rs. '000	2018 Rs. '000
25 FINANCIAL ASSETS AT AMORTIZED COSTS - LOANS & ADVANCES TO OTHER CUSTOMERS			
Gross loans & advances			
Stage 1		19,963,594	18,458,332
Stage 2		4,676,233	4,644,834
Stage 3		4,230,787	1,621,535
Total Gross Loans and Advances		28,870,614	24,724,701
Less: Provision for Impairment			
Stage 1	25.2	90,054	172,103
Stage 2	25.2	186,450	226,003
Stage 3	25.2	1,580,437	409,198
Total impairment for loans and advances		1,856,941	807,304
Net loans and advances		27,013,673	23,917,397

25.1 Analysis

25.1.1 By product

Loans and advances		
Overdrafts	6,108,798	4,615,421
Trade finance	2,643,312	2,567,828
Housing loans	1,033,887	1,088,493
Personal loans	3,587,429	3,639,919
Staff loans	199,215	168,882
Term loans	8,396,188	7,043,608
Loans against property	1,463,448	1,140,647
Agriculture loans	445,312	517,022
Money market loans	4,008,163	3,713,544
Vehicle loans	64,915	53,065
Bills of exchange	-	226
Credit cards	860,228	136,931
Micro finance	59,719	39,115
Total gross loans & advances	28,870,614	24,724,701

25.1.2 By currency

Sri Lankan Rupee	26,116,058	22,380,986
United States Dollar	2,719,850	2,308,493
Great Britain Pounds	2,344	-
Singapore Dollars	32,362	35,222
Total gross loans & advances	28,870,614	24,724,701

As at 31 December	Note	2019 Rs. '000	2018 Rs. '000
25.1.3 By industry			
Agriculture & fishing		3,346,195	2,186,271
Manufacturing		2,290,287	1,971,496
Tourism		2,127,417	1,854,625
Transport		320,004	359,463
Construction		4,243,703	3,880,984
Traders		4,857,937	4,981,424
New economy		433,644	315,270
Financial & business services		2,900,840	2,536,040
Infrastructure		14,870	31,081
Other services		2,410,560	1,265,145
Other customers		5,925,157	5,342,902
Total gross loans & advances		28,870,614	24,724,701

25.2 Movement in provision for impairment during the year

Opening balance as at 1 January		807,304	-
Adjustment on initial application of SLFRS 09		-	508,922
Adjusted balance as at 1 January		**-**	**508,922**
Charge to income statement		1,049,637	298,382
Closing balance as at 31 December		1,856,941	807,304
Stage 01			
Opening balance as at 1 January		172,103	-
Adjustment on initial application of SLFRS 09		-	246,339
Adjusted balance as at 1 January		**-**	**246,339**
Write back to income statement		(82,049)	(74,236)
Closing balance as at 31 December		90,054	172,103
Stage 02			
Opening balance as at 1 January		226,003	-
Adjustment on initial application of SLFRS 09		-	78,530
Adjusted balance as at 1 January		**-**	**78,530**
(Write back)/ Charge to income statement		(39,553)	147,473
Closing balance as at 31 December		186,450	226,003
Stage 03			
Opening balance as at 1 January		409,198	-
Adjustment on initial application of SLFRS 09		-	184,053
Adjusted balance as at 1 January		**-**	**184,053**
Charge to income statement		1,171,239	225,145
Closing balance as at 31 December		1,580,437	409,198
Total Impairment Provision		1,856,941	807,304

Notes to the Financial Statements contd.

As at 31 December	Note	2019 Rs. '000	2018 Rs. '000
26 FINANCIAL ASSETS AT AMORTIZED COSTS - DEBT AND OTHER INSTRUMENTS			
Sri Lanka Development Bonds		372,347	376,176
Trust Certificates	26.1	107,589	150,326
Total Financial assets measured at amortized cost		**479,936**	**526,502**
Less: Provision for Impairment	26.2	(2,273)	(2,500)
Total Financial assets measured at amortized cost		477,663	524,002
26.1 Trust Certificates			
Asset Securitization Trust Certificates			
Trade Finance and Investment PLC		107,589	150,326
Total Trust Certificates		107,589	150,326
26.2 Movement in impairment during the year			
Stage 01			
Opening balance as at 1 January		2,500	-
(Write back)/ charge to income statement		(227)	2,500
Closing balance as at 31 December		2,273	2,500
27 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME			
Government securities			
Treasury bills		3,929,680	1,847,230
Treasury bonds		2,724,555	3,689,043
Total Government securities		6,654,235	5,536,273
Equity securities			
Quoted shares		-	-
Unquoted shares	27.1	13,446	11,896
Total Equity securities		13,446	11,896
Total financial assets measured at fair value through other comprehensive income		6,667,681	5,548,169

As at 31 December	2019 No. of Shares	2019 Market Value	2019 Cost	2018 Market Value	2018 Cost
27.1 Unquoted shares					
Lanka Clear (Pvt) Ltd	50,000	7,509	3,500	6,289	3,500
Credit Information Bureau of Sri Lanka	300	5,937	2,383	5,607	2,383
Total		13,446	5,883	11,896	5,883

28 PROPERTY, PLANT AND EQUIPMENT

	Improvements to leasehold buildings	Computer hardware	Office equipment, furniture & fittings	Motor vehicles	Machinery	Work in progress	Right-of-use asset	Total 2019	Total 2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost									
Balance as at 1 January	118,380	557,114	197,490	24,098	78,026	-	-	975,108	773,883
Adjustment on initial application of SLFRS16	-	-	-	-	-	-	535,967	535,967	-
Additions during the year	7,992	64,764	38,072	-	11,391	2,082	-	124,301	306,285
Disposals during the year	-	(2,544)	(1,174)	(9,248)	(2,646)	-	-	(15,612)	(5,347)
Transfers/ adjustments	-	(481)	-	-	-	-	-	(481)	(18,360)
Write - Off	-	-	-	-	-	-	-	-	(81,353)
Balance as at 31 December	126,372	618,853	234,388	14,850	86,771	2,082	535,967	1,619,283	975,108
Accumulated Depreciation									
Balance as at 1 January	48,837	275,619	90,996	23,577	47,342	-	-	486,371	409,389
Charge for the year	13,943	110,260	35,707	156	10,643	-	118,402	289,111	139,164
Disposals during the year	-	(2,505)	(1,027)	(8,883)	(2,617)	-	-	(15,032)	(3,997)
Transfers/ adjustments	-	(60)	-	-	-	-	-	(60)	(4,229)
Write - Off	-	-	-	-	-	-	-	-	(53,956)
Balance as at 31 December	62,780	383,314	125,676	14,850	55,368	-	118,402	760,390	486,371
Less: Impairment									
Balance as at 1 January	-	-	589	-	-	-	-	589	17,260
Write back to income statement	-	-	-	-	-	-	-	-	(550)
Net write-off during the year	-	-	-	-	-	-	-	-	(16,121)
Balance as at 31 December	-	-	589	-	-	-	-	589	589
Carrying Value									
31 December 2019	63,592	235,539	108,123	-	31,403	2,082	417,565	858,304	
31 December 2018	69,543	281,495	105,905	521	30,684	-	-	-	488,148

28.1 Impairment includes the cost of improvements made to leasehold buildings & electrical fittings in branches that will not commence commercial operations in the foreseeable future.

28.2 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.

28.3 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.

Notes to the Financial Statements contd.

28.4 Fully depreciated property, plant and equipment

The cost of fully depreciated property, plant and equipment of the Bank which are still in use are as follows:

As at 31 December	2019 Rs. '000	2018 Rs. '000
Computer hardware	169,598	144,176
Office equipment, furniture & fittings	46,382	37,838
Machinery	36,548	24,486
Motor vehicles	14,850	21,600
Computer software	99,769	80,783
Total	367,147	308,883

28.5 Right-of-use Asset

The Banks material leases only include land and buildings.

	2019 Rs. '000
Right-of-use Asset	
Balance as at 1 January	535,967
Additions	-
Less: Depreciation	(118,402)
Balance as at 31 December	417,565

As at 31 December	Note	2019 Rs. '000	2018 Rs. '000
29 INTANGIBLE ASSETS			
Computer software	29.1	457,570	474,374
Total		457,570	474,374
29.1 Computer software			
Cost			
Opening balance		783,695	538,168
Additions during the year		110,416	243,241
Transfers/ adjustments		(4,700)	2,286
Closing balance		889,411	783,695
Accumulated amortization			
Opening balance		309,321	197,675
Charge for the year		127,220	111,646
Transfers/ adjustments		(4,700)	-
Closing balance		431,841	309,321
Carrying Value		457,570	474,374

As at 31 December	2019 Rs. '000

30 LEASE LIABILITY

30.1 Maturity analysis - Contractual undiscounted cash flows

Less than one year	63,998
One to five years	412,110
More than five years	271,644
Total undiscounted lease liability	747,752

30.2 Lease liability recognized in the statement of Financial Position

Current	104,154
Non-Current	340,060
Total	444,214

30.3 Amounts recognised in income statement

Interest on lease liabilities	57,300
Total	57,300

30.4 Amounts recognized in the statement of cash flow

Total cash outflow of leases	142,408
Total	142,408

31 DEFERRED TAX ASSETS/(LIABILITIES)

31.1 Summary of Net Deferred Tax Asset

	2019		2018	
	Temporary difference	Tax effect	Temporary difference	Tax effect
Opening Balance as at 1 January	602,769	168,776	499,112	139,752
Adjustment of initial application of SLFRS 09	-	-	133,264	37,314
Adjusted balance as at 1 January	602,769	168,776	632,376	177,066
Recognized in profit or loss				
Charge for the year	821,191	229,933	(98,750)	(27,650)
Recognized in other comprehensive income				
Effect on actuarial (gains)/losses on defined benefit plans	(25,604)	(7,169)	10,311	2,887
Effect on fair value losses on financial investments measured at FVOCI	(93,365)	(26,142)	59,884	16,767
Effect on fair value gains on equity instruments measured at FVOCI	4,464	1,250	(1,052)	(294)
Closing Balance as at 31 December	1,309,455	366,648	602,769	168,776

31.2 Reconciliation of Net Deferred Tax Asset

	Statement of Financial Position		Income Statement		Statement of Other Comprehensive Income	
For the year ended/as at 31 December	2019	2018	2019	2018	2019	2018
Deferred Tax Assets on:						
Defined benefit plans	17,315	12,290	5,025	6,850	-	-
Actuarial losses on defined benefit plans	-	2,055	-	-	(2,055)	2,055
Unrealised loss on Financial assets measured at fair value through OCI	-	12,666	-	-	-	16,767
Carried forward tax losses	177,319	83,509	93,810	(119,900)	-	-
Impairment provision	270,423	128,880	141,543	90,178	-	-
	465,057	239,400	240,378	(22,872)	(2,055)	18,822
Deferred Tax Liabilities on:						
Accelerated depreciation for tax purposes	71,922	68,940	2,983	4,778	-	-
Actuarial gains on defined benefit plans	5,114	-	-	-	5,114	(832)
Unrealised gains on Financial assets measured at fair value through OCI - Financial investments	13,477	-	-	-	26,142	294
Unrealised gains on Financial assets measured at fair value through OCI - Equity instruments	434	1,684	-	-	(1,250)	294
Impact from SLFRS 16 Leases	7,462	-	7,462	-	-	-
	98,409	70,624	10,445	4,778	30,006	(538)
Deferred tax effect on profit or loss and other comprehensive income			229,933	(27,650)	(32,061)	19,360
Net deferred tax asset as at 31 December	366,648	168,776				

31.3 The total temporary differences arising from tax losses and tax credits amounted to Rs. 811 Mn. resulting in a deferred tax asset of Rs. 227 Mn. as at 31 December 2019, out of which, based on an internal assessment carried out by the Board of Directors, the recognition of deferred tax asset has been limited to Rs. 177 Mn. The unrecognized deferred tax asset as at 31 December 2019 was Rs 50 Mn, as the Bank may not have sufficient taxable profits to utilize the tax credits, based on their budget forecasts.

As at 31 December		2019 Rs. '000	2018 Rs. '000
32 OTHER ASSETS			
Deposits and prepayments		109,608	122,595
Other receivables		327,094	121,287
Pre paid staff cost		47,004	38,529
Tax recoverable	32.1	90,037	173,759
Total other assets		573,743	456,170
32.1 Tax recoverable			
Withholding tax recoverable		72,551	70,811
Economic Service Charge recoverable		17,486	31,375
Notional tax recoverable		-	71,573
Total		90,037	173,759

Economic Service Charge and Notional tax recoverable amounting to Rs. 107 Mn was written-off during the year.

As at 31 December	2019 Rs. '000	2018 Rs. '000

33 DUE TO BANKS

Borrowings		
Local currency borrowings	652,508	704,533
Foreign currency borrowings	865,434	660,179
Total Due to banks	1,517,942	1,364,712

34 DERIVATIVE FINANCIAL INSTRUMENTS

Forward foreign exchange contracts	2,281	15,004
Total	2,281	15,004

35 FINANCIAL LIABILITIES AT AMORTIZED COST - DUE TO DEPOSITORS

Local currency deposits	23,077,970	18,674,194
Foreign currency deposits	1,964,592	1,228,547
Total Due to depositors	25,042,562	19,902,741

35.1 Analysis of due to depositors

35.1.1 By product

Current account deposits	1,120,910	990,859
Savings deposits	2,943,386	2,299,220
Time deposits	19,573,463	15,620,818
Certificate of deposits	1,388,621	860,905
Margin deposits	16,182	130,939
Total	**25,042,562**	**19,902,741**

35.1.2 By currency

Sri Lanka Rupees	23,050,567	18,674,194
United States Dollars	1,895,255	1,059,044
Great Britain Pound	44,559	56,222
Euro	48,823	112,864
Other currencies	3,358	417
Total	**25,042,562**	**19,902,741**

36 FINANCIAL LIABILITIES AT AMORTIZED COST - DUE TO OTHER BORROWERS

Term Borrowings	892,848	-
Securities sold under repurchase (repo) agreements*	55,450	662,523
Total due to other borrowers	948,298	662,523

*The market value of eligible securities adequately covers the repurchase(repo) value of the securities.

As at 31 December		2019 Rs. '000	2018 Rs. '000
37 RETIREMENT BENEFIT OBLIGATIONS			
Balance as at 1 January		51,233	16,455
Provision for transferred employees		-	16,345
Expenses recognized in the Income statement	37.1	12,572	15,508
Amounts paid during the year		(1,202)	(4,415)
Benefits payable for those who left during the period		(761)	-
Actuarial (gains)/ losses recognized in OCI		(18,265)	7,340
Loss/(gains) due to change in experience assumptions		(13,856)	9,283
Loss/(gains) due to changes in financial assumptions		(4,083)	(1,692)
Loss/(gains) due to changes in demographic assumptions		(326)	(251)
Balance as at 31 December		43,577	51,233

37.1 Expense Recognised in the Income Statement – Gratuity

	2019 Rs. '000	2018 Rs. '000
Current service cost	10,243	12,493
Past service cost	(3,563)	-
Interest cost	5,892	3,015
Total	12,572	15,508

37.2 Details of actuarial assumptions are as follows,

	2019	2018
Discount rate per annum	10.0%	11.5%
Future salary increases	6%	10%
Retirement age (years)	60 Years	60 Years

An actuarial valuation of the retirement benefit obligation was carried out as at 31 December 2019 by Mr. M. Poopalanathan, AIA a firm of professional actuaries. The valuation method used by the actuaries to value the fund is the 'Project Unit Credit Method (PUC)', the method recommended by the Sri Lanka Accounting Standard LKAS 19 on 'Employee Benefits'.

The liability is not externally funded.

37.3 Sensitivity analysis

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

	Sensitivity effect on defined benefit obligation	
As at 31 December	2019 Rs. '000	2018 Rs. '000
1% increase in discount rate	(1,580)	(1,966)
1% decrease in discount rate	1,696	2,133
1% increase in salary escalation rate	1,939	2,349
1% decrease in salary escalation rate	(1,835)	(2,202)

As at 31 December	Note	2019 Rs. '000	2018 Rs. '000
38 OTHER LIABILITIES			
Accrued expenditure		212,386	234,082
Cheques sent on clearing / PO issued		67,714	114,274
Impairment provision in respect of undrawn credit committements and financial gurantees	42.1.1	90,965	27,574
Other payables		336,130	407,015
Total other liabilities		707,195	782,945
39 STATED CAPITAL			
Opening balance as at 1 January		11,394,421	11,394,421
Issue of ordinary shares		-	-
Closing balance as at 31 December (Value per share Rs. 12.9)		11,394,421	11,394,421
39.1 Movement in number of ordinary shares			
Opening balance as at 1 January		883,142,858	883,142,858
Issue of ordinary shares		-	-
Closing balance as at 31 December		883,142,858	883,142,858
40 RESERVES			
40.1 Statutory Reserve			
Opening balance as at 1 January		32,386	26,246
Transfers during the year		-	6,140
Closing balance as at 31 December		32,386	32,386

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 equivelent to not less than 5% of the profit after tax, but before declaring any dividend or any proifts that are transferred elsewhere until the reserve is equal to 50% of the Bank's stated capital and thereafter a further sum equivelent to 2% of such profit until the amount of said the reserve fund is equal to the stated capital of the Bank.

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

As at 31 December	Note	2019 Rs. '000	2018 Rs. '000
40.2 Fair Value through OCI reserve			
Balance as at 1 January		(28,237)	10,546
Adjustment of initial application of SLFRS 9		-	3,572
Other comprehensive income for the year		64,007	(42,356)
Balance as at 31 December		35,770	(28,237)

This represents the fair value changes of available for sale investments prior to 1 January 2018 and fair value changes of financial assets measured at fair value through other comprehensive income (FVTOCI) since 1 January 2018.

As at 31 December	2019 Rs. '000	2018 Rs. '000
41 ACCUMULATED LOSSES		
Balance as at 1 January	(374,608)	(236,882)
Adjustment of initial application of SLFRS 9	-	(249,937)
Balance as at 1 January	-	(486,819)
Total comprehensive income		
(Loss)/profit for the year	(666,600)	122,805
Other comprehensive income	11,096	(4,454)
Transfer to statutory reserves	-	(6,140)
Balance as at 31 December	(1,030,112)	(374,608)

42 CONTINGENT LIABILITIES & COMMITMENTS

42.1 Contingent liabilities

		2019 Rs. '000	2018 Rs. '000
Guarantees		5,073,074	5,614,445
Documentary credits		1,061,296	898,000
Bills for collection		255,998	315,668
Forward exchange purchases		998,336	754,110
Spot exchange purchases		115,609	92,418
Total contingent liabilities		7,504,313	7,674,641
less: impairment	42.1.1	(90,965)	(27,574)
Total Contingent liabilities net of impairment		7,413,348	7,647,067

42.1.1 Movement in impairment during the year

	Stage 01 Rs. '000	Stage 02 Rs. '000	Stage 03 Rs. '000	Total Rs. '000
Opening balance as at 1 January 2019	2,990	1,037	23,547	27,574
Charge/ (write back) to income statement	21,721	51,146	(9,476)	63,391
Closing balance as at 31 December 2019	24,711	52,183	14,071	90,965
Opening balance as at 1 January 2018	-	-	-	-
Adjustment of initial application of SLFRS 09	3,459	2,989	48	6,496
Adjusted balance as at 1 January	3,459	2,989	48	6,496
Charge/ (write back) to income statement	(469)	(1,952)	23,499	21,078
Closing balance as at 31 December 2018	2,990	1,037	23,547	27,574

42.2 Commitments

	2019 Rs. '000	2018 Rs. '000
Undrawn commitments	4,069,628	10,164,901
Capital commitments (Approved and Contracted)		
Commitments in relation to property, plant & equipment	11,044	34,855
Commitments in relation to intangible assets	53,584	17,280
Total Capital Commitments (Approved and Contracted)	64,628	52,135
Total commitments	4,134,256	10,217,036
Total commitments and contingencies (Gross)	11,638,569	17,891,677

The Board approved commitments for a project amounting to Rs.163 Mn as at 31 December 2019 which was contracted for after the year end

43 LITIGATION AGAINST THE BANK

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

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

43.1 Tax matters

Income Tax - Year of Assessment 2013/2014

The Commissioner General of Inland Revenue (CGIR) issued a Notice of Assessment for the Year of Assessment 2013/2014 disallowing some expenses and capital allowance stating that the Bank was not in it's commercial operations to deduct such expenses to arrive at Taxable Income.

The Bank did not agree with the determination issued by the CGIR and therefore appealed to the Tax Appeals Commission. The Bank awaits the hearing of this appeal.

Having sought professional advice, the Bank is confident that the expenses and allowances claimed in arriving at Taxable income as per Inland Revenue Act No. 24 of 2006 and amendments thereto and accordingly can be sustained. As such, there is no requirement to provide for any uncertain tax positions (IFRIC 23).

As at 31 December	2019 Rs. '000	2018 Rs. '000
44 NET ASSET VALUE PER SHARE		
Amount used as the numerator		
Shareholders' funds (Rs. '000)	10,432,465	11,023,962
Amount used as the denominator		
Total no. of shares	883,142,858	883,142,858
Net assets value per ordinary share (Rs.)	11.81	12.48

45 ANALYSIS OF ASSETS AND LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The table below summarizes the maturity profile of the undiscounted cash flows of the Bank's assets and liabilities as at 31 December 2019

	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31-Dec-19	Total as at 31-Dec-18
Interest earning assets							
Cash and cash equivalents	-	-	-	-	-	-	276,792
Placements with banks	689,336	-	-	-	-	689,336	-
Derivative financial instruments	386	-	-	-	-	386	24
Financial assets at amortized costs - Loans & advances to other customers	12,667,337	4,039,067	5,825,916	2,668,154	1,813,199	27,013,673	23,917,397
Financial assets at amortized costs - Debt and other instruments	-	9,647	468,016	-	-	477,663	524,002
Financial assets -measured at fair value through other comprehensive income	-	4,335,814	1,487,204	726,806	104,410	6,654,235	5,536,273
Total interest earning assets	13,357,059	8,384,528	7,781,136	3,394,960	1,917,610	34,835,293	30,254,488

Notes to the Financial Statements contd.

45 ANALYSIS OF ASSETS AND LIABILITIES BY REMAINING CONTRACTUAL MATURITIES CONTD.

	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31-Dec-19	Total as at 31-Dec-18
Non-interest earning assets							
Cash and cash equivalents	993,133	-	-	-	-	993,133	954,863
Balances With Central Bank	444,794	452,045	87,095	56,463	-	1,040,397	994,405
Financial assets -measured at fair value through other comprehensive income	-	-	-	-	13,446	13,446	11,896
Property, plant and equipment	-	-	-	-	858,304	858,304	488,148
Intangible assets	-	-	-	-	457,570	457,570	474,374
Deferred tax assets	366,648	-	-	-	-	366,648	168,776
Other assets	573,743	-	-	-	-	573,743	456,170
Total non-interest earning assets	2,378,318	452,045	87,095	56,463	1,329,320	4,303,241	3,548,632
Total assets	15,735,377	8,836,573	7,868,231	3,451,423	3,246,930	39,138,534	33,803,120
Interest bearing liabilities							
Due to banks	865,435	576,472	63,439	2,288	10,308	1,517,942	1,364,712
Financial liabilities at amortized cost - Due to depositors	10,706,288	10,880,810	2,096,396	1,359,068	-	25,042,562	19,902,741
Financial liabilities at amortized cost - Due to other borrowers	3,256	52,194	892,848	-	-	948,298	662,523
Total interest bearing liabilities	11,574,979	11,509,476	3,052,683	1,361,356	10,308	27,508,802	21,929,976
Non-interest bearing liabilities							
Derivative financial instruments	2,281	-	-	-	-	2,281	15,004
Lease Liability	34,567	69,557	176,636	100,947	62,507	444,214	-
Other liabilities / RBO	707,195	-	-	-	43,577	750,772	834,178
Stated capital	-	-	-	-	11,394,421	11,394,421	11,394,421
Statutory reserves	-	-	-	-	32,386	32,386	32,386
Accumulated losses	-	-	-	-	(1,030,112)	(1,030,112)	(374,608)
Other reserves	-	-	-	-	35,770	35,770	(28,237)
Total non-interest bearing liabilities / Equity	744,043	69,557	176,636	100,947	10,538,548	11,629,732	11,873,144
Total liabilities and equity	12,319,022	11,579,033	3,229,318	1,462,303	10,548,856	39,138,534	33,803,120

46 OPERATING SEGMENTS

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

The following table presents the income, profit and asset and liability information on the Bank's business segments for the year ended 31 December 2019.

	Banking		Treasury/ Investments		Unallocated		Total	
For the year ended 31 December	2019	2018	2019	2018	2019	2018	2019	2018
Net interest income	1,601,129	1,652,730	442,522	376,577	-	-	2,043,651	2,029,307
Foreign exchange profit	(25,752)	(58,554)	105,191	212,509	-	-	79,439	153,955
Net fees and commission income	239,577	170,640	(15,651)	(12,582)	-	-	223,926	158,058
Other income	1,745	11,856	94,665	3,786	8,888	1,019	105,298	16,661
Operating income by segment	1,816,699	1,776,672	626,727	580,290	8,888	1,019	2,452,314	2,357,981
Expected credit loss	(1,111,470)	(312,768)	(3,440)	9,581	-	-	(1,114,910)	(303,187)
Impairment for other losses	(33,389)	(10,750)	-	-	-	-	(33,389)	(10,750)
Net operating income	671,840	1,453,154	623,287	589,871	8,888	1,019	1,304,015	2,044,044
Depreciation and operating expenses	(2,185,454)	(1,703,931)	(6,480)	(3,527)	-	-	(2,191,934)	(1,707,458)
Operating profit by segment	(1,513,614)	(250,777)	616,807	586,344	8,888	1,019	(887,919)	336,586
Tax on financial services	-	-	-	-	505	(175,142)	505	(175,142)
Segment result	(1,513,614)	(250,777)	616,807	586,344	9,393	(174,123)	(887,414)	161,444
Income tax expense/reversal							220,814	(38,639)
(Loss)/profit for the year							(666,600)	122,805
Other information								
Segment assets	30,370,122	26,886,846	8,768,412	6,916,274	-	-	39,138,534	33,803,120
Segment liabilities	27,755,490	22,101,631	950,579	677,527	-	-	28,706,069	22,779,158

47 RELATED PARTY DISCLOSURES

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

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank directly or indirectly. Accordingly the Bank's KMP are the Board of Directors.

For the year ended 31 December	2019 Rs. '000	2018 Rs. '000
47.1 Transactions with Key Management Personnel (KMP)		
47.1.1 Compensation of directors		
Non Executive Directors emoluments	19,339	16,125
Executive Directors emoluments	68,108	63,712
Post employment benefits	8,031	7,652
	95,478	87,489

In addition to the salaries, company also provides non cash benefits to Key Management Personnel.

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

Close Family Members (CFM) of 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.

CFM of KMPs are identified as related parties of the Bank.

As at 31 December	2019 Rs. '000	2018 Rs. '000
47.2.1 Statement of Financial Position		
Assets		
Loans and advances	1,349	113
Credit cards	283	1,691
Total	1,632	1,804
Liabilities		
Deposits	394,854	249,002
Total	394,854	249,002
47.2.2 Commitments and contingencies		
Undrawn facilities	17,186	5,878
Total	17,186	5,878
47.2.3 Net accommodation as a percentage of the Bank's regulatory capital		
Direct and indirect accommodations	0%	0%
47.2.4 Income statement		
Interest income	464	15
Interest expense	(416,086)	(22,254)
Fee and commission income	69	42
Compensation to KMP	(95,478)	(87,489)
Total (Net)	(511,031)	(109,686)
47.2.5 Shareholdings of KMP and CFM		
Number of shares	1,100,000	1,100,000
Shareholding %	0.12%	0.12%

47.3 Transactions with related companies

The Bank carries out transactions with parties who are defined as related parties in Sri Lanka Accounting Standard - LKAS - 24 “Related Party Disclosures”, the details of which are reported below.

As at 31 December	2019 Rs. '000	2018 Rs. '000
47.3.1 Statement of Financial Position		
Assets		
Loans and advances	695	24
Other receivables	20,787	48,923
Total	21,482	48,947
Liabilities		
Deposits	1,578,948	1,706,886
Other payables	50,267	19,502
Total	1,629,215	1,726,388
47.3.2 Commitments and contingencies		
Off balance sheet	196,848	160,636
Undrawn facilities	545,823	108,000
Total	742,671	268,636
47.3.3 Net accommodation as a percentage of the Bank's regulatory capital		
Direct and indirect accommodations	0%	0%
47.3.4 Income statement		
Interest income	8	-
Interest expense	(152,573)	(168,330)
Fee and commission income	7,318	4,769
Fee and commission expense	(4,412)	(1,633)
Rent expense	(70,782)	(66,932)
Reimbursement of expenses	32,046	-
Other expense	(46,397)	(4,375)
Total (Net)	(234,792)	(236,501)
47.3.5 Shareholdings of related companies		
Number of shares	574,042,858	574,042,858
Shareholding %	65%	65%

As at 31 December	Note	2019 Rs. '000	2018 Rs. '000
48 NON-CASH ITEMS INCLUDED IN PROFIT BEFORE TAX			
Depreciation of property, plant and equipment	28	289,111	134,936
Amortisation of intangible assets	29	127,220	111,647
Adjustments to fixed assets		421	-
Interest cost	30.3	57,300	-
Impairment losses on loans and advances	25.2	1,049,637	298,161
Impairment losses on other financial instruments	12	65,273	5,026
Tax credit write off	12.1	33,389	-
Other income		-	(11,147)
Impairment losses on property, plant & equipment	12	-	10,750
Charge for defined benefit plans	37.1	12,572	15,508
		1,634,923	564,881

49 CHANGE IN OPERATING ASSETS			
Change in balances with Central banks		(45,992)	(68,686)
Change in placements with banks		-	764,000
Change in Derivative financial instruments		(362)	1,248
Change in loans and advances to banks		-	44,131
Change in loans and advances to other customers		(4,145,912)	(3,657,115)
Change in debt and other instruments		46,566	(526,502)
Change in financial assets -at fair value through OCI		(1,030,613)	(850,625)
Change in deposits & pre-payments		6,341	52,607
Change in other assets		(163,949)	(53,843)
		(5,333,921)	(4,294,785)

50 CHANGE IN OPERATING LIABILITIES			
Change in derivative financial instruments		(12,723)	13,607
Change in deposits from banks, customers and debt securities issued		5,293,051	1,497,768
Change in accruals and deferred income		(21,694)	60,792
Change in other liabilities		(127,328)	(93,285)
		5,131,306	1,478,882

51 EVENTS AFTER THE REPORTING DATE

On 11 March 2020, the World Health Organisation declared the Coronavirus COVID-19 outbreak to be a pandemic in recognition of its rapid spread across the globe with over 150 countries now affected. Due to its potential impact on Sri Lankan businesses the government is discussing several options to provide relief to businesses and delay repayment of loans. Such deferrals may have an impact on the future provisions for impairment, in addition to businesses being negatively impacted due to the overall negative economic conditions caused by the pandemic. Directors are unable to estimate the potential impact the outbreak would have on the Banks' financial position, as of date.

Other than the above, no circumstances have arisen since the reporting date which would require adjustments to or disclosure in the financial statements.

52 FINANCIAL RISK MANAGEMENT

52.1 Introduction

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

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

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

52.2 Credit risk

Being mainly involved in lending activities, management of credit risk is very critical to our institution. Credit risk can be defined as the risk of a potential loss to the Bank when a borrower or counterparty is either unable or unwilling to meet its financial obligations.

Cargills Bank's Credit Policy approved by the Bank's Board of Directors plays a central and strategic role in managing daily business activities. The policy defines the principles encompassing client selection, due diligence, early alert reporting, acceptable levels of concentration risk and portfolio monitoring, in line with the Bank's risk appetite and the regulatory guidelines.

52.2.1 Credit quality analysis

As at 31 December	2019				2018
	Stage 1	Stage 2	Stage 3	Total	Total
Financial assets at amortized cost :					
Loans and advances					
Grade 0 – 2 performing loans	19,963,594	4,676,233	587,803	25,227,630	23,125,520
Grade 3: NPA special mention			633,716	633,716	1,015,166
Grade 4: NPA substandard			1,305,510	1,305,510	406,815
Grade 5: NPA doubtful			1,400,823	1,400,823	56,896
Grade 6: NPA loss			302,935	302,935	120,304
Total gross loans and advances	19,963,594	4,676,233	4,230,787	28,870,614	24,724,701
Expected credit loss allowance	(90,054)	(186,450)	(1,580,437)	(1,856,941)	(807,304)
Total net loans and advances	19,873,540	4,489,783	2,650,350	27,013,673	23,917,397

52.2.1 Credit quality analysis Contd.

As at 31 December	2019				2018
	Stage 1	Stage 2	Stage 3	Total	Total
Financial assets at amortized cost :					
Debt and other instruments					
Sri Lanka Development Bonds	372,347	-	-	372,347	376,176
Trust Certificates	107,589	-	-	107,589	150,326
Total debt and other instruments	479,936	-	-	479,936	526,502
Expected credit loss allowance	(2,273)	-	-	(2,273)	(2,500)
Net debt and other instruments	477,663	-	-	477,663	524,002
Cash and cash equivalents:					
Balances with banks					
Balances with local banks	191,051	-	-	191,051	19,836
Balances with foreign banks	343,932	-	-	343,932	354,570
Money at call and short notice	-	-	-	-	278,183
Total balances with banks	534,983	-	-	534,983	652,589
Expected credit loss allowance	(1,720)	-	-	(1,720)	(3,067)
Net balances with banks	533,263	-	-	533,263	649,522

Measurement of expected credit losses (ECL)

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

Significant increase in credit risk

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

Incorporation of forward looking Information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables and credit risk and credit losses.

The key drivers for credit risk are GDP growth, unemployment rates, inflation, exchange rates and interest rates.

The Bank formulates multiple economic scenarios to reflect base case, best case and worst case.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following Variables:

Probability of default (PD);

Loss given default (LGD); and

Exposure at default (EAD).

ECL for exposures in stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

LGD is the magnitude of the likely loss if there is a default. The Bank used 45% of LGD in absence of history of recovery rates.

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

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

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

Management overlay and post model adjustments

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

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

Limitations in the Bank's impairment models or input data may be identified through the on-going assessment and validation of the output of the models. In these circumstances, management make appropriate adjustments to the Bank's allowance for impairment losses. These adjustments are generally modelled taking into account the particular attributes of the exposure which have not been adequately captured by the primary impairment models. As at 31 December 2018, post-model adjustment was made to the management overlay adjustment (maturity adjustment) recognized as at 31 December 2017 to reflect the loss experience relative to the increase in portfolio maturity from 31 December 2017 to 31 December 2018. The remainder of the maturity adjustment carried forward from 31 December 2018 was reversed in the quarter ending 30 June 2019.

Collateral held and other Credit enhancement

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

52.2.2 Concentrations of Credit Risk

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

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

As at 31 December 2019	Agriculture & fishing Rs. '000	Manufacturing Rs. '000	Tourism Rs. '000	Transport Rs. '000	Construction Rs. '000	Traders Rs. '000	New economy Rs. '000	Financial & business services Rs. '000	Government Rs. '000	Infrastructure Rs. '000	Other services Rs. '000	Other customers Rs. '000	Total Rs. '000
Financial assets													
Cash and cash equivalents	-	-	-	-	-	-	-	994,853	-	-	-	-	994,853
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-	-	1,040,397	-	-	-	1,040,397
Placements with Banks	-	-	-	-	-	-	-	689,336	-	-	-	-	689,336
Derivative financial instruments	-	-	-	-	-	-	-	386	-	-	-	-	386
Financial assets at amortized costs - Loans & advances to other customers*	3,346,195	2,290,287	2,127,417	320,004	4,243,703	4,857,937	433,644	2,900,840	-	14,870	2,410,560	5,925,157	28,870,614
Financial assets at amortized costs - Debt and other instruments	-	-	-	-	-	-	-	107,589	372,347	-	-	-	479,936
Financial assets -measured at fair value through other comprehensive income	-	-	-	-	-	-	-	13,446	6,654,235	-	-	-	6,667,681
Total	3,346,195	2,290,287	2,127,417	320,004	4,243,703	4,857,937	433,644	4,706,450	8,066,979	14,870	2,410,560	5,925,157	38,743,203

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

52.3 Liquidity risk and fund management

Liquidity risk is the risk that the Bank will be unable to honour daily cash and financial obligations without resorting to costly and untimely measures. Liquidity risk arises when sources of funds become insufficient to meet scheduled payments under the Bank's commitments. Liquidity risk stems from mismatched cash flows related to assets and liabilities as well as the behavioral characteristics of certain products, such as savings and current accounts and non-fixed term deposits.

The Bank understands the importance of a vigorous liquidity risk management policy and constantly monitors the liquidity position of the Bank in line with the regulatory guidelines.

52.3.1 Exposure to Liquidity Risk

As per the regulations by the Bank Supervision Department of Central Bank of Sri Lanka the Bank has to maintain minimum liquid assets, not less than 20% of the average of the month end total deposit liabilities of the twelve months of the preceding financial year. For this purpose, 'liquid assets' include cash and cash equivalents, placements with banks and Government Securities (net). Details of the reported ratio of liquid assets to external liabilities as at the Reporting date are as follows:

Statutory liquid asset ratio

As at 31 December	2019 %	2018 %
As at 31 December	32.65	23.34
Average for the period	27.85	32.26
Maximum for the period	32.77	43.81
Minimum for the period	22.86	23.34
Statutory minimum requirement	20.00	20.00

Break up of liquid assets

As at 31 December	2019 Rs. '000	2018 Rs. '000
Cash	500,044	544,290
Treasury Bills and Securities issued or guaranteed by the Government of Sri Lanka	3,770,139	1,724,768
Balances with licensed commercial banks	762,511	74,959
Balances with banks abroad	316,462	273,661
Treasury Bonds	2,702,118	2,708,786
Sri Lanka Development Bonds	362,345	365,860
Total	8,413,619	5,692,324

52.3.2 Analysis of financial assets and liabilities by remaining contractual maturities

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

	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31-Dec-19	Total as at 31-Dec-18
Interest earning assets							
Cash and cash equivalents	-	-	-	-	-	-	276,792
Placements with banks	689,336	-	-	-	-	689,336	-
Derivative financial instruments	386	-	-	-	-	386	24
Financial assets at amortized costs - Loans & Advances to other customers	12,667,337	4,039,067	5,825,916	2,668,154	1,813,199	27,013,673	23,917,397
Financial assets at amortized costs - Debt and other Instruments	-	9,647	468,016	-	-	477,663	524,002
Financial assets -measured at fair value through other comprehensive income/ Available for sale	-	4,335,814	1,487,204	726,806	104,410	6,654,235	5,536,273
Total interest earning assets	13,357,059	8,384,528	7,781,136	3,394,960	1,917,610	34,835,293	30,254,488
Non-interest earning assets	2,378,318	452,045	87,095	56,463	1,329,320	4,303,241	3,548,632
Total assets	15,735,377	8,836,573	7,868,231	3,451,423	3,246,930	39,138,534	33,803,120
Interest bearing liabilities							
Due to banks	865,435	576,472	63,439	2,288	10,308	1,517,942	1,364,712
Derivative financial instruments	-	-	-	-	-	-	15,004
Financial liabilities at amortized cost - Due to depositors	10,706,288	10,880,810	2,096,396	1,359,068	-	25,042,562	19,902,741
Financial liabilities at amortized cost - Due to other borrowers	3,256	52,194	892,848	-	-	948,298	662,523
Total interest bearing liabilities	11,574,979	11,509,476	3,052,683	1,361,356	10,308	27,508,802	21,944,980
Non-interest bearing liabilities	744,043	69,557	176,636	100,947	10,538,548	11,629,732	11,858,140
Total liabilities	12,319,022	11,579,033	3,229,318	1,462,303	10,548,856	39,138,534	33,803,120

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

52.4.1 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		2019			2018		
			Market Risk Measurement			Market Risk Measurement	
	Note	Carrying Amount Rs. '000	Trading Portfolios Rs. '000	Non-Trading Portfolios Rs. '000	Carrying Amount Rs. '000	Trading Portfolios Rs. '000	Non-Trading Portfolios Rs. '000
Assets Subject to Market Risk							
Cash and cash equivalents	21	-	-	-	278,183	-	278,183
Placements with banks	23	689,336	-	689,336	-	-	-
Derivative financial instruments	24	386	386	-	24	24	-
Financial assets at amortized costs							
- Loans & advances to other customers	25	27,013,673	-	27,013,673	23,917,397	-	23,917,397
Financial assets							
-measured at fair value through							
other comprehensive income	27	6,667,681	-	6,667,681	5,548,169	-	5,548,169
		34,371,076	386	34,370,690	29,743,773	24	29,743,749
Liabilities Subject to Market Risk							
Due to banks	33	1,517,942	-	1,517,942	1,364,712	-	1,364,712
Derivative financial instruments	34	2,281	2,281	-	15,004	15,004	-
Financial liabilities at amortized cost							
- Due to depositors	35	25,042,562	-	25,042,562	19,902,741	-	19,902,741
Financial liabilities at amortized cost							
- Due to other borrowers	36	948,298	-	948,298	662,523	-	662,523
		27,511,083	2,281	27,508,802	21,944,980	15,004	21,929,976

52.4.2 Exposure to interest rate risk - Sensitivity Analysis

52.4.2 (a) Exposure to Interest Rate Risk - Non-Trading Portfolio

The possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments gives rise to interest rate risk. The Bank's policy is to continuously monitor portfolios and adopt hedging strategies to ensure that interest rate risk is maintained within prudent levels.

The tables below analyses the Bank's interest rate risk exposure on financial assets and financial liabilities. The Bank's assets and liabilities are included at carrying amount and categorised by the earlier of contractual re-pricing or maturity dates.

Notes to the Financial Statements contd.

Interest rate gap position of the non-trading portfolio of the Bank is given below:

As at 31 December 2019	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 31.12.2019 Rs. '000
Financial assets							
Cash and Cash Equivalents	-	-	-	-	-	993,133	993,133
Balance with central banks	-	-	-	-	-	1,040,397	1,040,397
Placements with banks	689,336	-	-	-	-	-	689,336
Derivative financial instruments	386	-	-	-	-	-	386
Financial assets at amortized costs - Loans & advances to other customers	23,059,878	3,605,940	217,170	130,685	-	-	27,013,673
Financial assets at amortized costs - Debt and other instruments		9,647	468,016				477,663
Financial assets -measured at fair value through other comprehensive income	-	4,335,814	1,487,204	726,806	104,410	13,446	6,667,681
Other assets	-	-	-	-	-	372,094	372,094
Total Financial assets	23,749,600	7,951,041	2,172,390	857,491	104,410	2,374,070	37,209,363
Financial Liabilities							
Due to banks	728,496	576,472	63,439	2,288	10,308	136,939	1,517,942
Derivative financial instruments	2,281	-	-	-	-	-	2,281
Financial liabilities at amortized cost - Due to depositors	9,318,765	10,564,697	1,629,281	1,195,120	-	2,334,699	25,042,562
Financial liabilities at amortized cost - Due to other borrowers	3,257	52,194	892,847	-	-	-	948,298
Lease liability	34,567	69,557	176,636	100,947	62,506	-	444,214
Other liabilities	-	-	-	-	-	403,844	403,844
Total Financial Liabilities	10,087,365	11,262,920	2,762,203	1,298,355	72,814	2,875,482	28,359,140
Interest rate sensitivity gap	13,662,234	(3,331,519)	(589,813)	(440,864)	31,596	(501,412)	8,850,223
1% increase	136,622	(33,115)	(5,898)	(4,409)	316	-	93,516
1% decrease	(136,622)	33,115	5,898	4,409	(316)	-	(93,516)

As at 31 December 2018	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Non - Sensitive Rs. '000	Total as at 31.12.2018 Rs. '000
Financial assets							
Cash and Cash Equivalents	276,792	-	-	-	-	954,863	1,231,655
Balance with central banks	-	-	-	-	-	994,405	994,405
Derivative financial instruments	24	-	-	-	-	-	24
Financial assets at amortized costs - Loans & advances to other customers	18,950,593	4,270,240	289,484	132,530	51,184	223,366	23,917,397
Financial assets at amortized costs - Debt and other instruments	9,565	42,738	471,699	-	-	-	524,002
Financial assets -measured at fair value through other comprehensive income	84,236	4,535,876	-	916,161	-	11,896	5,548,169
Other assets	-	-	-	-	-	456,170	456,170
Total Financial assets	19,321,211	8,848,854	761,183	1,048,691	51,184	2,640,699	32,671,821
Financial Liabilities							
Due to banks	1,117,930	118,274	104,917	4,202	-	19,389	1,364,712
Derivative financial instruments	15,004	-	-	-	-	-	15,004
Financial liabilities at amortized cost - Due to depositors	6,684,626	8,503,503	296,237	2,494,190	-	1,924,185	19,902,741
Financial liabilities at amortized cost - Due to other borrowers	662,523	-	-	-	-	-	662,523
Other liabilities	-	-	-	-	-	782,945	782,945
Total Financial Liabilities	8,480,083	8,621,777	401,154	2,498,392	-	2,726,519	22,727,925
Interest rate sensitivity gap	10,841,128	227,077	360,029	(1,449,701)	51,184	(85,820)	9,943,896
1% increase	108,411	2,271	3,600	(14,497)	512	-	100,297
1% decrease	(108,411)	(2,271)	(3,600)	14,497	(512)	-	(100,297)

As at 31 December	2019 Rs. '000	2018 Rs. '000
52.4.2 (b) Exposure to interest rate risk		
Savings deposits	2,943,386	2,299,220
Time deposits	19,573,463	15,620,818
Certificate of deposits	1,388,621	860,905
Total	23,905,470	18,780,943

52.4.3 Exposure to currency risk

As at 31 December	2019 Amount	2018 Amount
Foreign exchange position - USD	27,263	1,968,343
Foreign exchange position - AUD	3,144	3,964
Foreign exchange position - AED	2,760	-
Foreign exchange position - EUR	4,285	-15,711
Foreign exchange position - THB	1,341	-5,640
Foreign exchange position - SGD	8,527	173
Foreign exchange position - GBP	9,973	-21
Foreign exchange position - JPY	1,152,786	1,396,703
Foreign exchange position - CAD	502	200
Foreign exchange position - SEK	5,300	-
Foreign exchange position - DKK	1,131	-
Foreign exchange position - KWD	85	85
Foreign exchange position - CNY	3,967	-
Foreign exchange position - MYR	1,039	1,000
Foreign exchange position - QAR	481	1,750
Foreign exchange position - INR	6,432	21,038
Foreign exchange position - MMK	2,838	-
Foreign exchange position - NOK	600	-
Foreign exchange position - IDR	5,302,384	-
Foreign exchange position - SAR	195	-
Foreign exchange position - RUB	719	-
Foreign exchange position - SCR	427	-

52.5 Operational risk

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

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

52.6 Capital Management

Objective

The Bank is required to manage its capital taking into account the need to meet the regulatory requirements as well as the current and future business needs, stakeholder expectations and available options for raising capital.

52.7 Regulatory Capital

Capital Adequacy Ratio (CAR) is calculated based on the CBSL Directions stemming from Basel III Accord. These guidelines require the Bank to maintain a CAR of not less than 7.00% with common equity capital (Tier 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	2019 Rs. '000	2018 Rs. '000
Common Equity Tier1 (CET 1) Capital		
Paid-up ordinary shares/Common stock/Assigned capital++	11,394,421	11,394,421
Statutory reserve fund	32,386	32,386
Published retained profits/(accumulated losses)(+/-)	(1,030,112)	(374,608)
General and other reserves	21,462	(28,238)
Minority interests (consistent with the above capital constituents)	-	-
	10,418,157	11,023,962
Deductions/Adjustments		
Net deferred tax assets	366,648	168,776
Other intangible assets	457,570	474,374
Advances granted to employees of the Bank for the purchase of shares of the Bank (ESOP)	-	-
50% of Investments in unconsolidated banking and financial subsidiary companies	-	-
50% Investments in the capital of other banks and financial institutions	-	-
Total Tier 1 Capital	9,593,939	10,380,812
Tier II Capital		
Revaluation reserves (as approved by Central Bank of Sri Lanka)	-	-
General provisions	183,278	117,790
Approved subordinated term debt	-	-
Deductions/Adjustments		
50% of investments in unconsolidated banking and financial subsidiary companies	-	-
50% investments in the capital of other banks and financial institutions	-	-
Total Tier II Capital	183,278	117,790
Total Capital	9,777,217	10,498,602
Capital Adequacy ratios		
Common Equity Tier 1 Capital Ratio	26.37	32.27
Tier 1 Capital Ratio	26.37	32.27
Total Capital Ratio	26.87	32.62

BASEL III- MARKET DISCIPLINE - MINIMUM DISCLOUSURE REQUIREMENT UNDER PILLAR 2 AS PER THE BANKING ACT DIRECTION NO 1 OF 2016

TEMPLATE 01

Key Regulatory Ratios – Capital and Liquidity

Item	31-Dec-19	31-Dec-18
Regulatory Capital (LKR '000)		
Common Equity Tier 1	9,593,939	10,380,811
Tier 1 Capital	9,593,939	10,380,811
Total Capital	9,777,217	10,865,272
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio (Minimum Requirement – 7)	26.368	31,289
Tier 1 Capital Ratio (Minimum Requirement – 8.5)	26.368	31.289
Total Capital Ratio (Minimum Requirement – 12.5)	26.872	32.749
Leverage Ratio (Minimum Requirement - 3)	23.57	27.03
Regulatory Liquidity		
Statutory Liquid Assets (LKR '000)	8,413,619	5,692,324
Statutory Liquid Ratio (Minimum Requirement – 20)		
Domestic Banking Unit (%)	32.65	23.34
Off-Shore Banking Unit (%)	1115.25	54.61
Liquidity Coverage Ratio (%) – Rupee (Minimum Requirement – 100)	281	195.01
Liquidity Coverage Ratio (%) – All Currency (Minimum Requirement – 100)	203.59	151.04

TEMPLATE 02
Basel III Computation of Capital Ratios

Item	Amount (LKR '000) 31-Dec-19	Amount (LKR '000) 31-Dec-18
Common Equity Tier 1 (CET1) Capital after Adjustment	9,593,939	10,380,811
Common Equity Tier 1 (CET1) Capital	10,418,157	11,023,961
Equity Capital (Stated Capital)/ Assigned Capital	11,394,421	11,394,421
Reserve Fund	32,386	32,386
Published Retained Earnings/ (Accumulated Retained Losses)	(1,030,112)	(374,608)
Published Accumulated Other Comprehensive Income (OCI)	21,462	(28,238)
General and other Disclosed Reserves	-	-
Unpublished Current Year's Profit/Loss and Gains reflected in OCI	-	-
Ordinary Shares issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to CET1 Capital	824,218	643,150
Goodwill (net)	-	-
Intangible Assets (net)	457,570	474,374
Others (specify) - Deferred tax asset	366,648	168,776
Additional Tier 1 (AT1) Capital after Adjustments	-	-
Additional Tier 1 (AT1) Capital	-	-
Qualifying Additional Tier 1 Capital Instruments	-	-
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to AT1 Capital	-	-
Investment in Own Shares	-	-
Others (Specify)	-	-
Tier 2 Capital after Adjustments	183,278	484,461
Tier 2 Capital	183,278	484,461
Qualifying Tier 2 Capital Instruments	-	-
Revaluation Gains	-	-
Loan Loss Provisions	183,278	484,461
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to Tier 2	-	-
Investment in Own Shares	-	-
Others (Specify)	-	-
CET1 Capital	10,418,157	11,023,961
Total Tier 1 Capital	9,593,939	10,380,811
Total Capital	9,777,217	10,865,272

Supplementary Information contd.

TEMPLATE 02 CONTD.
Basel III Computation of Capital Ratios Contd.

	31-Dec-19	31-Dec-18
Total Risk Weighted Assets (RWA)		
RWAs for Credit Risk	32,565,478	29,983,494
RWAs for Market Risk	1,176,608	1,006,855
RWAs for Operational Risk	2,642,616	2,187,309
CET1 Capital Ratio (Including Capital Conservative Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	26.328	31.289
Of which: Capital Conservative Buffer (%)	2.50	1.88
Of which: Countercyclical Buffer (%)	-	-
Of which: Capital Surcharge on D-SIBs (%)	-	-
Total Tier 1 Capital Ratio	26.368	31.289
Total Capital Ratio (Including Capital Conservative Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	26.872	32.749
Of which: Capital Conservative Buffer (%)	2.50	1.88
Of which: Countercyclical Buffer (%)	-	-
Of which: Capital Surcharge on D-SIBs (%)	-	-

TEMPLATE03
Computation of Leverage Ratio

Item	Amount(LKR'000)	
	31-Dec-19	31-Dec-18
Tier1 Capital	10,355,341	10,644,571
Total Exposures	43,938,616	39,375,552
On-Balance Sheet Items		
(excluding Derivatives and Securities Financing Transactions, but including Collateral)	38,654,665	33,686,979
Derivative Exposure	-	-
Securities Financing Transaction Exposure	-	-
Other Off-Balance Sheet Exposure	5,283,951	5,688,573
Basel III Leverage Ratio (%) (Tier1/Total Exposure)	23.57	27.03

TEMPLATE 04
Basel III Computation of Liquidity Coverage Ratio (Rupee)

Item	Amount (LKR '000)			
	31-Dec-19		31-Dec-18	
	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
Total Stock of High Quality Liquid Assets (HQLA)	7,025,260	7,025,260	5,246,066	5,246,066
Total Adjusted Level 1 Assets	7,025,526	7,025,526	5,223,555	5,223,555
Level 1 Assets	7,025,260	7,025,260	5,246,066	5,246,066
Total Adjusted Level 2A Assets	-	-	-	-
Level 2 Assets	-	-	-	-
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	32,383,798	5,191,976	34,067,592	5,143,423
Deposits	17,827,871	1,782,787	12,869,886	1,286,989
Unsecured Wholesale Funding	5,371,881	3,183,174	5,485,396	2,652,821
Secured Funding Transactions	-	-	-	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	9,184,046	226,015	15,712,310	1,203,613
Additional Requirements	-	-	-	-
Total Cash Inflows	4,482,185	2,689,206	3,524,552	2,453,285
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	4,482,185	2,689,206	3,524,552	2,453,285
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		281.00		195.01

TEMPLATE 04
Basel III Computation of Liquidity Coverage Ratio (All Currency)

Item	Amount (LKR '000)			
	31-Dec-19		31-Dec-18	
	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
Total Stock of High Quality Liquid Assets (HQLA)	7,034,760	7,034,760	5,637,324	5,637,324
Total Adjusted Level 1 Assets	7,035,026	7,035,026	5,614,813	5,614,813
Level 1 Assets	7,034,760	7,034,760	5,637,324	5,637,324
Total Adjusted Level 2A Assets	-	-	-	-
Level 2 Assets	-	-	-	-
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	35,809,258	6,276,955	36,914,472	6,410,896
Deposits	18,839,205	1,883,921	13,325,825	1,332,583
Unsecured Wholesale Funding	6,766,055	4,123,944	6,911,302	3,836,320
Secured Funding Transactions	-	-	-	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	10,203,998	269,091	16,677,345	1,241,993
Additional Requirements	-	-	-	-
Total Cash Inflows	4,735,532	2,821,631	4,312,902	2,678,461
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	4,735,532	2,821,631	3,958,332	2,678,461
Operational Deposits	-	-	354,570	-
Other Cash Inflows	-	-	-	-
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days) * 100		203.59		151.04

TEMPLATE 07
Credit Risk under Standardised Approach –
Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

Asset Class	Amount (LKR '000) as at 31 December 2019					
	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	8,106,039	-	8,106,039	-	74,122	0.91%
Claims on Foreign Sovereigns and Their Central Banks	-	-	-	-	-	0.00%
Claims on Public Sector Entities	-	-	-	-	-	0.00%
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	0.00%
Claims on Banks Exposures	1,180,014	1,113,945	1,180,014	22,279	472,966	20.62%
Claims on Financial Institutions	2,504,541	116,893	2,504,541	116,893	1,808,832	69.00%
Claims on Corporates	8,585,397	7,004,379	8,585,397	4,552,508	12,300,296	78.90%
Retail Claims	11,562,484	3,082,726	11,562,484	614,551	12,177,035	83.15%
Claims Secured by Residential Property	1,143,533	-	1,143,533	-	1,140,381	99.72%
Claims secured by Commercial Real Estate	-	-	-	-	-	0.00%
Non-Performing Assets (NPAs)	2,348,052	-	2,348,052	-	3,159,798	134.57%
High-risk Categories	-	-	-	-	-	0.00%
Cash Items and Other Assets	1,891,917	-	1,891,917	-	1,432,047	75.69%
Total	**37,321,977**	**11,317,943**	**37,321,977**	**5,306,230**	**32,565,478**	**66.95%**

TEMPLATE 08

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

	Amount (LKR '000) as at 31 December 2019 (Post CCF and CRM)							
Risk Weight	0%	20%	50%	75%	100%	150%	>150%	Total Credit Exposure Amount
Asset Classes								
Claims on Central Government and CBSL	7,748,873	370,612	-	-	-	-	-	8,119,485
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	-	902,355	14,885	-	285,053	-	-	1,202,292
Claims on Financial Institutions	-	-	1,625,202	-	996,231	-	-	2,621,433
Claims on Corporates	-	-	1,675,218	-	11,462,687	-	-	13,137,905
Retail Claims	-	-	-	-	12,177,035	-	-	12,177,035
Claims Secured by Residential Property	-	-	-	-	1,113,252	-	-	1,113,252
Claims Secured by Commercial Real Estate	-	-	-	-	-	-	-	-
Non-Performing Assets (NPAs)	-	-	6,304	-	748,538	1,623,492		2,378,334
High-risk Categories	-	-	-	-	-	-	-	-
Cash Items and Other Assets	459,870	-	-	-	1,432,047	-	-	1,891,917
Total	8,208,743	1,272,967	3,321,609	-	28,214,842	1,623,492	-	42,641,653

Supplementary Information contd.

TEMPLATE 09
Market Risk under Standardised Measurement Method

Item	RWA Amount (LKR' 000) As at 31 December 2019
(a) RWA for Interest Rate Risk	1,176,608
General Interest Rate Risk	
i. Net Long or Short Position	144,682
ii. Horizontal Disallowance	-
iii. Vertical Disallowance	-
iv. Options	-
Specific Interest Rate Risk	-
(b) RWA for Equity	-
i. General Equity Risk	-
ii. Specific Equity Risk	-
(c) RWA for Foreign Exchange & Gold	2,394
Capital Charge for Market Risk [(a) + (b) + (c)] * CAR	147,076

TEMPLATE 10

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

Business Lines	Capital Charge Factor	Fixed Factor	Gross Income		
			1st Year	2nd Year	3rd Year
Basic Indicator Approach	15%		2,508,751	2,408,011	1,689,769
The Standardised Approach			-	-	-
Corporate Finance	18%		-	-	-
Trading and Sales	18%		-	-	-
Payment and Settlement	18%		-	-	-
Agency Services	15%		-	-	-
Asset Management	12%		-	-	-
Retail Brokerage	12%		-	-	-
Retail Banking	12%		-	-	-
Commercial Banking	15%		-	-	-
The Alternative Standardised Approach			-	-	-
Corporate Finance	18%		-	-	-
Trading and Sales	18%		-	-	-
Payment and Settlement	18%		-	-	-
Agency Services	15%		-	-	-
Asset Management	12%		-	-	-
Retail Brokerage	12%		-	-	-
Retail Banking	12%	0.035	-	-	-
Commercial Banking	15%	0.035	-	-	-
Capital Charge for Operational Risk (LKR’ 000)					
The Basic Indicator Approach	330,327				
The Standardised Approach	-				
The Alternative Standardised Approach	-				
Risk Weighted Amount for Operational Risk (LKR ‘000)					
The Basic Indicator Approach	2,642,616				
The Standardised Approach	-				
The Alternative Standardised Approach	-				

TEMPLATE 11

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

Item	Amount (LKR '000) as at 31 December 2019				
	a	b	c	d	e
	Carrying Values as Reported in Published Financial Statements	Values under Scope of Regulatory Reporting	Credit Risk Framework	Market Risk Framework	Capital Requirements or Subject to Deduction from Capital
Assets					
Cash and Cash Equivalents	993,133	459,870	459,870		
Balances with Central Banks	1,040,397	1,081,397	1,081,397		
Placements with Banks	689,336	1,181,599	1,181,599		
Derivative Financial Instruments	386	386		386	
Financial Assets Designated at Fair Value through Profit or Loss	-	-			
Loans and Receivables to Banks	-	-			
Loans and Receivables to Other Customers	27,013,673	27,013,673	27,013,673		13,473,565
Financial Investments - Available-For-Sale	6,667,681	6,667,681	6,667,681	6,654,235	
Financial Investments - Held-To-Maturity	477,663	477,663	477,663		
Investments in Subsidiaries	-	-			
Investments in Associates and Joint Ventures	-	-			
Property, Plant and Equipment	858,304	1,315,873	1,315,873		
Investment Properties	-	-			
Goodwill and Intangible Assets	457,570	-			
Deferred Tax Assets	366,648	366,648			
Other Assets	573,743	573,743	573,743		
Liabilities					
Due to Banks	1,517,942	1,517,942			
Derivative Financial Instruments	2,281	2,281			
Other Financial Liabilities Held-For-Trading	-	-			
Financial Liabilities Designated at Fair Value Through Profit or Loss	-	-			
Due to Other Customers	25,042,562	25,042,562			

Item	Amount (LKR '000) as at 31 December 2019				
	a	b	c	d	e
	Carrying Values as Reported in Published Financial Statements	Values under Scope of Regulatory Reporting	Credit Risk Framework	Market Risk Framework	Capital Requirements or Subject to Deduction from Capital
Other Borrowings	948,298	948,298			
Debt Securities Issued	-	-			
Current Tax Liabilities	-	-			
Deferred Tax Liabilities	-	-			
Other Provisions	43,577	43,577			
Other Liabilities	1,151,409	1,151,408			
Due to Subsidiaries	-	-			
Subordinated Term Debts	-	-			
Off-Balance Sheet Liabilities					
Guarantees	5,073,074	5,073,074	5,073,074		
Performance Bonds	-	-			
Letters of Credit	1,061,296	1,061,296	1,061,296		
Other Contingent Items	1,369,943	1,369,943	1,369,943		
Undrawn Loan Commitments	4,069,628	4,069,628	4,069,628		
Other Commitments	64,628	64,628			
Shareholders' Equity					
Equity Capital (Stated Capital)/Assigned Capital	11,394,421	11,394,421			
of which Amount Eligible for CET1	11,394,421	11,394,421			
of which Amount Eligible for AT1	11,394,421	11,394,421			
Retained Earnings	(1,030,112)	(1,030,112)			
Accumulated Other Comprehensive Income	35,770	35,770			
Other Reserves	32,386	32,386			
Total Shareholders' Equity	10,432,465	10,432,465			

TOP 23 SHAREHOLDERS

As at 31 December		2019		2018	
No	Shareholder Name	Shareholding	Ratio	Shareholding	Ratio
1	Cargills (Ceylon) PLC *	350,696,905	39.71%	350,696,905	39.71%
2	CT Holdings PLC *	223,345,953	25.29%	223,345,953	25.29%
3	Monetary Board of Sri Lanka - On Behalf of EPF	44,000,000	4.98%	44,000,000	4.98%
4	Mulitex Investment Limited	30,800,000	3.49%	30,800,000	3.49%
5	MJF Foundation Investments (Pvt) Ltd	28,000,000	3.17%	28,000,000	3.17%
6	Softlogic Life Insurance PLC	26,600,000	3.01%	26,600,000	3.01%
7	MAS Amaliya (Pvt) Ltd	22,000,000	2.49%	22,000,000	2.49%
8	Rosewood (Pvt) Ltd	16,000,000	1.81%	16,000,000	1.81%
9	Phoenix Ventures Limited	13,200,000	1.49%	13,200,000	1.49%
10	Aindri Holdings Pte Ltd	11,000,000	1.25%	11,000,000	1.25%
11	A I A Holdings Lanka (Pvt) Ltd	11,000,000	1.25%	11,000,000	1.25%
12	Softlogic Holdings PLC	10,000,000	1.13%	10,000,000	1.13%
13	Gardiya Lokuge Harris Premaratne	9,089,000	1.03%	9,089,000	1.03%
14	Merrill Joseph Fernando	7,800,000	0.88%	7,800,000	0.88%
15	Softlogic Capital PLC	7,400,000	0.84%	-	-
	Softlogic Finance PLC	-	-	7,400,000	0.84%
16	GF Capital Global Limited	6,100,000	0.69%	6,100,000	0.69%
17	Periyasamipillai Barathakumar	4,400,000	0.50%	4,400,000	0.50%z
18	Periyasamipillai Muruganandhan	4,400,000	0.50%	4,400,000	0.50%
19	Periyasamipillai Anandarajah	4,400,000	0.50%	4,400,000	0.50%
20	Periyasamipillai Devaraj	4,400,000	0.50%	4,400,000	0.50%
21	Periyasamipillai Barathamanickam	4,400,000	0.50%	4,400,000	0.50%
22	Ishara Chinthaka Nanayakkara	4,400,000	0.50%	4,400,000	0.50%
23	Lalan Rubber Holdings (Pvt) Ltd	4,400,000	0.50%	4,400,000	0.50%
	Sub total	847,831,858	96.00%	847,831,858	96.00%
	Other Shareholders	35,311,000	4.00%	35,311,000	4.00%
	Total	883,142,858	100%	883,142,858	100%

* 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.

COMPOSITION OF SHAREHOLDERS

As at 31 December Shareholder Name	2019 Shareholding	Ratio	2018 Shareholding	Ratio
Shares held by Directors	1,100,000	0.12%	1,100,000	0.12%
Shares held by Other Related Parties	574,042,858	65.00%	574,042,858	65.00%
Shares held by Group Staff Members	9,810,000	1.11%	10,260,000	1.16%
Shares held by Institutions	234,340,000	26.53%	234,340,000	26.53%
Balance held by Public	63,850,000	7.23%	63,400,000	7.18%
Total	883,142,858	100%	883,142,858	100%
Shares held by Resident	830,531,858	94.04%	830,531,858	94.04%
Shares held by Non- Resident	52,611,000	5.96%	52,611,000	5.96%
Total	883,142,858	100%	883,142,858	100%

MOVEMENT IN NUMBER OF SHARES REPRESENTED BY THE STATED CAPITAL

Year	Details	No. of Shares	Stated capital Rs.
2011	Share issue	2	20
2013	Share issue	439,999,998	4,968,849,980
2015	Right issue	43,000,000	623,500,000
2016	Right issue	400,142,858	5,802,071,441
Total		883,142,858	11,394,421,441

Notice of Meeting

NOTICE IS HEREBY GIVEN THAT the Eighth Annual General Meeting of Cargills Bank Limited will be held on 24 June 2020 at 2.30 p.m. at the Sri Lanka Foundation Institute, No. 100, Padanama Mawatha, Independence Square, Colombo-07 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 2019 with Report of the Auditors thereon.

2. To re-elect as a Director Mr. Mangala Boyagoda 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. Faizal Salieh who retires by rotation in terms of Article 86 of the Articles of Association of the Bank.

4. To elect as a Director Ms. Marianne Page in terms of Article 92 of the Articles of Association of the Bank.

5. To elect as a Director Mr. Yudhishtran Kanagasabai in terms of Article 92 of the Articles of Association of the Bank.

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.

By Order of the Board,

Ms. Amendra de Silva
Company Secretary

25 March 2020
Colombo

Notes:

1. A member is entitled to attend and vote at the Meeting or appoint a Proxy holder to attend and vote at the meeting instead of him/her. The Proxy holder need not be a member of the Company.

2. A Form of Proxy accompanies this notice.

3. The completed form of Proxy must be deposited at the registered office of the Bank, No: 696, Galle Road, Colombo - 03 not less than forty eight (48) hours before the time appointed for the holding of the meeting.

Notes

Notes

Form of Proxy

I/We ....of

....

being a Member/Members of Cargills Bank Limited hereby appoint ....

....

(holder of NIC No : ....) of ....or failing him/her ;

Mr. Ranjit Page (Chairman of the Bank)	or failing him
Mr. Rajendra Theagarajah (MD/CEO of the Bank)	or failing him
Mr. Prabhu Mathavan	or failing him
Mr. Mangala Boyagoda	or failing him
Mr. Faizal Salieh	or failing him
Mr. Richard Ebell	or failing him
Ms. Ruvini Fernando	or failing her
Ms. Marianne Page	or failing her
Mr. Yudhishtran Kanagasabai	

as my/our Proxy to represent me/us and to vote for on my/our behalf at the Eighth Annual General Meeting of the Bank to be held on 24 June 2020 and at any adjournment thereof and at every poll which may be taken in consequence thereof (Please indicate your preference with "√");

	For	Against
1. To receive and consider the Annual Report of the Board of Directors and Statement of Audited Accounts for the year ended 31 December 2019 with Report of the Auditors thereon.		
2. To re-elect as a Director Mr. Mangala Boyagoda 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. Faizal Salieh who retires by rotation in terms of Article 86 of the Articles of Association of the Bank.		
4. To elect as a Director Ms. Marianne Page in terms of Article 92 of the Articles of Association of the Bank.		
5. To elect as a Director Mr. Yudhishtran Kanagasabai in terms of Article 92 of the Articles of Association of the Bank.		
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.		

Signed on this .... day of 2020

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

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

INSTRUCTIONS AS TO COMPLETION OF THE PROXY FORM

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

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

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

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

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

Corporate Information

NAME OF THE COMPANY
Cargills Bank Limited

LEGAL FORM
A public limited liability company incorporated in Sri Lanka on 3 November 2011 under the Companies Act No. 7 of 2007. A licensed Commercial Bank under the Banking Act No. 30 of 1988.

REGISTRATION NUMBER
PB 4847

ACCOUNTING YEAR-END
December 31

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

TELEPHONE
011 - 7 640 000

FACSIMILE
011 - 2 055 575

SWIFT CODE
CGRBLKLX

E-MAIL
info@cargillsbank.com

WEB PAGE
www.cargillsbank.com

TAX PAYER IDENTIFICATION NUMBER(TIN)
134048476

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

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

COMPLIANCE OFFICER
Gayantha Wijekoon

COMPANY SECRETARY
Ms. Amendra de Silva

BOARD OF DIRECTORS
Ranjit Page - Chairman
(Non-Executive Director)
Rajendra Theagarajah
(Managing Director /CEO)
Prabhu Mathavan
(Executive Director)
Mangala Boyagoda - Senior Director
(Independent Non-Executive Director)
Faizal Salieh
(Independent Non-Executive Director)
Richard Ebell
(Independent Non-Executive Director)
Ms. Ruvini Fernando
(Independent Non-Executive Director)
Ms. Marianne Page
(Non-Executive Director)
(Appointed w.e.f. 10/10/2019)
Yudhishtran Kanagasabai
(Non-Executive Director)
(Appointed w.e.f. 28/10/2019)

BOARD SUB-COMMITTEES

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

Board Integrated Risk Management Committee
Faizal Salieh
- Committee Chairman
Richard Ebell
Ms. Ruvini Fernando
Rajendra Theagarajah
Prabhu Mathavan
Alex Perera
- Head of Risk Management
Gayantha Wijekoon - Secretary

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

Board Audit Committee
Richard Ebell
- Committee Chairman
Faizal Salieh
Ms. Ruvini Fernando
Chandima Samarasinghe - Secretary

Board Credit Committee
Yudhishtran Kanagasabai
- Committee Chairman
Ranjit Page
Mangala Boyagoda
Ms. Ruvini Fernando
Alex Perera - Secretary

Board Strategic Planning Committee
Ranjit Page
- Committee Chairman
Rajendra Theagarajah
Prabhu Mathavan
Mangala Boyagoda
Faizal Salieh
Richard Ebell
Ms. Ruvini Fernando
Ms. Marianne Page
Yudhishtran Kanagasabai
Ms. Amendra de Silva - Secretary

Board Related Party Transactions Review Committee
Ms. Ruvini Fernando
- Committee Chairperson
Faizal Salieh
Mangala Boyagoda
Ms. Amendra de Silva - Secretary

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Cargills Bank Limited
696, Galle Road, Colombo 3.