The spirit of community

CARGILLS BANK LIMITED ANNUAL REPORT 2021

CargillsBank
Banking on the Human Spirit

The spirit of community

"You build people and the people build a business..."

...is a mantra that we have integrated into our growth strategy over the years. We continue to invest in building the capabilities of our team so that we can build and support our customers to achieve their aspirations. We are blessed to have a team that has the resolve and passion to foster the spirit of development to build the agriculture and entrepreneur community.

The business of building people has not been more important than at a time like the present. We remain firmly committed to our national responsibility, strengthening the nation for a better tomorrow.

Content

Overview

Founded on the belief that uplifting the people in the rural sector will strengthen our nation, 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 tagline "Banking on the Human Spirit", embodies our philosophy and belief in the resolve of the human spirit of people, as they endeavour and strive for success.

The promoters of Cargills Bank are Cargills (Ceylon) PLC and CT Holdings PLC, both highly diversified conglomerates listed on the Colombo Stock Exchange, with interests spanning consumer foods and retail, e-commerce, restaurants, agri-business, entertainment, property development and financial services. Cargills is a brand with a trusted heritage of over 177 years, having been established in 1844, and is a market leader in the retail and consumer foods space.

Cargills Bank is also well partnered through investments by 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.

Our Vision

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

Our Mission

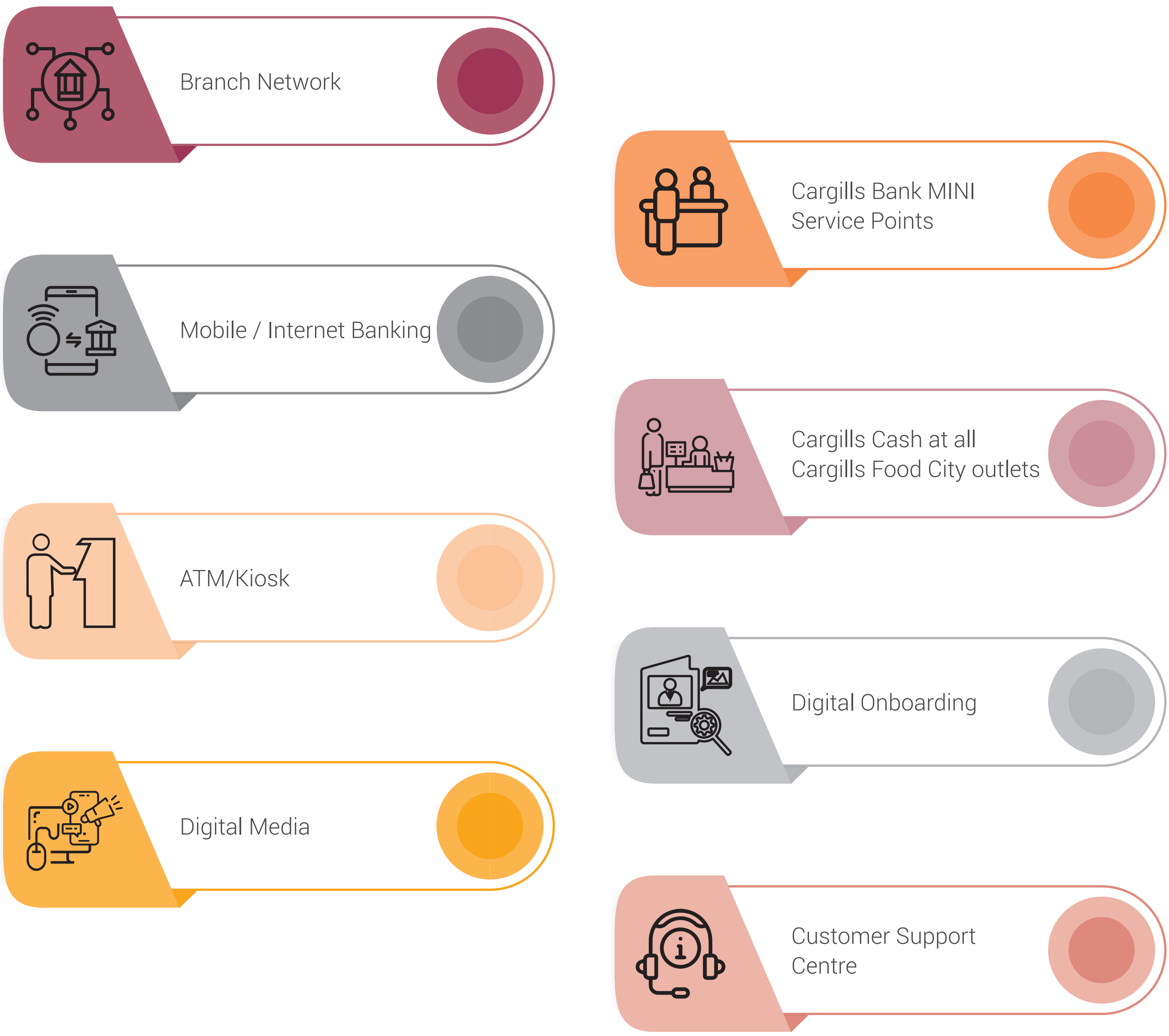
» We aim to directly engage every customer at their convenience by a unique and far reaching network, through efficient and innovative technology.
» To facilitate and empower small and medium entrepreneurs, enhance industry standards through a highly motivated team of innovative bankers.
» Create sustainable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

Omnichannel Approach

Overview

BLENDING PHYSICAL WITH DIGITAL

We introduced two new channels to support our customer acquisition strategy. We utilised our tab-based mobile account opening capability to launch Cargills Bank MINI Service Points at selected Cargills Food City outlets to augment the reach of our Branch network. Meanwhile, we launched digital non-face-to-face customer onboarding in December 2021, allowing the know-your-customer requirements for new customers to be completed online, enabling the Bank to open savings accounts for new customers digitally. These initiatives have strengthened our position to onboard new customers, and complement our branch network.



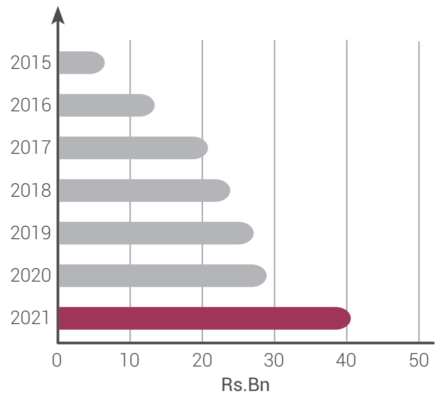
The spirit of teamwork has been integral to the achievement of our goals

Financial Synopsis

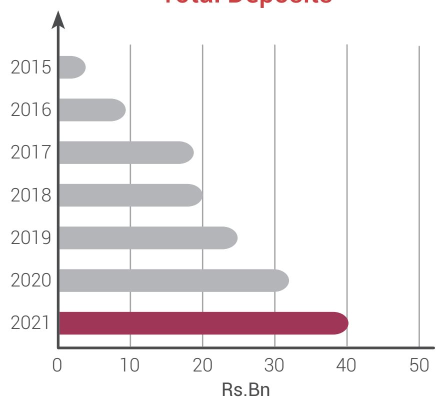
Overview

	2021	2020	Change %
Operating Results (Rs.'000)			
Gross Income	4,994,170	4,774,212	5
Net Interest Income	1,839,681	1,564,775	18
Net Fees and Other Income	618,826	448,163	38
Total Operating Income	2,458,507	2,012,938	22
Operating (Loss)/Profit Before Taxes	(262,501)	(886,536)	70
(Loss)/Profit for the year	(277,127)	(743,947)	63
Assets and Liabilities (Rs.'000)			
Loans and Advances	40,490,736	29,079,121	39
Due to Depositors	40,182,402	31,997,601	26
Total Assets	55,767,061	46,532,534	20
Total Liabilities	46,442,200	36,798,232	26
Shareholders' Funds	9,324,861	9,734,302	(4)
Key Indicators			
(Loss)/Earnings Per Share (Rs.)	(0.31)	(0.84)	
Net Assets Value Per Share (Rs.)	10.56	11.02	
Net Interest Margin %	3.97	3.88	
Return on Assets (before income tax) %	(0.74)	(2.03)	
Return on Equity %	(2.99)	(7.14)	
NPL Ratio %	9.28	14.42	
Asset Quality			
Stage 3 Loans (Net of Stage 3 Impairment) to Total Loans %	6.43	14.53	
Stage 3 Loan Impairment to Stage 3 Loans (Stage 3 Provision Cover) %	46.30	32.73	
Regulatory Ratios			
Common Equity Tier 1 Capital Ratio %	19.31	20.72	
Tier 1 Capital Ratio %	22.75	20.72	
Total Capital Ratio %	23.47	21.28	
Liquid Asset Ratio - Domestic Banking Unit %	26.30	33.63	
Liquidity Coverage Ratio - All Currency %	147.35	119.20	

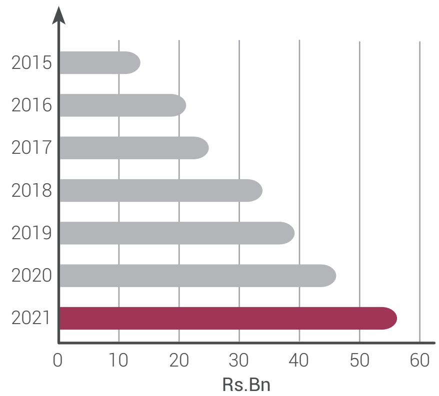
Loans & Advances



Total Deposits



Total Assets



RS. 40,182 MN 26% ▲	RS. 55,767 MN 20% ▲	RS. 40,491 MN 39% ▲
Total Deposits	Total Assets	Loans and Advances
RS. 4,994 MN 5% ▲	RS. 2,459 MN 22% ▲	RS. 277 MN 63% ▼
Gross Income	Operating Income	Loss After Tax

7 YRS	500+	175,000+
Years in Operation	Touch Points	Customers
AA-(lka)	21	622
Fitch Rating	Branches	Employees

Journey of the Bank

Overview

2014

- Commencement of Operations
- One of the first LankaPay Member Institutions with ATM Card
- Acquisition of Capital Alliance Finance (CALF) - (later renamed Colombo Trust Finance) to meet Regulatory Conditions
- Opened 2 new Branches in Colombo - Old Moor Street & Maitland Crescent

2015

- Removal of restriction on Branch Opening
- 1st Branch outside Colombo (Matara).
- Expanded Branch Network to 11 Branches

2016

- 6th Bank to join CEFT-Real-time Fund Transferring
- Launch of Internet & Mobile Banking - Retail & Corporate
- Introduced E-statements
- Launch of Children's Savings Account

2017

- Established Agency Banking model through the Cargills Cash service at Cargills Food City outlets
- Launch of www.cargillsbank.com Website
- Launch of NFC, EMV Enabled Smart Debit Card
- Expansion of Branch Network to 17 Branches
- ICONIC Superhero in Omni-Experience at IDC Awards
- Disposal of shareholding in Colombo Trust Finance

2018

- Bank in a Box, Launch of KIOSK Banking
- Joined RippleNet to facilitate cross-border inward remittances to Sri Lanka
- Launched Imperium Private Banking
- Launch of Credit Cards
- Branch expansion to 19 Branches
- Acquiring Bank for JustPay to facilitate Payment Aggregators (FinTech)
- LankaPay Technovation Awards

2019

- Expanded the suite of Card products
  - Balance Transfer
  - Installment Payment Plans
  - Cheque on Card
  - 1st ever Image Card
- Introduction of POS & IPG Merchant Acquiring
- One of the earliest banks to receive PCIDSS certification for Cards
- Expanded branch network to 20 branches

2020

- Establishment of the Cargills Village to Home Initiative to support SME sector development
- Launch of Diriya Investment Saver Account
- Disbursed Saubhagya Loans to support SME customers
- LankaQR payments acquiring at Cargills Food City
- PCIDSS recertification for Cards

2021

- Opened 21st Branch in Nawalapitiya
- Launched Abhimani Women's Savings Account
- Added new partners to facilitate remittances from new markets
- Launch of Cargills Bank MINI Service Points
- Launch of Non Face-to-Face Onboarding of Customers
- Implemented 3D Secure card protection

Chairman's Message

> "Our win-win approach in economic value creation enables us to be more than just a Bank, and to kindle the "Spirit of the Community"; ensuring that social sustainability is intrinsic to our business model."

Dear Stakeholder,
It is my pleasure to share with you the Annual Report and Audited Financial Statements of Cargills Bank Limited for the year ended 31st December 2021.

PERFORMANCE IN CONTEXT

I am happy to note that the Bank was able to achieve growth across all key indicators despite the challenging operating environment during the year.

True to the tagline of "Banking on the Human Spirit", the Bank achieved growth across all key parameters, carefully navigating the challenges in the environment. The management implemented a number of initiatives to steer the performance of the Bank, improve operating efficiencies, utilize technology to optimize our channels and processes, enhance internal controls, and stringently manage recoveries, thereby ensuring the Bank emerged stronger than in the previous year.

As challenging circumstances often do, the year presented new opportunities for Sri Lanka to bolster its domestic industries to meet the need for import substitution. These opportunities presented themselves amidst the interruptions to international supply chains caused by the pandemic, and were supported by the Government's accommodative policy stance. I humbly note that Cargills Bank, with its unique model and Vision to become "The Most Inclusive Bank" and empower the hitherto excluded, is well poised to contribute to Sri Lanka's economic revival.

CREATING VALUE THROUGH A TRULY SUSTAINABLE MODEL

The Cargills legacy spans 178 years, reflecting trust and long-term relationships with our consumers and partners. The year 1999 saw the beginning of a transformation of the Cargills retail model, from one that met the needs of the middle and upper-middle classes, to one that is socially sustainable and inclusive for both customer and supplier. Financial empowerment of Agriculture, Micro and Small & Medium Enterprises (SMEs) was thus a natural extension of the ecosystem of the Group, creating a holistic, end-to end model of value creation in these sectors.

Our win-win approach to economic value creation enables us to be more than just a Bank and to kindle the "Spirit of the Community"; ensuring that social sustainability is intrinsic to our business model. The Bank extends support beyond financing by harnessing its Group strength as an integrated community developer; to build capacities through farmer training, the infusion of technology, and by helping establish market linkages for the SME and Agri sectors. The opening of a Cargills Bank branch in rural Thanamalvila, becoming the only private sector Bank to establish a presence in this region, reflects the Cargills Bank's raison d'être of impacting the socio-economic progress of the country.

One of the key strengths of the Bank's business model is its extensive network of touch points, supported by our Agency Banking arrangement with Cargills Food City supermarkets. The facility to deposit or withdraw cash, 365 days of the year, between 8 am to 10 pm at all our supermarkets, free of charge, offers the ultimate in convenience to our diverse customer base. Harnessing the numerous customer touch points of the Group supports our effort to reach far and wide to offer the best in customer convenience whilst maintaining low overheads.

The growth reported amidst the challenging socio-economic conditions of the past year underscore the value that Cargills Bank can create through its distinct offering.

GOVERNANCE

As a financial enterprise regulated by the Central Bank of Sri Lanka, Cargills Bank believes that the highest standard in governance is indispensable to creating long term value to our stakeholders and must be pursued uncompromisingly. Since its inception over 7 years ago, the Bank's journey has been about engendering trust and about effective, transparent, and accountable governance by the management including the Board. The Board sets the tone at the top by promoting professional standards and corporate values that cascade down to senior management and other team members of the Bank. It also ensures that its mechanisms for good governance are constantly reviewed, benchmarked and strengthened to meet evolving requirements. The Board, which constitutes members from diverse professional backgrounds with a wealth of experience and expertise, has established independent committees which regularly review their Terms of Reference to ensure the highest standards in transparency, compliance and the efficacy of business and risk management strategies in order to oversee the discharge of stewardship.

LOOKING AHEAD

In line with our Mission, supporting Agriculture and SMEs through our banking solutions and integrated community engagement will continue to be a key element of our future strategy, pursued with greater intensity in the near term to support their recovery amidst the challenges. The fact that incomes of over 27% of Sri Lanka's workforce is dependent on Agriculture underscores the importance of uplifting this sector and doing our bit and more to enhance the value they can create.

Technology, especially in the Banking industry, is an imperative to enhance value creation for our stakeholders and sustain our competitiveness. The Bank will continue to invest in technology-driven channels in order to enhance the customer offering and improve operational efficiencies. Developing our own digital channels to support the hub and spoke model will be a key priority. We will also partner with the CBSL's many technology initiatives such as those aimed at supporting digital payments and remittances.

The role we can play in Sri Lanka's growth trajectory is one which we hold high. And we remain steadfast in our commitment to build entrepreneurship and nurture enterprises which we believe could take Sri Lanka to the world through world class products. The Cargills

'Village to Home' initiative which provides a platform for local SMEs to market their products to the Cargills customer base at designated Cargills Food City premises is a key program in this endeavor. The Bank offers training, financing and payments related support to the local SMEs who partner with the Group in this program. The Bank will continue to harness the strength of the Group in its mission to uplift peoples' lives, enhance value for all its stakeholders, and contribute to the nation's progress.

APPRECIATION

I would like to express my very sincere thanks to my colleagues on the Board for their collective wisdom, guidance, and continual support. There were two Board changes during the year. Mr. Mangala Boyagoda who served on the Board as an Independent Non-Executive Director retired with effect from 30 April 2021 and I would like to take this opportunity to thank him for his valuable contributions to the Bank. I also warmly welcome Mr. Buwaneka Perera who joined the Board as an Independent Non-Executive Director on 1 July 2021 and whose expertise is bound to add significant value to Board deliberations and decision making.

My most sincere appreciation to our team whose spirit of progress continued to drive the Bank amidst some of the most challenging times with a focused approach, passion and commitment which have been indispensable in delivering a resilient performance. I convey my gratitude to the Governor of the Central Bank of Sri Lanka and to other regulatory authorities for their support and understanding and the vital role they play in the industry. I also extend my gratitude to our shareholders, customers, business partners, and other stakeholders for their trust and confidence in us, which continues to inspire us to raise the bar and play a vital role in community development.

Ranjit Page
Chairman

28 February 2022

"Challenging times often provide opportunities to reflect and regroup, and we did just that. We focused on enhancing our service offering to meet the changing needs of our customers while improving the financial performance of the Bank."

Dear Stakeholder,
I am happy to share with you that Cargills Bank was able to perform better and emerge stronger than we did in the preceding year, achieving growth in all key indicators despite a challenging environment.

THE YEAR IN REVIEW

We continued to bank on the "Spirit of Community" to navigate these challenging times successfully, and the Bank was able to deliver substantial double-digit growth in its loan book as well as its deposits, achieving a significant reduction in losses.

The Bank's deposits grew by Rs. 8.2 Bn and the lending portfolio increased by Rs. 11.4 Bn, reflecting a 26% and 39% growth respectively. Significant loan growth, operating efficiencies and the reduction of NPLs brought us closer to breakeven despite the low interest rate environment exerting pressure on our net interest margins.

The Bank was able to grow its retail portfolio year on year and much of this growth came from small to medium ticket loans. Continued growth in our Retail portfolio not only improved the stability of our loan book but also supported the interest margins. The Bank's SME and Business Banking portfolios also reported strong growth during the year, which facilitated fee income streams throughout the calendar year.

The market interest rates changed significantly during the year as the CBSL took measures to reduce interest rates to support economic activities in the context of a low inflation environment. Although this resulted in the loan book being repriced at a faster rate than the deposit portfolio, affecting our net interest margins, the Bank was able to increase Net Interest Income (NII) to Rs. 1.8 Bn, compared with Rs. 1.6 Bn in 2020.

The increased income generated by fees and commissions reflects improved business volumes and transactions and augurs well for the Bank. An improvement of Rs. 311 Mn in 2021, which is almost 68% higher than that earned in 2020, coupled with a corresponding increase of only Rs. 68 Mn in fee and commission expenses helped the Bank to improve its net fee and commission income.

Total operating income recorded a 22% growth over 2020 and we expect the momentum to continue.

The Bank recorded an impairment charge of Rs. 685 Mn for 2021 which was lower than the charge of Rs. 802 Mn made in 2020 which included some specific provisions. It is significant that concerted efforts to manage recoveries enabled us to reduce the capital outstanding of NPL below Rs. 4 Bn by end 2021, an improvement over 2020, and the NPL ratio reduced to single digit levels, reaching 9.28% as at 31 December 2021 compared with 14.42% a year ago. This reduction is despite the adverse economic impacts faced by most sectors of the economy. Strict monitoring of collections and improved quality of loans helped to reduce the NPL percentage. The moratorium granted in 2020 and 2021 also impacted the NPL and robust recovery mechanism is in place to monitor the post moratorium progress. The Bank is mindful that the current pandemic is bound to impact collections, and whilst the Bank has strengthened its systems and taken proactive measures with the support of a newly implemented recovery management system to reduce the NPL percentage, the Bank is also cognizant of the need to adequately provide for Expected Credit Loss. Accordingly, the current year's charge also includes management overlay where higher impairment charges were considered as a prudential measure assessing the current macroeconomic environment. Similar adjustments were made in the collective impairment models.

The Bank's net operating income at Rs. 1.8 Bn was a significant 46% growth over the previous year's operating income of Rs. 1.2 Bn.

The Bank focused on process and productivity improvements while adopting cost control measures without compromising staff welfare or the quality of our customer service. With expenses contained below the previous year, the Bank was able to achieve a significant reduction in its operating losses to Rs. 263 Mn in 2021, vs. Rs. 887 Mn in 2020. Thus, net losses after tax decreased substantially to Rs. 277 Mn from Rs. 744 Mn in the previous year.

During the year under review, the Bank successfully completed a Debenture issue raising Rs. 1.5 Bn through the issue of 15 Mn Basel III Additional Tier 1 (AT1) Compliant Convertible Debentures. It is also noteworthy that this was the first time in Sri Lanka that capital was raised by a private commercial Bank through an AT1 Debenture.

We are also happy to share that Fitch Ratings Sri Lanka revised Cargills Bank's support-driven National Long-Term Rating to AA-(lka) with a Stable outlook following the recalibration of its Sri Lankan national ratings scale. The Rating was later re-affirmed during its Annual Review in the third quarter of 2021, placing the Bank's rating on par with Sri Lanka's leading and well-established Banks.

I'm pleased to state that the multiple measures undertaken by the Bank, supported by an enabling team, largely contributed towards a substantial curtailment of losses and has placed us in a favourable position to deliver a much-awaited turnaround to profitability in the coming year.

STRENGTHENING OUR PLATFORM FOR SUSTAINED GROWTH

The year under review saw the Bank open a new branch in Nawalapitiya, a growing economic and social hub in the Central region for small and medium sized enterprises from a variety of sectors including agriculture, manufacturing and services. Our number of Bank branches thus increased to 21.

The Bank also took a significant step in establishing a low-cost scalable model with the launch of two key initiatives - establishing Cargills Bank MINI service points and the launch of digital onboarding of customers, while a third initiative to strengthen our service to the agriculture and rural customer base - a mobile branch vehicle - is planned to be launched in early-2022.

The Bank established MINI service points in 16 Cargills Food City outlets during the year. Meanwhile, through digital onboarding, the Bank can now complete know-your-customer requirements online, eliminating the need for the hitherto mandatory face-to-face onboarding. New customers can now open an account via a fully digitized interface.

We endeavour to increase our branch presence in developing cities and towns where substantial economic potential justifies the establishment of fully-fledged branches. The Branch network will be supplemented by other channels such as Cargills Bank MINI, digital onboarding and the mobile branch vehicle to serve our customer base, and internet & mobile banking and Cargills Cash to allow our customers to seamlessly transact from their bank accounts.

Challenging times often provide opportunities to reflect and regroup, and we did just that. We focused on enhancing our service offering to meet the changing needs of our customers while improving the financial performance of the Bank.

A number of digitization measures also facilitated growth, enhanced efficiencies and helped the Bank to maintain security standards while adapting to the "New Normal". We facilitated digital approval of trade documents under a LankaClear initiative by using the Lankasign Digital signature. We also improved our efficiency with the deployment of monitoring mechanisms and in-house built workflow systems.

We also integrated further into the Cargills value chain, introducing farmer and supplier payment automation portals to Cargills Ceylon to simplify payments to farmers. Moreover, the Bank also improved its offering to Cargills Cash Collection Accounts customers, a fee-based service through which we enable customers to use Cargills Food City outlets as cash collection points.

The Bank is both an Issuer and an Acquirer in the Payment Card Industry and over the last three years has become a significant player in the industry catering to all segments of the market with its Debit and Credit Card Products. Our POS and IPG acquiring solutions include MasterCard, LankaPay, Visa and JCB. We also provide JustPay and LankaQR payment acquiring facilities, and have enabled a number of fintech aggregators to transact in the banking system. Cargills Bank was the 2nd largest JustPay acquirer in 2021. Meanwhile, we also completed the rollout of LankaQR payment acceptance at all Cargills Food City outlets during the year.

Cargills Bank was also the first Bank in Sri Lanka to obtain Payment Card Industry Data Security Standard (PCIDSS) certification for all three functions - Debit Cards, Credit Cards and Acquiring - in the year 2019. In the year under review, the PCIDSS certification was recertified for the third consecutive year following a successful audit.

The Bank continued to expand its remittance partner base, adding three new remittance houses utilizing the block-chain based Ripplenet system. Cargills Bank also participated in a number of CBSL Digitization initiatives such as supporting remittances into the country and exploring block-chain based shared Know-Your-Customer (KYC).

In the backdrop of growing threats to information security worldwide, which seem to keep pace with the increasing dependence on technology, the Bank implemented a number of initiatives to strengthen its technology risk resilience in line with directions issued by the Central Bank during the year. The Bank set up an AI-based Security Operations Centre (SOC) which operates on a state-of-the-art technology platform. System integrity was also strengthened via a technical upgrade of our Core Banking system.

OUR TEAM

The cohesiveness, commitment and effort displayed by our team played a pivotal role in the Bank maintaining an uninterrupted service to our customers. Special care was taken to ensure the safety of our team, facilitating remote working capabilities for most of our team members. This duly supported the smooth operation of our branches and support functions, ensuring business continuity.

The Bank also implemented changes to its operating structure to improve employee efficiency, and we are pleased to report a double-digit growth in the per employee indicators monitored by the Bank. Several other HR initiatives during the year, such as greater delegation of decision making, team building, communication initiatives, recognition and motivational measures and building commitment towards the Bank's business plan all contributed to strengthen our team and the Bank's improved performance.

IMPACTING THE SOCIETY

Our business model is about being more than just a Bank. We support financial empowerment by building capacities of communities and help them establish market linkages through the Cargills ecosystem. The Bank has incrementally leveraged the "Farm to Home" supply chain of the group to unlock significant value for all its stakeholders. We also joined hands with the Cargills Group for the "Village to Home" initiative that supports Micro entrepreneurs and SME's to showcase and market their products at Cargills locations.

In addition to uplifting society through our business model, the Bank also engaged in a variety of CSR activities.

OUTLOOK

The Bank has made progress in harnessing the Cargills group's extensive distribution network to provide financial solutions and capture business growth opportunities. Our holistic approach to the Agriculture and Dairy sector, leveraging on Sri Lanka's most recognised supply chain, has a win-win proposition for all stakeholders; for the farmer through technical advice, guaranteed markets, distribution and better returns; to end consumers who are able to purchase fresh produce at reasonable prices; and for the Bank, as a means to bolster entrepreneurship and help build thriving Agriculture and SME sectors. We actively participate in CBSL's Agriculture lending programmes that offer funding at concessionary rates to promote sector development. Cargills Bank thus stands ready to support the economic revival of the country, fueled by a 'Spirit of Community".

We believe our Omnichannel approach is a key competitive advantage for the Bank and will be a key avenue of growth in our Retail business. Enhancing convenience through the implementation of new technology to enhance our customer value proposition and operational efficacy will continue to remain a strategic priority to build our customer portfolio.

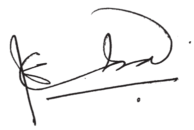
The Bank has established a niche clientele in the Corporate and SME segments, and we will continue to increase the clientele and enhance the service proposition, including trade business, transaction banking and fulfilling their financial needs and becoming their preferred banking partner.

The Bank would also continue to embrace and partner the CBSL initiatives in digital and payment platforms whilst keeping abreast of market developments in the tech space.

We expect the positive growth momentum of the Bank to continue and are confident in our ability to turnaround the performance of the Bank in 2022.

ACKNOWLEDGEMENTS

My heartfelt gratitude to our Chairman and my colleagues on the Board for their guidance and continued support, and to the entire team at Cargills Bank for their passion, commitment, dedication and belief in our vision. My sincere thanks also to the Central Bank of Sri Lanka and all other regulatory bodies for the invaluable support they provided during the year.
My sincere appreciation to all stakeholders for their trust in us and the inspiration they provide for us to continue our progressive journey.



Senarath Bandara
Managing Director /Chief Executive Officer

28 February 2022

Ranjit Page

Chairman (Non-Executive Director)

Ranjit Page possesses over 39 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.

Senarath Bandara

Managing Director/Chief Executive Officer

Senarath Bandara is a banking professional with a distinguished career spanning over 30 years at Bank of Ceylon and retired as its General Manager/Chief Executive Officer. He joined Cargills Bank Ltd as MD/CEO in October 2020.

He has served on several Boards of subsidiaries and associate companies of BOC, in addition to Lanka Clear (Pvt) Ltd, Credit Information Bureau, Lanka Financial Services Bureau Ltd and Regional Development Bank.

He has also served as a member of the governing body of the Institute of Bankers of Sri Lanka; as Chairman of the Asia-Pacific Rural Agriculture Credit Association (APRACA) a regional association operating based out of Bangkok; Thailand; as Vice Chairman of the Sri Lanka Bankers Association; and was a past President of the Association of Professional Bankers of Sri Lanka.

Senarath Bandara has a BSc from the University of Kelaniya and a MBA from the Postgraduate Institute of Management, University of Sri Jayewardenepura, Postgraduate Executive Diploma in Bank Management from the Institute of Bankers of Sri Lanka and an Advanced Management Program from Harvard Business School, USA. He is a Fellow of the Institute of Bankers of Sri Lanka.

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 28 years of experience in the fields of Finance, Auditing, Accounting and Taxation.

Faizal Salieh

Senior Director (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 Chairman of The Sri Lanka Institute of Directors and serves on the Board of HNB General Insurance Limited as a Non-Executive Independent Director; and is a Council Member and 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 and of the Chartered Institute of Management Accountants (CIMA), UK, and holds a Diploma in Marketing from the Chartered Institute of Marketing UK. He has 45 years of experience in finance, central services, operations and Board roles after qualifying as a Chartered Accountant.

He is a Past President of CIMA, Sri Lanka Division. He has served as an Independent Non - Executive Director on the Boards of several listed and regulated entities, and as Chairman of their Board Audit Committees.

Ms. Ruvini Fernando

(Non-Executive Independent Director)

Ms. Fernando is employed at Pricewaterhouse Coopers Colombo as Director Capital Projects and Infrastructure Advisory and Deals Strategy. She 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.

Ruvini 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 continues to be in the forefront of showcasing Sri Lankan corporates to international investors and is 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)

Yudy 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 Pricewaterhouse Coopers, Sri Lanka and the Maldives, and Singapore, before he retired as the Senior Partner of Pricewaterhouse Coopers, Sri Lanka and the Maldives on 31st March 2017.

He has served on several committees of the Institute of Chartered Accountants of Sri Lanka. 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 Millennium IT ESP (Pvt) Limited, Eswaran Brothers Export (Private) Limited and Ambeon Capital PLC. He also serves as a Non-Executive Independent Director, and as a member of the Board Audit Committees of Cargills (Ceylon) PLC and Hunter and Company PLC. He continues to serve as a Non-Executive Director and member of the Board Audit Committees of Lanka Canneries Limited, Colombo City Holdings PLC and Cargills Foods Company (Pvt) Limited, and is the Chairman of Dankotuwa Porcelain PLC and Director of Taprobane Capital Plus (Pvt) Ltd.

Yudy 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.

Buwaneka Perera

(Non-Executive Independent Director)

Buwaneka Perera is a veteran Professional Banker with 41 years of experience serving in the Financial Sector in Sri Lanka and is an established leader in Corporate Banking, and has a vast exposure in the field of Investment and Merchant Banking; positions held include Board Director of NDB Investment Bank Ltd, Acting Chief Executive Officer- National Development Bank PLC (NDB) and 14 years as the Head of Corporate Banking at NDB in the capacity of Senior Vice President. He also held varied positions at Deutsche Bank, Sampath Bank PLC and Banque Indosuez.

Buwaneka serves on the Boards of Sierra Cables PLC, Sierra Construction Ltd and Sierra Properties Ltd.

He has a BSc (Hon) in Financial Services from the University of Manchester, UK and he is a Passed Finalist of the Chartered Institute of Management Accountants, UK. He has a Post Graduate Diploma in Bank Financial Management, University of Sri Jayawardenapura, Associate of The Chartered Institute of Bankers, UK, and is an Associate Member of Certified Management Accountants, Sri Lanka.

We work to support the engine of growth for *agripreneur and entrepreneur community development,* seeking to inspire and empower Sri Lankans to reach greater heights

Corporate Governance

Stewardship & 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. Board Audit Committee
2. Board Integrated Risk Management Committee
3. Board Human Resource and Remuneration Committee
4. Board Nomination Committee
5. Board Credit Committee
6. Board Strategic Planning Committee
7. Board 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 emphasizes 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 2021

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 and 2 are not applicable for this document.

Section 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.

Section No.	Rule	Degree of Compliance
3 (1) (i) Contd.	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 2021-2023. 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 (BAC). Further, specific Information Systems (IS) audits have been conducted by the Internal Audit division and some IS audits with specific scopes were outsourced to three external parties with the approval of the BAC.
	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.

Section No.	Rule	Degree of Compliance
3 (1) (i) Contd.	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 the 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 2021. 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. 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.

Section No.	Rule	Degree of Compliance
3 (1) (i) Contd.	l) Understand the regulatory environment and maintain relationship with regulators	Complied with. The Board collectively, as well Directors individually, recognise 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 Bank's intranet, shared with Corporate Management and discussed as required at Corporate Management meetings.
	m) Exercise due diligence in the hiring and oversight 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 14 times during the year.

Section 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 an equal opportunity in this regard where proposals relate to the promotion of business and the management of risks of the Bank. Directors could thus submit proposals for inclusion in the agenda on matters relating to the business of the Bank or any other matter pertinent to the operation of the Bank.
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 2021. Further, no Director has been absent from three consecutive regular Board meetings during 2021.
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.
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.

Section No.	Rule	Degree of Compliance
3 (1) (xii)	Avoid conflicts of interests, or the appearance of conflicts of interest due to commitments to other organisation 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 capitalized at levels as required by the Monetary Board	Complied with. Issued Additional Tier 1 Debentures amounting to Rs. 1.5 billion in December 2021 to comply with the minimum capital requirement.
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.

Section 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 2021.
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 2021, 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 2021, 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. Faizal Salieh 2. Richard Ebell 3. Ms. Ruvini Fernando 4. Buwaneka Perera
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 2021.
3 (2) (vi)	The Bank shall have a process for appointing Independent Directors	Complied with. Whenever such need arises the Directors nominate names of eminent professionals or academics from various disciplines to the 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.
3 (2) (vii)	Quorum of the Board Meetings includes more than 50% of the Directors and out of this quorum more than 50% should include Non-Executive Directors	Complied with. All Board meetings held during 2021 were duly constituted with more than 50% of the Directors present being Non-Executive Directors.

Section No.	Rule	Degree of Compliance
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 2021 is as follows: 1. Ranjit Page - Chairman/NED 2. Senarath Bandara -MD/CEO 3. Prabhu Mathavan - ED 4. Faizal Salieh - INED 5. Richard Ebell - INED 6. Ms. Ruvini Fernando - INED 7. Ms. Marianne Page - NED 8. Yudhishtran Kanagasabai - NED 9. Buwaneka Perera - INED Profiles are given on pages 17 to 19.
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.
3 (2) (xi)	Proper procedure to be followed for resignation or removal of a Director	There was no resignation/removal in 2021.
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.

Section No.	Rule	Degree of Compliance
3 (3)	Criteria to assess the fitness and propriety of Directors	
3 (3) (i)	Age of a person who serves as Director does not exceed 70 years	Complied with. Mr. Mangala Boyagoda retired w.e.f. 29th April 2021 on reaching 70 years.
3 (3) (ii)	Directors of the Bank shall not hold Directorships in more than 20 companies/ entities/ institutions inclusive of subsidiaries or associate companies of the Bank	Complied with. No Director holds Directorship in more than 20 companies/ entities/ institutions inclusive of subsidiaries or associate companies of the Bank.
3 (4)	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 (TOR), and Key Management Personnel.
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. The Chairman, Mr. Ranjit Page is a Non-Executive, Non-Independent Director. Therefore a Senior Independent Director Mr. Mangala Boyagoda was appointed (w.e.f. June 2015). Mr. Faizal Salieh was appointed as Senior Director on 29th April 2021, with the retirement of Mr. Mangala Boyagoda. The Bank's Code of Corporate Governance covers the role and functions of the Senior Director.

Section No.	Rule	Degree of Compliance
3 (5) (iii)	Disclose relationships, if any, between the Chairman and the CEO and Board Members and the nature of any relationships including among members of the Board	Complied with. 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 a family, financial and business relationship between Mr. Ranjit Page (Chairman) and Ms. Marianne Page. Mr. Ranjit Page (Chairman) and Mr Y Kanagasabai are both Directors of Cargills (Ceylon) PLC and Cargills Foods Company (Private) Limited.
3 (5) (iv), (vi),(vii), (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.

Section No.	Rule	Degree of Compliance
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 Committees reports directly to the Board. The Annual Report includes individual reports of each committee. Such reports include summary of its duties, roles and performance.
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	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 Ms. Ruvini Fernando (upto 29.07.2021) Buwaneka Perera (from 29.07.2021) 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.

Section No.	Rule	Degree of Compliance
3 (6) (ii) Contd.	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.
	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 judgmental areas, changes in accounting policies and practices, validity of the going concern assumption, compliance with relevant accounting standards and other legal requirements, and in respect of the Audited Financial Statements, any significant adjustments arising from audit.
	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.

Section No.	Rule	Degree of Compliance
3 (6) (ii) Contd.	i) Review the External Auditors' management letter and the management's response thereto	Complied with.
	j) Internal Audit function of the Bank review the adequacy of the scope, functions and resources of the Internal Audit Department	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.
	• 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 2020 was reviewed by the Board Audit Committee. Performance Evaluations Process for 2021 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.

Section No.	Rule	Degree of Compliance
3 (6) (ii) Contd.	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.
	n) Regular committee meetings	Complied with. The Audit Committee met nine times during the year.
	o) The Board shall disclose details of the activities of the Audit Committee, number of Audit Committee Meetings held in the year, and details of attendance of each individual Director at such meetings.	Complied with. 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 Whistle-blowing 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)	Board Human Resources and Remuneration Committee (BHRRC)	
	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.

Section No.	Rule	Degree of Compliance
3 (6) (iii) Contd.	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. Evaluation process for 2021 is in progress.
	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)	Board 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 elements 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. 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.

Section No.	Rule	Degree of Compliance
3 (6) (iv) Contd.	f) The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors	Complied with. Committee was chaired by Mr. Mangala Boyagoda - Senior Director upto 29th April 2021, who was an Independent Non-Executive Director. Mr. Faizal Salieh Independent Non-Executive Director was appointed as Senior Director w.e.f 29 April 2021 and Chairman of the Committee w.e.f. 29 July 2021 on the retirement of Mr. Mangala Boyagoda. 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)	Board Integrated Risk Management Committee (BIRMC)	
	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. Ruvini Fernando (Independent Non-Executive Director) 4. Senarath Bandara (Managing Director / Chief Executive Officer) 5. Prabhu Mathavan (Executive Director) 6. Chandradasa Amarasinghe (DGM Retail, Business and SME Banking) 7. Alex Perera (Chief Risk Officer) 8. Gayantha Wijekoon (Compliance Officer) Chief Risk Officer of the Bank acted as the Secretary of the Committee while Corporate Management personnel participated by invitation when required.
	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. Key Operational 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.

Section No.	Rule	Degree of Compliance
3 (6) (v) Contd.	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. The Chief Risk Officer 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 7 times during 2021.
	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.
	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 papers and reports to the BIRMC periodically and to the Board on a monthly basis.

Section No.	Rule	Degree of Compliance
3 (7)	Related Party Transactions	
3 (7) (i) and (ii)	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person 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.
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.

Section No.	Rule	Degree of Compliance
3 (7) (v)	Accommodation granted to persons or concerns of persons or close relations of persons, who subsequently are appointed as Directors of the Bank	Complied with. No such situation had arisen.
3 (7) (vi) and (vii)	A bank shall not grant any accommodation or 'more favourable treatment' relating to the waiver of fees and/ or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest	Complied with.
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 68, 74 respectively.
	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 pages 70 to 71.

Section No.	Rule	Degree of Compliance
3 (8) (ii) Contd.	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 72 to 73.
	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 17 to 19. Directors transactions with the Bank and their remunerations have been disclosed in the Note 49 to the Financial Statements on pages 135 to 139.
	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 49 to the Financial Statements on pages 135 to 139.
	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 49 to the Financial Statements on pages 135 to 139. In addition to the KMP's identified above, the Bank also considers selected members of corporate management as other Key Management Personnel, in order to comply with the Corporate Governance Direction. Total emoluments received, deposits made and accommodation obtained as at 31 December 2021 by the other Key Management Personnel (selected members of corporate management) amounted to Rs. 109.9 Mn, Rs. 43.9 Mn and Rs. 38.8 Mn, respectively.
	g) External Auditors' report on compliance with Corporate Governance Directions	Complied with. A Factual Findings Report from the External Auditor's has been obtained to comply with the requirements of these Directions.

Section No.	Rule	Degree of Compliance
3 (8) (ii) Contd.	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 68 to 69.
	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.

At Cargills Bank, we consider the uncertainty of future outcomes and the benefits of those outcomes as the key lenses for risk evaluation and the risk management function focuses on mitigating the down-side while strategically focusing on the optimisation of gains within defined risk tolerance limits.

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 on 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

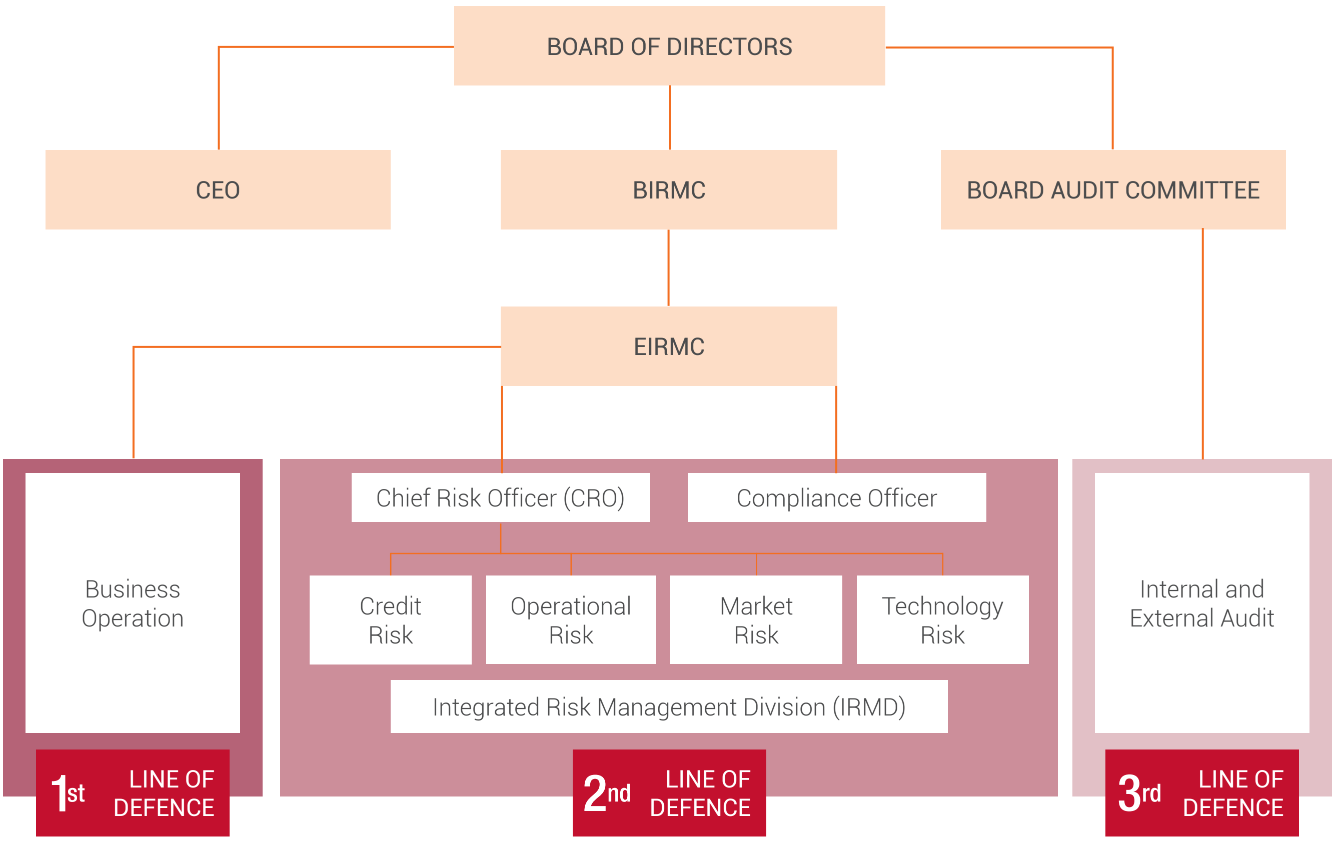
» Risk Appetite

» Risk Management Tools

» A culture of risk awareness

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.



RISK GOVERNANCE AND MANAGEMENT STRUCTURE OF THE BANK

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

The Board Audit Committee considers whether internal 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.

Objectives of the IRMF

a) Explicitly stipulate overall risk management objectives, risk tolerance levels, policies, guidelines and approaches for the management of risk exposures.

b) Define 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 Central Bank of Sri Lanka (CBSL) in the area of risk management.

e) Create staff awareness and inculcate a risk culture throughout 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.

Integrated Risk Management Division (IRMD)

IRMD, headed by the Chief Risk Officer 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, Asset and Liability Management and Market Risk Management / Treasury Middle Office and Operational Risk Management / Technology Risk Management.

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

Units Under IRMD and Key Responsibilities

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 • Credit Portfolio Risk assessment and SLFRS 9 process governance
Operational Risk	• Identification, assessment, measurement and 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

Key Implementations During 2021	• Strengthening of existing Risk Management Policy Framework • Development and improvement of the ICAAP framework • Automating risk metrics using Excel VBA, Google Data Studio and Google Script • Risk model review and validation in line with SLFRS 9 - Providing guidance on alignment of the Bank's risk appetite with financial reporting • Introduced Risk Data Analytics team and IT/IS Risk unit • Automation and central repository for Bank's risk rating of customers • Overall Collective and Individual Impairment process governance inline with the SLFRS 9 Standard • Strengthening the credit process through continuous process Improvements • Introductions of Operational risk stress testing module • Development, validation, and calibration of risk models • Enhancement of Risk Register and KRI coverage with risk related Internal Audit and Compliance finding • Development of Technology Risk Management Framework
Bank's Priorities for 2022	• Expansion of the Integrated Risk Management Framework • Risk data centralization, back testing and analytics • Development and improvement of the ICAAP framework • Centralization the stress testing framework • Develop and improve Collective and Individual Impairment process governance inline with the CBSL Direction 13 of 2021 • Making the LRM process robust and increase the coverage • Expand the strategic risk evaluation process and reporting • Focus on key risks related to Information Security in line with the CBSL technology risk resilience framework • Automation of risk controls and risk reporting • Capital augmentation and the raising of capital for the year • Improve Cybersecurity posture through robust risk analysis • Mitigating the long-term effects of COVID-19 on the supply chain

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, facility review and recovery procedures. 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 origination and portfolio management including stressed credit. 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. Further, the team plays a key role in the SLFRS 9 impairment process governance.

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. The workflow based centralized risk rating system developed by the Bank 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 2021, 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 to 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 delinquent 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 loans become non-performing.

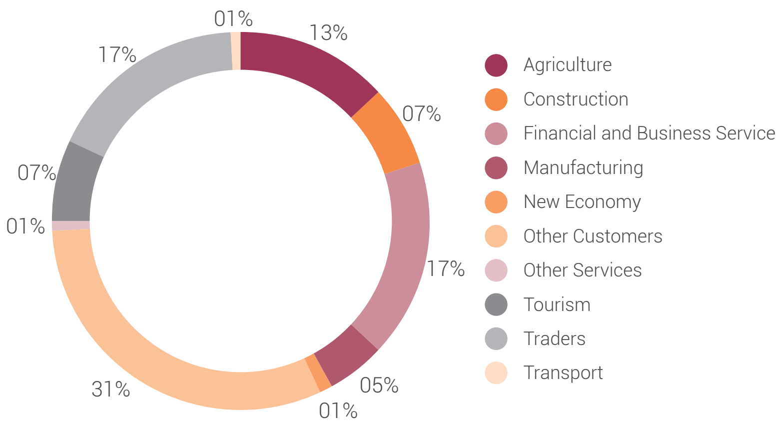
This unit pursues the recovery process until matters are finalized, while monitoring the value of the collateral held. The Recovery Unit liaises with the Credit Risk Management Unit to ensure effective follow-up and the transfer of key learnings. Unrecovered advances are transferred to the Legal Department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

Concentration Risk

Management of concentration risk is primarily through diversification of business across industry sectors, products, counterparties and geographies. Concentration risk is measured through the Normalized Herfindahl-Hirschman Index (HHI) and is computed as part of the Bank's ICAAP process in which concentration related to different industrial sectors of the economy, different customer segments, product types and maturity patterns are monitored.

Sector Concentration

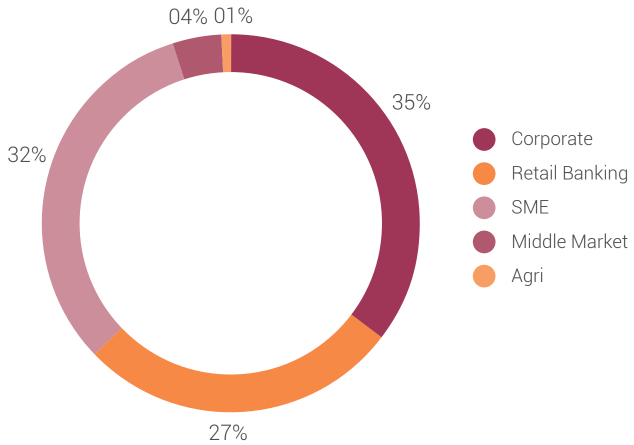


Details of Product Wise Exposure and Sector Wise Exposure are provided in page 114 of the Annual Report.

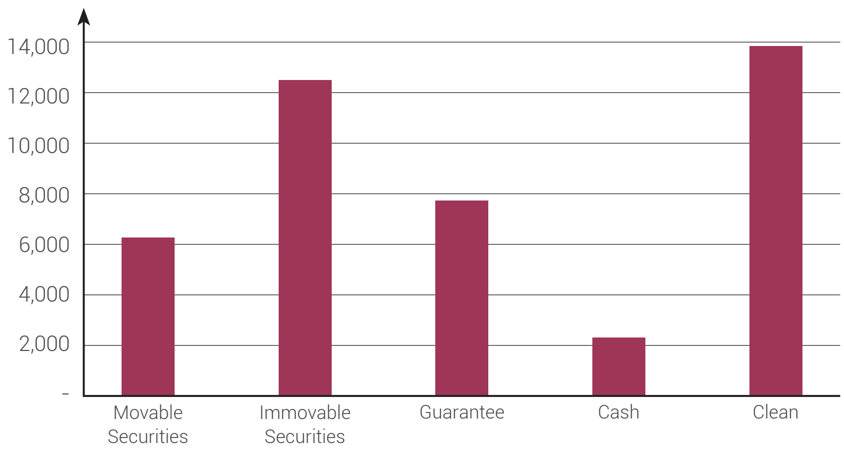
Counterparty Risk

Counterparty risk is managed through the laid down policies/ procedures and limit structures including single borrower limits and Group exposure limits with sub-limits for products etc. The limits set by the Bank are more stringent than those stipulated by the regulator. This provides the Bank with a greater leeway in managing its concentration levels with regard to the counterparty exposures. Loans and receivables to banks, both local and foreign, constitute a key component of counterparty risk. It is being monitored through a specific set of policies, procedures and a limit structure. At frequent intervals, the counterparty bank exposures are monitored against the established prudent limits whilst market information on the financial/economic performance of these counterparties are subject to a rigorous scrutiny throughout the year and the limits are revised to reflect the latest information where deemed necessary.

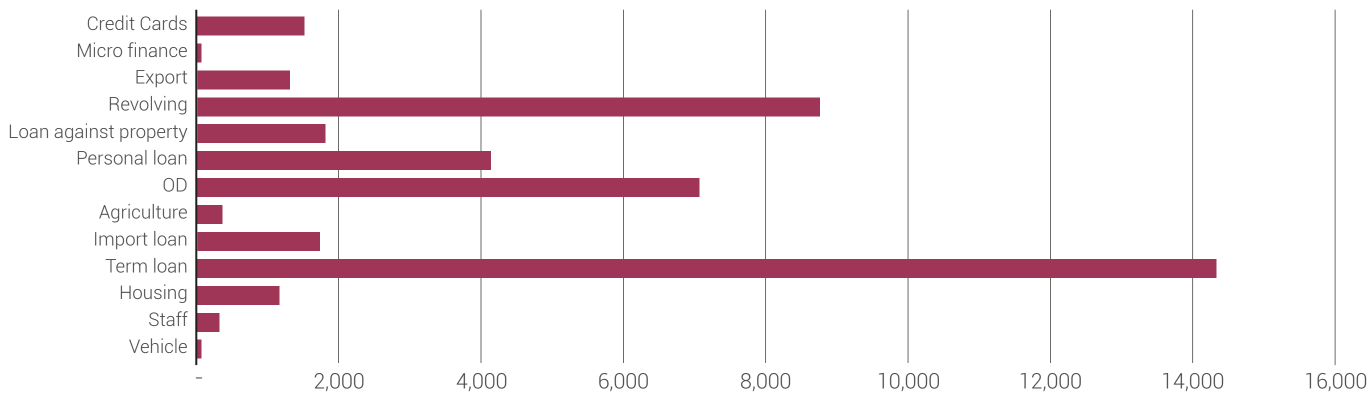
Business Unit Exposure



Collateral Concentration (Rs. Mn)



Product Concentration (Rs. Mn)



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 Chief Risk Officer. 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.

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. These registered items are constantly followed up by the Operational Risk Management unit till resolution.

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 used 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 organisation 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 cause analysis is 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 2021 providing a link between department level and the management. This approach enabled shorter issue resolution time. Any unresolved issues were referred to EIRMC for necessary action. The ORMC is further authorized by the EIRMC to;

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

Operational Risk Events

Risk Event	2021	2020
Business Disruption and System failures	63%	57%
Clients, Products and Business Practices	12%	13%
Execution, Delivery and Process Management	24%	18%
Internal Fraud	1%	0%
Damage to Physical Assets	0%	1%
Employment Practices and Workplace safety	0%	7%
External Fraud	0%	4%

Internal Audit periodically validates the effectiveness of the Bank's operational risk management framework and its implementation.

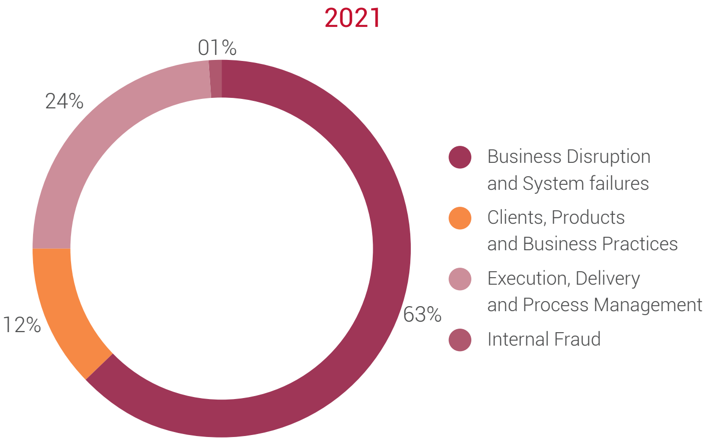
Operational Risk Unit as an independent unit monitors the planning, implementation and execution of the Business Continuity Plan together with Disaster Recovery Plan aimed at ensuring that the critical operations of the Bank will function with minimal disruption. Information Technology related operational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

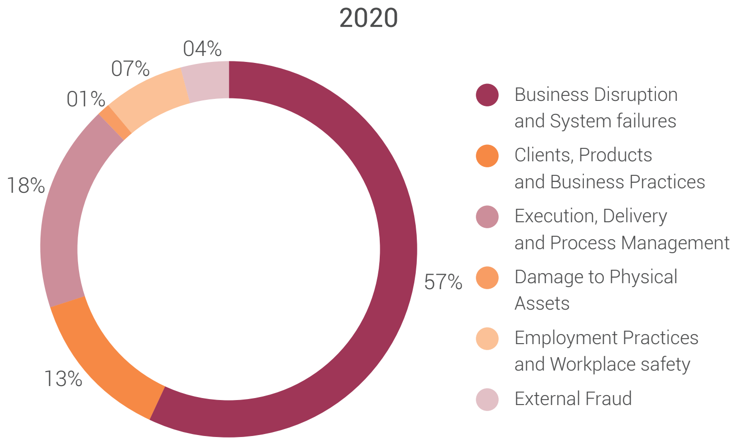
Market Risk

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

Strategic Risk

Strategic risk arises from inability to implement appropriate business plans, strategies, and poor resource allocation, inability to adapt to changes and not meeting set targets 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 are 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 continuously strives to maintain and improve the quality of its business activities.

Compliance Risk

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss to 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 sanction 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.

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/ Technology Risk Management

Information Security Risk is being an increasing threat in global context specially focusing on the financial institutions. The Bank's strategy is to enhance its solutions to the customers through digitally driven channels while recognizing the risk inherent from the industry as a whole. The Bank has adopted a 3 levels of defense architecture for management of the Information security risk, while Information Security Council (ISC) is responsible for executive level risk management which reports to BIRMC.

Bank has formulated a technology risk resilience framework based on directions of the Central Bank of Sri Lanka (CBSL) and international standards. A road map has developed to achieve regulatory targets on Technology risk management and resilient direction by the CBSL. Risk management has monitored the variance of the key risk indicators (KRI). Realized risk events and external information received in identifying risk items, recommending controls measures and reported the effectiveness of the controls implemented. Continuous assessments and monitoring based on the developing threat intelligence will drive the technology risk management in 2022.

During the year the Bank faced substantial challenges due to the rapid changes in external environment driven by pandemic and restricted movements. The Bank converted these challenges to the opportunities by providing high availability of their digital channels and uninterrupted access to operations, while maintaining the information security profile. The Bank maintained its resilience to the external dynamics and exhibited the strength of the contingencies for uninterrupted service through enabling remote working facility for all critical staff by improving the network security architecture.

Bank has continued to maintain its assurance to the customers, regulators and stakeholders of its commitment on information security. The Bank has successfully completed PCIDSS and ISO/IEC 27001 recertification continuously.

Focus on prevention and early detection of malicious activities are key components in strong information security profile. The Bank has enhanced the capabilities of Security Operations Center (SOC) as its strategy of continuous improvement. Risk associated with people and process play a key role to the execution of technology and associated risks. Movement in key knowledge and manual process has caused to increase the technology risk in a significant portion during the year. Bank is focusing on improvement to the manual process by introducing the robotic process automation (RPA), training and knowledge retention will be a key focus in 2022.

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 on pages 157 to 166 of the annual report.

Board Integrated Risk Management Committee Report

Stewardship & Governance

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

COMPOSITION

The Committee comprises eight (8) members of which three (3) members are Independent Non-Executive Directors. The Chief Risk Officer is the Secretary to the Committee.

The following are the members of the Committee:

1. Faizal Salieh - Chairman
   (Senior Independent Non-Executive Director)
2. Richard Ebell
   (Independent Non-Executive Director)
3. Ms. Ruvini Fernando
   (Independent Non-Executive Director)
4. Senarath Bandara (MD / CEO)
5. Prabhu Mathavan
   (Executive Director)
6. Alex Perera
   (Chief Risk Officer)
7. Gayantha Wijekoon
   (Head of Compliance)
8. Chandrasada Amarasingha
   (Deputy General Manager - Retail and Business Banking) nominated w.e.f. 1st December 2021

Members of the Corporate Management attended meetings as and when required as invitees.

ROLE AND 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 governance framework for credit, market, liquidity, operational, strategic and other risks, including the relevant 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 and Liabilities Management Committee (ALCO) in assessing, mitigating and managing the enterprise-wide risks within the stipulated 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 2021, the year under review, the Committee

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

rating models and dashboards. The integrated risk scoring model was recalibrated and validated. With a view to increasing the accuracy and efficiency of the risk quantification tools, and advanced quantitative risk evaluation techniques based on global best practices the Bank continues to be focused on risk data centralization and analytics, developing a predictive analytical model for consumer credit risk evaluation and using technology based automation.

- 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.
- Strengthened credit risk management through an independent loan review mechanism and portfolio management.
- Strengthened the Credit Risk Monitoring Processes on stressed credit, watch-listed customers, and credit excesses enabling early identification of warning signals 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.
- The Stress Testing process was reviewed and further strengthened integrating the risk challenges posed by the COVID-19 pandemic and the economic situation.
- Strengthened the Internal Capital Adequacy Assessment Process (ICAAP) to review capital adequacy under multiple stressed scenarios for budgeted performances.
- Automated Risk reporting tools such as the Risk Register and Operational Loss Reports, making reporting more accurate and timely.
- Strengthened the operational risk management framework through a comprehensive Risk Control Self-Assessment process where Key Risk Indicators, Operational Loss Reporting and the Risk Register were used to arrive at integrated risk ratings and reporting.
- Further strengthened the Compliance risk management framework by conducting a Bank-wide Risk Assessment (BWRA) on products, Departments/ Business units, Transaction types, Delivery types, Customer segments from a Compliance/ Anti-Money Laundering perspective.
- Reviewed and assessed the Anti-Money Laundering and Regulatory Compliance measures of the Bank, branch network, products, processes and procedures by conducting targeted reviews.
- Assessed Information Security risk controls and action plans to strengthen the Bank's risk mitigants on Information Technology / Information Security. Initiated Information Technology and Information Security monitoring through the KRI dashboard and Information Security Dashboard.
- Reviewed and recommended internal policy documents for Board approval in accordance with their respective review cycles.

MEETINGS

The TOR of the BIRMC mandates meetings to be held every quarter and as often as it deems necessary. The Committee held seven (7) meetings during the year.

REPORTING

The deliberations and conclusions reached at Committee meetings were recorded in the BIRMC minutes and regularly reported to the Board for information, notification and appropriate action. The monthly Risk and Compliance Reports, which captured the significant changes in the Bank's risk levels and their root causes, were tabled regularly at Board meetings. These included the Top 5 Risks faced by the Bank and the severity of their impact on business and regulatory requirements.

The 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

28 February 2022
Colombo

Board Nomination Committee Report

Stewardship & Governance

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. Faizal Salieh
   (Independent Non-Executive Director)
   Appointed as Committee Chairman w.e.f. 29 July 2021
2. Mangala Boyagoda
   (Independent Non-Executive Director)
   Committee Chairman retired w.e.f. 29 April 2021
3. Ranjit Page
   (Non-Independent Non-Executive Director)
4. Richard Ebell
   (Independent Non-Executive Director)
5. Ms. Ruvini Fernando
   (Independent Non-Executive Director)
   Appointed w.e.f. 29 July 2021

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

ROLE AND 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 (3) members including at least two Independent Non-Executive Directors, including its Chairperson.

The Committee met twice (2) 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;

- » Re-election of Directors
- » Appointment of a Director
- » Appointment of a Senior Director
- » Committee evaluation for 2020
- » Appointment of a Key Management Personnel

Faizal Salieh
Chairman - Board Nomination Committee

Colombo
28 February 2022

Board Human Resources and Remuneration Committee Report

Stewardship & Governance

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)
   retired w.e.f. 29 April 2021
3. Faizal Salieh
   (Independent Non-Executive Director)
4. Yudhishtran Kanagasabai
   (Non-Independent Non-Executive Director)
5. Buwaneka Perera
   (Independent Non-Executive Director)
   appointed w.e.f. 29 July 2021

Permanent Attendee
Senarath Bandara (Managing Director/ CEO)

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

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 Bank'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 assesses the Human Resources and Remuneration Risk.
- Review Policies on Occupational Health and Safety, Code of Conduct and Ethics, Communication, Performance Evaluation and Employment Policies.
- 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 once during the year and all the members attended the meeting.

ACTIVITIES OF THE COMMITTEE

The Committee considered and reviewed the following;

- The Organisation Structure of the Bank
- Promotions of staff
- Committee Evaluation for 2020

The Committee reviewed the Human Resources and Remuneration Policy and recommended same for the approval of the Board.

Ranjit Page
Chairman - Board HR and Remuneration Committee

Colombo
28 February 2022

Board Strategic Planning Committee Report

Stewardship & Governance

COMPOSITION OF THE COMMITTEE

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

1. Ranjit Page - Committee Chairman
   (Non-Independent Non-Executive Director)
2. Mangala Boyagoda
   (Independent Non-Executive Director)
   retired w.e.f. 29 April 2021
3. Faizal Salieh
   (Independent Non-Executive Director)
4. Richard Ebell
   (Independent Non-Executive Director)
5. Senarath Bandara
   (MD/ CEO)
6. Prabhu Mathavan
   (Executive Director)
7. Ms. Ruvini Fernando
   (Independent Non-Executive Director)
8. Ms. Marianne Page
   (Non-Independent Non-Executive Director)
9. Yudhishtran Kanagasabai
   (Non-Independent Non-Executive Director)
10. Buwaneka Perera
    (Independent Non-Executive Director)
    appointed w.e.f. 29 July 2021

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

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;

» Assist the Executive Management in developing a well defined medium term Strategic Plan for the Bank in line with the Bank's overall vision, strategic direction.

» Review and assess whether the Bank is responsive to changes in the competitive environment by realigning its strategies and action plans periodically where appropriate to strengthen its competitive position.

» Review and assess whether the strategic plans of the Bank address the expectations of all key stakeholders, including in particular its shareholders.

» Review and assess whether the annual business plans and financial budgets, including capex budgets developed by the Executive Management are aligned to the Bank's business model and Strategic Plan and recommend such matters for approval by the Board.

» Review and evaluate the alignment of KPIs of all KMPs to the strategic plan and financial budgets.

» Regularly review and evaluate the key objectives and goals contained in the annual financial budget, the business plan and 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.

» Advise the Board on strategy and direction, in carrying out the above oversight responsibilities relating to the smooth functioning of the Bank.

Board Strategic Planning Committee Report

Stewardship & Governance

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 attended the meetings.

ACTIVITIES OF THE COMMITTEE

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

» Committee evaluation for 2020
» Business Plan Review for the first half of 2021
» Strategy focus for the next three years
» Budget and Business Plan for 2022

Ranjit Page
Chairman - Board Strategic Planning Committee

Colombo
28 February 2022

Board Related Party Transactions Review Committee Report

Stewardship & Governance

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
   (Independent Non-Executive Director)
3. Mangala Boyagoda
   (Independent Non-Executive Director)
   retired w.e.f. 29 April 2021
4. Richard Ebell
   (Independent Non-Executive Director)
   appointed *w.e.f. 29 April 2021*

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

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

ROLE AND 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.
» To review RPTs which may be considered "recurrent", on a quarterly basis.
» To review other RPTs before they are undertaken and make appropriate recommendations to the Board.
» Periodically review 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 four times during the year and all members attended the meeting.

ACTIVITIES OF THE COMMITTEE

The Committee considered and/or reviewed the following;

» Agreements proposed with Related Parties
» Related Parties of the Bank
» Related Party Transactions entered in to by the Bank
» Committee evaluation for 2020

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

Colombo
28 February 2022

Board Credit Committee Report

Stewardship & Governance

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 Credit Direction, Credit Policy, Credit Risk and lending guidelines of the Bank, whilst monitoring the quality and performance of the Bank's credit portfolio and making appropriate recommendations, with a view to inculcating healthy lending standards and practices and thus ensuring that relevant regulations are complied with.

Six BCC meetings were held during the year 2021 and all the members attended the meetings.

COMPOSITION OF THE COMMITTEE

The Committee comprises four (4) members of which two (2) members are Non-Executive Independent Directors. The following are the members of the Committee;

1. Yudhishtran Kanagasabai - Committee Chairman
   (Non- Independent Non-Executive Director)
2. Ranjit Page
   (Non- Independent Non-Executive Director)
3. Mangala Boyagoda
   (Independent Non-Executive Director)
   retired w.e.f. 29 April 2021
4. Ms. Ruvini Fernando
   (Independent Non-Executive Director)
5. Buwaneka Perera
   (Independent Non-Executive Director)
   appointed w.e.f. 29 July 2021

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

ROLE AND RESPONSIBILITIES

The roles and responsibilities of the Committee include;

» Reviewing the Bank's Credit risk appetite and credit policies and make recommendations to the Board;
» Considering and approving specific loans above the Executive Credit Committee's authority limit, as determined by the Board from time to time;
» Reviewing Executive Credit Committee's authority level as and when deemed necessary and recommending new levels to the Board for consideration;
» Guiding management on the risk appetite of the Bank;
» Pricing of credit 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;
» Reviewing and ensuring that the Bank complies with regulatory requirements regarding the grant of credit facilities; and
» Handling such other issues referred to the Committee from time to time by the Board.

AREAS OF FOCUS IN 2021

» Assessment and making of recommendation of sector exposures of the risk assets.
» Ensured the implementation of appropriate credit controls to maintain the quality of the portfolio.
» Reviewed the watch listed clients and ensured that they were in-line with the Bank's lending policies and credit risk appetite.
» Assessment of credit proposal with regards to related party transactions.
» Ensured that the lending portfolios were managed as per the stipulated credit risk parameters.
» Close monitoring of the portfolio under moratorium.
» Committee Evaluation for 2020

Yudhishtran Kanagasabai
Chairman - Board Credit Committee

Colombo
28 February 2022

Board Audit Committee Report

Stewardship & Governance

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

COMPOSITION OF THE COMMITTEE

1. Mr. Richard Ebell

   (Independent Non-Executive Director), as Chairman
2. Mr. Faizal Salieh

   (Independent Non-Executive Director)
3. Ms Ruvini Fernando

   (up to 29 July 2021)
   (Independent Non-Executive Director)
4. Mr Buwaneka Perera

   (w.e.f. 29 Jul 2021)
   (Independent Non-Executive Director)

Chandima Samarasinghe, AGM Internal Audit, served as the Committee's Secretary through the year.

Senarath Bandara, Managing Director/ CEO and Prabhu Mathavan, Executive Director, attended meetings as representatives of management, 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 as required.

REGULATORY COMPLIANCE

The role 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, finance and other relevant areas. The profiles of BAC members are included on pages 17 to 19 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 times in 2021. Attendance at these meetings was:

Mr. Richard Ebelll	9 / 9 Meetings
Mr. Faizal Salieh	9 / 9 Meetings
Ms. Ruvini Fernando	5 / 5 Meetings
Mr. Buwaneka Perera	4/4 Meetings

KPMG were present at four 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 were made, whose implementation was followed up with management.

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

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 Auditor's 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 Auditor's 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 necessary.

EVALUATION OF THE COMMITTEE

Self- evaluations of the workings of the Committee were Initiated in December 2021. The results of these evaluations are reviewed appropriately by the BAC, and are advised to the Board.

On behalf of the Audit Committee

Richard Ebell
Chairman, Board Audit Committee

28 February 2022
Colombo

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

Stewardship & Governance

Your Directors take pleasure in presenting this report to their stakeholders together with the audited Financial Statements for the year ended 31 December 2021.

The details set out herein provide pertinent information as required by the Companies Act No. 7 of 2007, 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 28 February 2022.

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;

	2021 Rs. '000	2020 Rs. '000
Loss before taxation	(368,655)	(886,536)
Taxation	91,528	142,589
Loss for the year	(277,127)	(743,947)
Accumulated loss brought forward	(1,772,667)	(1,030,112)
Other comprehensive income, net of tax	(6,020)	1,392
Losses to be carried forward	(2,055,814)	(1,772,667)

FINANCIAL STATEMENTS

The Financial Statements of the Bank are given on pages 78 to 156 of this Annual Report.

INCOME

The Bank's main income largely consists of interest on loans and advances, interest on other interest earning assets and fee based income. Snapshot of income is shown as follows:

	2021 Rs. '000	2020 Rs. '000
Interest income	4,099,607	4,117,856
Fees and commission income	767,818	456,906
Net gains/(losses) from trading	(1,196)	5,478
Net gains/(losses) from derecognition of financial assets	(18,368)	120,792
Net other operating income	146,309	73,180

SHAREHOLDERS' FUNDS AND RESERVES

The Bank's total reserves as at 31 December 2021 stood at a negative balance of Rs. 2,070 Mn. This comprises an accumulated loss of Rs. 2,056 Mn, statutory reserve of Rs. 32 Mn and fair value through OCI reserve negative balance of Rs. 46 Mn. The movement in reserves and accumulated loss are shown in Notes 41 and 42 to the Financial Statements.

AUDITOR'S REPORT

The Auditors of the Bank are Messrs KPMG, Chartered Accountants. Their report on the Financial Statements is given on pages 76 to 77. They come up for reelection at the Annual General Meeting, with the recommendation of the Audit Committee and the Board of Directors.

ACCOUNTING POLICIES

The accounting policies adopted in preparation of the Financial Statements are given on pages 84 to 156.

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 49 to the Financial Statements.

DIRECTORS' REMUNERATION

Directors' remuneration and other benefits of the Directors are given in Note 15 and 49 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 2021 to date are given with changes that occurred in the composition of the Board during the period under review.

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

Name of the Director	Executive/ Non Executive Status	Independence/ Non-Independence Status
Ranjit Page - Chairman	Non-Executive	Non-Independent
Senarath Bandara - Managing Director/ CEO	Executive	Non-Independent
Prabhu Mathavan	Executive	Non-Independent
Mangala Boyagoda - Senior Director	Non-Executive	Independent (Retired w.e.f. 29 April 2021)
Faizal Salieh -Senior Director	Non-Executive	Independent (Appointed as Senior Director w.e.f. 29 April 2021)
Richard Ebell	Non-Executive	Independent
Ms. Ruvini Fernando	Non-Executive	Independent
Ms. Marianne Page	Non-Executive	Non-Independent
Yudhishtran Kanagasabai	Non-Executive	Non-Independent
Buwaneka Perera	Non-Executive	Independent (Appointed w.e.f. 1 July 2021)

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

Mr. Buwaneka Perera who was appointed during the year offers himself for election by the shareholders in terms of Article 92 of the Articles of Association of the Bank with the unanimous recommendation of the Board of Directors.

DIRECTORS' INTEREST

Related party transactions of the Bank are disclosed in Note 49 to the Financial Statements on pages 135 to 139. In addition, transactions with entities where Directors of the Bank hold directorates are disclosed on page 65. 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. 4 Mn (Audit - Rs. 2.1 Mn and Audit related services - Rs. 1.9 Mn). The non-audit fees payable to KPMG for the year under review amounted to Rs. 2.4 Mn.

STATED CAPITAL

The Stated Capital of the Bank is Rs. 11,394.4 Mn, the details of which are given in Note 40 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 accuracy and reliability of records as far as possible.

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 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 CBSL.

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 21 to 41 of the Annual Report.

CAPITAL EXPENDITURE

The Bank's expenditure on Property, Plant and Equipment at cost amounted to Rs. 31.8 Mn during 2021, details of which are given in Note 29 to the Financial Statements. Expenditure on Intangible Assets at cost amounted to Rs. 43.9 Mn during 2021, details of which are given in Note 30 to the Financial Statements.

STATUTORY PAYMENTS

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

SHAREHOLDING

The number of registered shareholders of the Bank as at 31 December 2021 was 265. The schedule providing information on shareholders' analysis is on pages 167 to 168 'Investor Relations'.

REGISTER OF DIRECTORS AND SECRETARIES

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

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 under Corporate Information in the inner back cover.

PROVISION FOR TAXATION

Total taxable profit was charged at 24% 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 as a virtual meeting using a digital platform from the Auditorium (first floor) of the Premier Pacific Pinnacle No. 28, R. A. De Mel Mawatha, Colombo 04 on Thursday, 7 April 2022. The Notice of Meeting can be found on page 170 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

Senarath Bandara
Managing Director/ CEO

Ms. Amendra de Silva
Company Secretary

Colombo
28 February 2022

Directors' Interest in Contracts with the Bank

Stewardship & Governance

In addition to the related party transactions disclosed in Note 49 to the Financial Statements, 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 are given below,

Company	Relationship	Accommadation Granted/ Deposit	Interest Paid	Interest Charged	Fees and Expenses Charged	Balance Outstanding	
						31-Dec-21	31-Dec-20
	Rs' 000	Rs' 000	Rs' 000	Rs' 000	Rs' 000	Rs' 000	Rs' 000
Sierra Construction Ltd	Common Directors	Loans and Advances	-	6,548	1,568	-	465,223
		Deposits	(7)	-	-	-	-
		Off balance Sheet accomadations	-	-	-	-	120,000
United Hotels Company Limited	Common Directors	Loans and Advances	-	14,588	33	-	803,047
		Deposits	-	-	-	-	500
Dankotuwa Porcelain PLC	Common Directors	Deposits	-	-	3	2,664	1,899
Lebara Foundation	Common Directors	Deposits	-	-	-	-	212
Wealth Trust Securities (Pvt) Ltd	Common Directors	Deposits	-	-	-	-	116
Sierra Cables PLC	Common Directors	Loans and Advances	-	1,325	3,457	162,195	-
		Deposits	(206)	-	-	50,748	-
		Off balance Sheet accomadations	-	-	-	134,174	-
Sri Lanka Institute of Directors	Common Directors	Deposits	(695)	-	-	10,310	-

A commitment to development has been our driving force over the years and we will continue to remain true to our ethos of *nurturing the human spirit.*

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 pages 76 to 77 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 2021 and the loss of the Bank for the financial year ended on 31 December 2021 and such Financial Statements are placed before a General Meeting. The Financial Statements comprise the Statement of Financial Position as at 31 December 2021, the 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 2021; 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 Companies Act. Financial Statements of the Bank have been signed by two Directors of the Bank on 28 February 2022 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; and

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 as far as practicable securing the accuracy and reliability of records. The results of such reviews carried out during the year ended 31 December 2021 are given on pages 70 to 71 of the Annual Report, 'Directors' Statement on Internal Controls over Financial Reporting'.

The Auditor's Report on Internal Controls is given on pages 72 to 73 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 pages 76 to 77 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
28 February 2022

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

The Board of Directors (Board) is responsible for the adequacy and effectiveness of the internal control mechanisms in place at Cargills Bank Limited, (the Bank). In considering such adequacy and effectiveness, the Board recognises that the business of banking requires reward to be balanced with risk on a managed basis. 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 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 based on the 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 purpose 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 and 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 providing assurance 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.
» The Bank's controls to respond to current banking operations, and compliance with the relevant laws and regulations are ensured by reviewing operation manuals, guidelines and the directives issued by the Bank, from time to time.
» The Internal Audit Department of the Bank checks 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 and adequacy of procedures in place to ensure compliance with applicable laws and regulations and examines the reliability and integrity of financials and other operating information. 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 key departments and branches were audited during the year and observations reported to the Audit Committee. Some audits were conducted as remote audits given the pandemic situation prevailing in the country. Selected Information System (IS) audits were carried out by the Internal Audit Department. In addition, the Bank outsourced some IS audits to three external parties during the year to better ensure adequacy of controls in selected areas.
The Internal Audit Department also conducted reviews on the credit management process and on moratoriums extended by the Bank based on the Central Bank of Sri Lanka (CBSL) guidelines.
» 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 internal audit functions focusing on the scope and quality of the audits. 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 59 to 60.

» Apart from the Audit Committee, several Board committees have been established with appropriate empowerment to ensure effective oversight of the Bank's core areas of business operations and the management and supervision thereof.

  These Committees include the Board Integrated Risk Management Committee, the Strategic Planning Committee, the Human Resource and Remuneration Committee, the Nomination Committee, the Credit Committee and the Related Party Transactions Review Committee.

» Operational committees have also been established with appropriate empowerment to better ensure an effective management and supervision of the Bank's core areas of business operations. These committees include the Asset and Liability Management Committee (ALCO), the Executive Credit Committee, the Executive Risk Management Committee, the Information Technology Steering Committee and the Operational Risk Management Committee.

The Compliance Department has taken initiatives to implement a robust compliance process to address and monitor compliance with regulatory requirements.

CONTINUOUS MONITORING OF APPLICATION OF SLFRS 9 : FINANCIAL INSTRUMENTS

The Bank adopted SLFRS 9 - "Financial Instruments" with effect from 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 the concept of "Expected Credit Loss" under SLFRS 9, the Bank developed models to calculate Expected Credit Losses (ECLs). These models are inherently complex, and were developed with the assistance of an external consultant. A number of key assumptions are made by the Bank in applying the requirements of SLFRS 9 to the models. These include the selection and use of forward - looking information.

The Bank continues to focus on reviewing, calibrating and testing the models developed. The Bank's Risk Department reviews and tests these processes. It has documented changes in the polices and procedures applied and obtained approval of the Board Audit Committee and the Board.

The preparation of Financial Statements incorporating the necessary adjustments was based mainly on spread sheet applications. The process followed by the Bank for quantification of adjustments is documented for clarity and auditability.

CONFIRMATION

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

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors, Messrs. KPMG, have 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 2021 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 pages 72 to 73.

Senarath Bandara
Managing Director/ Chief Executive Officer

Ms. Amendra De Silva
Company Secretary

Colombo
28 February 2022

KPMG

KPMG
(Chartered Accountants)
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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 2021 set out on pages 70 to 71 in this Annual Report.

Management's Responsibility for The Statement on Internal Control

The Management is responsible for the preparation and presentation of the statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with the section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

Our Responsibilities and Compliance with SLSAE 3050

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 the 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.

Chartered Accountants

Colombo
28 February 2022

CEO's and CFO's Responsibility for Financial Reporting

The Financial Statements of Cargills Bank Limited (the Bank) for the year ended 31 December 2021 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 by the Institute of Chartered Accountants of Sri Lanka

The formats used in the preparation of the Financial Statements and disclosures made comply with the specified formats prescribed by the CBSL. The Bank presents the financial results to its shareholders on a quarterly basis.

The Accounting Policies used in the preparation of the Financial Statements are appropriate and are consistently applied by the Bank. There are no material departures from the prescribed Accounting Standards in their adoption. Comparative information has been reclassified wherever necessary to comply with the current presentation.

Significant accounting policies and estimates that involved a high degree of judgement and complexity were discussed with the Audit Committee and the External Auditors. The Board of Directors and the Management of the Bank accept the responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgements relating to the Financial Statements were made on a prudent and reasonable basis; in order to make sure 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 implementing a sound 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 2021, as required by the Banking Act Direction No. 11 of 2007, the result of which is given on pages 70 to 71 of the Annual Report, 'Directors' Statement on Internal Controls over Financial Reporting'. The 'Auditor's Report on Internal Controls' is given on pages 72 to 73 of the Annual Report.

The Financial Statements of the Bank were audited by Messrs. KPMG, Chartered Accountants, the independent External Auditors. Their report is given on pages 76 to 77 of the Annual Report. The Audit Committee of the Bank meets periodically with the Internal Audit team and the independent External Auditor to review their audit plans, assess the manner in which the auditors discharge their responsibilities and discuss their reports on internal controls and financial reporting issues. To ensure complete independence, the External Auditor and the Internal Auditor have full and free access to the members of the Audit Committee to discuss any matter of substance.

The Audit Committee approves audit and non-audit services provided by the External Auditors, Messrs. KPMG, 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 the CBSL on permitted non-audit services. Refer 'Report of the Board Audit Committee' appearing on pages 59 to 60 for details.

The Bank has taken appropriate actions to implement new Sri Lanka Accounting Standards on due dates and all the processes are in place to address the requirements of the Sri Lanka Accounting Standards.

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 44 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 2021 have been paid or where relevant provided for.

Senarath Bandara
Managing Director/ Chief Executive Officer

Ms. Dilhani Gajanayaka
Head of Finance

Colombo
28 February 2022

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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, 2021, and the income statement, 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 78 to 156 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, 2021, 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 Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's 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
28 February 2022

Income Statement

Financial Statements

For the year ended 31 December	Note	2021 Rs. '000	2020 Rs. '000	Change %
Gross income		4,994,170	4,774,212	5
Interest income		4,099,607	4,117,856	(0)
Less: Interest expenses		2,259,926	2,553,081	(11)
Net interest income	7	1,839,681	1,564,775	18
Fees and commission income		767,818	456,906	68
Less: Fees and commission expenses		275,737	208,193	32
Net fees and commission income	8	492,081	248,713	98
Net gains/(losses) from trading	9	(1,196)	5,478	(122)
Net gains/(losses) from derecognition of financial assets	10	(18,368)	120,792	(115)
Net other operating income	11	146,309	73,180	100
Total operating income		2,458,507	2,012,938	22
Less: Impairment losses on financial instruments and other assets	12	684,510	801,718	(15)
Net operating income		1,773,997	1,211,220	46
Less: Expenses				
Personnel expenses	13	842,691	798,619	6
Depreciation and amortisation expenses	14	420,213	490,745	(14)
Other operating expenses	15	773,594	808,392	(4)
Operating profit/(loss) before taxes on financial services		(262,501)	(886,536)	70
Less: Taxes on financial services	16	106,154	-	100
Profit/(loss) before income tax		(368,655)	(886,536)	58
Less: Income tax expenses/(reversal)	17	(91,528)	(142,589)	36
Profit/(loss) for the year		(277,127)	(743,947)	63
Attributable to:				
Equity holders of the Bank		(277,127)	(743,947)	63
Profit/(loss) for the year		(277,127)	(743,947)	63
Basic earnings per share (Rs.)	18	(0.31)	(0.84)	63
Diluted earnings per share (Rs.)	18	(0.31)	(0.84)	63

The Notes to the Financial Statements appearing on pages 84 to 156 form an integral part of these Financial Statements.

Statement of Other Comprehensive Income

Financial Statements

For the year ended 31 December	Note	2021 Rs. '000	2020 Rs. '000	%
Profit/(loss) for the year		(277,127)	(743,947)	63
Other comprehensive income, net of tax				
Items that will not be reclassified to profit or loss				
Net actuarial gain/(loss) on defined benefit plans	38	(6,016)	(5,169)	(16)
Change in fair value of investment in equity measured at Fair value through other comprehensive income	20.2.1	1,288	1,707	(25)
Deferred tax asset related to the above	32.2	166	6,518	(97)
		(4,562)	3,056	(249)
Items that will be reclassified to profit or loss				
Net gains/(losses) on invesment in financial assets measured at fair value through other comprehensive income				
Sri Lanka government securities		(175,109)	59,947	(392)
Deferred tax asset related to the above	32.2	47,358	(17,219)	375
		(127,751)	42,728	(399)
Total other comprehensive (loss)/income for the year, net of tax		(132,313)	45,784	(389)
Total comprehensive income/(loss) for the year		(409,440)	(698,163)	41
Attributable to:				
Equity holders of the Bank		(409,440)	(698,163)	41
Total comprehensive income/(loss) for the year		(409,440)	(698,163)	41

The Notes to the Financial Statements appearing on pages 84 to 156 form an integral part of these Financial Statements.

As at 31 December	Note	2021 Rs. '000	2020 Rs. '000	Change %
ASSETS				
Cash and cash equivalents	21	1,214,754	1,420,123	(14)
Balances with Central Bank of Sri Lanka	22	567,802	443,993	28
Placements with Banks	23	601,151	-	100
Derivative financial instruments	24	3,200	3,658	(13)
Financial assets measured at fair value through profit or loss	25	-	1,596,166	(100)
Financial assets at amortised costs - Loans and advances to other customers	26	40,490,736	29,079,121	39
Financial assets at amortised costs - Debt and other financial instruments	27	15,528	436,049	(96)
Financial assets measured at fair value through other comprehensive income	28	10,783,609	11,533,615	(7)
Property, plant and equipment	29	518,272	657,912	(21)
Intangible assets	30	258,942	357,739	(28)
Deferred tax assets	32	637,588	498,536	28
Other assets	33	675,479	505,622	34
Total assets		**55,767,061**	**46,532,534**	**20**
LIABILITIES				
Due to banks	34	926,405	1,556,948	(40)
Derivative financial instruments	35	3,009	149	1,920
Financial liabilities at amortised cost - Due to depositors	36	40,182,402	31,997,601	26
Financial liabilities at amortised cost - Other borrowings	37	3,969,617	2,121,192	87
Retirement benefit obligations	38	81,336	64,763	26
Lease liability	31	332,675	339,985	(2)
Other liabilities	39	946,756	717,594	32
Total liabilities		**46,442,200**	**36,798,232**	**26**

As at 31 December	Note	2021 Rs. '000	2020 Rs. '000	Change %
EQUITY				
Stated capital	40	11,394,421	11,394,421	-
Statutory reserves	41	32,386	32,386	-
Retained loss	42	(2,055,814)	(1,772,667)	(16)
Other reserves	41	(46,132)	80,162	(158)
Total equity attributable to equity holders of the Bank		9,324,861	9,734,302	(4)
Total equity and liabilities		55,767,061	46,532,534	20
Contingent liabilities and commitments	43	18,687,750	16,089,767	16
Net assets value per share (Rs.)	45	10.56	11.02	(4)
Memorandum Information				
Number of employees		622	632	
Number of branches		21	20	

The Notes to the Financial Statements appearing on pages 84 to 156 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.

Dilhani Gajanayaka
Head of Finance

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

Senarath Bandara
Managing Director/ Chief Executive Officer

Faizal Salieh
Senior Director

28 February 2022
Colombo

Statement of Changes in Equity

Financial Statements

	Stated Capital Rs. '000	Statutory Reserves Rs. '000	Retained Losses Rs. '000	Other Reserves (FVOCI Reserve) Rs. '000	Total Rs. '000
Balance as at 01 January 2020	11,394,421	32,386	(1,030,112)	35,770	10,432,465
Total comprehensive income for the year 2020					
Loss for the year	-	-	(743,947)	-	(743,947)
Other comprehensive income, net of tax	-	-	1,392	44,392	45,784
Total comprehensive income/(loss) for the year 2020	-	-	(742,555)	44,392	(698,163)
Balance as at 31 December 2020	11,394,421	32,386	(1,772,667)	80,162	9,734,302
Balance as at 01 January 2021	11,394,421	32,386	(1,772,667)	80,162	9,734,302
Total comprehensive income for the year 2021					
Loss for the year			(227,127)		(277,127)
Other comprehensive income, net of tax			(6,020)	(126,294)	(132,314)
Total comprehensive income/(loss) for the year 2021	-	-	(283,147)	(126,294)	(409,441)
Balance as at 31 December 2021	11,394,421	32,386	(2,055,814)	(46,132)	9,324,861

Statement of Cash Flows

Financial Statements

For the year ended 31 December	Note	2021 Rs. '000	2020 Rs. '000
Cash flows from operating activities			
(Loss)/profit before income tax		(368,655)	(886,536)
Adjustments for:			
Non-cash items included in profit/(loss) before tax	50	1,170,489	1,365,901
Gains/(losses) on sale of property, plant and equipment and other assets	11	368	(1,037)
Dividend income	11	(1,360)	(960)
Interest paid on lease liabilty	31.3	(40,857)	(46,679)
Benefits paid on defined benefit plans	38	(10,542)	(3,287)
Operating profits before changes in operating assets and liabilities		749,443	427,402
Increase in operating assets	51	(9,697,043)	(8,585,416)
Increase in operating liabilities	52	7,679,497	7,033,471
Cash generated from/(used in) operating activities before income tax		(1,268,103)	(1,124,543)
Income taxes paid		-	-
Net cash generated from/(used in) operating activities		(1,268,103)	(1,124,543)
Cash flows from investing activities			
Net purchase of property, plant and equipment	29	(31,823)	(105,186)
Proceeds from sale of property, plant and equipment		337	1,044
Net purchase of intangible assets	30	(53,386)	(108,156)
Dividends received	11	1,360	960
Net cash generated from/(used in) investing activities		(83,512)	(211,338)
Cash flows from financing activities			
Net proceeds from the issue of ordinary share capital		-	-
Net proceeds from the issue of perpetual debenture		1,500,000	-
Payment of lease liability	31.4	(102,296)	(95,561)
Change in securities sold under repurchase agreements and other borrowing		348,425	1,172,894
Net cash generated from/(used in) financing activities		1,746,129	1,077,333
Net increase/(decrease) in cash and cash equivalents		394,514	(258,548)
Cash and cash equivalents at the beginning of the year		1,429,096	1,687,644
Cash and cash equivalents at the end of the year		1,823,610	1,429,096
Reconcilliation of cash and cash equivalents			
Cash and cash equivalents	21	1,222,459	1,429,096
Placements with Banks	23	601,151	-
		1,823,610	1,429,096
Less: Impairment on cash and cash equivalents		(7,705)	(8,973)
Total cash and cash equivalents		1,815,905	1,420,123

The annexed Notes to the Financial Statements form an integral part of these 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 carrying out banking activities in Sri Lanka. It is a Licensed Commercial Bank registered under the Banking Act No. 30 of 1988 and amendments thereto. The registered office of the Bank is located at No. 696, Galle Road, Colombo 3.

The Bank does not have an identifiable Parent of its own, Further, the Bank does not hold any investments in the form of a subsidiary, joint venture or an associate.

Corporate information is presented in the inner back cover of this Annual Report.

1.2 Principal Activities and Nature of Operations

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

1.3 Number of Employees

The total number of employees of the Bank as at 31 December 2021 was 622 (2020 - 632).

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 the Statement of Cash Flows have been prepared following the accrual basis of accounting.

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

2.2 Responsibility for Financial Statements

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

The Board of Directors acknowledges their responsibility for Financial Statements as set out in the 'Annual Report of the Board of Directors' on the Affairs of the Bank', 'Directors' Responsibility for Financial Reporting' and the certification on the 'Statement of Financial Position' on pages 61 to 64, 68 to 69 and 80 to 81 respectively.

These Financial Statements include the following components;

- Income Statement, 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 78 to 79.
- A Statement of Financial Position providing the information on the financial position of the Bank as at the year end. Refer pages 80 to 81.
- A Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Bank. Refer page 82.
- A Statement of Cash Flows providing the information to the users, on the ability of the Bank to generate cash and cash equivalents and the need to utilize those cash flows. Refer page 83.
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information. Refer pages 84 to 156.

2.3 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Bank for the year ended 31 December 2021 were approved and authorized for issue by the Board of Directors on 28 February 2022.

2.4 Basis of Measurement

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

Items	Measurement basis
Financial assets measured at fair value through profit or loss including derivative financial instrument	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 Going Concern
The directors have made an assessment of the Bank's ability to continue as a going concern and are satisfied that it has the resources to continue in business for a foreseeable future.

Furthermore, the Board is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Bank. Therefore, the Financial Statements continue to be prepared on the going concern basis.

2.6 Functional and Presentation Currency
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.

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

The comparative information is reclassified where relevant for better presentation and to be comparable with those of the current year.

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

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

2.9 Offsetting
Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to 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 an interpretation and as if specifically disclosed in the Accounting Policies of the Bank.

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

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

2.12 Use of Significant Accounting Judgements and Assumptions and Estimates
In preparing these Financial Statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Coronavirus (COVID-19) Pandemic
The COVID-19 pandemic and its effect on the global economy have impacted the customers, operations and the Bank's performance. The outbreak necessitated the Government to respond at unprecedented levels to protect the health of the population, local economy and livelihoods. Thus, the pandemic has increased the estimation uncertainty in the preparation of these Financial Statements including, the extent and duration of the disruption to businesses, expected economic downturn, and subsequent recovery.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses and fair value measurement. The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant Notes to these Financial Statements. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

2.12.1 Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the Financial Statements is included in the following Notes;

- Note 3.2.1.4: Classification of financial assets based on 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 12: Assessment of credit risk establishing the criteria for determining whether credit risk on the financial asset has increased significantly since the initial recognition, determining methodology for incorporating forward-looking information into measurement of Expected Credit Loss (ECL) and selection and approval models used to measure ECL.

2.12.2 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;

Note 20: Determination of the fair value of financial instruments with significant unobservable inputs.

Note 29: Property, Plant and Equipment: Key assumptions of economic useful life and residual value.

Note 30: Intangible Assets: Key assumptions of economic useful life and residual value.

Note 32.3: Recognition of deferred tax assets: Availability of future taxable profit against which carry forward tax losses can be Utilised.

Note 38.2: Measurement of defined benefit obligations: Key actuarial assumptions.

2.13 Financial Risk Management

Risk is inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

A detailed write-up on how the risk management is carried out within the Bank's Risk Management Framework with due consideration given to factors such as governance, identification, assessment, monitoring, reporting and mitigation are discussed in the Section on "Risk Management" on pages 42 to 50. The said write-up on "Risk Management" does not form a part of the Financial Statements.

The Bank exposure to risks arising out of financial activities which it undertakes in engaging in its operations are described more in Note 54: Financial Risk Management.

2.14 Events after the Reporting Period

Events after the Reporting Period are those events, favorable and unfavorable, that occur between the reporting date and the date when the Financial Statements are 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 in Note 53 to the Financial Statements.

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 translated to the Functional Currency at the middle exchange rate of the Functional Currency ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the Functional Currency at the beginning of the year adjusted for payments and effective interest during the year, and the amortised cost in foreign currency translated at the exchange rate at the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the Functional Currency at the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currency that are measured at historical cost are translated using the exchange rate prevailed at the date of the transaction.

Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of FVOCI equity instruments or qualifying cash flow hedges, which are recognised in Other Comprehensive Income.

3.2 Financial Instruments

3.2.1 Initial Recognition, Classification and Subsequent Measurement

The classification of financial instruments at initial recognition depends on their cash flow characteristics and the business model for managing the instruments.

3.2.1.1 Date of recognition

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

3.2.1.2 Initial measurement of financial instruments

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

3.2.1.3 "Day 1" profit or loss

When the transaction price of the instrument differs from the fair value at origination and fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in net gains/(losses) from trading. In those cases, where the fair value is based on models for which some inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

The "Day 1 loss" arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rates (EIR) in "Interest income" and "Personnel expenses" over the remaining service period of the employees or tenure of the loan whichever is shorter.

3.2.1.4 Classification and subsequent measurement Financial Assets

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

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as 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 to cash flows that are SPPI, on specific date.

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 meet the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

» the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether Management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or 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 activities. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are 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.

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

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

Financial assets measured at amortised cost
A financial asset is measured at amortised 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 solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortised cost are given in the Notes 21,22,23,26 and 27 to the Financial Statements.

3.2.1.5 Securities purchased under resale agreements (Reverse Repos)
When the Bank purchases a financial asset and simultaneously enters into an agreement to resale the asset (or a similar asset) at a fixed price on a future date (Reverse Repo), the arrangement

is accounted for as a financial asset in the Statement of Financial Position reflecting the transaction's economic substance as a loan granted by the Bank.

Subsequent to initial recognition, these securities issued are measured at their amortised cost using the EIR method with the corresponding interest receivable being recognised as interest income in profit or loss.

3.2.2 Recognition and Measurement of Financial Liabilities on Initial Recognition

The Bank classifies financial liabilities, other than financial guarantees and loan commitments, into one of the following categories:

- Financial liabilities at amortised cost; and
- Financial liabilities at fair value through profit or loss,

A financial liability is measured initially at fair value plus, transaction costs that are directly attributable to its acquisition or issue. Subsequent measurement of financial liability is at fair value or amortised cost. The amortised cost of a financial liability is the amount at which the financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount.

3.2.2.1 Classification and subsequent measurement of financial liabilities

The subsequent measurement of financial liabilities depends on their classification.

3.2.2.1.1 Financial liabilities at amortised cost

Financial Liabilities issued by the Bank that are not designated at fair value through profit or loss are recognised initially at fair value plus any directly attributable transaction costs, by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method. Deposit liabilities including savings deposits, current deposits, fixed/ time deposits, call deposits, certificates of deposit are classified as financial liabilities measured at amortised cost.

The EIR amortisation is included in "Interest expense" in the Income Statement. Gains and losses too are recognised in the Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

3.2.2.1.2 Financial liabilities at fair value through profit or loss

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

3.2.3 Reclassification of Financial Assets and Liabilities

Financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the Bank changes its objective of the business model for managing such financial assets. Financial liabilities are not reclassified, as such reclassifications are not permitted by Accounting Standard SLFRS 9 on Financial Instruments.

3.2.4 Derecognition of Financial Assets and Financial Liabilities

3.2.4.1 Financial assets

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

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

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained, substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

3.2.4.2 Financial liabilities

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

3.2.5 Modification of Financial Assets and Financial Liabilities

Financial Assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

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

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to 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 amortised cost or FVOCI does not result in recognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial Liabilities

The Bank derecognises a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as recognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

3.2.6 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised 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 as gross in Statement of Financial Position.

3.3 Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- » The contract involves the use of an identified asset. This may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has substantive substitution right, then the asset is not identified;
- » The Bank has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- » The Bank has the right to direct the use of the asset,when it has the decision making rights that are most relevant to changing how and for what purpose the asset is used.

At inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative standalone prices. However, for leases of land and buildings in which it is a lease, the Bank has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made on or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Details of Right-of-use assets are given in Note 29.5 to the Financial Statements as a part of property, plant and equipment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- » fixed payments, including substance fixed payments;
- » variable lease payments that depend on an index or a rate, initially measured using the index or a rate as at the commencement date;
- » amounts expected to be payable under a residual value guarantee; and the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or the rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, an extension or a termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Details of lease liability are given in Note 31 to the Financial Statements.

Short-term leases and leases with low-value assets
The Bank has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, if any. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3.4 Impairment of Non-Financial Assets

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

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use, that is largely independent of the cash inflows of other assets or 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 recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised 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 amount of the other assets in the CGU on a pro rata basis.

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

3.5 Employee Benefits

3.5.1 Defined Contribution Plans- Employees' Provident Fund and Employees' Trust Fund

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

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

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in accordance with the respective statutes and regulations.

The Bank contributes 12% and 3% of gross emoluments of employees to the Employees' Provident Fund and Employees' Trust Fund, respectively.

3.5.2 Defined Benefit Plan- Gratuity

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

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

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

The Bank recognises all actuarial gains and losses arising from the defined benefit plan in Other Comprehensive Income (OCI) and all other expenses related to defined benefit plans are recognise as personnel expenses in the Income Statement.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss from curtailment is recognised immediately in profit or loss. The Bank recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Details of Defined Benefit Plan - Gratuity are given in Note 38 to the Financial Statements.

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

3.5.4 Terminal Benefits
Termination benefits are expensed at the earlier of when the Bank can no longer withdraw the offer of those benefits and when the Bank recognise costs for a restructuring. If benefits are not expected to be wholly settled within 12 months of the reporting date, then they are discounted.

3.6 Provisions
A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

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

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

3.9 Stated Capital and Reserves
3.9.1 Debt Vs Equity
The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Distributions thereon are recognised as interest or dividend depending on the debt or equity classification.

3.9.2 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.

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

RECOGNITION OF INCOME AND EXPENSES

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

Applicable accounting policies on income recognition are given in Notes 7 to 11 to the Financial Statements.

3.10 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 unrealised fair value changes, interest, dividends and foreign exchange differences.

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

3.12 Expenditure Recognition
Expenditure is recognised in the financial statements as they are incurred and recognised on an accrual basis.

All expenditure incurred in the running of the business and in maintaining the Property, Plant and Equipment in a state of efficiency has been charged to the profit or loss.

3.12.1 Income Tax Expense
Details of Income Tax are given in Note 17 to the Financial Statements.

3.12.2 Crop Insurance Levy (CIL)
As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from 1 April 2013 and is payable to the National Insurance Trust Fund.

Currently, the CIL is payable at 1% of the profit after tax.

3.12.3 Value Added Tax on Financial Services
Details of Taxes on Financial Services are given in Note 16 to the Financial Statements.

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

5 CHANGES IN ACCOUNTING POLICIES
The Bank has consistently applied the accounting policies to all the periods presented in these financial statements.

6 STANDARDS ISSUED BUT NOT EFFECTIVE
A number of new standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Bank has not early adopted the new or amended standards stated below in preparing these financial statements.

A) Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to LKAS 12)

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences - e.g. leases. The amendments apply for annual reporting periods beginning on or after 1 January 2023.

B) Other Standards
The following new and amended standards are not expected to have a significant impact on the Bank's Financial Statements.

- Onerous Contracts - Cost of Fulfilling a Contract (Amendments to LKAS 37).
- Annual Improvements to SLFRS Standards 2018-2020. The amendments are effective for annual reporting periods beginning on or after 1 January 2022.
- Reference to Conceptual Framework (Amendments to SLFRS 3). The amendment applies to annual reporting period beginning on or after 1 January 2022.
- Classification of Liabilities as Current or Non-current (Amendments to LKAS 1). The amendment applies to annual reporting periods beginning on or after 1 January 2023.
- Definition of Accounting Estimates (Amendments to LKAS 8).
- Disclosure of Accounting Policies (Amendments to LKAS 1).
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to LKAS 16). The amendment applies to annual reporting periods beginning on or after 1 January 2022.

7 NET INTEREST INCOME

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured.

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

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

Effective Interest Rate (EIR)

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to;

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

The "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus principal repayments, plus or minus cumulative amortisation using the effective interest method of any difference between that initial amount and maturity amount, and for financial assets, adjusted for any expected credit loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset, before adjusting for any expected credit loss allowance.

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, fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Calculation of Interest Income and Expenses

The effective interest rate of a financial asset or liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect the movements in market rates of interest.

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 amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit impaired on initial recognition, interest income is calculated by applying the credit adjusted effective interest to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For the year ended 31 December	Note	2021 Rs. '000	2020 Rs. '000
Interest income	7.1	4,099,607	4,117,856
Less: Interest expenses	7.2	2,259,926	2,553,081
Net interest income		1,839,681	1,564,775

7.1 Interest Income

Cash and cash equivalents	-	179
Placements with banks	19,588	17,412
Reversed repurchased agreements	5,891	31,690
Financial investments measured at fair value through profit or loss	63,949	46,166
Financial assets measured at amortised cost - Loans and Advances to customers	3,427,695	3,323,670
Financial assets measured at amortised cost - Debt and other Instruments	6,245	32,654
Financial investments measured at fair value through other comprehensive income	576,239	666,085
Total interest income	4,099,607	4,117,856

7.2 Interest Expenses

Due to banks	45,273	76,710
Financial liabilities measured at amortised cost - Due to depositors	2,078,459	2,357,509
Financial liabilities measured at amortised cost - Due to other borrowers	114,081	108,372
Repurchase agreements	22,113	10,490
Total interest expenses	2,259,926	2,553,081
Net interest income	1,839,681	1,564,775

8 NET FEES AND COMMISSION INCOME

Fees and commission income and expense that are integral to the effective interest rate of a financial asset or financial liability are included in the measurement of the effective interest rate and recognised in the income over the expected life of the instrument.

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

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

For the year ended 31 December	Note	2021 Rs. '000	2020 Rs. '000
Fee and commission income	8.1	767,818	456,906
Less: Fee and commission expenses	8.2	275,737	208,193
Net fees and commission income		492,081	248,713

For the year ended 31 December	Note	2021 Rs. '000	2020 Rs. '000
8.1 Fee and Commission Income			
Loans and advances		57,984	42,257
Debit and Credit cards		453,019	268,368
Trade and remittances		102,733	50,347
Deposits		12,422	12,171
Guarantees		67,252	58,469
Other financial services		74,408	25,294
Total fee and commission income		767,818	456,906
8.2 Fee and Commission Expenses			
Debit and Credit cards		231,308	160,155
Brokerage Fee		3,410	6,220
Other financial services		41,019	41,818
Total fee and commission expenses		275,737	208,193

9 NET GAINS / (LOSSES) FROM TRADING

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

For the year ended 31 December	2021 Rs. '000	2020 Rs. '000
Derivative financial instruments		
From Banks and other customers	(1,196)	5,478
Total net gains/(losses) from trading	(1,196)	5,478

10 NET GAINS / (LOSSES) FROM DERECOGNITION OF FINANCIAL ASSETS

Net gains/(losses) from derecognition of financial assets comprise all realised gains less losses related to debt instruments measured at FVOCI and financial assets measured at amortised cost.

For the year ended 31 December	2021 Rs. '000	2020 Rs. '000
Government securities	(18,368)	120,792
Total net gains/(losses) from derecognition of financial assets	(18,368)	120,792

11 NET OTHER OPERATING INCOME

Net other operating income includes foreign exchange gains and losses, dividend income from equity instruments designated at fair value through other comprehensive income, gains/losses on disposal of property, plant and equipment, and rental and other income.

For the year ended 31 December	2021 Rs. '000	2020 Rs. '000
(Losses)/gains on sale of property, plant and equipment and other assets	(368)	1,037
Gains on revaluation of foreign exchange	143,567	69,855
Dividend income	1,360	960
Rent and other income	1,750	1,328
Total net other operating income	146,309	73,180

12 IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS AND OTHER ASSETS

Recognition of ECL

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

- Financial assets that are loans and advances;
- Financial assets that are debt instruments;
- Lease receivables;
- Financial guarantee contracts issued; and
- Undrawn credit commitments.

No impairment loss is recognised 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 recognised are referred to as "Stage 1 financial instruments".

Lifetime 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 recognised but which are not credit-impaired are referred to as "Stage 2 financial instruments".

Measurement of ECL

ECL is 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;
- The undrawn amounts including financial guarantees are converted into likely future exposures using Credit Conversion Factor (CCF) factors as specified in the BASEL III guidelines and included within the collective model which will reflects the days past due, PD and LGD.

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 derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its recognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of recognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-Impaired Financial Assets

At each reporting date, the Bank assesses whether financial assets carried at amortised 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 an 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 the CBSL No. 3 of 2008 is considered as credit impaired.

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 amortised cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: as a provision under other liabilities;
- Debt instruments measured at FVOCI: no loss allowance is recognised in the Statement of Financial Position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

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.

For the year ended 31 December	Note	2021 Rs. '000	2020 Rs. '000
Financial assets at amortised cost			
- Loans and advances to other customers	26.2	537,295	797,259
Financial assets at amortised costs - Debt and other instruments	27.2	(3,810)	1,537
Cash and cash equivalents	21.1	(1,268)	7,253
Placements with banks	23.1	-	(3,455)
Contingent liabilities and commitments	43.1.2	106,783	(46,514)
Total impairment charges		639,000	756,080
Direct write-offs		26,866	22,044
Write-off other assets	12.1	18,644	23,594
Total impairment charges for financial instruments and other assets		684,510	801,718

12.1 Write-off of other assets includes net write-off of Tax credits, Economic Service Charge, Notional tax and other operational write-offs which cannot be carried forward/recovered.

12.2 Impairment Charges for Year

For the year ended 31 December	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
(a) 2021				
Financial assets at amortised cost				
- Loans and advances to other customers	83,504	274,977	178,814	537,295
Financial assets at amortised costs - Debt and other instruments	(3,810)	-	-	(3,810)
Cash and cash equivalents	(1,268)	-	-	(1,268)
Contingent liabilities and commitments	(7,979)	17,900	96,862	106,783
Total impairment charges	70,447	292,877	275,676	639,000
(b) 2020				
Financial assets at amortised cost				
- Loans and advances to other customers	(21,249)	155,856	662,652	797,259
Financial assets at amortised costs - Debt and other instruments	1,537	-	-	1,537
Cash and cash equivalents	7,253	-	-	7,253
Placements with banks	(3,455)	-	-	(3,455)
Contingent liabilities and commitments	16,923	(52,113)	(11,324)	(46,514)
Total impairment charges	1,009	103,743	651,328	756,080

13 PERSONNEL EXPENSES

For the year ended 31 December	Note	2021 Rs. '000	2020 Rs. '000
Salary and bonus	13.1	639,467	603,929
Contributions to defined contribution plans		91,280	90,622
Provision for defined benefit obligations	38	21,099	19,304
Other staff related expenses		90,845	84,764
Total personnel expenses		842,691	798,619

13.1 Salary and bonus and contributions to defined benefit / contribution plans reported above include, the amounts paid and contributed on behalf of Executive Directors. Salaries and bonus include Executive Directors' emoluments amounting to Rs. 71 Mn (2020 - Rs. 56 Mn).

14 DEPRECIATION AND AMORTISATION EXPENSES

Depreciation

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

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. The depreciation rates have not been changed during the year.

The depreciation rates are determined separately for each significant part of an item of property, plant and equipment and depreciation commences when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the Management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised.

All classes of property, plant and equipment together with the reconciliation of carrying amounts and accumulated depreciation at the beginning and at the end of the year and other relevant information are given in Note 29 to the Financial Statements.

Amortisation

Intangible Assets include software acquired by the Bank. Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative period is 4-8 years.

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

For the year ended 31 December	Note	2021 Rs. '000	2020 Rs. '000
Depreciation of property, plant and equipment	29	268,030	298,121
Amortisation of intangible assets	30.1	152,183	192,624
Total depreciation and amortisation expenses		**420,213**	**490,745**

15 OTHER OPERATING EXPENSES

These expenses are recognised in the Income Statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenses incurred in running the business and in maintaining the property, plant and equipment in a state of efficiency are charged to the Income Statement.

For the year ended 31 December	Note	2021 Rs. '000	2020 Rs. '000
Directors' emoluments	15.1	14,433	17,130
Auditors' remunerations		6,471	5,153
Audit fee and expenses		2,105	1,975
Audit related fee and expenses		1,930	1,725
Non-audit fee and expenses		2,436	1,453
Professional and legal expenses		15,249	114,791
Sri Lanka Deposit Insurance Scheme contribution		27,977	22,739
Office administration and establishment expenses		709,464	648,579
Total other operating expenses		**773,594**	**808,392**

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

16 TAXES 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 economic depreciation computed on prescribed rates.

For the year ended 31 December	2021 Rs. '000	2020 Rs. '000
Value Added Tax (VAT) on financial services	106,154	-
Total taxes on financial services	**106,154**	**-**

17 INCOME TAX EXPENSES / (REVERSAL)

Income Tax Expense

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

The Bank has determined that interest and penalties related to income tax including uncertain tax treatments do not meet the definition of Income Tax, and therefore are accounted under LKAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Current Taxation
'Current tax' comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. 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. 24 of 2017 and the amendments thereto, at the rates specified.

Deferred Taxation
Refer Note 32 to the Finanical Statements.

For the year ended 31 December	Note	2021 Rs. '000	2020 Rs. '000
Current tax expense			
Income tax on current year profit		-	-
Under/(over) provision in respect of previous years		-	-
Deferred tax expense			
Origination and reversal of temporary differences	32	(91,528)	(142,589)
Total income tax expenses/(reversal)		(91,528)	(142,589)

17.1 Reconciliation of the Accounting (Loss)/Profit to Income Tax Expense

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

For the year ended 31 December	2021		2020	
	Rs. '000	%	Rs. '000	%
Accounting (loss)/profit before tax from operations	(262,501)	100	(886,536)	100
Tax effect at the statutory income tax rate	(63,000)	24	(248,230)	28
Tax effect of exempt income	(70)	0	-	-
Tax effect of non-deductible expenses	280,354	(107)	387,329	(44)
Tax effect of deductible expenses	(118,975)	45	(454,349)	51
Taxable profit/(loss) on disposal of lease/fixed assets	(34,357)	13	(32,256)	4
Tax losses Utilised during the year	(63,952)	24	347,506	(39)
Income tax on current year profit	-	-	-	-
(Over)/under provision in respect of prior years	-	-	-	-
Deferred tax expense/(reversal)	(91,528)	-	(142,589)	-
Income tax expenses/(reversal)	(91,528)	-	(142,589)	-

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 24% (2020 - 28%).

17.3 Tax Expenses Recognised in Other Comprehensive Income

For the year ended 31 December	2021 Rs. '000	2020 Rs. '000
Deferred tax on net actuarial gains/(losses) on defined benefit plans	166	6,518
Deferred tax on net gains/(losses) on investment in financial assets measured at fair value through other comprehensive income	47,358	(17,219)
Total recognised in OCI	47,524	(10,701)

17.4 Tax Losses Carried Forward

Tax losses brought forward	2,052,213	811,117
Adjustment to tax losses	(127,597)	-
Add: Tax losses arising during the year	-	1,241,096
Less: Tax losses Utilised during the year	(265,658)	-
Unutilised tax losses carried forward	1,658,958	2,052,213

18 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, if any.

18.1 Basic EPS

For the year ended 31 December	Note	2021 Rs. '000	2020 Rs. '000
Amount used as the numerator			
(Loss)/profit after tax attributable for equity holders of the Bank		(277,127)	(743,947)
Amount used as the denominator			
Weighted average number of ordinary shares in issue during the year	18.1.1	883,142,858	883,142,858
Basic (loss)/earning per share (Rs.)		(0.31)	(0.84)

18.1.1 Weighted Average Number of Ordinary Shares

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

The tables below provide a reconciliation between line items in the Statement of Financial Position and categories of financial assets and financial liabilities of the Bank.

2021	Note	Fair Value Through P/L Rs. '000	Fair Value Through OCI Rs. '000	Amortised Cost Rs. '000	Total Rs. '000
Financial assets					
Cash and cash equivalents	21	-	-	1,214,754	1,214,754
Balances with Central Bank of Sri Lanka	22	-	-	567,802	567,802
Placements with Banks	23	-	-	601,151	601,151
Derivative financial instruments	24	3,200	-	-	3,200
Financial assets at amortised cost - Loans and Advances to other customers	26	-	-	40,490,736	40,490,736
Financial assets at amortised cost - Debt and other financial instruments	27	-	-	15,528	15,528
Financial assets -at fair value through other comprehensive income - Government securities	28	-	10,767,168	-	10,767,168
Financial assets -at fair value through other comprehensive income - Equity instruments	28	-	16,441	-	16,441
Other assets*	33	-	-	377,457	377,457
Total financial assets		**3,200**	**10,783,609**	**43,267,428**	**54,054,237**
Financial liabilities					
Due to banks	34	-	-	926,405	926,405
Derivative financial instruments	35	3,009	-	-	3,009
Financial liabilities at amortised cost - Due to depositors	36	-	-	40,182,402	40,182,402
Financial liabilities at amortised cost - Other borrowings	37	-	-	3,969,617	3,969,617
Lease liability	31	-	-	332,675	332,675
Other liabilities**	39	-	-	424,258	424,258
Total financial liabilities		**3,009**	**-**	**45,835,357**	**45,838,366**

2020	Note	Fair Value Through P/L Rs. '000	Fair Value Through OCI Rs. '000	Amortised Cost Rs. '000	Total Rs. '000
Financial assets					
Cash and cash equivalents	21	-	-	1,420,123	1,420,123
Balances with Central Bank of Sri Lanka	22	-	-	443,993	443,993
Placements with Banks	23	-	-	-	-
Derivative financial instruments	24	3,658	-	-	3,658
Financial assets measured at fair value through profit or loss	25	1,596,166	-	-	1,596,166
Financial assets at amortised cost - Loans and Advances to other customers	26	-	-	29,079,121	29,079,121
Financial assets at amortised cost - Debt and other Instruments	27	-	-	436,049	436,049
Financial assets -at fair value through other comprehensive income - Government securities	28	-	11,518,462	-	11,518,462
Financial assets -at fair value through other comprehensive income - Equity instruments	28	-	15,153	-	15,153
Other assets*	33	-	-	252,676	252,676
Total financial assets		1,599,824	11,533,615	31,631,962	44,765,401
Financial liabilities					
Due to banks	34	-	-	1,556,948	1,556,948
Derivative financial instruments	35	149	-	-	149
Financial liabilities at amortised cost - Due to depositors	36	-	-	31,997,601	31,997,601
Financial liabilities at amortised cost - Due to other borrowers	37	-	-	2,121,192	2,121,192
Lease liability	31	-	-	339,985	339,985
Other liabilities**	39	-	-	414,924	414,924
Total financial liabilities		149	-	36,430,650	36,430,799

*Other assets only include other receivables
**Other liabilities exclude accrued expenditure and impairment on commitments and contingencies

20 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

'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 recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

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

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

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

Fair Value Hierarchy

The Bank measures the fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement.

Level 1 : Fair value measurement using unadjusted quoted market prices

Inputs that are quoted market prices (unadjusted) in an active market for identical instruments.

Level 2 : Fair value measurement using significant observable inputs

Inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using;

(a) quoted prices in active markets for similar instruments,

(b) quoted prices for identical or similar instruments in markets that are considered to be less active, or

(c) other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.

Level 3 : Fair value measurement using significant unobservable inputs

Inputs that are unobservable.

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes that a third party market participant would take them into account in pricing a transaction.

20.1 Financial Instruments Measured at Fair Value - Fair Value Hierarchy

The following table provides an analysis of assets and liabilities measured at fair value as at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. These amounts were based on the values recognised in the Statement of Financial Position:

	Note	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
As at 31 December 2021					
Financial Assets					
Derivative financial instruments	24	-	3,200	-	3,200
Financial assets measured at fair value through other comprehensive income	28				
Government securities		10,767,168	-	-	10,767,168
Equity Securities		-	-	16,441	16,441
Total assets at fair value		**10,767,168**	**3,200**	**16,441**	**10,786,809**
Liabilities					
Derivative financial instruments	35	-	3,009	-	3,009
Total liabilities at fair value		**-**	**3,009**	**-**	**3,009**
As at 31 December 2020					
Financial Assets					
Derivative financial instruments	24	-	3,658	-	3,658
Financial assets measured at fair value through profit or loss	25	1,596,166	-	-	1,596,166
Financial assets measured at fair value through profit and loss	28				
Government securities		11,518,462	-	-	11,518,462
Equity Securities		-	-	15,153	15,153
Total assets at fair value		**13,114,628**	**3,658**	**15,153**	**13,133,439**
Liabilities					
Derivative financial instruments	35	-	149	-	149
Total liabilities at fair value		**-**	**149**	**-**	**149**

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 and Level 3 of the fair value hierarchy as given in Note 20.1 above

Level	Type of Financial Instruments	Fair Value as at 31 December 2021 (Rs.'000)	Valuation Technique	Significant Valuation Inputs
Level 2	Derivative Financial Assets	3,200	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 between Rs. 200/USD to Rs. 203/ USD » Interest rate differencials between currencies under consideration
	Derivative Financial Liabilities	3,009		
Level 3	Unquoted Equities	16,441	Fair value is based on net assets value per share as per latest audited Financial Statements of these companies as at following dates; » Credit Information Bureau - 31 December 2020 » Lanka Clear (Pvt) Limited - 31 March 2021 » The investments and related gains/losses are not material to the Bank	The net asset values per share are between Rs. 200 to Rs. 300 range and Rs. 20,000 to Rs. 25,000 range.

20.2.1 Reconcilliation of Level 3 Asset Balance

As at 31 December	2021 Rs. '000	2020 Rs. '000
Opening balance	15,153	13,446
Total Gain/(loss) recognised in OCI	1,288	1,707
Balance as of 31 December	16,441	15,153

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 analyses them by the level in fair value hierarchy into which each fair value measurement is categorised.

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 / Fair Value Rs. '000
As at 31 December 2021					
Assets					
Cash and cash equivalents	21	-	1,214,754	-	1,214,754
Balances with Central Bank of Sri Lanka	22	-	567,802	-	567,802
Placements with Banks	23	-	601,151	-	601,151
Financial assets at amortised costs - Loans and Advances to other customers	26	-	-	40,490,736	40,490,736
Financial assets at amortised costs - Debt and other financial instruments	27	-	-	15,528	15,528
Other assets*	33	-	-	377,457	377,457
Total financial assets not at fair value		**-**	**2,383,707**	**40,883,721**	**43,267,428**
Liabilities					
Due to banks	34	-	926,405	-	926,405
Financial liabilities at amortised cost - Due to depositors	36	-	-	40,182,402	40,182,402
Financial liabilities at amortised cost - Other borrowings	37	-	3,969,617	-	3,969,617
Lease liability	31	-	-	332,675	332,675
Other liabilities**	39	-	-	424,258	424,258
Total financial liabilities not at fair value		**-**	**4,896,022**	**40,939,335**	**45,835,357**
As at 31 December 2020					
Assets					
Cash and cash equivalents	21	-	1,420,123	-	1,420,123
Balance with Central Bank of Sri Lanka	22	-	443,993	-	443,993
Financial assets at amortised costs - Loans and Advances to other customers	26	-	-	29,079,121	29,079,121
Financial assets at amortised costs - Debt and other financial instruments	27	-	-	436,049	436,049
Other assets*	33	-	-	252,676	252,676
Total financial assets not at fair value		-	1,864,116	29,767,846	31,631,962
Liabilities					
Due to banks	34	-	1,556,948	-	1,556,948
Financial liabilities at amortised cost - Due to depositors	36	-	-	31,997,601	31,997,601
Financial liabilities at amortised cost - Due to other borrowers	37	-	2,121,192	-	2,121,192
Lease liability	30	-	-	339,985	339,985
Other liabilities**	39	-	-	414,924	414,924
Total financial liabilities not at fair value		**-**	**3,678,140**	**32,752,510**	**36,430,650**

*Other assets only include other receivables
**Other liabilities exclude accrued expenditure and impairment on commitments and contingencies

21 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, placements with banks and at short notice that are subject to an insignificant risk of changes in their fair value and are used by the Bank in the management of its short-term commitments. These items are brought to Financial Statements at face values or the gross values, where appropriate.

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

As at 31 December	Note	2021 Rs. '000	2020 Rs. '000
Cash in hand			
Coins and notes held in local currency		529,089	533,789
Coins and notes held in foreign currency		2,004	17,759
Balances with banks		691,366	877,548
Gross cash and cash equivalents		1,222,459	1,429,096
Less: Provision for impairment	21.1	(7,705)	(8,973)
Total cash and cash equivalents		1,214,754	1,420,123

21.1 Movement in Provision for Impairment During the Year

Stage 01		
Opening balance as at 01 January	8,973	1,720
Charge/(write back) to Income Statement	(1,268)	7,253
Closing balance as at 31 December	7,705	8,973

22 BALANCES WITH CENTRAL BANK OF SRI LANKA

Balances with Central Bank consist of Statutory/Non-statutory balances with Central Bank and are carried at amortised cost in the Statement of Financial Position.

As at 31 December	2021 Rs. '000	2020 Rs. '000
Balances with Central Bank of Sri Lanka	567,802	443,993
Total balances with Central Bank of Sri Lanka	567,802	443,993

The Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain a statutory reserve on all deposit liabilities denominated in Sri Lankan Rupees. As required by the provisions of Section 93 of the Monetary Law Act, a cash balance is maintained with the Central Bank of Sri Lanka.

As required by Section 93 of the Monetary Law Act, a cash balance to fulfil the statutory reserve requirement of 4% (4% for the period 1 September 2021 to 31 December 2021, 2% for the period from 16 June 2020 to 31 August 2021, 4% for the period from 16 March 2020 to 15 June 2020 and 5% for the period from 1 March 2019 to 15 March 2020) of the rupee deposit liabilities to be maintained with the CBSL.

There is no reserve requirement for foreign currency deposits liabilities of the Domestic Banking Unit (DBU) and the deposit liabilities of the Offshore Banking Centre (OBC) in Sri Lanka.

23 PLACEMENTS WITH BANKS

Placements with banks include money at call and short notice and fixed deposits that are subject to an insignificant risk of changes in the fair value, and are used by the Bank in the management of its short term commitments. These are brought to the Financial Statements at the face values or gross values. Placements with banks are carried at amortised cost in the Statement of Financial Position.

As at 31 December		2021 Rs. '000	2020 Rs. '000
Placements - within Sri Lanka		601,151	-
Gross placements with banks		601,151	-
Less: Provision for impairment	23.1	-	-
Net placements with banks		601,151	-

There was no impairment charge for the period under review since the maturity of the above placements were not more than 07 days from the reporting date.

23.1 Movement in Impairment During the Year

Stage 01	2021	2020
Opening balance as at 01 January	-	3,455
Charge/(write back) to Income Statement	-	(3,455)
Closing balance as at 31 December	-	-

24 DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives recorded at fair value through profit or loss. 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 recognised immediately in profit or loss as a component of net income from other financial instruments at FVTPL.

As at 31 December	2021 Rs. '000	2020 Rs. '000
Foreign currency derivatives		
Forward foreign exchange contracts	3,200	3,658
Total derivative financial instruments	3,200	3,658

25 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial assets held for trading are measured at fair value through profit or loss in the SOFP. Interest and dividend income are recorded in "Interest Income" and "Net Gains/(Losses) from Trading" respectively in the Income Statement, according to the terms of the contract, or when the right to receive the payment has been established.

As at 31 December	Note	2021 Rs. '000	2020 Rs. '000
Money market fund investments	25.1	-	1,596,166
Total Financial assets measured at fair value through profit and loss		-	1,596,166

25.1 Money Market Fund Investment

As at 31 December	2021			2020		
	No.of units	Cost	Market value	No.of units	Cost	Market value
NDB Wealth Money Plus Fund	-	-	-	65,885,151	1,500,000	1,545,066
Comtrust Money market Fund	-	-	-	4,327,236	55,747	51,100
Total money market fund investment	-	-	-		1,555,747	1,596,166

26 FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES TO OTHER CUSTOMERS

Financial assets at amortised cost - Loans and advances to other customers includes, loans and advances portfolio of the Bank.

As per SLFRS 9, "Loans and advances to other customers" are assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows and the contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding.

After initial measurement, "Loans and advances to other customers" are subsequently measured at gross carrying amount using the EIR, less provision for impairment, except when the Bank designates loans and advances at fair value through profit or loss. EIR is calculated by taking into account any discount or premium on acquisition and fees and costs. The amortisation is included in "Interest Income", while the losses arising from impairment are recognised in "Impairment losses on financial instruments and other assets" in the Income Statement.

As at 31 December	Note	2021 Rs. '000	2020 Rs. '000
Gross loans and advances			
Stage 1		28,706,889	17,450,348
Stage 2		9,744,067	7,428,834
Stage 3		5,231,275	6,854,139
Total gross loans and advances		43,682,231	31,733,321
Less: Provision for impairment			
Stage 1	26.2	152,309	68,805
Stage 2	26.2	617,283	342,306
Stage 3	26.2	2,421,903	2,243,089
Total impairment for loans and advances		3,191,495	2,654,200
Net loans and advances to other customers		40,490,736	29,079,121

26.1 Analysis of Financial Assets at Amortised Cost - Loans and Advances to Other Customers

As at 31 December	2021 Rs. '000	2020 Rs. '000
26.1.1 By Product		
Overdrafts	6,970,137	5,410,917
Trade finance	3,201,221	2,348,027
Housing loans	1,153,283	1,078,142
Personal loans	4,024,216	3,722,864
Staff loans	271,981	256,727
Term loans	13,397,951	8,808,696
Loans against Property	1,694,876	1,538,790
Agriculture loans	417,518	370,043
Money market loans	8,920,731	6,324,909
Vehicle loans	95,022	80,547
Credit Cards	1,579,712	1,385,025
Micro finance	66,831	75,174
Others	1,888,752	333,460
Total gross loans and advances	43,682,231	31,733,321
26.1.2 By Currency		
Sri Lanka Rupee	41,075,650	28,975,070
United States Dollar	2,575,459	2,724,664
Great Britain Pounds	4,590	2,610
Singapore Dollars	26,532	30,977
Total gross loans and advances	43,682,231	31,733,321
26.1.3 By Industry		
Agriculture and fishing	5,283,821	3,888,262
Manufacturing	2,699,840	2,985,069
Tourism	2,944,410	2,319,162
Transport	508,303	412,362
Construction	7,086,674	3,851,675
Traders	7,911,658	4,827,519
New economy	636,818	609,870
Financial and business services	7,204,917	4,699,798
Infrastructure	28,776	28,722
Other services	1,947,671	838,484
Other customers	7,429,343	7,272,398
Total gross loans and advances	43,682,231	31,733,321

26.2 Movement in Provision for Impairment During the Year

	2021 Rs. '000	2020 Rs. '000
Opening balance as at 01 January	2,654,200	1,856,941
Charge/(write back) to Income Statement	537,295	797,259
Closing balance as at 31 December	3,191,495	2,654,200
Stage 01		
Opening balance as at 01 January	68,805	90,054
Charge/(write back) to Income Statement	83,504	(21,249)
Closing balance as at 31 December	152,309	68,805
Stage 02		
Opening balance as at 01 January	342,306	186,450
Charge/(write back) to Income Statement	274,977	155,856
Closing balance as at 31 December	617,283	342,306
Stage 03		
Opening balance as at 01 January	2,243,089	1,580,437
Charge/(write back) to Income Statement	178,814	662,652
Closing balance as at 31 December	2,421,903	2,243,089
Total impairment provision	3,191,495	2,654,200

26.3 Movement in Provision for Impairment During the Year

Loans and advances to other customers at amortised cost	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
a) 2021				
Balance at 1 January 2021	68,805	342,306	2,243,089	2,654,200
Transfer to Stage 01	84,501	(55,193)	(29,308)	-
Transfer to Stage 02	(6,153)	254,722	(248,569)	-
Transfer to Stage 03	(571)	(10,467)	11,038	-
Net remeasurement of loss allowance	(77,942)	(50,128)	442,403	314,333
Impairment on new loans granted during the year	110,891	205,365	234,721	550,977
Financial assets that have been derecognised	(27,222)	(69,322)	(182,546)	(279,090)
Write offs	-	-	(48,925)	(48,925)
Balance as at 31 December 2021	152,309	617,283	2,421,903	3,191,495
b) 2020				
Balance at 1 January 2020	90,054	186,450	1,580,437	1,856,941
Transfer to Stage 01	15,482	(8,157)	(7,325)	-
Transfer to Stage 02	(21,495)	38,880	(17,385)	-
Transfer to Stage 03	(6,744)	(53,437)	60,181	-
Net remeasurement of loss allowance	(16,743)	143,379	578,735	705,371
Impairment on new loans granted during the year	35,451	94,720	233,004	363,175
Financial assets that have been derecognised	(27,200)	(59,529)	(109,543)	(196,272)
Write offs	-	-	(75,015)	(75,015)
Balance as at 31 December 2020	68,805	342,306	2,243,089	2,654,200

27 FINANCIAL ASSETS AT AMORTISED COST - DEBT AND OTHER FINANCIAL INSTRUMENTS

As per SLFRS 9, Financial assets are measured at amortised cost if it meets both of the following conditions and is not designated 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 solely payments of principal and interest on the principal amount outstanding.

After initial measurement, these assets are subsequently measured at amortised cost (gross carrying amount using the EIR, less provision for impairment). Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in "Interest Income" while the losses arising from impairment are recognised in "Impairment losses on financial instruments and other assets" in the Income Statement.

As at 31 December	Note	2021 Rs. '000	2020 Rs. '000
Treasury Bonds		15,528	-
Sri Lanka Development Bonds		-	381,864
Trust Certificates	27.1	-	57,995
Gross financial assets measured at amortised cost		15,528	439,859
Less: Provision for impairment	27.2	-	(3,810)
Net financial assets measured at amortised cost		15,528	436,049

27.1 Trust Certificate

Asset Securitization Trust Certificates		
Trade Finance and Investment PLC	-	57,995
Total trust Certificates	-	57,995

27.2 Movement in Provision for Impairment During the Year

Stage 01		
Opening balance as at 01 January	3,810	2,273
(Write back)/charge to Income Statement	(3,810)	1,537
Closing balance as at 31 December	-	3,810

28 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As per SLFRS 9, this comprises debt instruments measured at FVOCI and equity instruments designated at FVOCI.

Debt instruments measured at FVOCI

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated at FVTPL :

» The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets.
» The contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding.

Debt instruments at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income, foreign exchange gains and losses, ECL and reversals are recognised in profit or loss. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Equity instruments at FVOCI

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments held for strategic purpose, as equity instruments at FVOCI when they meet the definition of Equity under LKAS 32 "Financial Instruments: Presentation" and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss instead directly transferred to retained earnings at the time of derecognition. Dividends are recognised in profit or loss in "Net other operating income" when the right of the payment has been established. Equity instruments at FVOCI are not subject to an impairment assessment.

As at 31 December	Note	2021 Rs. '000	2020 Rs. '000
Government securities			
Treasury bills		6,943,182	2,403,845
Treasury bonds		3,823,986	9,114,617
Total Government securities		10,767,168	11,518,462
Equity securities			
Unquoted shares	28.1	16,441	15,153
Total equity securities		16,441	15,153
Financial assets measured at fair value through other comprehensive income		10,783,609	11,533,615

28.1 Unquoted Shares

As at 31 December	2021 No. of Shares	2021 Market Value	2021 Cost	2020 Market Value	2020 Cost
Lanka Clear (Pvt) Ltd	50,000	10,139	3,500	8,858	3,500
Credit Information Bureau of Sri Lanka	300	6,302	2,383	6,295	2,383
Total		16,441	5,883	15,153	5,883

29 PROPERTY, PLANT AND EQUIPMENT

The Bank applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 on "Property, Plant and Equipment" in accounting for its owned assets which are held for and used in the provision of services, for rental to others or for administrative purposes and are expected to be used for more than one year.

Basis of recognition

Property, plant and equipment is recognised if it is probable that future economic benefits associated with the asset will flow to the Bank and cost of the asset can be reliably measured.

Basis of measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs (excluding the costs of day-to-day servicing) as explained below.

The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software which is integral to the functionality of the related equipment is capitalised as a part of Computer Equipment.

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

The Bank applies the Cost Model to all property, plant and equipment and these are recorded at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

Subsequent expenditure

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

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset), is recognised in "Net other operating income" in the Income Statement in the year the asset is derecognised.

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

Capital work-in-progress

These are expenses of capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. These are stated in the Statement of Financial Position at cost less any accumulated impairment losses. Capital work-in-progress is transferred to the relevant asset when it is in the location and condition necessary for it to be capable of operating in the manner intended by Management (i.e., available for use).

Borrowing Costs

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

Right-of-use assets

Right-of-use assets are presented together with property, plant and equipment in the Statement of Financial Position.

2021	Improvements to Leasehold Buildings Rs. '000	Computer Hardware Rs. '000	Office Equipment, Furniture and Fittings Rs. '000	Motor Vehicles Rs. '000	Machinery Rs. '000	Work in Progress Rs. '000	Right-of-Use Asset Rs. '000	Total 2021 Rs. '000
Cost								
Balance as at 01 January	126,372	719,959	238,098	14,850	87,691	1,486	528,058	1,716,514
Additions during the year	153	13,363	7,437	8,107	2,763	-	99,237	131,060
Disposals during the year	-	(102)	(490)	-	-	-	(1,966)	(2,558)
Write - Off	(134)	(262)	(2,416)	-	(20)	-	-	(2,832)
Balance as at 31 December	126,391	732,958	242,629	22,957	90,434	1,486	625,329	1,842,184
Accumulated Depreciation								
Balance as at 01 January	76,384	505,411	162,358	14,850	65,407	-	233,603	1,058,013
Charge for the year	13,540	108,165	32,557	1,027	9,020	-	103,721	268,030
Disposals during the year	-	(51)	(414)	-	-	-	-	(465)
Write - Off	(134)	(220)	(1,888)	-	(13)	-	-	(2,255)
Balance as at 31 December	89,790	613,305	192,613	15,877	74,414	-	337,324	1,323,323
Impairment								
Balance as at 01 January	-	-	589	-	-	-	-	589
Charge/(Write back) to income statement	-	-	-	-	-	-	-	-
Balance as at 31 December	-	-	589	-	-	-	-	589
Carrying Value as at 31 December 2021	36,601	119,653	49,427	7,080	16,020	1,486	288,005	518,272

2020	Improvements to Leasehold Buildings Rs. '000	Computer Hardware Rs. '000	Office Equipment, Furniture and Fittings Rs. '000	Motor Vehicles Rs. '000	Machinery Rs. '000	Work in Progress Rs. '000	Right-of-Use Asset Rs. '000	Total 2020 Rs. '000
Cost								
Balance as at 01 January	126,372	618,853	234,388	14,850	86,771	2,082	535,967	1,619,283
Additions during the year	-	101,261	3,565	-	956	(596)	-	105,186
Disposals during the year	-	(155)	(342)	-	-	-	-	(497)
Transfers/Adjustments	-	-	487	-	(36)	-	(7,909)	(7,458)
Write - Off	-	-	-	-	-	-	-	-
Balance as at 31 December	126,372	719,959	238,098	14,850	87,691	1,486	528,058	1,716,514
Accumulated Depreciation								
Balance as at 01 January	62,780	383,314	125,676	14,850	55,368	-	118,402	760,390
Charge for the year	13,604	122,253	37,027	-	10,042	-	115,201	298,127
Disposals during the year	-	(156)	(342)	-	-	-	-	(498)
Transfers/Adjustments	-	-	(3)	-	(3)	-	-	(6)
Write - Off	-	-	-	-	-	-	-	-
Balance as at 31 December	76,384	505,411	162,358	14,850	65,407	-	233,603	1,058,013
Impairment								
Balance as at 01 January	-	-	589	-	-	-	-	589
Charge/(Write back) to income statement	-	-	-	-	-	-	-	-
Balance as at 31 December	-	-	589	-	-	-	-	589
Carrying Value as at 31 December 2020	49,988	214,548	75,151	-	22,284	1,486	294,455	657,912

29.1 Impairment of Property Plant and Equipments

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

29.2 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.

29.3 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.

29.4 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	2021 Rs. '000	2020 Rs. '000
Improvements to leasehold buildings	3,779	3,912
Computer hardware	384,777	193,286
Office equipment, furniture and fittings	94,619	70,268
Machinery	43,578	42,497
Motor vehicles	14,850	14,850
Computer software	242,752	124,968
Total	784,355	449,781

29.5 Right of Use Assets and Lease liability

The Banks material leases only include land and buildings. The right of use assets are depreciated over 04-10 Years. Incremental Borrowing rates used range between 6%-12%,

	2021 Rs. '000	2020 Rs. '000
Right of Use Asset		
Balance as at 1 January	294,455	417,565
Additions	99,237	-
Terminations	(1,966)	-
Adjustments	-	(7,909)
Depreciation	(103,721)	(115,201)
Balance as at 31 December	288,005	294,455

Refer Note 31 to the Finanical Statements for lease liability.

30 INTANGIBLE ASSETS

The Bank's intangible assets include the value of computer software acquired.

Basis of recognition

An intangible asset is recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard - LKAS 38 on "Intangible Assets".

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, these assets are stated in the Statement of Financial Position at cost, less accumulated amortisation and accumulated impairment losses, if any.

Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalized costs of internally developed software include all costs directly attributable to developing the software and capitalized borrowing costs and are amortised over its useful life. Internally developed software is stated at capitalized cost less accumulated amortisation 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.

Useful economic lives and amortisation

The useful economic lives of intangible assets are assessed to be either finite or indefinite. Useful economic lives, amortisation and impairment of finite intangible assets are described below:

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative period is 4-8 years. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

The Bank did not hold intangible assets with indefinite useful-life as at the reporting date.

As at 31 December	2021 Rs. '000	2020 Rs. '000
Computer software	258,942	357,739
Total	258,942	357,739

30.1 Computer Software

Cost		
Opening balance	901,268	889,411
Additions during the year	43,975	108,156
Transfers/adjustments	-	(96,299)
WIP	9,411	-
Closing balance	954,654	901,268
Accumulated amortisation		
Opening balance	543,529	431,841
Charge for the year	152,183	192,624
Transfers/adjustments	-	(80,936)
Closing balance	695,712	543,529
Carrying Value	258,942	357,739

31 LEASE LIABILITY

Set out below are the carrying amounts of lease liabilities and the movement for the year ended 31 December 2021;

	2021 Rs. '000	2020 Rs. '000
Lease liability as at 1 January	339,985	444,214
Additions	94,987	(8,668)
Interest expense	40,857	46,679
Payments	(143,154)	(142,240)
Lease liability as at 31 December	332,675	339,985

31.1 Maturity Analysis - Contractual Undiscounted Cash Flows

Less than one year	127,004	-
One to five years	234,774	179,270
More than five years	60,867	489,894
Total undiscounted lease liability	422,645	669,164

31.2 Lease Liability Recognised in the Statement of Financial Position

Current	96,265	80,611
Non-current	236,410	259,374
Total	332,675	339,985

31.3 Amounts Recognised in Income Statement

Interest on lease liabilities	40,857	46,679
Total	40,857	46,679

31.4 Amounts Recognised in the Statement of Cash Flows

Total cash outflow of leases	143,154	142,240
Total	143,154	142,240

32 DEFERRED TAX ASSETS/(LIABILITIES)

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:
Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

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

Temporary differences in relation to a right of use asset and lease liability for leases is regarded as a net package (Impact from the SLFRS 16 on 'Leases') for the purpose of recognizing deferred tax.

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

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

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

32.1 Summary of Net Deferred Tax Asset

	2021		2020	
	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect
Opening Balance as at 01 January	1,780,483	498,536	1,309,455	366,648
Recognised in profit or loss				
Charge for the year	381,368	91,528	509,246	142,589
Recognised in other comprehensive income				
Effect on actuarial (gains)/losses on defined benefit plans	(14)	(3)	23,437	6,562
Effect on fair value losses on financial investments measured at FVOCI	197,326	47,358	(61,498)	(17,219)
Effect on fair value gains on equity instruments measured at FVOCI	704	169	(157)	(44)
Closing Balance as at 31 December	2,359,867	637,588	1,780,483	498,536

32.2 Reconciliation of Net Deferred Tax Asset

	Statement of Financial Position		Income Statement		Statement of Profit or Loss and Other Comprehensive Income	
For the year ended/ As at 31 December	2021	2020	2021	2020	2021	2020
Deferred Tax Assets on:						
Defined benefit plans	18,077	16,686	1,390	(629)	-	-
Actuarial losses on defined benefit plans	1,444	1,447	-	-	(3)	1,447
Unrealised loss on Financial assets measured at fair value through OCI	16,662	-	-	-	16,662	-
Carried forward tax losses	397,956	411,264	(13,307)	233,943	-	-
Impairment provision	223,219	141,655	81,565	(128,768)	-	-
Impact from SLFRS 16 Leases	10,721	12,748	(2,027)	20,210	-	-
	668,079	583,800	67,621	124,756	16,659	1,447

For the year ended/ As at 31 December	Statement of Financial Position 2021	Statement of Financial Position 2020	Income Statement 2021	Income Statement 2020	Statement of Profit or Loss and Other Comprehensive Income 2021	Statement of Profit or Loss and Other Comprehensive Income 2020
Deferred Tax Liabilities on:						
Accelerated depreciation for tax purposes	30,182	54,090	(23,908)	(17,833)	-	-
Actuarial gains on defined benefit plans	-	-	-	-	-	(5,114)
Unrealised gains on Financial assets measured at fair value through OCI - Financial Investments	-	30,696	-	-	(30,696)	17,219
Unrealised gains on Financial assets measured at fair value through OCI - Equity Instruments	309	478	-	-	(169)	44
	30,491	85,264	(23,908)	(17,833)	(30,865)	12,150
Deferred tax effect on profit or loss and other comprehensive income			91,528	142,589	47,524	(10,701)
Net deferred tax asset as at 31 December	637,588	498,536	-	-	-	-

32.3 The total temporary differences arising from tax losses and tax credits amounted to Rs. 1,658 Mn, resulting in a deferred tax asset of Rs. 398 Mn as at 31 December 2021 which was recognised in the Financial Statements based on an internal cash flow assessment carried out by the Board of Directors. The unrecognised deferred tax asset as at 31 December 2021 was Rs. 43Mn (2020 - Rs. 164 Mn).

32.4 The Bank's deferred tax charge recognised in Income Statement and OCI for the year ended 31 December 2021, includes loss from change in tax rate amounting to Rs. 74.6 Mn.

33 OTHER ASSETS

As at 31 December		2021 Rs. '000	2020 Rs. '000
Deposits and prepayments		157,418	150,272
Other receivables		378,254	208,757
Prepaid staff cost		41,651	29,544
Tax recoverable	33.1	98,156	117,049
Total other assets		675,479	505,622

33.1 Tax Recoverable

Withholding Tax recoverable	74,232	72,625
Crop insurance levy recoverable	505	505
Value Added Tax recoverable	-	20,501
Debt Repayment Levy Recoverable	20,667	20,667
Nation Building Tax Recoverable	2,752	2,752
Total taxes recoverable	98,156	117,049

34 DUE TO BANKS

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

As at 31 December	2021 Rs. '000	2020 Rs. '000
Borrowings		
Local currency borrowings	687,515	1,167,458
Foreign currency borrowings	238,890	389,490
Total due to banks	926,405	1,556,948

35 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial liabilities are classified as held for trading. This category includes derivative financial instruments entered into by the Bank that are not designated as hedging instruments in hedge relationships.

Derivatives embedded in financial liabilities are treated separately and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, a separate instrument with the same terms as embedded derivative would meet the definition of derivative and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the profit or loss.

Derivatives are recorded at fair value with corresponding gains or losses are recognised in net gains/(losses) on trading in the Income Statement.

As at 31 December	2021 Rs. '000	2020 Rs. '000
Derivative financial liabilities - Held for trading		
Forward foreign exchange contracts	3,009	149
Total Derivative financial liabilities - Held for trading	3,009	149

36 FINANCIAL LIABILITIES AT AMORTISED COST - DUE TO DEPOSITORS

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

As at 31 December	2021 Rs. '000	2020 Rs. '000
Local currency deposits	36,790,102	29,291,665
Foreign currency deposits	3,392,300	2,705,936
Total Due to depositors	40,182,402	31,997,601

36.1 Analysis of Due to Depositors

As at 31 December	2021 Rs. '000	2020 Rs. '000
36.1.1 By Product		
Current account deposits	1,741,478	1,554,155
Savings deposits	9,608,577	7,464,381
Time deposits	27,146,619	21,036,070
Certificate of deposits	1,566,433	1,932,342
Margin deposits	119,295	10,653
Total due to depositors	40,182,402	31,997,601
36.1.2 By Currency		
Sri Lanka Rupees	36,790,102	29,291,665
United States Dollars	3,232,920	2,611,659
Great Britain Pound	106,597	51,936
Euro	8,524	7,348
Australian Dollars	4,294	14,113
Other currencies	39,965	20,880
Total due to depositors	40,182,402	31,997,601
36.1.3 By Institution/Customers		
Deposits from banks	2,019,137	1,003,627
Deposits from finance companies	1,729,297	1,401,124
Deposits from other corporates	15,209,706	12,276,226
Deposits from other customers	21,224,262	17,316,624
Total due to depositors	40,182,402	31,997,601

37 FINANCIAL LIABILITIES AT AMORTISED COST - OTHER BORROWINGS

As at 31 December	Note	2021 Rs. '000	2020 Rs. '000
Term borrowings		699,874	896,714
Securities sold under repurchase (repo) agreements	37.1	1,763,076	1,224,478
Perpetual Debenture	37.2	1,506,667	-
Total due to other borrowers		3,969,617	2,121,192

37.1 Securities Sold Under Repurchase (Repo) Agreements

Refer Note 48 for further details on the market value of the eligible securities.

37.2 Perpetual Debenture

As at 31 December	Note	2021 Rs. '000	2020 Rs. '000
Debenture issued	37.2.1	1,506,667	-
Total debenture issued		1,506,667	-

37.2.1 The Principal Terms of the Debenture is as follows

Cargills Bank Limited issued Fifteen Million (15,000,000) Basel III Additional Tier 1 Compliant Rated Unlisted Unsecured Subordinated Perpetual Convertible Debentures with a conversion at the option of the debenture holder and Non-Viability Conversion upon the occurrence of a trigger event at the par value of Sri Lankan Rupees One Hundred (LKR 100/-).

The interest is cumulative and will be paid only if the Bank has distributable profits. The Bank has discretion at all times to cancel the interest payments and any such cancellation of interest in accordance with No (7) i) of the Web Based Return Code 20.2.2.1.1.1 of the Banking Act Direction No.1 of 2016 will not result in an event of default. However, such interest shall be paid as soon as the underlying factors for the non-payment are no longer prevalent. Therefore, the Bank cannot avoid its obligation to pay interest.

The debenture holder has the right to convert the debenture to ordinary shares of the Bank during the conversion period. The conversion option does not meet the fixed-for-fixed requirement as a variable number of shares would be issued.

Based on the above factors, the Bank has classified this debenture as a liability.

These Debentures are included within the Bank's regulatory capital base as Tier 1 capital in terms of the Directions issued by Central Bank of Sri Lanka (CBSL).

The Bank did not have any default of principal or interest or other breaches with respect to its debentures during the year ended 31 December 2021.

Interest Rate (Per Annum)	Tenure	Date of Issue	Floor Rate on the Interest Rate	Interest Payment Frequency	No. of Debentures	Face Value Rs. '000	Amortised Cost 2021 Rs. '000
Weighted Average Twelve-Month Net Treasury Bill Rate + 2% p.a.	Perpetual	15-Dec-21	9.50% p.a.	Annually	15,000,000	1,500,000	1,506,667

38 RETIREMENT BENEFIT OBLIGATIONS

	Note	2021 Rs. '000	2020 Rs. '000
Balance as at 1 January		64,763	43,577
Expenses recognised in the Income statement	38.1	21,099	19,304
Amounts paid during the year		(10,542)	(3,287)
Actuarial (gains)/losses recognised in OCI		6,016	5,169
Loss/(gain) due to change in experience assumptions		4,864	1,645
Loss/(gain) due to change in financial assumptions		1,290	4,289
Loss/(gain) due to change in demographic assumptions		(138)	(765)
Balance as at 31 December		81,336	64,763

38.1 Expense Recognised in the Income Statement - Gratuity

For the year ended 31 December	2021 Rs. '000	2020 Rs. '000
Current service cost	16,566	14,947
Interest cost	4,533	4,357
Total	21,099	19,304

38.2 Details of Actuarial Assumptions

Discount rate per annum	11.0%	7.0%
Future salary increases	9%	5%
Retirement age (years)	60 Years	60 Years

Staff turnover, the probability of a member withdrawing from the employment prior to the retirement age was considered in arriving at the above liability. As at 31 December 2021, the weighted-average duration of the defined benefit obligation of the permanent cadre was 6 years.

An actuarial valuation of the retirement benefit obligation was carried out as at 31 December 2021 by Mr. M. Poopalanathan, AIA, of Messrs Actuarial and Management Consultants (Pvt) Ltd, a firm of professional actuaries. The valuation method used by the actuary to value the fund is the 'Projected Unit Credit Method (PUC)', the method prescribed by the Sri Lanka Accounting Standard LKAS 19 on 'Employee Benefits'.

The liability is not externally funded.

38.3 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	2021 Rs. '000	2020 Rs. '000
1% increase in discount rate	(3,995)	(3,483)
1% decrease in discount rate	4,406	3,865
1% increase in salary escalation rate	4,793	4,194
1% decrease in salary escalation rate	(4,413)	(3,841)

39 OTHER LIABILITIES

As at 31 December	Note	2021 Rs. '000	2020 Rs. '000
Accrued expenditure		371,264	258,219
Cheques sent on clearing/PO issued		57,559	101,830
Impairment provision in respect of undrawn credit commitments and financial guarantees	43.1.2	151,234	44,451
Other payables		366,699	313,094
Total other liabilities		946,756	717,594

40 STATED CAPITAL

Ordinary shares of the Bank are recognised at the amount paid per ordinary share after deducting incremental costs that are directly attributable to the issue of the equity instrument.

	2021 Rs. '000	2020 Rs. '000
Opening balance as at 01 January	11,394,421	11,394,421
Issue of ordinary shares	-	-
Closing balance as at 31 December	11,394,421	11,394,421

40.1 MOVEMENT IN NUMBER OF ORDINARY SHARES

Opening balance as at 01 January	883,142,858	883,142,858
Issue of ordinary shares	-	-
Closing balance as at 31 December	883,142,858	883,142,858

41 RESERVES

41.1 Statutory Reserve

The statutory reserve fund is maintained as per the requirements under Section 20 (1) of the Banking Act No.30 of 1988. Accordingly, the fund is built up by allocating a sum equivalent to not less than 5% of the profit after tax, but before declaring any dividend or any profits that are transferred elsewhere until the reserve is equal to 50% of the Bank's stated capital and thereafter a further sum equivalent to 2% of such profit until the amount of the said reserve fund is equal to the stated capital of the Bank.

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

	2021 Rs. '000	2020 Rs. '000
Opening balance as at 01 January	32,386	32,386
Transfers during the year net of tax	-	-
Closing balance as at 31 December	32,386	32,386

41.2 Fair Value Through OCI Reserve

The fair value reserve comprises the cumulative net change in the fair value of equity securities measured at FVOCI and the cumulative net change in the fair value of debt securities measured at FVOCI until the assets are derecognised or reclassified.

	2021 Rs. '000	2020 Rs. '000
Balance as at 01 January	80,162	35,770
Other comprehensive income for the year, net of tax	(126,294)	44,392
Balance as at 31 December	(46,132)	80,162

42 RETAINED LOSS / ACCUMULATED LOSSES

	2021 Rs. '000	2020 Rs. '000
Balance as at 01 January	(1,772,667)	(1,030,112)
Total comprehensive income		
Profit/(Loss) for the year	(277,127)	(743,947)
Other comprehensive income	(6,020)	1,392
Transfer to statutory reserves	-	-
Balance as at 31 December	(2,055,814)	(1,772,667)

43 CONTINGENT LIABILITIES AND COMMITMENTS

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

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

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

Any pending legal claims against the Bank form a part of contingencies. (Refer Note 44)

43.1 Contingent Liabilities

As at 31 December	Note	2021 Rs. '000	2020 Rs. '000
Guarantees	43.1.1	7,853,618	6,857,447
Documentary credits		989,952	2,004,703
Bills for collection		650,912	198,198
Forward exchange purchases		1,094,404	448,244
Spot exchange purchases		20	10,403
Other		1,305	1,495
Total Gross contingent liabilities		10,590,211	9,520,490
Less: impairment	43.1.2	(151,234)	(44,451)
Total Net contingent liabilities		10,438,977	9,476,039

Note 43.1.1 Guarantees and Loan Commitments

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

43.1.2 Movement in Impairment During the Year

	Stage 01	Stage 02	Stage 03	Total
Opening balance as at 01 January 2021	**41,634**	**70**	**2,747**	**44,451**
Charge/(write back) to Income Statement	(7,979)	17,900	96,862	106,783
Closing balance as at 31 December 2021	**33,655**	**17,970**	**99,609**	**151,234**
Opening balance as at 01 January 2020	24,711	52,183	14,071	90,965
Charge/(write back) to Income Statement	16,923	(52,113)	(11,324)	(46,514)
Closing balance as at 31 December 2020	41,634	70	2,747	44,451

43.2 Commitments

As at 31 December	2021 Rs. '000	2020 Rs. '000
Undrawn commitments	8,160,225	6,557,147
Capital commitments		
Commitments in relation to property, plant and equipment	43,417	29,890
Commitments in relation to intangible assets	45,131	26,691
Total capital commitments	88,548	56,581
Total commitments	8,248,773	6,613,728
Total commitments and contingencies	18,687,750	16,089,767

44 LITIGATION AGAINST THE BANK

Litigation is a common occurance 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.

44.1 Tax Matters

Income Tax - Year of Assessment 2013/2014

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

The Bank has appealed to the Tax Appeals Commission and the Bank awaits the hearing of the Appeal from the Tax Appeals Commission.

Management is of the opinion that the above will not have an unfavourable impact to the Bank.

Income Tax - Year of Assessment 2017/2018

The CGIR issued a Notice of Assessment for the Year of Assessment 2017/2018. The Bank has lodged an appeal against the said assessment. The appeal is currently at the IRD hearing stage. Management is of the opinion that the above will not have an unfavorable impact to the Bank.

45 NET ASSET VALUE PER SHARE

As at 31 December	2021 Rs. '000	2020 Rs. '000
Amount used as the numerator		
Shareholders' funds (Rs. '000)	9,324,861	9,734,302
Amount used as the denominator		
Total no. of shares	883,142,858	883,142,858
Net assets value per ordinary share (Rs.)	10.56	11.02

46 ANALYSIS OF ASSETS AND LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The table below summarizes the maturity profile of the Bank's assets and liabilities as at 31 December 2021.

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Total as at 2021 Rs. '000	Total as at 2020 Rs. '000
Interest earning assets							
Placements with banks	601,151	-	-	-	-	601,151	-
Derivative financial instruments	3,200	-	-	-	-	3,200	3,658
Financial assets measured at fair value through profit or loss	-	-	-	-	-	-	1,596,166
Financial assets at Amortised cost - Loans and Advances to other customers	10,996,600	9,592,370	9,503,542	5,250,869	5,147,355	40,490,736	29,079,121
Financial assets at Amortised cost - Debt and other Instruments	-	-	-	-	15,528	15,528	436,049
Financial assets measured at fair value through other comprehensive income	8,396,079	2,114,887	-	107,537	148,665	10,767,168	11,518,462
Total interest earning assets	19,997,030	11,707,257	9,503,542	5,358,406	5,311,548	51,877,783	42,633,456
Non-interest earning assets							
Cash and cash equivalents	1,214,754	-	-	-	-	1,214,754	1,420,123
Balances with Central Bank of Sri Lanka	187,430	191,405	47,492	36,055	105,420	567,802	443,993
Financial assets measured at fair value through other comprehensive income	-	-	-	-	16,441	16,441	15,153
Property, plant and equipment	-	-	-	-	518,272	518,272	657,912
Intangible assets	-	-	-	258,942	-	258,942	357,739
Deferred tax assets	-	-	-	-	637,588	637,588	498,536
Other assets	675,479	-	-	-	-	675,479	505,622
Total non-interest earning assets	2,077,663	191,405	47,492	294,997	1,277,721	3,889,278	3,899,078
Total assets	22,074,693	11,898,662	11,898,664	5,653,403	6,589,269	55,767,061	46,532,534

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

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Total as at 2021 Rs. '000	Total as at 2020 Rs. '000
Interest bearing liabilities							
Due to banks	739,477	38,300	56,451	73,996	18,181	926,405	1,556,948
Financial liabilities at amortised cost - Due to depositors	13,264,090	13,545,393	3,360,912	2,551,587	7,460,420	40,182,402	31,997,601
Financial liabilities at amortised cost - Due to other borrowers	1,763,076	699,874	-	-	1,506,667	3,969,617	2,121,192
Total interest bearing liabilities	15,766,643	14,283,567	3,417,363	2,625,583	8,985,268	45,078,424	35,675,741
Non-interest bearing liabilities							
Derivative financial instruments	3,009	-	-	-	-	3,009	149
Retirement benefit obligations	-	-	-	-	81,336	81,336	64,763
Lease liability	39,681	56,584	142,129	44,637	49,644	332,675	339,985
Other liabilities	946,756	-	-	-	-	946,756	717,594
Stated capital	-	-	-	-	11,394,421	11,394,421	11,394,421
Statutory reserves	-	-	-	-	32,386	32,386	32,386
Retained loss	-	-	-	-	(2,055,814)	(2,055,814)	(1,772,667)
Other reserves	-	-	-	-	(46,132)	(46,132)	80,162
Total non-interest bearing liabilities and equity	989,446	56,584	142,129	44,637	9,455,841	10,688,637	10,856,793
Total liabilities and equity	16,756,089	14,340,151	3,559,492	2,670,220	18,441,109	55,767,061	46,532,534

47 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 - CODM) 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 Lanka Accounting Standard SLFRS 8 - 'Segmental Reporting', segmental information is presented in respect of the Bank based on the Bank's management and internal reporting structure.

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

» Banking
» Tresury and Investments
» Unallocated

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

The following table presents the income, profit and asset and liability information on the Bank's business segments for the year ended December 31, 2021.

	Banking		Treasury/ Investments		Unallocated		Total	
As at 31 December	2021	2020	2021	2020	2021	2020	2021	2020
For the year ended 31 December/	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Net interest income	1,781,257	1,389,299	58,424	175,476	-	-	1,839,681	1,564,775
Foreign exchange profit	564	1,396	143,003	68,459	-	-	143,567	69,855
Net fees and commission income	475,856	251,960	16,225	(3,247)	-	-	492,081	248,713
Other income	1,750	2,207	(19,564)	125,391	992	1,997	(16,822)	129,595
Operating income by segment	2,259,427	1,644,862	198,088	366,079	992	1,997	2,458,507	2,012,938
Personnel and other operating expenses	(1,598,093)	(1,588,216)	(18,192)	(18,795)	-	-	(1,616,285)	(1,607,011)
Credit loss expense	(684,510)	(801,718)	-	-	-	-	(684,510)	(801,718)
Total operating expenses	(2,282,603)	(2,389,935)	(18,192)	(18,795)	-	-	(2,300,795)	(2,408,729)
Net operating income	(23,176)	(743,072)	179,896	347,284	992	1,997	157,712	(395,791)
Depreciation and amortisation	(419,827)	(488,123)	(386)	(2,622)	-	-	(420,213)	(490,745)
Operating profit/(loss) by segment	(443,003)	(1,233,195)	179,510	344,662	992	1,997	(262,501)	(886,536)
VAT on financial services	(106,154)	-	-	-	-	-	(106,154)	-
Segment result	(549,157)	(1,233,195)	179,510	344,662	992	1,997	(368,655)	(886,536)
Less: Income tax expense	-	-	-	-	-	-	(91,528)	(142,589)
Profit/(Loss) for the year	-	-	-	-	-	-	(277,127)	(743,947)
Other information								
Segment assets	43,120,847	31,098,931	12,646,214	15,433,603	-	-	55,767,061	46,532,534
Segment liabilities	43,430,975	33,287,276	3,011,225	3,510,956	-	-	46,442,200	36,798,232

48 REPURCHASE AND REVERSE REPURCHASE TRANSACTIONS IN SCRIPLESS TREASURY BONDS AND SCRIPLESS TREASURY BILLS

Directive No. 1 of 2019, issued by the Central Bank of Sri Lanka, requires licensed banks/primary dealers to disclose following additional information on repurchase and reverse repurchase transactions in scripless treasury bonds and bills.

48.1 Carrying Value of Securities Allocated for Repurchase Transactions

		Amortised Cost		Fair Value	
As at 31 December		2021	2020	2021	2020
	Note	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial assets measured at fair value through other comprehensive income		1,945,409	1,094,249	1,943,644	1,369,018

48.2 Market Value of Securities Received for Reverse Repurchase Transactions

Not applicable since there were no reverse repo transactions recognised in the Financial Statements as at the reporting date.

48.3 Bank's Policy on Haircuts for Repurchase and Reverse Repurchase Transactions

In terms of the minimum haircut for Repo (Borrowing) and Reverse Repo (Lending) transactions, security allocation is carried out based on remaining maturity of the security and it is required to offer and accept Treasury Bills and Bonds only with maturity of less than 03 years. The haircuts applied meet the minimum haircut requirements imposed by the Directive No. 1 of 2019 as follow.

At the time of entering into a Repo/Reverse Repo transaction, the market value of eligible securities should adequately cover the maturity value of transaction and haircut requirement should be 10% from the dirty price and should not fall less than the below mentioned the CBSL haircut levels over its tenure.

Remaining Term to Maturity of the Eligible Security	Minimum Haircut Requirement (%)
Up to 1 Year	4
More than 1 year and up to 3 years	6

48.4 Any Penalties Imposed During the Period under Review

None.

49 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 (KMP) have availed under schemes uniformly applicable to all staff at concessionary rates.

The pricing applicable to such transactions is based on the risk and pricing model of the Bank and is comparable with what is applied to transactions between the Bank and its unrelated customers.

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

49.1 Transactions with Key Management Personnel (KMP)

49.1.1 Compensation of Directors

For the year ended 31 December	2021 Rs. '000	2020 Rs. '000
Non-Executive Directors' emoluments	14,433	17,130
Executive Directors' emoluments	71,314	56,089
Post employee benefits	10,092	7,956
Total	95,839	81,175

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

49.2 Transactions, Arrangements and Agreements Involving in KMPs, and their CFMs Transactions

Close Family Members (CFM) of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the Bank. They include KMP's domestic partner and children, children of the KMP's domestic partner and dependents of the KMP or the KMP's domestic partner who are identified as related parties of the Bank.

As at 31 December / For the year ended 31 December	2021 Rs. '000	2020 Rs. '000
Items in the Statement of Financial Position		
Assets		
Financial assets at amortised cost - Loans and advances to other customers	-	-
Credit cards	664	262
Total	664	262
Liabilities		
Financial liabilities at amortised cost - Due to depositors	215,522	185,580
Total	215,522	185,580
Commitments and contingencies		
Undrawn faculties	2,336	9,105
Total	2,336	9,105
Net accommodation as a percentage of the Bank's regulatory capital		
Direct and indirect accommodations	0%	0%
Items in the Income Statement		
Interest income	2	15
Interest expense	(11,250)	(24,230)
Fee and commission income	16	70
Compensation to KMP	(95,839)	(81,175)
Total	(107,071)	(105,320)
Shareholdings of KMP and CFM		
Number of shares	1,100,000	1,100,000
Shareholding %	0.12%	0.12%

49.3 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.

49.3.1 Transactions with Significant Shareholder

As at 31 December / For the year ended 31 December	2021 Rs. '000	2020 Rs. '000
Items in the Statement of Financial Position		
Assets		
Financial assets at amortised cost - Loans and advances to other customers	-	-
Other receivables	-	-
Total	-	-
Liabilities		
Financial liabilities at amortised cost - Due to depositors	95,294	166,535
Securities sold under repurchase agreements	-	-
Other investments	-	-
Perpetual Debentures	1,500,000	-
Other payables	40,397	20,687
Total	1,635,691	187,222
Commitments and contingencies		
Off balance sheet	-	-
Undrawn faculties	-	-
Total	-	-
Net accommodation as a percentage of the Bank's regulatory capital		
Direct and indirect accommodations	0%	0%
Items in the Income Statement		
Interest income	-	-
Interest expense	(9,137)	(4,848)
Fee and commission income	206	279
Fee and commission expense	-	-
Rent expense	(7,963)	(8,726)
Reimbursement of expenses	(20,301)	(14,471)
Other expense	(9,855)	(10,044)
Total	(47,050)	(37,810)
Shareholdings of related companies		
Number of shares	574,042,858	574,042,858
Shareholding %	65%	65%

49.3.2 Transactions with Subsidiaries of Significant Shareholders

As at 31 December / For the year ended 31 December	2021 Rs. '000	2020 Rs. '000
Items in the Statement of Financial Position		
Assets		
Financial assets at amortised cost - Loans and advances to other customers	-	31
Other receivables	21,891	20,327
Capital Expenditure	75	-
Total	21,966	20,358
Liabilities		
Financial liabilities at amortised cost - Due to depositors	2,414,950	1,984,994
Securities sold under repurchase agreements	-	-
Other investments	-	-
Other payables	164,131	99,529
Total	2,579,081	2,084,523
Commitments and contingencies		
Off balance sheet	381,305	42,170
Undrawn facilties	829,556	742,640
Total	1,210,861	784,810
Net accommodation as a percentage of the Bank's regulatory capital		
Direct and indirect accommodations	0%	0%
Items in the Income Statement		
Interest income	-	492
Interest expense	(111,247)	(119,474)
Fee and commission income	10,394	9,234
Fee and commission expense	-	
Rent expense	(57,016)	(65,860)
Reimbursement of expenses	(9,507)	(8,986)
Other expense	(38,166)	(43,751)
Total	(205,542)	(228,345)
Shareholdings of related companies		
Number of shares	-	-
Shareholding %	0%	0%

49.3.3 Transactions with Provident Fund of Significant Shareholder

As at 31 December / For the year ended 31 December	2021 Rs. '000	2020 Rs. '000
Items in the Statement of Financial Position		
Assets		
Financial assets at amortised cost- Loans and advances to other customers	-	-
Other receivables	-	-
Total	-	-
Liabilities		
Financial liabilities at amortised cost - Due to depositors	3,704	22,803
Securities sold under repurchase agreements	-	-
Other investments	-	-
Other payables	-	-
Total	3,704	22,803
Commitments and contingencies		
Off balance sheet	-	-
Undrawn faculties	-	-
Total	-	-
Net accommodation as a percentage of the Bank's regulatory capital		
Direct and indirect accomodations	0%	0%
Items in the Income Statement		
Interest income	-	-
Interest expense	(484)	(1,197)
Fee and commission income	-	-
Fee and commission expense	-	-
Rent expense	-	-
Reimbursement of expenses	-	-
Other expense	-	-
Net gains from derecognition of financial assets	1,956	14,794
Total	1,472	13,597
Shareholdings of related companies		
Number of shares	-	-
Shareholding %	0%	0%

As at 31 December		2021 Rs. '000	2020 Rs. '000
50 NON-CASH ITEMS INCLUDED IN PROFIT BEFORE TAX			
Depreciation of property, plant and equipment	14	268,030	298,121
Amortisation of intangible assets	14	152,183	192,624
Adjustments to fixed assets		-	7,454
Interest cost - Leases	31	40,857	46,679
Impairment losses on loans and advances	12	537,295	797,259
Impairment losses on other financial instruments		105,515	(41,179)
Tax credit write off		18,644	23,594
Direct write-offs		26,866	22,045
Charge for defined benefit plans		21,099	19,304
Total		1,170,489	1,365,901

51 CHANGE IN OPERATING ASSETS

Change in balances with Central banks	(123,809)	596,405
Change in Derivative financial instruments	458	(3,271)
Change in Financial assets -at fair value through P&L	1,596,166	(1,596,166)
Change in loans and advances to other customers	(11,975,776)	(2,862,707)
Change in debt and other instruments	420,521	40,077
Change in Financial assets -at fair value through OCI	576,185	(4,804,280)
Change in deposits and prepayments	(9,434)	(40,665)
Change in other assets	(181,354)	85,191
Total	(9,697,043)	(8,585,416)

52 CHANGE IN OPERATING LIABILITIES

Change in derivative financial instruments	2,860	(2,132)
Change in deposits from banks, customers and debt securities issued	7,554,258	6,994,045
Change in accruals and deferred income	113,045	45,833
Change in other liabilities	9,334	(4,275)
Total	7,679,497	7,033,471

53 EVENTS AFTER THE REPORTING PERIOD

No circumstances have arisen since the reporting period which would require adjustments to or disclosure in the financial statements.

54 FINANCIAL RISK MANAGEMENT

54.1 Introduction

The dynamic nature of today's business environment is increasing both the scope and potential impact of the risks the 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.

54.2 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.

54.2.1 Credit Quality Analysis

As at 31 December	2021					2020
	Carrying Amount	Not Subject to ECL	12-Month ECL (Stage 01)	Subject to Life-time ECL- Not Credit Impaired - (Stage 02)	Life-time ECL- Credit Impaired - (Stage 03)	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balances with banks (Cash and cash equivalents)*						
Balances with local banks	369,995	-	369,995	-	-	162,133
Balances with foreign banks	321,371	-	321,371	-	-	715,415
Total balances with banks	691,366	-	691,366	-	-	877,548
Expected credit loss allowance	(7,705)	-	(7,705)	-	-	(8,973)
Net balances with banks	683,661	-	683,661	-	-	868,575
Balances with Central Bank of Sri Lanka**	567,802	567,802	-	-	-	443,993
Placements with Banks*	601,151	601,151	-	-	-	-
Financial assets at amortised cost - Loans and advances to other customers						
Grade 0 - 2 performing loans	38,706,535	-	28,706,889	9,744,067	255,579	26,607,319
Grade 3: NPA special mention	34,640	-	-	-	34,640	350,943
Grade 4: NPA substandard	129,770	-	-	-	129,770	520,920
Grade 5: NPA doubtful	193,926	-	-	-	193,926	1,378,304
Grade 6: NPA loss	4,617,360	-	-	-	4,617,360	2,875,835
Total gross loans and advances	43,682,231	-	28,706,889	9,744,067	5,231,275	31,733,321
Expected credit loss allowance/impairments	(3,191,495)	-	(152,309)	(617,283)	(2,421,903)	(2,654,200)
Total net loans and advances	40,490,736	-	28,554,580	9,126,784	2,809,372	29,079,121

54.2.1 Credit Quality Analysis Contd.

As at 31 December	2021					2020
	Carrying Amount	Not Subject to ECL	12-Month ECL (Stage 01)	Subject to Life-time ECL- Not Credit Impaired - (Stage 02)	Life-time ECL- Credit Impaired - (Stage 03)	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Financial assets at amortised costs - Debt and other financial instruments**						
Sri Lanka Development Bonds	-	-	-	-	-	381,864
Treasury Bonds	15,528	15,528	-	-	-	57,995
Total debt and other instruments	15,528	15,528	-	-	-	439,859
Expected credit loss allowance/impairments	-	-	-	-	-	(3,810)
Net debt and other instruments	15,528	15,528	-	-	-	436,049
Government securities**	10,767,168	10,767,168	-	-	-	11,518,462
Equity securities	16,441	16,441	-	-	-	15,153
Total	10,783,609	10,783,609	-	-	-	11,533,615
Off Balance Sheet						
Contingent liabilities and commitments						
Gross contigent liabilities and commitments						
(i) Contingent Liabilities						
Grade 0 - 2 performing loans	10,420,206	1,094,424	8,700,426	625,356	-	6,408,008
Grade 3: NPA special mention	-	-	-	-	-	15,000
Grade 4: NPA substandard	-	-	-	-	-	500
Grade 5: NPA doubtful	15,000	-	-	-	15,000	14,187
Grade 6: NPA loss	155,005	-	-	-	155,005	119,452
Gross carrying amount	10,590,211	1,094,424	8,700,426	625,356	170,006	6,557,147
(ii) Undrawn commitments						
Grade 0 - 2 performing loans	8,139,261	-	7,375,270	763,991	-	9,120,832
Grade 3: NPA special mention	9,216	-	-	-	9,216	30,000
Grade 4: NPA substandard	5,111	-	-	-	5,111	54
Grade 5: NPA doubtful	270	-	-	-	270	3,574
Grade 6: NPA loss	6,367	-	-	-	6,367	366,030
Gross carrying amount	8,160,225	-	7,375,270	763,991	20,964	9,520,490
Total gross contingent liabilities and undrawn commitments (Excluding capital commitments)	18,750,436	1,094,424	16,075,696	1,389,347	190,969	16,077,637
Expected credit loss allowance	(151,234)	-	(33,655)	(17,970)	(99,609)	(44,451)
Total net contingent liabilities and commitments	18,599,202	1,094,424	16,042,041	1,371,377	91,360	16,033,186

* External risk gradings as at 31 December 2021 and 2020 were investment grading or above.
** Subject to sovereign guarantees.

Measurement of Expected Credit Losses (ECL)

Inputs, assumptions and techniques used for estimating impairment under SLFRS 9 is disclosed under accounting policies and Note 12 to the Financial Statements..

Significant increase in credit risk

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

When a customer is provided with moratorium, it automatically results in a Significant Increase in Credit Risk (SICR) and the impact on ECL was recognised when assessing provision depending on the extension of the moratorium. Accordingly, tourism sector moratorium customers in Stage 1 (0-30 Days Past Due - DPD) and Stage 2 - Bucket 1 (31-60 DPD) were moved to Stage 2 - Bucket 2 (61-90 DPD) and other moratorium customers in Stage 1 were moved to Stage 2 - Bucket 1 to reflect the SICR in the different segments.

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

The scenario probability weightings applied in measuring ECL are as follows.

As at 31 December	2021			2020		
	Base	Best	Worse	Base	Best	Worse
Scenario probability weighting	58%	14%	28%	58%	14%	28%

Economic Factor Scenario Weightage was changed in 2020 for Base Case (decrease from 68% to 58%) and Worst Case (increase from 18% to 28%), in response to the impacts of COVID-19.

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

Sensitivity Analysis: Impact of staging of loans on collective impairment

The Bank categorises its loans into stage 1, stage 2 and stage 3 when determining the collective impairment provision under SLFRS 9. The sensitivity of collective impairment provision to staging of the loans is given below.

- If all loans and advances currently in stage 2, were moved to stage 1, the ECL provision of the Bank as at 31 December 2021 would have reduced by approximately 46% (2020 - 30%). The total loans and advances in stage 2 as at 31 December 2021 amounts to Rs. 10 Bn (2020 - Rs 7Bn) for the Bank.
- If all loans and advances currently in stage 1, were moved to stage 2, the ECL provision of the Bank as at 31 December 2021 would have further increased by approximately 153% (2020 - 81%). The total loans and advances in stage 1 as at 31 December 2021 amounts to Rs. 29 Bn (2020 - Rs 17 Bn) for the Bank. The management believes that a movement of the entire stage 1 loan portfolio to stage 2 is highly unlikely.

The table below lists the macroeconomic assumptions used in the base, best and worse scenarios over the five-year forecasted period. The assumptions represent the absolute percentages.

Year	GDP Growth	Inflation (YoY) (CCPI)	Interest Rate (RF)	Unemployment
Base case				
Average 5-year forecast				
2020	5.80%	5.46%	6.61%	5.80%
2021	5.10%	5.72%	10.60%	5.10%
Best Case				
Average 5-year forecast				
2020	6.80%	4.46%	5.61%	4.80%
2021	6.10%	4.72%	9.60%	4.10%
Worst Case				
Average 5-year forecast				
2020	4.80%	6.46%	7.61%	6.80%
2021	4.10%	6.72%	11.60%	6.10%

Sensitivity of ECL to future economic conditions

The table below shows the loss allowance on loans and advances to corporate and retail customers coming under collective impairment assuming each forward-looking scenario (e.g. central, upside and downside) were weighted 100% instead of applying scenario probability weights across the three scenarios. For ease of comparison, the table also includes the probability-weighted amounts that are reflected in the financial statements. The amounts are inclusive of post-model adjustments, as appropriate to each scenario.

	2021				2020			
As at 31 December	Best	Base	Worst	Probability Weighted	Best	Base	Worst	Probability Weighted
Exposure								
Corporate	23,325,031	23,325,031	23,325,031	23,325,031	16,556,289	16,556,289	16,556,289	16,556,289
Retail	11,232,356	11,232,356	11,232,356	11,232,356	8,771,375	8,771,375	8,771,375	8,771,375
Loss Allowance								
Corporate	337,867	424,199	440,467	409,619	370,771	433,876	496,231	442,651
Retail	538,331	580,649	615,898	583,188	551,375	596,489	639,132	602,604
Loss Allowance as % of Exposure								
Corporate	1%	2%	2%	2%	2%	3%	3%	3%
Retail	5%	5%	5%	5%	6%	7%	7%	7%

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 uses credit conversion factors mentioned in the regulatory guidelines in converting off balance sheet exposures for impairment purposes. 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 grouped on the basis of shared risk characteristics.

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

Collaterals held and other credit enhancement and their valuation

The Bank holds collaterals 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 collaterals assessed at the time of borrowing, and are updated regularly. Collaterals are generally not held over loans and advances to banks, except when securities are held as a part of reverse repurchase and securities borrowing activity. Collaterals usually are not held against investment securities.

The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. The main types of collateral obtained include mortgages over residential properties and real estate properties, cash, inventory and trade receivables, shares,motor vehicles, gold, etc.

Management monitors the market value of collateral and will request additional collateral if the market values are not sufficient in accordance with the underlying agreement. It is the Bank's policy to dispose repossessed properties in an orderly manner. The proceeds are used to recover the outstanding claim.

The following table shows the maximum exposure and net exposure (net of fair value of any collaterals held) to credit risk by class of financial asset, before netting off impairment for expected credit losses as at 31 December 2021.

As at 31st December	2021		2020	
	Exposure to Credit Risk Rs. '000	Net Exposure Rs. '000	Exposure to Credit Risk Rs. '000	Net Exposure Rs. '000
Financial Assets				
Cash and cash equivalent	1,222,459	691,366	1,429,096	877,548
Placement with banks	601,151	601,151	443,993	443,993
Derivative financial instruments	3,200	3,200	3,658	3,658
Financial assets at amortised cost				
Loans and advances	43,682,231	18,154,403	31,733,321	17,058,796
Debt and other instruments	15,528	15,528	436,049	436,049
Financial assets - fair value through comprehensive income	10,783,609	10,783,609	11,533,615	11,533,615
Other assets	674,339	674,339	505,622	505,622
Total	56,982,517	30,923,596	46,085,354	30,859,281

Approximately 26% and 7% of the total loans and advances of the Bank are secured against immovable property and cash/ deposits held within the Bank respectively. Further, 31% of the loans and advances are secured against other securities including movable property, gold, stocks, etc. Approximately 44% of stage 3 loans and advances of the Bank are secured against immovable property and cash/deposits held within the Bank.

Extent to which the advances were covered by cash/deposits held within the Bank and immovable property, no loss allowance has been recognised in the Financial Statements.

The Bank held cash and cash equivalents of Rs. 1,222 Mn as at 31 December 2021 (2020 - Rs. 1,429 Mn), which represent its maximum credit exposure on these assets. The cash and cash equivalents are held with banks, which are rated AAA (lka) to BB(lka), based on Fitch Ratings.

Collateral repossessed

The Bank's policy is to carry collaterals repossessed at fair value at the repossession date and such assets will be disposed at the earliest possible opportunity. These assets are recorded under assets held for sale as per the Sri Lanka Accounting Standard - SLFRS 5 on "Non-Current Assets Held for Sale and Discontinued Operations".

The Bank had not repossessed any collateral for the year ended 31 December 2021.

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 (CPC), the Executive Integrated Risk Management Committee (EIRMC) and the Board Integrated Risk Management Committee (BIRMC) to capture the developments in market, political and economical environment both locally and internationally to strengthen the dynamic portfolio management practices and to provide an early warning on possible credit concentrations.

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

As at 31 December 2021	Agriculture and fishing Rs. '000	Manufacturing Rs. '000	Tourism Rs. '000	Transport Rs. '000	Construction Rs. '000	Traders Rs. '000	New Economy Rs. '000	Financial and 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	-	-	-	-	-	-	-	1,222,459	-	-	-	-	1,222,459
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-	-	567,802	-	-	-	567,802
Placements with Banks	-	-	-	-	-	-	-	601,151	-	-	-	-	601,151
Derivative financial instruments	-	-	-	-	-	-	-	3,200	-	-	-	-	3,200
Financial assets at amortised cost - Loans and Advances to other customers	5,283,821	2,699,840	2,944,410	508,303	7,086,674	7,911,658	636,818	7,204,917	-	28,776	1,947,671	7,429,343	43,682,231
Financial assets at amortised cost - Debt and other financial instruments	-	-	-	-	-	-	-	15,528	-	-	-	-	15,528
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	16,441	10,767,168	-	-	-	10,783,609
Total	5,283,821	2,699,840	2,944,410	508,303	7,086,674	7,911,658	636,818	9,063,696	11,334,970	28,776	1,947,671	7,429,343	56,875,980

As at 31 December 2020	Agriculture and fishing Rs. '000	Manufacturing Rs. '000	Tourism Rs. '000	Transport Rs. '000	Construction Rs. '000	Traders Rs. '000	New Economy Rs. '000	Financial and 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	-	-	-	-	-	-	-	1,429,096	-	-	-	-	1,429,096
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-	-	443,993	-	-	-	443,993
Placements with Banks	-	-	-	-	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	3,658	-	-	-	-	3,658
Financial assets at Amortised cost - Loans and Advances to other customers	3,888,262	2,985,069	2,319,162	412,362	3,851,675	4,827,519	609,870	4,699,798	-	28,722	838,484	7,272,398	31,733,321
Financial assets at Amortised cost - Debt and other Instruments	-	-	-	-	-	-	-	57,995	381,864	-	-	-	439,859
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	15,153	11,518,462	-	-	-	11,533,615
Total	3,888,262	2,985,069	2,319,162	412,362	3,851,675	4,827,519	609,870	6,205,700	12,344,319	28,722	838,484	7,272,398	45,583,542

54.3 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.

54.3.1 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	2021 %	2020 %
As at 31 December	26.30	33.63
Average for the period	27.62	33.28
Maximum for the period	33.44	38.42
Minimum for the period	22.49	29.91
Statutory minimum requirement	20.00	20.00

Composition of Liquid Assets

As at 31 December	2021 Rs. '000	2020 Rs. '000
Cash	514,180	546,736
Treasury bills and securities issued or guaranteed by the government of Sri Lanka	5,254,651	2,056,863
Goods receipts/Liquid assets permitted under extraordinary policy measures due to Covid-19	-	80,650
Balances with licensed commercial banks	314,619	135,041
Balances with banks abroad	392,711	291,368
Treasury bonds	3,720,893	8,110,317
Sri lanka Development Bonds	-	376,083
Total	10,197,054	11,597,058

As per the extraordinary regulatory measures implemented by the CBSL in May 2020, due to the Covid-19 pandemic situation, licensed banks were permitted to consider the following assets as liquid assets in the computation of the Statutory Liquid Assets Ratio until 30 June 2021.

- Interest subsidy receivable on Senior Citizen Special Deposit Scheme.
- Exposure to State Owned Entities guaranteed by the Government and classified in Stage 01 under SLFRS 9: Financial Instruments for financial reporting purposes with maturity not exceeding one year with hair cut of 10%.
- Fixed deposits held by banks in other licensed banks (remaining period to maturity exceeds 1 year but less than or equal to 2 years, with the hair-cut of 20% and if the remaining period to maturity exceeds 2 years but less than or equal to 3 years, with hair-cut of 30%).
- Loans secured by deposits under lien equivalent to 20% of deposits.
- Receivables from Employees Provident Fund (EPF) in settlement of loans. Maturity analysis for the financial liabilities is shown below with their undiscounted contractual cash flows over the future periods.

54.3.2 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the discounted cash flows of the Bank's financial assets and liabilities as at 31 December 2021.

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Total as at 31.12.2021 Rs. '000	Total as at 31.12.2020 Rs. '000
Interest earning assets							
Placements with banks	601,151	-	-	-	-	601,151	-
Derivative financial instruments	3,200	-	-	-	-	3,200	3,658
Financial assets measured at fair value through profit or loss	-	-	-	-	-	-	1,596,166
Financial assets at Amortised cost - Loans and Advances to other customers	10,996,600	9,592,370	9,503,542	5,250,869	5,147,355	40,490,736	29,079,121
Financial assets at Amortised cost - Debt and other Instruments	-	-	-	-	15,528	15,528	436,049
Financial assets measured at fair value through other comprehensive income	8,396,079	2,114,887	-	107,537	148,665	10,767,168	11,518,462
Total interest earning assets	19,997,030	11,707,257	9,503,542	5,358,406	5,311,548	51,877,783	42,633,456
Non-interest earning assets							
Non-interest earning assets	2,077,663	191,405	47,492	294,997	1,277,721	3,889,278	3,899,078
Total assets	22,074,693	11,898,662	9,551,034	5,653,403	6,589,269	55,767,061	46,532,534
Interest bearing liabilities							
Due to banks	739,477	38,300	56,451	73,996	18,181	926,405	1,556,948
Derivative financial instruments	3,009	-	-	-	-	3,009	149
Financial liabilities at amortised cost - Due to depositors	13,264,090	13,545,393	3,360,912	2,551,587	7,460,420	40,182,402	31,997,601
Financial liabilities at amortised cost - Due to other borrowers	1,763,076	699,874	-	-	1,506,667	3,969,617	2,121,192
Total interest bearing liabilities	15,769,652	14,283,567	3,417,363	2,625,583	8,985,268	45,081,433	35,675,890
Non-interest bearing liabilities and equity							
Non-interest bearing liabilities and equity	986,437	56,584	142,129	44,637	9,455,841	10,685,628	10,856,644
Total liabilities	16,756,089	14,340,151	3,559,492	2,670,220	18,441,109	55,767,061	46,532,534

54.3.2 Undiscounted Cash Flows of Financial Assets and Financial Liabilities

The following table shows the expected undiscounted cash flows for financial assets and financial liabilities at 31 December 2021.

	Upto 3 Months Rs. '000	3-12 Months Rs. '000	1-3 Years Rs. '000	3-5 Years Rs. '000	More than 5 Years Rs. '000	Total as at 31.12.2021 Rs. '000	Total as at 31.12.2020 Rs. '000
Financial Assets							
Cash and cash equivalent	1,233,373	-	-	-	-	1,233,373	1,451,115
Balances with central banks	190,303	203,412	57,002	48,876	151,870	651,463	443,993
Placement with banks	601,393	-	-	-	-	601,393	-
Derivative financial instruments	3,200	-	-	-	-	3,200	3,658
Financial assets measured at fair value through profit or loss	-	-	-	-	-	-	1,630,749
Financial assets measured at amortised cost - loans and advances to other customers	12,810,970	10,880,221	15,912,408	5,692,271	5,335,651	50,631,521	45,923,998
Financial assets measured at amortised cost - debt and other financial instruments	-	1,605	3,211	3,211	17,192	25,219	402,141
Financial assets measured at FVOCI	8,493,513	2,275,603	52,900	138,800	165,450	11,126,266	15,097,377
Financial Liabilities							
Derivative Financial Instruments	3,009	-	-	-	-	3,009	149
Due to banks	739,475	38,481	80,349	82,699	-	941,004	1,561,428
Financial liabilities at amortised cost - Due to depositors	25,039,459	14,649,907	1,514,131	270,570	-	41,474,067	33,702,201
Financial liabilities at amortised cost - Due to other borrowers	1,971,877	699,874	-	-	1,500,000	4,171,751	2,380,580
Lease Liability	44,034	82,970	175,043	59,731	60,867	422,645	669,164

54.4 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.

54.4.1 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		2021			2020		
		Carrying Amount	Market Risk Measurement		Carrying Amount	Market Risk Measurement	
			Trading Portfolios	Non-Trading Portfolios		Trading Portfolios	Non-Trading Portfolios
	Note	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets subject to Market Risk							
Placements with banks	23	601,151	-	601,151	-	-	-
Derivative financial instruments	24	3,200	3,200	-	3,658	3,658	-
Financial assets measured at fair value through profit or loss	25	-	-	-	1,596,166	-	1,596,166
Financial assets at amortised cost - Loans and Advances to other customers	26	40,490,736	-	40,490,736	29,079,121	-	29,079,121
Financial assets at amortised cost - Debt and other financial instruments	27	15,528	-	15,528	436,049	-	436,049
Financial assets measured at fair value through other comprehensive income	28	10,783,609	-	10,783,609	11,533,615	-	11,533,615
Total		51,894,224	3,200	51,891,024	42,648,609	3,658	42,644,951
Liabilities subject to Market Risk							
Due to banks	34	926,405	-	926,405	1,556,948	-	1,556,948
Derivative financial instruments	35	3,009	3,009	-	149	149	-
Financial liabilities at amortised cost - Due to depositors	36	40,182,402	-	40,182,402	31,997,601	-	31,997,601
Financial liabilities at amortised cost - Due to other borrowers	37	3,969,617	-	3,969,617	2,121,192	-	2,121,192
Total		45,081,433	3,009	45,078,424	35,675,890	149	35,675,741

54.4.2 Exposure to Interest Rate Risk - Sensitivity Analysis

54.4.2 (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 following is a summary of the Bank's interest rate gap position on non-trading portfolios. The interest rate repricing gap table analyses the full-term structure of interest rate mismatches within the Bank's balance sheet based on either (i) the next repricing date or the maturity date if floating rate or (ii) the maturity date if fixed rate.

As at 31 December 2021	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 31.12.2021 Rs. '000
Financial Assets							
Cash and Cash Equivalents	-	-	-	-	-	1,214,754	1,214,754
Balance with central banks	-	-	-	-	-	567,802	567,802
Placements with banks	601,151	-	-	-	-	-	601,151
Derivative financial instruments	3,200	-	-	-	-	-	3,200
Financial assets at amortised cost - Loans and Advances to other customers	32,921,046	5,240,238	167,873	140,216	164,551	1,856,812	40,490,736
Financial assets at amortised cost - Debt and other financial instruments	-	-	-	-	15,528	-	15,528
Financial assets measured at fair value through other comprehensive income	8,396,079	2,114,887	-	107,537	148,665	16,441	10,783,609
Other assets	-	-	-	-	-	675,479	675,479
Total Financial Assets	41,921,476	7,355,125	167,873	247,753	328,744	4,331,288	54,352,259
Financial Liabilities							
Due to banks	500,418	38,300	56,451	73,996	18,181	239,059	926,405
Derivative Financial Instruments	3,009	-	-	-	-	-	3,009
Financial liabilities at amortised cost - Due to depositors	20,908,331	10,525,313	627,646	137,078	4,593,081	3,390,953	40,182,402
Financial liabilities at amortised cost - Due to other borrowers	1,763,076	699,874	-	-	1,506,667	-	3,969,617
Retirement benefit obligations	-	81,336	-	-	-	-	81,336
Lease liability	-	-	-	-	-	332,675	332,675
Other liabilities	-	-	-	-	-	946,756	946,756
Total Financial Liabilities	23,174,834	11,344,823	684,097	211,074	6,117,929	4,909,443	46,442,200
Interest rate sensitivity gap	18,746,642	(3,989,698)	(516,224)	(36,679)	(5,789,185)	(578,155)	7,910,059
1% increase	187,466	(39,897)	(5,162)	367	(57,892)	-	84,882
1% decrease	(187,466)	39,897	5,162	(367)	57,892	-	(84,882)

As at 31 December 2020	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 31.12.2020 Rs. '000
Financial Assets							
Cash and Cash Equivalents	-	-	-	-	-	1,420,123	1,420,123
Balance with central banks	-	-	-	-	-	443,993	443,993
Derivative financial instruments	-	-	-	-	-	3,658	3,658
Financial assets measured at fair value through profit or loss	1,596,166	-	-	-	-	-	1,596,166
Financial assets at amortised cost - Loans and Advances to other customers	24,122,549	147,812	3,493,120	48,984	-	1,266,656	29,079,121
Financial assets at amortised cost - Debt and other financial instruments	391,713	44,336	-	-	-	-	436,049
Financial assets measured at fair value through other comprehensive income	15,472	3,874,905	5,356,873	1,203,608	1,067,604	15,153	11,533,615
Other assets	-	-	-	-	-	252,676	252,676
Total Financial Assets	26,125,900	4,067,053	8,849,993	1,252,592	1,067,604	3,402,259	44,765,401
Financial Liabilities							
Due to banks	1,187,937	43,378	70,237	53,718	-	201,678	1,556,948
Derivative Financial Instruments	-	-	-	-	-	149	149
Financial liabilities at amortised cost - Due to depositors	14,510,324	11,749,984	2,287,069	379,253	-	3,070,971	31,997,601
Financial liabilities at amortised cost - Due to other borrowers	1,168,154	56,324	896,714	-	-	-	2,121,192
Lease liability	-	-	-	-	-	339,985	339,985
Other liabilities	-	-	-	-	-	414,923	414,923
Total Financial Liabilities	16,866,415	11,849,686	3,254,020	432,971	-	4,027,706	36,430,798
Interest rate sensitivity gap	9,259,485	(7,782,633)	5,595,973	819,621	1,067,604	(625,447)	8,334,603
1% increase	92,595	(77,826)	55,960	8,196	10,676	-	89,601
1% decrease	(92,595)	77,826	(55,960)	(8,196)	(10,676)	-	(89,601)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and financial liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered include a 100bp parallel fall or rise in all yield curves across the board. The above table contains the Bank's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position.

54.4.2 (b) Exposure to Interest Rate Risk

As at 31 December	2021 Rs. '000	2020 Rs. '000
Savings deposits	9,608,577	7,464,381
Time deposits	27,146,619	21,036,070
Certificate of deposits	1,566,433	1,932,342
Total	38,321,629	30,432,793

As at the reporting date, there were no significant foreign currency exposures in the non-trading book, other than following foreign currency exposure as set out in the table below. The below table further contains the Bank's sensitivity to 5% depreciation or appreciation in foreign currencies in the forex market, assuming no asymmetrical movement in other variables and a constant financial position.

54.4.3 Exposure to Currency Risk

As at 31 December	Sensivity		2021	2020
	5% increase	5% decrease	Amount Rs. '000	Amount Rs. '000
Foreign exchange position - USD	61,300	(61,300)	1,225,995	780,257
Foreign exchange position - AUD	21	(21)	423	7,000
Foreign exchange position - AED	1,133	(1,133)	22,663	3,095
Foreign exchange position - EUR	42	(42)	844	45,636
Foreign exchange position - THB	-	-	-	798
Foreign exchange position - SGD	3,888	(3,888)	77,754	4,572
Foreign exchange position - GBP	150	(150)	3,010	771
Foreign exchange position - JPY	35,273	(35,273)	705,463	877,275
Foreign exchange position - CAD	2	(2)	42	-
Foreign exchange position - SEK	11	(11)	225	3,800
Foreign exchange position - DKK	-	-	-	1,131
Foreign exchange position - KWD	-	-	-	85
Foreign exchange position - CNY	841	(841)	16,818	7,773
Foreign exchange position - MYR	-	-	-	604
Foreign exchange position - QAR	-	-	-	4,521
Foreign exchange position - INR	2,475	(2,475)	49,490	72,851
Foreign exchange position - NOK	-	-	-	600
Foreign exchange position - IDR	-	-	-	4,713,384
Foreign exchange position - OMR	-	-	-	24
Foreign exchange position - RUB	-	-	-	420
Foreign exchange position - SCR	-	-	-	427

54.5 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.

54.6 Capital Management

54.6.1 Objective

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

54.6.2 Regulatory Capital

Capital Adequacy Ratio (CAR) is calculated based on the CBSL Directions stemming from Basel III Accord. These guidelines require the Bank to maintain a CAR of not less than 7% with Common Equity Tier I capital (CET I) in relation to total risk-weighted assets and a minimum overall CAR of 12.50% inclusive of Tier I and Tier II in relation to total risk-weighted assets.

As at 31 December	2021 Rs. '000	2020 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)	(2,055,814)	(1,772,667)
General and other reserves	(52,813)	44,963
Minority interests (consistent with the above capital constituents)	-	-
	9,318,180	9,699,103
Deductions/Adjustments		
Net Deferred Tax Assets	(637,588)	(498,536)
Other intangible assets	(258,942)	(357,739)
Advances granted to employees of the Bank for the purchase of shares of the Bank (ESOP)	-	-
50% of Investments in unconsolidated banking and financial subsidiary companies	-	-
50% Investments in the capital of other banks and financial institutions	-	-
Qualifying Additional Tier 1 Capital Instruments	1,500,000	
Total Tier 1 Capital	9,921,650	8,842,828
Tier II Capital		
Revaluation reserves (as approved by Central Bank of Sri Lanka)	-	-
General provisions	315,118	239,957
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	315,118	239,957
Total Capital	10,236,768	9,082,785
Capital adequacy ratios		
Common Equity Tier 1 Capital Ratio	19.31	20.72
Tier 1 Capital Ratio	22.75	20.72
Total Capital Ratio	23.47	21.28

54.6.2.1 Minimum Capital Requirement

The Bank is required maintain a minimum capital of Rs. 10 Bn in accordance with the Central Bank of Sri Lanka Circular on Enhancement of Minimum Capital Requirement of Banks dated 23 December 2014 and in order to meet the said requirement, the Bank in December 2021 issued 15 Mn Basel III Additional Tier 1 Compliant Rated Unlisted Unsecured Subordinated Perpetual Convertible Debentures at the par value of Rs. 100.00 totaling to Rs. 1.5 Bn with a conversion at the option of the debenture holder and non-viability conversion upon the occurrence of a trigger event.

TEMPLATE 01

Key Regulatory Ratios - Capital and Liquidity

Item	31 December 2021	31December 2020
Regulatory Capital (LKR '000)		
Common Equity Tier 1	8,421,650	8,842,828
Tier 1 Capital	9,921,650	8,842,828
Total Capital	10,236,768	9,082,785
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 2021: 7 and 2020: 6.5)	19.31	20.72
Tier 1 Capital Ratio (Minimum Requirement - 2021: 8.5 and 2020: 8)	22.75	20.72
Total Capital Ratio (Minimum Requirement - 2021: 12.5 and 2020: 12)	23.47	21.28
Leverage Ratio (Minimum Requirement - 3)	13.86	16.71
Regulatory Liquidity		
Statutory Liquid Assets (LKR '000)	10,197,054	11,597,058
Statutory Liquid Ratio (Minimum Requirement - 20)		
Domestic Banking Unit (%)	26.30	33.63
Off-Shore Banking Unit (%)	90.79	83.49
Liquidity Coverage Ratio (%) - Rupee (Minimum Requirement - 2021: 100 and 2020: 90)	164	133
Liquidity Coverage Ratio (%) - All Currency (Minimum Requirement - 2021: 100 and 2020: 90)	147	119

TEMPLATE 02

Basel III Computation of Capital Ratios

Item	Amount (LKR '000) 31 December 2021	31 December 2020
Common Equity Tier 1 (CET1) Capital after Adjustment	8,421,650	8,842,828
Common Equity Tier 1 (CET1) Capital	9,318,180	9,699,103
Equity Capital (Stated Capital)/Assigned Capital	11,394,421	11,394,421
Reserve Fund	32,386	32,386
Published Retained Earnings/(Accumulated Retained Losses)	(2,055,814)	(1,772,667)
Published Accumulated Other Comprehensive Income (OCI)	(52,813)	44,963
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	896,530	856,275
Goodwill (net)	-	-
Intangible Assets (net)	258,942	357,739
Others (specify) - Deferred tax asset	637,588	498,536
Additional Tier 1 (AT1) Capital after Adjustments	-	-
Additional Tier 1 (AT1) Capital	1,500,000	-
Qualifying Additional Tier 1 Capital Instruments	1,500,000	-
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	315,118	239,957
Tier 2 Capital	315,118	239,957
Qualifying Tier 2 Capital Instruments	-	-
Revaluation Gains	-	-
Loan Loss Provisions	315,118	239,957
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	9,318,180	9,699,103
Total Tier 1 Capital	9,921,650	8,842,828
Total Capital	10,236,768	9,082,785

TEMPLATE 02 CONTD.

Basel III Computation of Capital Ratios Contd.

	31 December 2021	31 December 2020
Total Risk Weighted Assets (RWA)		
RWAs for Credit Risk	39,943,518	36,840,127
RWAs for Market Risk	873,427	2,985,642
RWAs for Operational Risk	2,793,894	2,861,975
CET1 Capital Ratio (Including Capital Conservation Buffer Countercyclical Capital Buffer and Surcharge on D-SIBs) (%)	19.31	20.72
Of which: Capital Conservation Buffer (%)	2.00	2.00
Of which: Countercyclical Buffer (%)	-	-
Of which: Capital Surcharge on D-SIBs (%)	-	-
Total Tier 1 Capital Ratio	22.75	20.72
Total Capital Ratio (Including Capital Conservation Buffer, Countercyclical Capital Buffer and Surcharge on D-SIBs) (%)	23.47	21.28
Of which: Capital Conservation Buffer (%)	2.00	2.00
Of which: Countercyclical Buffer (%)	-	-
Of which: Capital Surcharge on D-SIBs (%)	-	-

TEMPLATE 03

Computation of Leverage Ratio

Item	Amount (LKR '000)	
	31 December 2021	31 December 2020
Tier 1 Capital	8,421,650	8,786,571
Total Exposures	60,761,614	52,597,693
On-Balance Sheet Items (excluding Derivatives and Securities Financing Transactions, but including Collateral)	54,867,331	45,653,683
Derivative Exposure	-	-
Securities Financing Transaction Exposure	-	-
Other Off-Balance Sheet Exposure	5,894,283	6,944,010
Basel III Leverage Ratio (%) (Tier 1/Total Exposure)	13.86	16.71

TEMPLATE 04

Basel III Computation of Liquidity Coverage Ratio (Rupee)

Item	Amount (LKR '000)			
	31 December 2021		31 December 2020	
	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
Total Stock of High Quality Liquid Assets (HQLA)	9,186,365	9,186,365	10,473,075	10,473,075
Total Adjusted Level 1 Assets	9,393,341	9,393,341	10,605,814	10,605,814
Level 1 Assets	9,186,365	9,186,365	10,473,075	10,473,075
Total Adjusted Level 2A Assets	-	-	-	-
Level 2 Assets	-	-	-	-
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	51,015,958	11,779,415	43,950,091	9,546,328
Deposits	22,008,948	2,200,895	19,968,299	1,996,830
Unsecured Wholesale Funding	13,453,067	9,110,842	10,329,607	7,111,197
Secured Funding Transactions	-	-	-	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	15,553,943	467,678	13,652,185	438,301
Additional Requirements	-	-	-	-
Total Cash Inflows	10,047,956	6,172,254	3,128,429	1,680,123
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	10,047,956	6,172,254	3,128,429	1,680,123
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		164		133

TEMPLATE 04

Basel III Computation of Liquidity Coverage Ratio (All Currency)

Item	Amount(LKR'000)			
	31 December 2021		31 December 2020	
	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
Total Stock of High Quality Liquid Assets (HQLA)	9,188,499	9,188,499	10,490,835	10,490,835
Total Adjusted Level 1 Assets	9,395,345	9,395,345	10,623,574	10,623,574
Level 1 Assets	9,188,499	9,188,499	10,490,835	10,490,835
Total Adjusted Level 2A Assets	-	-	-	-
Level 2 Assets	-	-	-	-
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	55,866,255	12,902,667	48,812,319	10,816,319

Item	Amount(LKR'000)			
	31 December 2021		31 December 2020	
	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
Deposits	24,224,768	2,422,477	21,576,964	2,157,696
Unsecured Wholesale Funding	14,593,599	9,955,768	11,816,058	8,145,045
Secured Funding Transactions	-	-	-	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	17,047,888	524,422	15,419,297	513,578
Additional Requirements	-	-	-	-
Total Cash Inflows	11,052,370	6,667,024	3,798,854	2,015,335
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	10,730,999	6,667,024	3,798,854	2,015,335
Operational Deposits	321,371	-	-	-
Other Cash Inflows	-	-	-	-
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/ Total Net Cash Outflows over the Next 30 Calendar Days) * 100		147		119

TEMPLATE 05

Main Features of Regulatory Capital Instruments

Description of the Capital Instrument	BASEL III Additional Tier 1 Compliant Rated Unlisted Unsecured Subordinated Perpetual Convertible Debentures
Issuer	Cargills Bank Limited
Governing Law(s) of the Instrument	Companies Act No. 07 of 2007, Banking Act No. 30 of 1988 and other applicable laws and regulations
Original Date of Issuance	15 December 2021
Par Value of Instrument	LKR 100/-
Perpetual or Dated	Perpetual
Original Maturity Date, if Applicable	N/A
Amount recognised in Regulatory Capital (in LKR '000 as at the Reporting Date)	1,500,000
Accounting Classification (Equity/Liability)	Liability
Issuer Call subject to Prior Supervisory Approval	
Optional Call Date, Contingent Call Dates and Redemption Amount (LKR '000)	*
Subsequent Call Dates, if Applicable	1 May to 31 May of each year from 2028 to 2031
Coupons/Dividends	
Fixed or Floating Dividend/Coupon	Floating
Coupon Rate and any Related Index	Weighted average twelve-month Net Treasury Bill rate + 2.00% p.a with the floor rate of 9.5% p.a.
Non-Cumulative or Cumulative	Cumulative
Convertible or Non-Convertible	Convertible
If Convertible, Conversion Trigger (s)	*
If Convertible, Fully or Partially	*
If Convertible, Mandatory or Optional	*
If Convertible, Conversion Rate	*

* The debenture may be convertible by the debenture holder (subject to satisfaction of regulatory requirements), at any time during the conversion periods after a minimum of 05 years from the date of issue or a non viability conversion arising from an occurrence of a trigger event at a par value of LKR 100 per debenture.

TEMPLATE 06

Summary Discussion on Adequacy/Meeting Current and Future Capital Requirements

The Bank has set up an internal threshold on minimum CARs and ensures that appropriate measures are employed to maintain the CARs above the said threshold when preparing the budget. The Bank has a well established monitoring mechanism to periodically ensure the level of achievement against the predetermined targets and corrective action is taken for any deviations.

Methods of improving the CARs are being evaluated on an ongoing basis and in extreme situations, the Bank will deliberate on strategically curtailing the expansion of risk weighted assets. Prior to taking such decisions, the Bank will assess the impact on the internally developed thresholds of minimum CARs resulting from the short-term asset expansion plans. The Bank takes every endeavour to ensure maintaining the internal CAR thresholds.

Further, in December 2021, Cargills Bank Limited issued Fifteen Million (15,000,000) Basel III Additional Tier 1 Compliant Rated Unlisted Unsecured Subordinated Perpetual Convertible Debentures with a conversion option to raise Rs. 1.5 Bn. to meet the regulatory minimum capital requirement.

TEMPLATE 07

Credit Risk under Standardised Approach - Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

Asset Class	Amount (LKR '000) as at 31 December 2021					
	Exposure before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and 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	11,366,939	-	11,366,939	-	0	0.00%
Claims on Foreign Sovereigns and Their Central Banks	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-
Claims on Banks Exposures	2,083,746	-	2,083,746	-	941,847	45.20%
Claims on Financial Institutions	1,836,254	1,315,400	1,836,254	242,864	1,546,251	74.37%
Claims on Corporates	11,264,977	13,711,509	11,264,977	4,996,415	14,723,952	90.55%
Retail Claims	19,769,293	2,921,262	19,769,293	514,022	17,408,800	85.83%
Claims Secured by Residential Property	1,111,770	14,500	1,168,383	14,500	1,126,270	95.21%
Claims Secured by Commercial Real Estate	-	-	-	-	-	-
Non-Performing Assets (NPAs)	2,577,531	135,547	2,520,918	126,482	3,002,648	113.42%
High-risk Categories	-	-	-	-	-	-
Cash Items and Other Assets	1,724,844	-	1,724,844	-	1,193,751	69.21%
Total	**51,735,354**	**18,098,218**	**51,735,354**	**5,894,283**	**39,943,519**	**69.31%**

TEMPLATE 08

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

	Amount (LKR '000) as at 31 December 2021 (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	11,366,939	-	-	-	-	-	-	11,366,939
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	-	928,040	798,935	-	356,772	-	-	2,083,747
Claims on Financial Institutions	-	109,455	1,005,870	-	848,530	115,263	-	2,079,118
Claims on Corporates	-	61,820	2,975,966	-	13,223,605	-	-	16,261,391
Retail Claims	-	-	3,132,235	6,486,484	10,664,596	-	-	20,283,315
Claims Secured by Residential Property	-	-	-	-	1,126,270	-	-	1,126,270
Claims Secured by Commercial Real Estate	-	-	-	-	-	-	-	-
Non-Performing Assets (NPAs)	-	-	14,721	-	2,077,303	611,990		2,704,014
High-risk Categories	-	-	-	-	-	-	-	-
Cash Items and Other Assets	531,093	-	-	-	1,193,751	-	-	1,724,844
Total	11,898,032	1,099,315	7,927,727	6,486,484	29,490,827	727,253	-	57,629,638

TEMPLATE 09

Market Risk under Standardised Measurement Method

Item	RWA Amount (LKR' 000) As at 31 Dec 2021
(a) RWA for Interest Rate Risk	873,427
General Interest Rate Risk	
i. Net Long or Short Position	67,526
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 and Gold	41,652
Capital Charge for Market Risk [(a) + (b) + (c)] * CAR	109,178

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%		3,682,810	1,400,605	1,901,319
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	349,237				
The Standardised Approach	-				
The Alternative Standardised Approach	-				
Risk Weighted Amount for Operational Risk (LKR '000)					
The Basic Indicator Approach	2,793,894				
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 2021				
	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	1,214,754	1,214,754	1,214,754	-	-
Balances with Central Banks	567,802	567,802	567,802	-	-
Placements with Banks	601,151	601,151	601,151	-	-
Derivative Financial Instruments	3,200	3,200	-	3,200	-
Financial Assets Designated at Fair Value through Profit or Loss	-	-	-	-	-
Loans and Receivables to Banks	-	-	-	-	-
Loans and Receivables to Other Customers	40,490,736	40,490,736	40,490,736	-	12,105,984
Financial Investments - Available-For-Sale	10,783,609	10,783,609	10,783,609	10,783,609	-
Financial Investments - Held-To-Maturity	15,528	15,528	15,528	-	-
Investments in Subsidiaries	-	-	-	-	-
Investments in Associates and Joint Ventures	-	-	-	-	-
Property, Plant and Equipment	518,272	518,272	518,272	-	-
Investment Properties	-	-	-	-	-
Goodwill and Intangible Assets	258,942	258,942	-	-	258,942
Deferred Tax Assets	637,588	637,588	-	-	637,588
Other Assets	675,479	675,478	675,478	-	-
Liabilities					
Due to Banks	926,405	926,405	-	-	-
Derivative Financial Instruments	3,009	3,009	-	-	-
Other Financial Liabilities Held-For-Trading	-	-	-	-	-
Financial Liabilities Designated at Fair Value Through Profit or Loss	-	-	-	-	-
Due to Other Customers	40,182,402	40,182,402	-	-	-
Other Borrowings	3,969,617	3,969,617	-	-	-
Debt Securities Issued	-	-	-	-	-
Current Tax Liabilities	-	-	-	-	-
Deferred Tax Liabilities	-	-	-	-	-
Other Provisions	81,336	81,336	-	-	-
Other Liabilities	1,279,431	1,279,431	-	-	-
Due to Subsidiaries	-	-	-	-	-
Subordinated Term Debts	-	-	-	-	-

Item	Amount (LKR '000) as at 31 December 2021				
	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
Off-Balance Sheet Liabilities					
Guarantees	7,853,618	7,853,618	7,853,618	-	-
Performance Bonds	-	-	-	-	-
Letters of Credit	989,952	989,952	989,952	-	-
Other Contingent Items	1,746,641	1,746,641	1,746,641	-	-
Undrawn Loan Commitments	8,160,225	8,160,225	8,160,225	-	-
Other Commitments	88,548	88,548	-	-	-
Shareholders' Equity					
Equity Capital (Stated Capital)/Assigned Capital	11,394,421	12,894,421*	-	-	-
of which Amount Eligible for CET1	11,394,421	11,394,421	-	-	-
of which Amount Eligible for AT1	-	1,500,000*	-	-	-
Retained Earnings	(2,055,814)	(2,055,814)	-	-	-
Accumulated Other Comprehensive Income	(46,132)	(46,132)	-	-	-
Other Reserves	32,386	32,386	-	-	-
Total Shareholders' Equity	9,324,861	10,824,861*	-	-	-

* The difference is due to the BASEL III Additional Tier 1 Compliant Rated Unlisted Unsecured Subordinated Perpetual Convertible Debentures issued in December 2021 (Refer Template 05).

TOP 23 SHAREHOLDERS

As at 31 December		2021		2020	
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%	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%
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	2021		2020	
	Shareholding	Ratio	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	8,507,600	0.96%	8,710,000	0.99%
Shares held by Institutions	234,340,000	26.53%	234,340,000	26.53%
Balance held by Public	65,152,400	7.39%	64,950,000	7.36%
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	Rights issue	43,000,000	623,500,000
2016	Rights issue	400,142,858	5,802,071,441
Total		883,142,858	11,394,421,441

DEBT SECURITIES

Details of the Debenture issued by the Bank are given in Note 37.2 to the Financial Statements.

Modalities of Conducting the 10th Annual General Meeting

Supplementary Information

In view of the risks posed by the COVID-19 pandemic to the health and well-being of shareholders, the Board of Directors of Cargills Bank Limited (Bank) has decided to host the Tenth (10th) Annual General Meeting (AGM) of the Bank on 7 April 2022 at 10.00 a.m., as a virtual (online via the internet) assembly with the quorum necessary to conduct the business of the meeting.

Only the Directors (to the extent permissible) and officials who are essential for the administration of formalities of the meeting will be physically present at the Auditorium (first floor) of the Premier Pacific Pinnacle, No. 28 R. A. De Mel Mawatha, Colombo 04.

The details regarding the participation and the procedure to be adopted during the AGM is set out below;

1. Shareholders are hereby requested to participate at the AGM virtually via Zoom App by submitting the registration details set out in page 173. The Registration Form should be duly completed and a scan of the signed document should be forwarded to the email address amendra.d@cargillsbank.net with the email subject title "Annual General Meeting - Cargills Bank Limited" or deliver it to the registered office to be received not less than 48 hours before the commencement of the meeting. Shareholders are requested to provide their email address legibly in the space provided in the "Registration Form" in order to forward the web link if they wish to participate at the meeting through the online platform.
2. Upon receipt of the registration details, the Bank will email/issue virtual attendance log-in/voting link information to the registered shareholders/ proxies, to enable them to attend the AGM online via the internet.
3. Only registered shareholders and registered proxy holders will be permitted to log-in and participate in the AGM virtually.
4. Shareholders are entitled to appoint a proxy holder or a representative (in the case of corporates) to participate (on-line) on his/her/its behalf. A proxy holder need not be a shareholder of the Bank. Form of Proxy should be either addressed to the Company Secretary or posted or hand delivered to the registered office of the Bank at No: 696, Galle Road, Colombo - 03; or scanned and emailed to the email address amendra.d@cargillsbank.net not less than 48 hours prior to the commencement of the meeting.
5. Shareholders who wish to appoint a Director as his/her proxy to represent them at the AGM may do so by completing the Form of Proxy. In such event the email address of the proxy holder will not be required.
6. Voting on the items listed in the Agenda will be registered by using an online platform and the procedure to be followed when voting will be explained to the shareholders prior to the commencement of the meeting.
7. Shareholders may send their questions/ comments on the items listed in the Agenda of the Notice convening the AGM by email to amendra.d@cargillsbank.net to be received not less than 48 hours before the meeting.
8. The Bank intends to proceed to hold the AGM as planned on 7 April 2022, irrespective of whether it is declared a public holiday since the aforesaid measures will enable full participation of the shareholders at the meeting.
9. This Notice together with Registration Form, Notice of Meeting and Proxy Form will also be published in the Bank's website (www.cargillsbank.com)

By Order of the Board,

Ms. Amendra de Silva
Company Secretary

28 February 2022

Notice of Meeting
Supplementary Information

NOTICE IS HEREBY GIVEN THAT the Tenth Annual General Meeting of Cargills Bank Limited will be held as a virtual meeting using a digital platform from the Auditorium (first floor) of the Premier Pacific Pinnacle, No. 28 R. A. De Mel Mawatha, Colombo 04 on Thursday, 7 April 2022 at 10 a.m. for the following purposes;

1. To receive and consider the Annual Report of the Board of Directors and Statement of Audited Accounts for the year ended 31 December 2021 with Report of the Auditors thereon.
2. To re-elect as a Director Mr. Ranjit Page 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. Yudhishtran Kanagasabai who retires by rotation in terms of Article 86 of the Articles of Association of the Bank.
4. To elect as a Director Mr. Buwaneka Perera in terms of Article 92 of the Articles of Association of the Bank.
5. 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

28 February 2022
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.

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. Senarath Bandara (MD/CEO of the Bank)	or failing him
Mr. Prabhu Mathavan	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	or failing him
Mr. Buwaneka Perera	

as my/our Proxy to represent me/us and to vote for on my/our behalf at the Tenth Annual General Meeting of the Bank to be held on 7 April 2022 and at any adjournment thereof and at every poll which may be taken in consequence thereof (Please indicate your preference with "✓");

		For	Against
1.	To re-elect as a Director Mr. Ranjit Page who retires by rotation in terms of Article 86 of the Articles of Association of the Bank.		
2.	To re-elect as a Director Mr. Yudhishtran Kanagasabai who retires by rotation in terms of Article 86 of the Articles of Association of the Bank.		
3	To elect as a Director Mr. Buwaneka Perera in terms of Article 92 of the Articles of Association of the Bank.		
4.	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 2022

....	....
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 or scan of the signed document emailed to amendra.d@cargillsbank.net with the subject title "Annual General Meeting - Cargills Bank Limited" not less than 48 hours before the time appointed for holding of the meeting.

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

4. If the appointer is a Company or Corporation, this form must be executed under the Common Seal or in such other manner prescribed by its Articles of Association or other constitutional documents.

5. In the case of joint holders, only one need to sign.

CARGILLS BANK LIMITED

ANNUAL GENERAL MEETING 2022

REGISTRATION OF SHAREHOLDER DETAILS - ONLINE PARTICIPATION AT THE AGM 2022

To: Company Secretary
Cargills Bank Limited
696, Galle Road,
Colombo 03

1. Full Name of the Shareholder : ....

....

2. Shareholder's Address : ....

....

3. Shareholder's NIC No. / Passport No. / Co. Reg No.: ....

4. Shareholder's Contact No. : (Residence) .... (Mobile) ....

5. Shareholder's Email address : ....

6. Name of the Proxy Holder : ....

7. Proxy holder's NIC No. / Passport No. : ....

8. Proxy holder's Contact No. : (Residence) .... (Mobile) ....

9. Proxy holder's E-mail address : ....

10. Participation at the AGM Via an online platform: YES /NO (strike off irrelevant word)

11. Name of Joint holder/s (If any) : (i) ....

(ii) ....

12. National Identity card number/s of Joint holder/s: (i)... (ii) ....

....	....	....
Shareholder's signature	1st Joint holder's signature	2nd Joint holder's signature
Date:	Date:	Date:

Note:

1) Shareholders are requested to provide their email address in the space provided in order to forward the Virtual AGM Zoom link and necessary instruction, if they wish to attend the AGM through the online platform.

2) In the case of a Company/Corporation, the Shareholder details form must be under its Common Seal which should be affixed and attested in the manner prescribed by its Articles of Association.

3) In the case of a Power of Attorney, the Shareholder Details Form signed by the Power of Attorney must be deposited at the Registered Office of the Company for registration.

Corporate Information

Supplementary 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 AND 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. 32A,
Sir Mohamed Macan Markar Mw,
Colombo 03.

LAWYERS
Julius & Creasy
No. 371, R.A. de Mel Mawatha,
Colombo 03.

COMPLIANCE OFFICER
Gayantha Wijekoon

COMPANY SECRETARY
Ms. Amendra de Silva

BOARD OF DIRECTORS
Ranjit Page - Chairman
(Non-Executive Director)
Senarath Bandara
(Managing Director /CEO)
Prabhu Mathavan
(Executive Director)
Faizal Salieh - Senior Director
(Independent Non-Executive Director)
Richard Ebell
(Independent Non-Executive Director)
Ms. Ruvini Fernando
(Independent Non-Executive Director)
Ms. Marianne Page
(Non-Executive Director)
Yudhishtran Kanagasabai
(Non-Executive Director)
Buwaneka Perera
(Independent Non-Executive Director)

BOARD SUB-COMMITTEES

Board Human Resources and Remuneration Committee
Ranjit Page - Committee Chairman
Faizal Salieh
Yudhishtran Kanagasabai
Buwaneka Perera
Ms. Amendra de Silva - Secretary

Board Integrated Risk Management Committee
Faizal Salieh - Committee Chairman
Richard Ebell
Ms. Ruvini Fernando
Senarath Bandara
Prabhu Mathavan
Gayantha Wijekoon - Head of Compliance
Alex Perera -Chief Risk Officer-Secretary

Board Nomination Committee
Faizal Salieh - Committee Chairman
Ranjit Page
Richard Ebell
Ms. Ruvini Fernando
Ms. Amendra de Silva - Secretary

Board Audit Committee
Richard Ebell - Committee Chairman
Faizal Salieh
Buwaneka Perera
Chandima Samarasinghe - Secretary

Board Credit Committee
Yudhishtran Kanagasabai - Committee Chairman
Ranjit Page
Ms. Ruvini Fernando
Buwaneka Perera
Ms. Amendra de Silva - Secretary

Board Strategic Planning Committee
Ranjit Page - Committee Chairman
Senarath Bandara
Prabhu Mathavan
Faizal Salieh
Richard Ebell
Ms. Ruvini Fernando
Ms. Marianne Page
Yudhishtran Kanagasabai
Buwaneka Perera
Ms. Amendra de Silva - Secretary

Board Related Party Transactions Review Committee
Ms. Ruvini Fernando - Committee Chairperson
Faizal Salieh
Richard Ebell
Ms. Amendra de Silva - Secretary

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CargillsBank
Banking on the Human Spirit