Banking on the Human Spirit

CARGILLS BANK LIMITED | ANNUAL REPORT 2022

MULTIPLYING OUR IMPACT

Traversing a year of turbulent times was admittedly not an easy feat for any entity, but by leaning on our foundation we were able to emerge stronger.

Thinking strategically, we chose to invest in our roots, while our team brought forward their key strengths to help the bank navigate a difficult operating environment.

In line with our goal to build our nation, we supported our customers, keeping their needs at the forefront while managing the tight liquidity and operating conditions.

As we reflect on the year gone by, we take great pride in seeing the rewards of our effort - building resilience of our ecosystem and the community as a whole - as we strive to multiply our impact.

Table of Contents

About Us

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.

Founded on the belief that uplifting the people in the rural sector will strengthen our nation, and on the basis that our nation has always been an agrarian society, once renowned as the granary of the east, the fortunes of our nation have always centred around agriculture. Thus, the Cargills Bank logo portrays an ear of paddy, a symbol of prosperity and agriculture in Sri Lanka. The upward movement of the logo depicts prosperity and growth. The colour, a hue of Red and Orange, denotes a bright future. As we look closer, we also see people standing behind one another, symbolic of supporting each other, giving significance to the nature of the human spirit, that an individual’s success is built on support of the community, of which Cargills Bank is also a part.

The largest shareholders of Cargills Bank Limited are Cargills (Ceylon) PLC and CT Holdings PLC, both highly diversified conglomerates listed in the Colombo Stock Exchange, with interests in entertainment, the hospitality trade, property development, manufacturing, food processing and retailing.

Cargills (Ceylon) PLC, a Sri Lankan corporate established in 1844 is built on a strong foundation of values and ethics. Cargills Bank is also well partnered through investments of leading corporates in the country whose brands, financial performance, market share and business foresight have placed them at the highest levels of their respective fields.

Journey of the Bank

2014

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

2015

- Removal of restriction on Branch Openings
- 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
- First off-site ATM opened at Majestic City

2017

- Agency Banking Model with Cargills Food City
- Launch of www.cargillsbank.com Website
- Launch NFC, EMV Enabled Smart Debit Card
- Expansion of Branch Network to 17 Branches
- ICONIC Superhero in Omni-Experience at IDC Awards

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
- Acquiring Bank for JustPay to facilitate Payment Aggregators (Fintech)
- Lanka Pay Technovation Awards

2019

- Launch of the 1st ever image Card
- Launch of Internet Payment Gateway and Point-of-Sales Merchant Acquiring
- DigiZone Expansions
- Expansion of Cards services with the introduction of Cheque on Card, Balance Transfer & Instalment Payment Plans
- Achievement of the globally recognised PCIDSS Certification for our Cards operation

2020

- Launch of Diriya Investment Saver Account
- Establishing Digital Desk as an enhanced Tab Banking Solution
- Saubhagya Loans for Agri and SMEs customers
- Launch of Cargills Village to Home Initiative to support MSME sector
- Facilitated LankaQR payments at Cargills Food City

2021

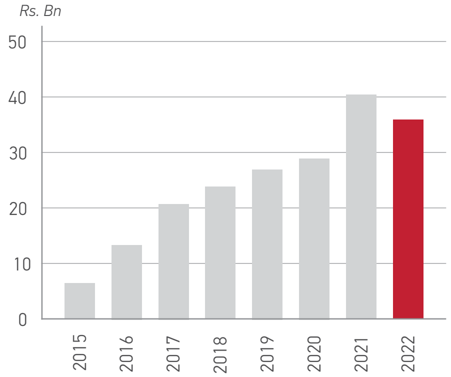
- Opened 21st Branch in Nawalapitiya
- Launched Abhimani Women's Savings Account
- Added new partners to facilitate remittances from new markets
- Launch of Cargills Bank MINI Service Points
- Launch of Non Face - to - Face Onboarding of Customers
- Implemented 3D Secure card protection

2022

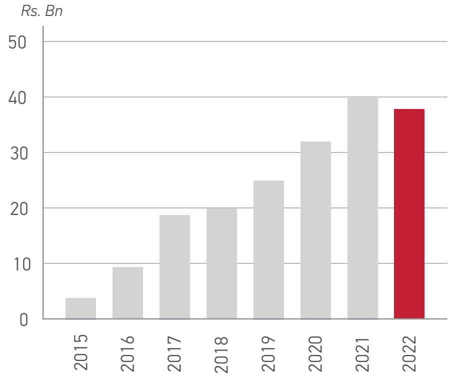
- Opened two branches (Negombo and Anuradhapura)
- Launched the Mobile Branch vehicle (approval to serve customers in Central, North Central and Northern Provinces)
- Opened eight MINI locations
- Set up an Insurance Desk
- Set up Invoice Discounting service
- Joined Lanka Remit Mobile Application during the year 2022 (The only Bank currently in operation with "Lanka Remit Mobile App" to process Remittances from overseas using Debit/Credit card.)
- Received the following awards at Technovation Awards 2022
  - Best Lankapay card implementor - Silver
  - Best Mobile Application for retail payments via LankaQR - Merit
  - Best Mobile Application for retail payments via Justpay - Merit

Financial Synopsis

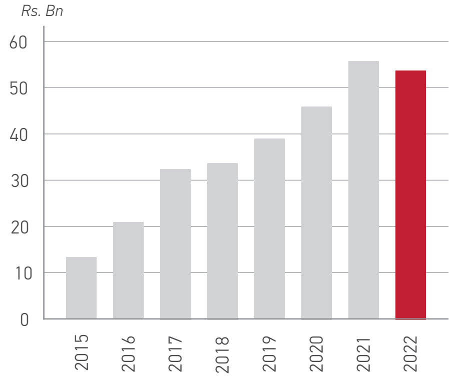
	2022	2021	Change(%)
Operating Results (Rs,000)			
Gross income	9,488,610	4,994,170	90
Net interest income	3,204,251	1,839,681	74
Net fees and other income	1,076,436	618,826	74
Total operating income	4,280,687	2,458,507	74
Operating profit/(loss) before taxes	447,775	(262,501)	271
Profit/(loss) for the year	487,764	(277,127)	276
Assets and Liabilities (Rs.000)			
Loans and advances	35,960,080	40,490,736	(11)
Due to depositors	37,802,680	40,182,402	(6)
Total assets	53,752,809	55,767,061	(4)
Total liabilities	44,032,504	46,442,200	(5)
Shareholder's funds	9,720,305	9,324,861	4
Key Indicators			
Earnings/(loss) per share (Rs.)	0.55	(0.31)	
Net asset value per share (Rs.)	11.01	10.56	
Net Interest Margin %	5.99	3.97	
Return on assets (before income tax) %	0.36	(0.74)	
Return on equity %	5.28	(2.99)	
Asset Quality			
Stage 3 Loans (Net of Stage 3 Impairment) to Total Loans %	4.85	6.43	
Stage 3 Loan Impairment to Stage 3 Loans (Stage 3 Provision Cover) %	51.15	46.30	
Regulatory Ratios			
Common Equity Tier 1 Capital Ratio %	18.95	19.31	
Tier1 Capital Ratio %	22.32	22.75	
Total Capital Ratio %	22.85	23.47	
Liquid Asset Ratio - Domestic Banking Unit %	26.70	26.30	
Liquidity Coverage Ratio - All Currency %	140.51	147.35	



Loans & Advances



Total Deposits



Total Assets

Rs. 37,803 MN
Total Deposits
-6%

Rs. 53,753 MN
Total Assets
-4%

Rs. 35,960 MN
Loans and Advances
-11%

Rs. 9,489 MN
Gross Income
90%

Rs. 4,281 MN
Operating Income
74%

Rs. 488 MN
Profit After Tax
276%

23
Branches

598
Employees

8 YRS
Years in Operation

500+
Touch Points

A(lka)
Fitch Rating

199,000+
Total Customers Onboarded

MULTIPLYING OUR NETWOK

With access to the extensive Cargills Food City network through our Agency Banking arrangement, Cargills Bank is able to provide banking services to our customers through over 500 touchpoints across the country.


CargillsBank
Banking on the Human Spirit
Remittances
Utility Bill Payment
Next Customer Please
Cargills
Bank
BANKING ON THE HUMAN SPIRIT

Outgoing Chairman's Statement

Understanding the need of the country, we decided to invest more aggressively in building infrastructure to support the agriculture and dairy farming communities and sought a banking license to support the ecosystem we were building. We applied for a license under the banner of Cargills Agriculture & Commercial Bank, reflecting our vision to be the most inclusive bank by improving financial access for underserved communities across Sri Lanka.

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

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

Today, we see ourselves having overcome a challenging period for the institution, under the leadership of the Managing Director and his enthusiastic team, who are committed to drive the purpose of the Bank; to make a difference beyond the traditional banking clientele. History will judge us, if we lived up to our commitment to serve the agricultural and entrepreneurial communities of Sri Lanka.

I wish the Chairman and the Board every success in the coming years and reiterate the promoters' continuous support towards building this unique business model, for which we were awarded the banking license.

Ranjit Page

Colombo
22 March 2023

Chairman's Message

> ***Our access to the Cargills ecosystem benefits the Bank, and at a societal level, gives its customers increased convenience and ease of banking, opening doors to previously underserved sectors of the population. Through this access the Bank seeks to bring vibrantly alive its motif "Banking On The Human Spirit".***

I am pleased to present the Bank's Annual Report and Audited Financial Statements for 2022. I seek, in this statement, to provide a brief overview which will be expanded to a more complete picture by other content in this Report.

RESULTS

The Bank generated very satisfying results in 2022 in extremely challenging conditions. While results were eroded by increased provisions for portfolio impairment, strong operational performance bolstered by an increase in the Deferred Tax Asset carried on its Balance Sheet due to the corporate tax rate rising to 30%, resulted in the Bank recording a post-tax profit of Rs. 488 Mn for the year.

The results reported are particularly creditable considering that they were achieved in the face of customer loan and deposit portfolios reducing due to market pressures and the Bank's care in expanding its loan book and in setting interest rates offered on customer deposits. Interest rates and liquidity, both rupee and foreign currency, remained important areas of attention for the Bank during the year, and were managed well.

Credit quality remains a major focus for the Bank due to high inflation and severely depressed economic conditions that have affected most in Sri Lanka. Extremely high interest rates have further affected customers' ability to service their borrowings. The Bank has managed this challenge prudently, and with sensitivity to customers' circumstances.

We look forward with hope to economic conditions improving, and to interest rates easing, with approval of the IMFs Extended Fund Facility for Sri Lanka.

STAFFING CHALLENGES

Departures of staff from the banking sector, originating largely from disillusionment with Sri Lanka's economic condition and the high cost of living, is a stark reality. The Bank is proactively taking steps to address this impact.

LISTING AND CAPITAL AUGMENTATION

Extended deadlines have been set by the Central Bank for the Bank's listing and capital augmentation. Steps will be taken to list the Bank on the Colombo Stock Exchange during the year; discussion concerning the regulatory stipulation that the Bank's capital should be augmented to LKR 20 billion during the year continues.

Chairman's Message

THE IMMEDIATE FUTURE

The Bank's success hinges largely on the benefits flowing from its unique differentiator - access to the Cargills Group ecosystem of customers, suppliers, distributors and many hundreds of customer touchpoints island-wide. We are grateful for the continuing, unreserved commitment of our major shareholders, the Cargills Group, to enable the Bank fully realise these benefits. Our access to the Cargills ecosystem benefits the Bank, and at a societal level, gives its customers increased convenience and ease of banking, opening doors to previously underserved sectors of the population. Through this access, the Bank seeks to bring vibrantly alive its motif- "Banking On The Human Spirit".

The Bank grew its reach through its branches and "mini" units within Cargills Food City outlets during the year, and launched a mobile banking branch growing its access to agricultural farmers, dairy farmers and micro entrepreneurs in the communities it serves. This commitment to the rural economy is an essential element of its platform; much has been achieved in laying the foundation, and that foundation will be built upon. Meanwhile, investments were made to strengthen the technology infrastructure of the Bank, improve efficiency and provide better service to our customers.

The Bank's supported credit rating assigned by Fitch Ratings was downgraded from A+ (lka)/RWN during the year in view of country conditions, but remains at a level of A (lka)/RWN. The rating is on par with, or better than, our peers.

ACKNOWLEDGEMENTS

My colleagues and I are indebted to Ranjit Page for his leadership and the vision and energy he brought to the Bank during his time on the Board. Mr. Page retired from the Board in January 2023 following completion of nine years on it, the maximum term permitted by the banking regulator.

The Bank's commendable performance in the unprecedented circumstances through which we are passing is due to the unstinted efforts of its team, headed by its Managing Director Senarath Bandara who has led exemplarily in his own hands-on, understated style. He has brought out the best in the team, and they have responded well to the challenges the recent past has thrown at them. We thank them all. It is this indomitable spirit that will help us weather the storm and move forward even more strongly when it passes.

Each member of our Board is contributing wholeheartedly, as individual Directors and as Chairs or Members of the Board Committees on which they serve. I rely heavily on them in the role I play.

I place on record our appreciation of the contributions of Prabhu Mathavan, who retired from the Board in January 2023 after completing nine years on it. He remains with the Bank as Chief Operating Officer.

The Board bid farewell to Faizal Salieh in 2022. We thank him for the valuable, committed input he gave the Bank during his time on the Board.

Asoka Pieris, Managing Director, Cargills Foods Company, has recently joined the Board, and we are confident that he will contribute much to the Bank's progress.

Finally, but not least, we thank the banking regulator the Central Bank of Sri Lanka for their support and guidance through the year, our shareholders for their endurance over the Bank's challenging journey thus far, and our customers and other stakeholders for their valued support.

Richard Ebell
Chairman

Colombo
22 March 2023

CEO's Message

Our involvement with the Cargills Group network will allow us to continue to develop and offer services to different verticals of the supply chain. In the meantime, we will continue to diversify our market reach and product portfolio to strengthen our operational and financial capacity and resourcefulness to seek growth in the long term.

Cargills Bank navigated the uncertain economic climate of 2022 with resilience and pragmatism. The Bank adopted an agile approach in response to the challenges to seek growth and stability in spite of external pressure. Our approach has borne fruit with the Bank achieving profitability within the year under review, while also pursuing our long term growth aspirations to create sustainable value for all stakeholders.

RETURNING TO PROFITABILITY WITH AN EYE ON LONG TERM GROWTH

Cargills Bank recorded a profit before tax of LKR 206 Million for the financial year 2022 in comparison to the loss of LKR 369 Million recorded during the previous financial year. We achieved this turnaround in profitability following consecutive losses during the past three years. The Bank's total operating income as at the end of the financial year stood at LKR 4.3 Billion, illustrating a growth of 74 percent year on year. The net operating income for the year was LKR 2.8 Billion recording an annual growth of 59 percent. In spite of challenges stemming from inflation and economic uncertainty, the Bank managed to stabilise operating expenses to LKR 2.4 Billion, a growth of 16 percent over the corresponding year.

During the year under review, our strategies allowed us to minimise the external impact on our performance. We prudently managed our lending book to ensure that we preserved liquidity while maintaining asset quality. Moreover, we took appropriate steps to grow our fee income streams to turnaround profitability.

Responding to the tightening monetary policy of the Central Bank in an inflationary environment, we swiftly changed our growth strategies to a consolidation approach. We focused on ensuring the stability of our asset base to receive long term, secure benefits, while managing the rapid interest rate changes in the market to improve liquidity while pragmatically securing margins on the lending and asset portfolios.

Remaining sensitive to the economic repercussions on customers, we took proactive actions to prudently manage our loan portfolio. We offered our customers loan moratoriums and re-structuring to ensure that they were able to continue business operations and remain stable in the near term. In relation to housing and personal loans, interest rates were moderately kept low compared to market interest rates to ensure continuity of loan repayment and to support fixed income earners to manage their finances better in a difficult economic environment. Recognising the difficult operating

CEO's Message

environment for our customers, the Bank also took steps to increase our provision cover to 10.7% in 2022 (vs. 7.3% in 2021), making appropriate overlay adjustments to reflect the increased credit risk profiles of borrowers.

Meanwhile, we took effective measures to manage the increase in operating cost to ensure continuous operations amidst tight operating conditions, resulting in our Cost to Income ratio improving from 82.8% in 2021 to 55.4% in 2022.

STRENGTHENING OUR BUSINESS MODEL TO LAY A SOLID FOUNDATION FOR GROWTH

Mindful of the fact that the repercussions of the economic and financial crisis will continue to impact profitability and growth in the medium term, we concentrated on strengthening our business model and laying a robust foundation in 2022.

During the year under review, we laid a solid foundation for growth by expanding our operating channels, targeting growth in specific segments, stringent cost management, proactively managing our NPCF ratio and shifting our asset base to high yielding and secure classes. Moreover, we intensified our focus on managing deposit tenure to effectively respond to the changing rate and liquidity environment.

The robust Cargills Group ecosystem allowed us to broaden our reach and provide customers with convenience and efficiency in fulfilling their banking needs. Our omnichannel approach and technology to establish customer service points at Cargills Food City locations allowed us to maintain our reach to customers even during the fuel crisis. More importantly, this has provided the Bank with a low cost channel to grow our customer base.

During the year under review, we focused on expanding our business reach within the agriculture, retail and SME banking arenas through leveraging on the Cargills ecosystem. We deployed a mobile banking vehicle to the Central and North Central provinces to provide banking services to communities in rural areas, thus bridging a gap between banking services and underserved agricultural communities. Moreover, we opened eight Cargills Bank MINI locations at Cargills Food City outlets. We also opened two bank branches in 2022 in Negombo and Anuradhapura to expand our reach and improve customer convenience.

In addition, we recorded strong growth in our service offerings such as Digital Banking, Cargills Cash and Remittances. An increasing number of customers utilised our cash deposit facilities at Cargills Food City outlets. We provide cash deposit and withdrawal services free of charge from 480 Cargills Food City outlets islandwide through the Cargills Cash service.

In the near future, we plan on building on the momentum gained through careful deliberation in 2022 to pursue viable growth while remaining market sensitive, prudent, technology driven and innovative.

DIGITALISATION AND INTERNET BANKING

During the year under review, we continued our back-end digitalisation by implementing technology to facilitate new channels and reinforce efficiency. Our tab-banking facility effectively supported the Cargills Bank MINI deployment, while we also launched our digital onboarding service.

Our digital banking services incorporate features designed to offer banking convenience in a user friendly manner. We promoted the usage of our Corporate Internet Banking facility to our SME and Corporate customers to bypass mobility challenges and more conveniently engage with the Bank.

We also launched a mobile branch vehicle to serve the underpenetrated agriculture sector, taking banking services to their doorstep. We are committed to financial deepening and inclusion, especially in underserved areas.

During the year under review, we continued to support CBSL's Lanka QR initiatives to provide customers convenience and easy access to their accounts to manage their payments and banking needs. As a result, we were recognised at the Technovation awards 2022 for our efforts in financial deepening using technology. We see substantial potential in using QR technology to offer different, value added services to customers.

We also invested in digitising operating processes to reduce paper usage and improve efficiency and process visibility. The Bank continued to strengthen our IT infrastructure and system and information security, having completed a technical upgrade late in 2021. We expanded our Business Continuity Planning centre, and successfully tested running day-to-day operations from the new BCP site.

We will continue to explore opportunities in digital banking and the usage of technology to facilitate better service to our customers.

SUPPORTING THE NATIONAL ECONOMY AND OUTLOOK

Our technology initiatives continue to facilitate the SME and the agricultural sector, and we are committed to exploring avenues to transform these sectors. During the year under review, our mobile branch service was launched to support the agricultural sector in remote areas of the country, complementing our reach through the Cargills Group network.

While we have expanded and diversified our focus on different sectors of the economy, we continued to support SME development through the provision of working capital loans, moratoriums, etc. in the wake of the economic crisis. In line with our commitment to aiding the growth of the agricultural sector, we provided low interest loans to farmers in the agricultural and dairy industries during the year under review.

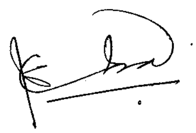
Our involvement with the Cargills Group network will allow us to continue to develop and offer services to different verticals of the supply chain. In the meantime, we will continue to diversify our market reach and product portfolio to strengthen our operational and financial capacity and resourcefulness to seek growth in the long term.

LISTING AND CAPITAL AUGMENTATION PLAN

The Bank plans to list on the Colombo Stock Exchange in 2023, a decision that has had to be delayed due to the uncertain environment over the past three years. We expect the capital markets to remain tight in the near term due to high interest rates and cost escalation, and liquidity tightness will continue to impact the flow of financial resources in the near future. Nevertheless, the listing will provide the Bank an opportunity to augment our capital base towards the Central Bank's minimum capital requirement of LKR 20 Billion and also allow the Bank to broaden our shareholder base.

CONCLUSION

The year 2022 may be remembered not only as one of the most turbulent periods in the country but also as the start of a new era. Cargills Bank was able to navigate these turbulent times due to the visionary and pragmatic guidance of our Board. We are grateful for the inspiring leadership and guidance of our former Chairman, Ranjit Page who resigned from the Board in January 2023 having served on the Board for 9 years, the maximum period allowable under the Banking Act. I wish to express my sincere gratitude to Mr. Page, who was a constant source of support as we took measures to turnaround the Bank, and welcome Richard Ebell, our Senior Director, as the new Chairman of the Board. I would also like to express my gratitude to my senior management team and employees for their unwavering efforts to maintain operational integrity and translate our strategy into actionable steps. I also wish to thank CBSL for their efforts in maintaining financial stability amidst dire circumstances. On behalf of the Cargills family, I wish to thank our customers and stakeholders for placing their trust in our ability, resilience and resourcefulness. As we continue to pursue our mission to become the most inclusive Bank in Sri Lanka, we will find inspiration from the way we managed to steer forward with confidence in 2022 and seek sustainable growth in the years to come through creating value for all our stakeholders.



Senarath Bandara
Chief Executive Officer

Colombo
22 March 2023


Cargills
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DIRIYA
CargillsBank
ATM
SENIOR
CITIZENS
FIXED DEPOSIT
ABHIMANI
WOMEN'S SAVINGS ACCOUNT
SALARY
SAVER
LOANS
Cargills Cash
CARGILLS BANK Cards
CargillsBank
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MULTIPLYING OUR OUTREACH

During the year, we took another step towards our goal of financial inclusion and deepening with the launch of a Mobile Branch vehicle operating in the Central and North Central Provinces.

The Operating Environment

According to the World Economic Outlook report released in October, 2022 by the International Monetary Fund, global growth forecast contracted from 6.0 percent in 2021 to 3.2 percent in 2022. The lingering impact of the COVID-19 crisis, rising cost of living, spillover effects from Russia's invasion of Ukraine and compressed financial markets dampened growth. Global inflation forecast increased from 2.7 percent in 2021 to 3.2 percent to 8.8 percent in 2023. Amidst the prevailing cost of living crisis, countries across the globe aim to bring down inflation. The tight monetary conditions impacted financial and debt stability.

Meanwhile, the combination of global growth contraction and internal challenges severely impacted the growth of the Sri Lankan economy. The country's economy indicated signs of weakness in the aftermath of the COVID-19 pandemic. The country's weak investment environment, administrated exchange rate and expansionary monetary policy contributed further to the brewing crisis.

The combined impact of the rise in global inflation, continued disruption on the supply chains, commodity price anomalies and a foreign currency liquidity crisis resulted in a steep increase in the cost of local business operations in Sri Lanka.

Having lost access to global financial markets in 2020 following a credit rating downgrade, Sri Lanka serviced external debt and paid for imports relying on official reserves and loans from the banking sector. As a result, official reserves decreased from US$7.6 billion in 2019 to less than US$400 million by June 2022, excluding a currency swap equivalent to US$1.5 billion with China. The banking system experienced a net foreign asset drop to US$ -5.9 billion by June 2022. A forex liquidity constraint of this magnitude severely impacted the economy, especially from the second quarter of 2022. In this backdrop, the country announced an external debt service suspension in April, 2022 and later sought to consider debt restructuring.

In this context the country's economy decreased by 7.8% in the year 2022. All major sectors suffered given input shortages and supply chain disruptions. The country's year on year inflation as at January 2023 stood at 53.2% according to the NCPI (National Consumer Price Index). Both food and non-food price inflation contributed to the increase in overall inflation.

The unprecedented rise in inflation stemmed from high commodity prices, fiscal deficit, supply chain disruptions and currency depreciation. The Sri Lankan rupee contracted from 200 to 360 to the US dollar during the year under review, triggered by the balance of payment crisis. Meanwhile, interest rates rose to 30 percent during the year.

The country's financial sector encountered challenges in the wake of the contracted economic output, sovereign debt restructuring, high interest rate environment coupled with the exposure of the banking sector to the State-Owned Business Enterprises (SOBEs).

The banking sector in the country faced constraints in the financial markets, high cost of business operations along with the default risk and the ongoing moratorium. Moreover, high global inflation and disproportionate demand and supply forces with the decline of trade volume coupled with the rise in trade cost also impacted the banking sector.

The Central Bank (CBSL) stated that "the banking sector exhibited a deterioration in credit quality during the nine months ending September 2022. This was driven by the exponential growth in gross stage 3 loans and the decelerating growth in gross loans and receivables. The Gross Stage 3 Loans to Gross Total Loans Ratio (Gross Stage 3 Loans Ratio) of the sector increased to 10.8 per cent at end September 2022, compared to 8.1 per cent at the end of the corresponding period of 2021. Growth in gross stage 3 loans surged to 41.7 percent year-on-year at end September 2022."

According to the CBSL, the banking sector faced challenges in maintaining capital ratios above regulatory minimum levels amidst a substantial deterioration in capital buffers due to the impact of adverse macroeconomic conditions.

Sources cited: The World Bank. International Monetary Fund, Central Bank of Sri Lanka

STRATEGIC RESPONSE TO THE CRISIS

In this turbulent backdrop, Cargills Bank adopted a pragmatic, prudent and market sensitive approach to navigate the economic environment and create value in the short term while being mindful of long term growth objectives. As a relatively new entrant to the banking sector, we were aware of the specific risks as well as advantages we had to leverage on in a prudent manner, following a data driven approach to manage the overall and individual challenges.

Regular communication and in depth deliberation in taking decisions were the keys to effective management of the crisis. The Bank's committees increased the frequency of meetings during the year under review to develop solutions to specific crisis points. The committees prioritised treasury, risk management and established seamless communication between business units to make decisions calculated to safeguard the interest of the Bank, customers and other stakeholders.

One of the fundamental aspects of a stable and successful Bank is the ability to create value beyond mere financial value in line with the current realities and future prospects. We consistently aim to support our customers, in particular during challenging economic circumstances. As such, in making decisions and implementing action steps, we took into consideration the wellbeing of our customers, in particular, SME, agricultural and retail, to ensure long term value growth whilst managing short term challenges. In this regard, the Bank focused on curtailing lending to impacted segments given the unsustainable high interest rates, but continued providing working capital finance to allow businesses to continue their operations. The Bank also maintained retail lending rates at a lower level than the rate for SMEs and corporates to minimise the impact on customers upon re-pricing of loans.

Similarly, we responded to each identified risk with well-defined objectives of supporting our customers while stabilising our capital base, liquidity management as well as the ultimate goal of creating long-term value to become the most inclusive bank in the country.

In addition, Cargills Bank honoured foreign currency requirements of customers without any delays and effectively managed the exchange inflow to onboard import customers during the crisis.

The following depicts our approach to managing the crisis and remaining steadfastly on our goal of creating long term value to become a trusted, well capitalised and all inclusive bank.

Navigating the economic crisis

- Entrusting the Bank's committees the task of extensive deliberation and risk management on a case by case basis.
- Strengthening risk governance and enhancing asset quality to minimise losses.
- Adopting a data driven, market sensitive approach to implement feasible solutions.
- Remaining well capitalised, maintaining optimal liquidity and a strong capital base.
- Making responsible treasury decisions foreseeing financial market conditions and acting prudently.
- Building a resilient team to respond to the challenging environment.

Building operational excellence

- Efffectively managing customer relationships through various channels.
- Leveraging on the Cargills Group network to provide island-wide service in a cost-effective manner.
- Focus on digital banking and technological innovation to drive customer engagement while reducing operating cost.
- Reengineering business processes with technology involvement.
- Prudent operating cost and investment management to ensure a continuous reduction in the Cost to Income ratio.

Creating long term value

- Product and service diversification and innovation based on market needs.
- Creating greater opportunities to SME and Agriculture customers.
- Strengthening and broadening the customer base to reduce any potential liquidity risks and stabilise the portfolio.
- Remaining relevant to customers from all stratas of society by leveraging technology to provide banking services at their convenience.
- Leveraging on the strength of the Cargills group to support business growth and community impact objectives.

The Operating Environment

PURSUING SUSTAINABLE GROWTH

Our growth objectives hinge on the pillars of customer centricity, diversification of product and services, expanding customer reach and base, prudent capital management, funding and liquidity management, digitalisation and capturing the opportunities within the Cargills ecosystem.

As the country continues to navigate an economic and social crisis of unprecedented scales, it is well within our interest and corporate responsibility to help the recovery process. As such, our own efforts at optimal resource utilisation, risk management, stability and growth will determine the outcome of the aftermath of the crisis.

Customer centricity is one of the fundamental values of Cargills Bank as a well-established yet relatively new entrant with the backing of one of the country's leading Groups - Cargills. Even during the crisis, we continued to offer customer convenience through providing banking services through our branches, Cargills Food City outlets and our digital banking services. Our products and services are designed to facilitate lifestyles and wealth creation needs of each respective customer segment. Our customer centric approach enabled us to make crucial decisions with regard to lending, asset management and safeguarding customer business continuity during the crisis.

The diversification of our products and services continued during the year under review, amidst the constraints of the economic backdrop. Our efforts at diversifying our products and services fall in line with our wish to expand and diversify our customer base. This in turn aligns seamlessly with our ultimate goal of becoming the most inclusive bank in Sri Lanka. Cargills Bank's products and services cater to the specific needs of each customer base and we also take into consideration the potential developments in the financial markets.

We believe that a strong capital base is integral to a bank's sustainable growth and stability. As such, we ensure the prudent management of our capital through safeguarding the asset base by using timely actions and growing stakeholder confidence through financial stability, honouring customer requirements and optimum capital usage. During the year under review, Cargills Bank maintained a capital adequacy ratio well above the sector minimum and industry standards. The country's banking sector faces a daunting task of pursuing growth objectives amidst necessary and justifiable regulatory requirements and external impediments. Cargills Bank is committed to remaining compliant with regulatory requirements and maintaining capital adequacy at healthy levels. In the meantime, we continue to look into future business expansion and maintain the desired credit rating.

Effective funding and liquidity management while essential at all times in the banking sector, became even more integral to operational integrity during the period under review. As such, we took prudent actions to ensure sufficient liquidity during the year and took precautionary measures to ensure the desired liquidity in the near future. Our funding and liquidity management efforts pivot on our strict compliance with relevant regulatory requirements and maintaining internal funding and liquidity targets.

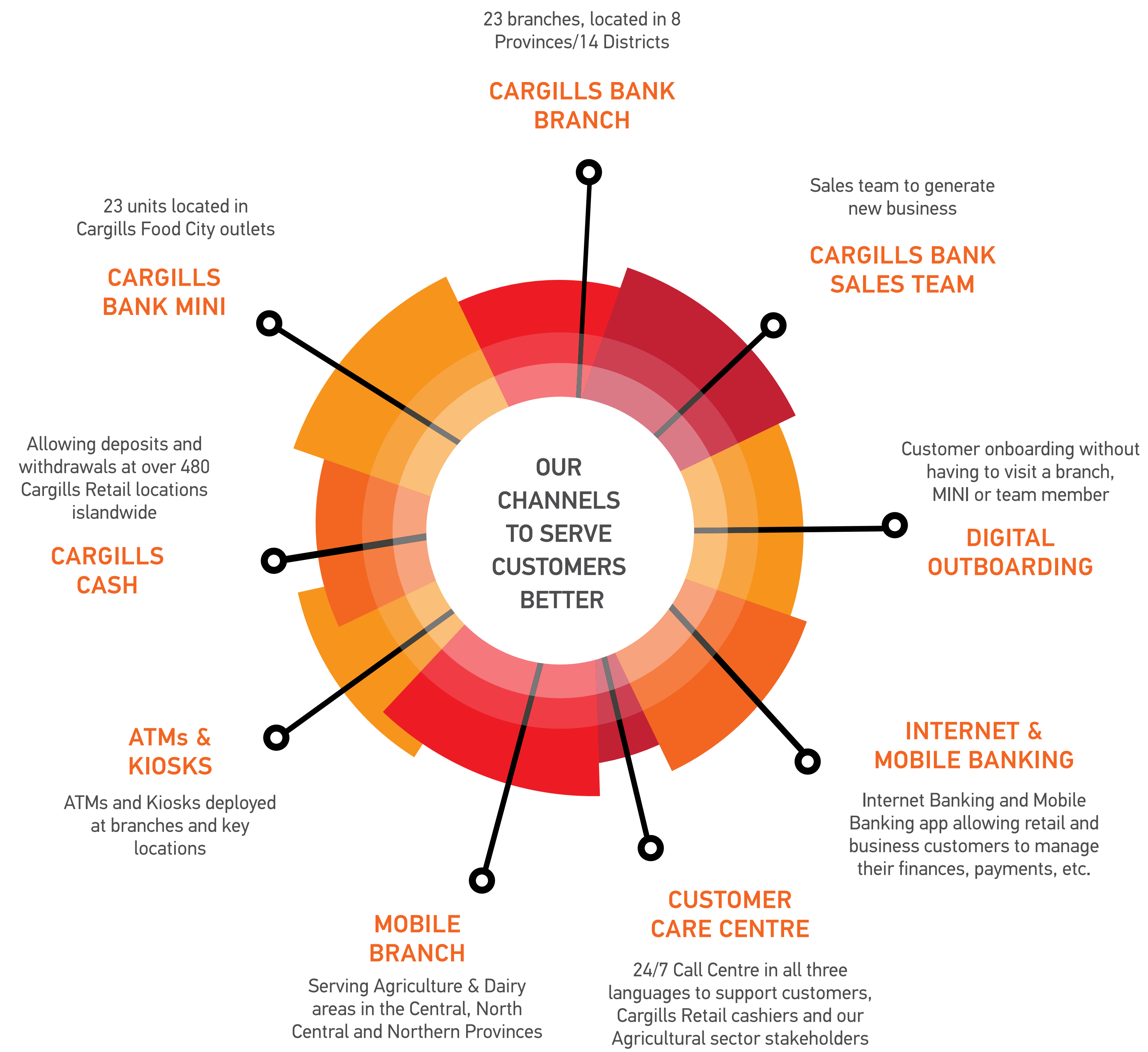
CONCLUSION

The year 2022 presented the Bank with a myriad of macro-economic and social challenges. We responded by adapting our original business plan to create viable solutions to the numerous interconnected challenges. We adopted a resilient, resourceful and market sensitive approach to safeguard customer interest in both the short and long term. In addition, we prudently managed our asset base and investments to guarantee sustainable outcomes. While we remain cautious amidst the ongoing financial and economic crisis, we are committed to pursuing growth through the aforementioned strategies and adopting flexibility and a futuristic approach to create value for the Bank and all our stakeholders.

Our Service Delivery Channels

Our approach to widen our service scope places emphasis on deriving opportunities from the established Cargills ecosystem to facilitate a low-cost, technology-enabled distribution model that provides customers with effective financial solutions at their convenience.

During the year, we launched a mobile branch vehicle to reach customers in unbanked and underbanked localities, in line with our goal to promote financial inclusivity and deepening. We also selectively expanded our branch and MINI network, opening two branches in Negombo and Anuradhapura during the year, and eight new MINI locations.



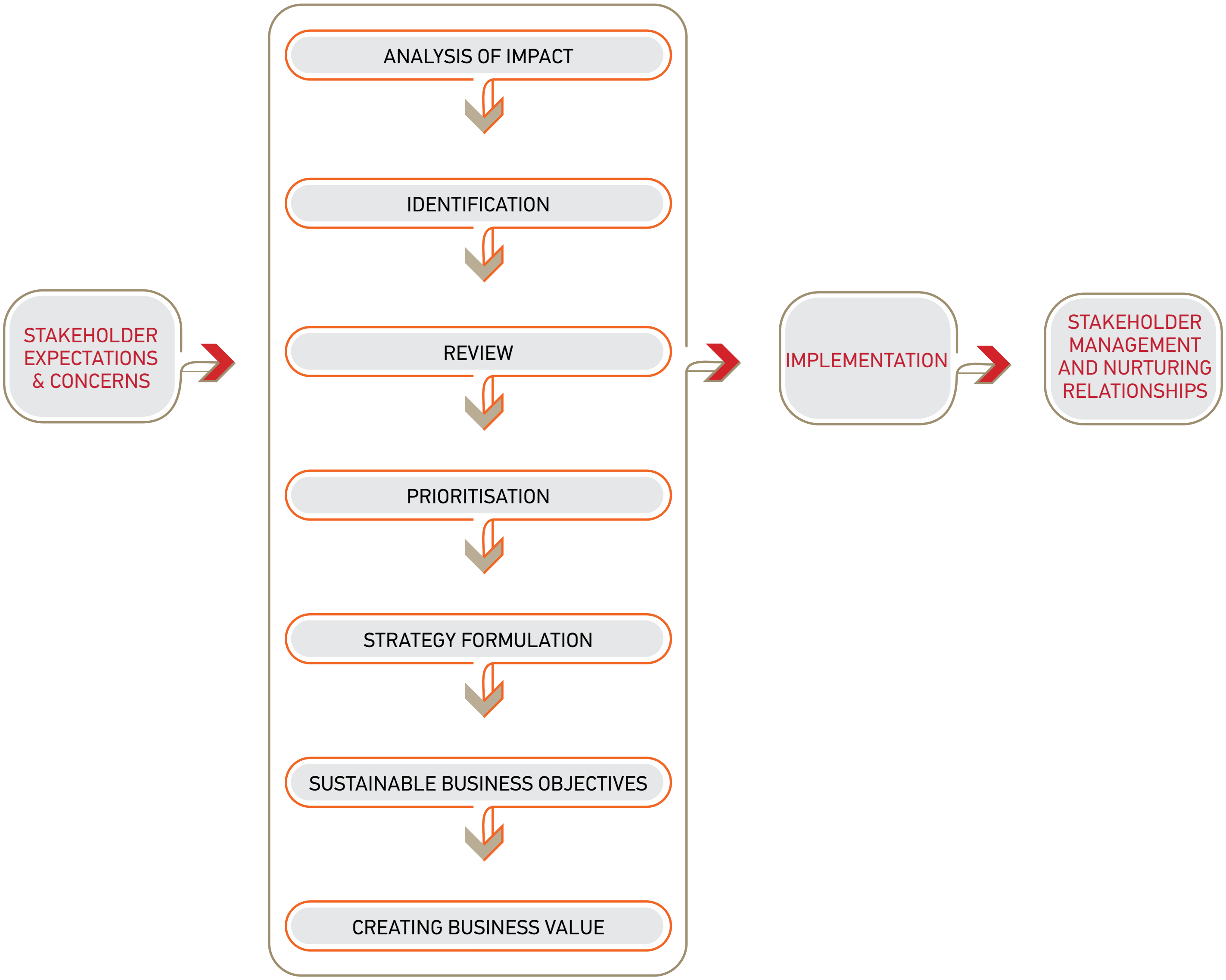
Stakeholder Engagement

OUR STAKEHOLDER MANAGEMENT FRAMEWORK

Cargills Bank identifies stakeholders based on the impact of each group on our decision-making process. To promote meaningful engagement, we have created channels of communication tailored to each stakeholder group. We create the communication plan and channels based on the scope and scale of the relationship with each stakeholder group based on an internal analysis. This helps us to identify the degree of involvement. The below table illustrates our stakeholder groups, their level of involvement, mutual goals and method of communication. We ensure that our stakeholders consistently have access to information with regard to the Bank to allow them to make informed decisions.

Key Stakeholder Group	Level of Involvement	Goals	Method of Engagement
Shareholders	Medium	Sustainable growth and wealth creation	Interim Financial Statements Annual Report Annual General Meetings Extraordinary General Meetings (as required) Corporate Website Press Releases One-to-one discussions
Customers	High	Customer wealth creation, financial stability and long-term growth	Branch and Sales team Relationship Managers Digital Services Customer Contact Centre Print, Electronic and Digital Media Printed Correspondence Direct Messaging Corporate Website Press Releases
Employees	High	Career growth and remuneration	Intranet Open Door Policy Induction Programs Team Meetings Staff Recreation and Team Building Events Training Programs Annual Appraisal Employee Welfare and Social Committees Employee Engagement Surveys Digital Communication Channels CSR Projects
Communities	Medium	Community empowerment	Branch Team Sponsorships CSR Projects Corporate Website Print, Electronic and Digital Media
Regulators	High/Medium	Statutory compliance	Statutory Reporting Meetings Forums Submissions Directives and Circulars
Business partners	High	Mutually beneficial business practices	One-to-one Discussions Electronic Correspondence Supplier Reviews and Assessment

The below depiction presents our stakeholder engagement process.



Our stakeholder engagement process is integrated into our overall strategy implementation and business value creation. Our stakeholder engagement framework begins with analysis of the impact that our stakeholders have on the Bank and vice versa. We take into consideration the influence stakeholders have on our business decisions, and what value means to us as well as specific stakeholder groups.

The next step involves stakeholder identification through reviewing their goals as well as key risks and opportunities present in the dynamic. Once we group key stakeholders, we move on to formulating a strategy for effective engagement of stakeholder groups in tandem with our business goals and their expectations. Implementation of the formulated strategy allows us to manage and nurture our rapport with stakeholders for value creation purposes.

We maintain a purposeful, relevant, transparent, inclusive and ultimately responsive stakeholder engagement strategy to meet mutual growth aspirations.

Value Creation and Preservation Model

CAPITAL INPUT

VALUE TRANSFORMATION

FINANCIAL CAPITAL
- Shareholder's Funds - Rs. 9,720 Mn
- Customer deposits - Rs. 37,803 Mn
- Other Borrowed funds - Rs. 2,423 Mn
- Subordinated liabilities - Rs. 1,500 Mn

MANUFACTURED CAPITAL
- Branches - 23
- Mini Locations -23
- Information, Communication Technolohy Infrastructure
- ATMs
- CRM
- Other touch points including 500+ Cargills Food City outlets

HUMAN CAPITAL
- Diverse Board of Directors
- Committed workforce - 598
- Skills and experience
- Loyal employees
- Healthy workforce

INTELLECTUAL CAPITAL
- Best practices
- Institutionalised knowledge
- Cargills Brand loyalty

SOCIAL AND RELATIONSHIP CAPITAL
- Correspondent relationships
- Services and supplies
- Collaborations and alliances
- Relationships with the communities who are operating with Bank

NATURAL CAPITAL
- Resources that have been used to provide uninterrupted service delivery amidst the challenging economic environment

VISION OF THE BANK
To be the most inclusive Bank harnessing the spirit of progress in every Sri Lankan

BUSINESS ACTIVITIES

LENDING
- Lending to diverse customer segments including Agri and microfinance

DEPOSIT MOBILISATION
- Deposit mobilisation through the branch network, Cargills Bank MINI network in Cargills Food City Outlets, Sales team and Digital channels

DRIVEN THROUGH MAIN BUSINESS ACTIVITIES

STRATEGIC PRIORITIES | CUSTOMER SOLUTION | BUSINESS FOCUS

CAPITAL AND STAKEHOLDER OUTCOME IN 2022

FINANCIAL CAPITAL
- Growing the business volumes prudently through robust and efficient financial intermediation and maturity transformation, thereby strengthening the market position

MANUFACTURED CAPITAL
- Capital expenditure position
- Investment in Branches and network
- Investments in digitally enabled customer base

HUMAN CAPITAL
- Salaries and benefits paid
- Investment in training
- Employees enabled with work from home capabilities

STAKEHOLDERS IMPACTED

SHAREHOLDERS | CUSTOMERS/EMPLOYEES | EMPLOYEES

OUTPUT

- Net interest income - Rs. 3,204 Mn
- Profit after tax Rs. 488 Mn
- Earnings per share Rs. 0.55
- Disbursements approved - Rs. 49,031 Mn
- Deposits mobilised - Rs. 97,631 Mn
- Debt moratorium concluded as at end 2022 - Rs. 6,838 Mn
- Transaction growth through digital banking platform
- Community empowerment through various initiative

FACILITATING TRANSACTIONS

- Secured, reliable and convenient platforms to facilitate customer transactions

VALUE CREATION THROUGH ECO SYSTEM

AGRICULTURE AND MICRO FINANCE LENDING

INTELLECTUAL CAPITAL

- Improvement of brand value
- Attraction and retention
- Banking transactions through digital capabilities

SOCIAL AND RELATIONSHIP CAPITAL

- Improvement of customer satisfaction
- Tax contribution (FS VAT Rs. 241 Mn)
- Community investment through CSR project through digital capabilities

NATURAL CAPITAL

- Lending to renewable energy projects
- Emission intensity

CUSTOMERS/EMPLOYEES

CUSTOMERS/SOCIETY

SOCIETY AT LARGE

Financial Capital

The pivotal goal of our financial capital is to create viable value for stakeholders through efficiently using our funds and safeguarding our assets base to ensure long - term stability. The Bank's committees establish feasible guidelines and action steps through a data driven, market sensitive approach to manage funds to achieve objectives. We inculcate a series of strategic measures including risk management, market insight analysis, revenue management, cost control, treasury and liquidity management as well as asset quality management.

KEY INPUTS

- Shareholders fund
- Subordinated liabilities such as AT1 Debentures
- Other borowings
- Customer deposits
- Fund raised from refinance arrangements
- Profits generated through net interest income from fund based operations
- Profits generated from fee and commission income from fee based operations

STRATEGIC DRIVERS

- Focus on core banking
- Capitalising on ecosystem opprtunities
- Enhancing SME customer value proposition
- Strengthening micro customers through responsible lending and financial inclusion
- Prudent risk management
- Remaining relevant to the mass market
- Resource optimisation
- Strengthening the community

KEY OUTPUTS

- Turning around profitability in 2022
- Capital adequacy and liqudity
- Profits, interest expenses and taxes
- Optimum risk return trade-off

CHALLENGES

- Impact of the economic environment on business growth
- Fluctuating interest rates
- Portfolio quality deterioration
- Liquidity challenges

OUR RESPONSE

- Customer interest protection and business continuity assistance
- Market sensitive risk management
- Regulatory compliance and internal controls
- Strengthening digital banking solutions

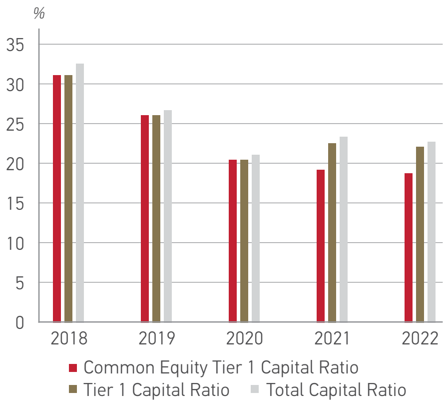
In spite of the turbulent economic backdrop, Cargills Bank steered ahead with resilience and prudent financial management. The Bank's management and board committees met frequently to take timely decisions and provide guidelines to business units on the sustainable and pragmatic way forward. As a result, the Bank experienced a turnaround in profitability with a total operating income of LKR 4.3 Billion and profit after taxes of LKR 488 Million in comparison to a loss of LKR 277 Million recorded during the previous financial year.

The Bank's management assesses the financial performance using performance indicators calculated to measure the Bank's financial strength, cost management and delivery of sustainable returns.

CAPITAL ADEQUACY

The Bank is compliant with the minimum capital requirement of LKR 10 Billion as at 31 December 2022, and reported a total Capital Adequacy Ratios of 22.8%, which is well above the regulatory minimum ratio of 12.5%. Capital adequacy also incorporates Basel III Additional Tier 1 (AT1) Compliant Unsecured Subordinated Perpetual Convertible Debentures of LKR 1.5 Billion issued in December 2021.

The minimum capital requirement of CBSL increases to LKR 20 Billion with effect from 01 January 2024. The Bank is currently in discussion with CBSL to meet the requirement. In the year 2023, the Bank plans on listing on the Colombo Stock Exchange- an opportunity that would elevate our capital base towards the Central Bank's minimum capital requirement of LKR 20 Billion.

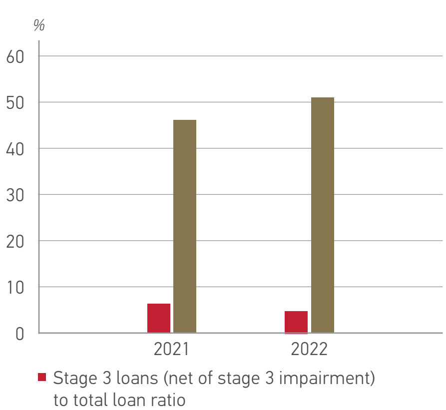


Capital Ratios

NON-PERFORMING LOAN PORTFOLIO

Although loan recovery and collection proved to be challenging in the aftermath of the COVID-19 pandemic and the prevalent economic crisis, Cargills Bank took proactive measures to manage credit exposure and undertook periodic analyses to identify customer concerns and repayment difficulties to offer loan reschedules, moratoriums and deferments to manage customers' financial stresses.

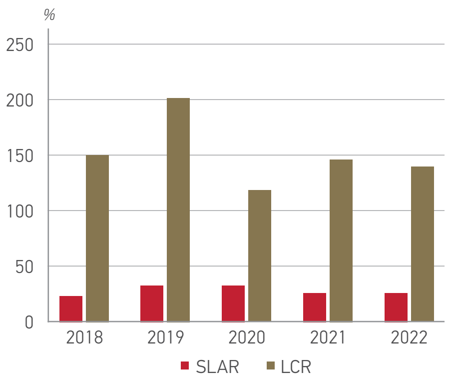
Further, being aware of such conditions, the Bank has taken necessary measures in terms of its Expected Credit Loss (ECL) assessment to deal with any possible future deterioration in asset quality and made additional impairment provisions, where necessary, for the loans under moratorium and to exposures to risk elevated industries and customers.



Provision Cover

LIQUIDITY RATIO

The Central Bank requires a minimum liquid asset rate of 20% of the Bank's liabilities, excluding capital funds and a minimum liquidity coverage ratio of 90%. Cargills Bank maintained the required liquidity levels amidst challenges and rising interest rates in the financial market. The Bank aims to uphold adequate liquidity while managing profitability.



Liqudity Ratios

PROFITABILITY

During the year under review, Cargills Bank turned around profitability through adopting a series of strategic approaches. The Bank reported profit before tax (PBT) of LKR 206 Million in FY 2022, against a loss before tax of LKR 369 Million recorded in 2021.

INCOME STATEMENT

Fund Based Operations

Fund based operations incorporate mobilising funds from depositors and borrowing from other sources in order to lend and invest. This process generates interest income and incurs interest expenses. Net interest income which compensates the Bank for the credit risk, funding risk and interest rate risk for the year under review stood at LKR 3.2 Billion up by 74% against LKR 1.8 Billion reported for 2021.

Financial Capital

Fee Based Income

Fee based income incorporate the other services provided by the Bank, which exclude fund-based activities. Fee based activities include transaction fees and commission income. Net fee and commision income at LKR 862 Million for 2022 was up by 75% in comparison to LKR 492 Million reported in the previous financial year. Other income includes flow of foreign exchange, revaluation and dealing generated income.

Impairment Charges

The Bank's impairment charges were at LKR 1,463 Million for the financial year 2022, in comparison to the LKR 685 Million reported in 2021, illustrating an increase of LKR 778 Million or 114%. The impairment provision increased during the year under review as a result of stage movements and management overlays to safeguard against the deterioration of customer credit worthiness. Accordingly Stage 3 loans (net of stage 3 impairment) to total loan ratio was 4.85% and Stage 3 loan impairment to stage 3 loans (stage 3 provision cover) ratio was 51.15% as at 31 December 2022 (6.43% vs 46.3% as at 31 December 2021).

Operating Expenses

During the year under review, our operating expenses increased to LKR 2.4 Billion from LKR 2.0 Billion in 2021, mainly reflecting the unfavourable exchange rate movement and the increased operating costs following price hikes experienced due to the extraordinary economic environment that prevailed during the year under review. Meanwhile, personnel expenses rose only marginally during the year. The cost to income ratio dropped significantly by 33% and stood at 55% for 2022 compared to 83% in the previous year, as a result of effective cost saving measures to curb expenses and the increase in both fee based and fund based income.

Tax Expense/Reversal

VAT on Financial Services was increased to 18% from 15% with effect from 01 January 2022 and the Social Security Contribution Levy (SSCL) was imposed with effect 01 October 2022 under the SSCL Act No. 25 of 2022 and the Bank is liable to pay SSCL at 2.5% of the liable turnover.

In addition, in terms of the Inland Revenue (Amendment) Act, No. 45 of 2022, corporate income tax rate was increased to 30% from 24% with effect from 01 October 2022. Accordingly, deferred tax was remeasured at the increased rate of 30% as at 31 December 2022 which resulted in a substantial deferred tax reversal recognised in the income statement with corresponding increases in the deferred tax asset.

Snapshot of the results of operation of the year is tabulated below;

Income statement	2022 (Rs .000)	2021 (Rs.000)	Change (%)
Gross income	9,488,610	4,994,170	90
Net interest income	3,204,251	1,839,681	74
Net fees and commission income	862,368	492,081	75
Other operating income	214,068	126,745	69
Total operating income	4,280,687	2,458,507	74
Less: Impairment losses on financial instruments and other assets	1,463,485	684,510	114
Net operating income	2,817,202	1,773,997	59
Operating Expenses	2,369,427	2,036,498	16
Operating profit/(loss) before taxes on financial services	447,775	(262,501)	271
Less: Taxes on Financial Services	241,338	106,154	127
Profit/(loss) before income tax	206,437	(368,655)	156
Less: Income tax expenses/(reversal)	(281,327)	(91,528)	(207)
Profit/(loss) for the year	**487,764**	**(277,127)**	**276**

Statement of Financial Position

The Bank's balance sheet contracted marginally in 2022 due to the extraordinary economic environment that prevailed in 2022. Negative growth of 11% in the loan book in comparison to end 2021 was primary due to the Bank's decision to accommodate credit requests of customers on a selective basis to curb the possible pressure on future delinquencies. Growth in deposit book too was negative in 2022, 6% mainly due to customers diverting premature funds to high yielding Government Securities and to competitor banks offering higher rates.

However, the Bank experienced a growth in Return on Equity (ROE) and Return of Assets (ROA) during the year under review in comparison to the previous financial year due to the financial performance recorded for 2022. Snapshot of financial capital position of the Bank is tabulated below;

Statement of Capital Position

Indicator of value derived	Value derived as at 1st January 2021 (Rs.000)	Activities undertaken to create Financial Capital	Value derived as at 31st December 2022 (Rs 000)	Growth in value created (%)
Shareholders' Funds	9,324,861	Grew the business volume prudently throughout the period	9,720,305	4
Subordinated liabilities	1,506,667		1,500,000	0
Other borrowings	2,701,840		2,469,552	(9)
Customers deposits	40,182,402		37,802,680	(6)
Fund raised from refinance arrangements	687,515		233,565	(66)
Profit generated through net interest income from fund based operation	1,839,681		3,204,251	74
Profit generated through from fee and commission income from fee based operation net interest income from fund based operation	492,081		862,368	75
Profit generated through from other trading activities	126,745		214,068	69

Value creation highlighted for the year

Pillars	Measurement	2021	2022	Growth in value created
Profitability	Gross income (Rs.000)	4,994,170	9,488,610	90
	Cost income ratio	83%	55%	(33)
Assets base	PBT (Rs.000)	(368,655)	206,437	156
	PAT (Rs.000)	(277,127)	487,764	276
	CASA	28%	21%	(26)
Liquidity	Common Equity Tier 1 Capital Ratio	19.31%	18.95%	(2)
Capital structure	Tier 1 Capital Ratio	22.75%	22.32%	(2)
Investor performance	EPS	(0.31)	0.55	276

Manufactured Capital

Our Manufactured Capital consist of our physical assets including our branches and Cargills Bank MINI network, mobile branch vehicle, ATM network and kiosks along with our processes as well as our digital channels for onboarding and banking transactions; facilitated by a robust IT infrastructure. Our Manufacturing Capital enables us to carry out day to day operations effectively and deliver services to our customers.

KEY INPUTS

- Branch network
- Cargills Bank MINI
- Digital onboarding
- Affiliation with the Cargills Food City network

STRATEGIC DRIVERS

- Digital onboarding, internet banking and mobile app
- Customer centricity via digital channels

KEY OUTPUTS

- Mobile app and internet banking user base
- Improvements on core systems and processes
- Customer convenience and retention

CHALLENGES

- Infrastructure growth investments to ensure timely adjustments
- The cost of adapting to rapid technological changes

OUR RESPONSE

- Making use of existing infrastructure, including third-party infrastructure such as the Cargills Food City network, in a resourceful manner
- Cost management and technology enhancement calculated for better ROI

HOW WE BUILD A DISTINCTIVE PRESENCE

The customer touch points available within the Cargills ecosystem play a pivotal role for the Bank, allowing us to create a unique business model leveraging on this infrastructure. In addition to providing us with business leads, we utilise the wide Cargills Food City network to facilitate transactional services to our customers, giving our customers' access to their funds throughout the country, while at a low cost to the Bank. Complemented with our digital banking services, customers are able to undertake a variety of services with their Cargills Bank account.

During the year under review, the Bank opened two branches in Negombo and Anuradhapura as well as 8 Cargills Bank MINI service points. As at the end of the year, our branch network grew to 23 locations, while we also operated 23 MINI locations in Cargills Food City outlets.

This inclusive approach has allowed us to reach out to a wider cross section of society and fulfill customer needs in an appropriate manner. The wide availability of touch points through the Cargills Retail network allow our customers to withdraw cash and make deposits until 10 pm daily.

During the year under review, we deployed a mobile banking vehicle to serve farmers in the country's Central and North Central provinces, to enable them to manage their banking needs and transactions. The mobile banking vehicle visits 11 localities monthly to serve farmers and MSMEs.

DIGITALISATION AND DIGITAL ONBOARDING

Our digital banking services cover both customer digital onboarding and offering a wide range of services through digital channels. Our services are functional and user friendly, allowing a range of transactions including third party payment transfers and even Fixed Deposit opening. While we continue to improve our mobile banking app, we also offer internet banking services to both retail and corporate banking customers. Meanwhile, we have digitised customer onboarding with bank staff members to offer services through Cargills Bank MINI and our mobile branch vehicle. All this is supported by a robust IT infrastructure and architecture to ensure optimal functionality, compliance with regulatory standards, data protection and privacy of all stakeholders.

Cargills Bank has been part of the Lanka QR payment network from inception, making use of the facility to reach out to and cater to the needs of a wide range of customers. During the year under review, we promoted mass scale adoption of digital banking and cashless transactions via LankaPay technology by continuing to facilitate digital finance aggregators with payment services.

Cargills Bank won a Silver Award and two Merit Awards at the LankaPay Technnovation Awards 2022 in recognition of the Bank's successful implementation of the cashless transaction method.

Human Capital

The sum of our Human Capital encompasses the collective knowledge, skills and attitudes of our employees. In our efforts to develop our Human Capital, we work towards encouraging our employees to improve their expertise, seek knowledge and strengthen their potential. In addition, we consciously work towards creating a safe, growth-conducive work space to nurture a workforce of highly skilled and multitalented individuals who can foster the Bank's growth through their talent, innovative capabilities and commitment.

KEY INPUTS

- Composition of the workforce
- Expertise, technical knowledge and competencies
- Attitude of the staff

STRATEGIC DRIVERS

- Training and development
- Creating an inspiring, safe work environment
- Empowering staff to take ownership
- A clear career path
- Participatory Management

KEY OUTPUTS

- Employee retention and loyalty
- Employee wellbeing and engagement
- Improved workforce capacity and improved performance
- Improved leadership capability

CHALLENGES

- Attracting and retaining skilled employees in a highly competitive industry
- Challenges stemming from the economic crisis and subsequent migration

OUR RESPONSE

- Create a work environment geared to safeguard employee interest and promote growth
- Understand training needs and address those accordingly
- Undertake team building activities to boost morale and motivation
- Implement work from home and organising transport for employees when necessary

OUR WORKFORCE COMPOSITION

We believe that a diverse, multitalented workforce allows the Bank to pursue our growth objectives. To this end we ensure that we hire and retain employees from various backgrounds, possessing a variety of talents. We follow an anti-discriminatory approach that does not discriminate on the basis of gender, ethnicity or any other societal norms. In our efforts to improve our Human Capital composition, we undertake a management trainee programme and provide internships to fresh university graduates as well as entry level training opportunities to suitable candidates annually.

Employee Category	Gender		Total
	Male	Female	
Corporate Management	11	7	18
Senior Manager	15	4	19
Assistant Manager & Manager	65	32	97
Executive	54	59	113
Banking Assistant & Junior Executive	118	116	234
Trainee & Support Staff	26	55	81
Contract Staff	24	12	36
Total	313	285	598

OUR PEOPLE MANAGEMENT MODEL

Our people management model allows us to address business needs whilst ensuring employee wellbeing. We comply with labour laws and applicable compliance guidelines to raise the bar by adopting industry best practices in talent management. Over the past few years, we worked on developing our people management model to embrace development associated with the banking and finance industry requirements.

OUR EMPLOYEE RETENTION STRATEGY

Employee retention is a common issue in the country's banking and financial industry as competition for highly talented employees is intense. As such, our Human Resources Department relies on an approach crafted to develop and retain employees and provide a clear career growth path. We offer performance based promotions and remuneration annually to our staff. In addition, we maintain an open-door policy where each employee is free to approach the HR department or management with their concerns, complaints or requests without fear of any negative repercussions or breach of confidentiality.

TRAINING AND DEVELOPMENT

In a highly competitive and rapidly changing financial market, employees need to keep up with the latest technical developments, innovations and adapt to digitalisation. Mindful of this fact, we create training and development plans in collaboration with each unit head to allow employees to obtain the training they require. Furthermore, the Bank's intranet contains a number of e-learning modules to support employee development across all aspects of banking.

Each unit head is responsible for coaching his or her team to acquire the necessary expertise in line with our growth goals. Meanwhile, our employees benefit from the opportunities we provide to experience cross functional work and attend training sessions if they wish to learn about any other area directly not related to their job role.

Human Capital

Intellectual Capital

Our Intellectual Capital consists of our technology based assets, internal processes and frameworks, global certification, compliance, system control as well as our distinctive business model based on knowledge based protocols and systems. The Bank's Intellectual Capital allows us to offer a distinctive value proposition to our stakeholders to achieve viable growth.

KEY INPUTS

- Improving internal systems and processes on a digital platform
- Digital onboarding drive

STRATEGIC DRIVERS

- Consisitent improvement of brand positioning
- Compliance with international and local regulatory standards
- Research and Development to promote innovation of products and services

KEY OUTPUTS

- New customer acquisition and retention via digital services
- Recognition at the LankaPay Technovation Awards 2022

CHALLENGES

- Pressure on the digital finance space in the banking sector
- Cyber security threats
- The threat of system and connectivity failure

OUR RESPONSE

- Strengthening of digitalisation process and collaborating with business partner fintech solutions
- Improving system security and strengthening system architecture

Intellectual Capital

Over the past few years we have continued to improve our intellectual capital in tandem with our growth aspirations. Our internal systems and processes allow our employees to provide customer centric and high quality services in an efficient manner. The Bank is able to provide customised banking solutions to different customer segments utilising our varied service channels. Meanwhile, our knowledge-based assets such as processes and control procedures have resulted in a robust system that nurtures confidence within all our stakeholders.

HOW OUR BRAND INSPIRES CONFIDENCE AND FACILITATES SUSTAINABLE GROWTH?

The Cargills brand is well known for our community-oriented business model which pursues growth through enabling all stakeholders to strengthen their own growth objectives. In the meantime, we have adopted a competitive strategy to manage our operations through a data and market insight driven approach that complies with regulatory requirements and follows industry best practices. During the year under review, we worked with purpose to reinforce trust amongst our stakeholders through balancing their various and sometimes conflicting requirements.

HOW WE LEVERAGE DIGITALISATION TO INCREASE OUR INTELLECTUAL CAPITAL

We have appointed different committees to analyse, develop and manage internal processes and safeguard our interest in information technology security. In addition, we continue to digitise our day to day operations processes to ensure efficient access to data, privacy and provide enhanced services to customers.

Our digital onboarding service has expanded our reach even to remote areas of the island in line with our objective of to increasing our customer base and driving financial inclusion.

Our multi-faceted mobile banking app as well as internet banking facilities cater to both retail and corporate customers in line with our digitalisation plans.

Social and Relationship Capital

Our financial services are not only embedded in the extensive Cargills ecosystem of consumers, agricultural and SME communities but also extend beyond to include corporate customers as well as other retail customers. Our social and relationship capital is the inter-link between the financial services we provide and the society. We engage in financing that uplifts agriculture communities, use strong communication channels via our established touch points and work in collaboration with our business partners and regulators to strengthen our social and relationship capital.

KEY INPUTS

- Community engagement and empowerment
- Leveraging on established touchpoints
- Collaboration with business partners and regulators

STRATEGIC DRIVERS

- Cargills ecosystem
- Core banking facilities that place emphasis on conveneince

KEY OUTPUTS

- Increased customer base
- Improved customer relations
- Improved portfolio quality

CHALLENGES

- Mobility challenges on account of the fuel shortages in the country
- Economic downturn
- Customer adoption of technology solutions

OUR RESPONSE

- Facilitating banking via Cargills Food City outlets across the island
- Enabling work from home facilities to allow employees to continue work in spite of travel challenges
- Increasing the frequency of management meetings to evaluate the risk environment and the Bank's response to those risks
- Increased communication of the Bank's service channels
- Digital onboarding
- Deployment of the mobile branch vehicle

Social and Relationship Capital

HOW WE ENGAGE CUSTOMERS THROUGH OUR REACH

We employ a multitude of touch points to reach our customer base. In addition to the 23 branches located islandwide, we have an agency banking agreement with Cargills Food City, through which we offer our customers with 480 physical touch points to make deposit and withdrawal transactions through the Cargills Food City network and 23 MINI locations that allow a limited range of banking services such as account opening and service requests at selected Cargills Food City outlets. Meanwhile, we have strengthened our digital reach through a fully-fledged internet banking service and mobile banking app that allows customers to engage in banking activities online. We also use this technology in enabling transactions for our agricultural and SME customers.

During the year under review, we deployed a mobile banking vehicle to Central and North Central regions of the country to help our agricultural and SME customers that have limited access to banking services. We coordinate this service through the established vegetable collection centres and milk collection centres of the Cargills ecosystem.

HOW WE ENGAGE THROUGH OUR PRODUCT AND SERVICE OFFERING

Our approach to customers is segmented to increase our value proposition to each customer group. We work towards understanding the different needs of each segment and offer banking solutions accordingly. While we offer core banking solutions as a licensed commercial bank, we differentiate our services through innovative product bundles to offer tailor-made banking solutions to different customer segments. We also offer a comprehensive array of payment and deposit options strictly within the regulatory framework.

During the year under review, we visited farmers in underbanked communities in the country to onboard them through our mobile banking vehicle using our digitalised service technology. In addition, we offered concessionary lending facilities through Central Bank approved refinancing solutions to these farmers to provide them support to invest in developing their businesses despite the ongoing economic challenges. The Bank also provided moratoriums to customers facing financial difficulties due to the uncertain economic environment. Responding to the high cost of living, the Bank supported consumers and the farming community by offering promotions on groceries and local produce through the Cargills Bank debit and credit card. We provide our customers with an array of promotions and installment payments within the Cargills ecosystem including supermarkets as well as outside entities through our debit and credit card products.

HOW WE MITIGATE RISK TO STRENGTHEN OUR SOCIAL AND RELATIONSHIP CAPITAL

During the economic and social crisis that prevailed in mid to latter months of the year 2022, we prudently managed our foreign currency liquidity to support essential imports to thereby assist our customers.

In response to the crisis that prevailed, we adopted a prudent approach that mitigated risk to our financial stability while also facilitating customer transactions. In addition, we extended moratoriums to our customers to enable their business continuity and safeguard the interest of all stakeholders to create long term value.

We provide our customers with financial solutions targeted to grow their respective businesses and meet their business requirements.

Meanwhile, the Cargills Bank's management took proactive steps as early as in 2021 to prepare for economic uncertainty. This allowed us to mitigate risk and provide continued services to customers. Our risk mitigation practices also involved strict compliance with regulatory rules and following the guidelines and directions of the regulator.

HOW WE ENGAGE THROUGH COMMUNITY ACTION

The communities we operate in play an integral role in our business success and the ability to create value for our customers and other stakeholders. Moreover, the Cargills Group ecosystem promotes social enterprise development and supports the agricultural and entrepreneurial sectors in the country. In this context, our community engagement is comprehensive and preemptive. During the year under review, we continued to strengthen our established community development activities and provided solutions in tandem with the particular challenges that the year 2022 presented.

We remain proactively engaged in the 'Village to Home' initiative implemented by Cargills Group to provide financial assistance, guidance and services to the Micro & SME community in the country. The 'Village to Home' initiative supports the SME community in Sri Lanka through providing a platform to engage a wide network of customers.

During the year under review, the Bank financed farmers in many regions of the country by providing funding for both agriculture and dairy modernisation and development initiatives. We provided farmers with guidance on banking and financial management to make their business sustainable, and conducted training for our staff who cater to the agricultural and SME industry on evaluating the feasibility of loan applicants and guiding customers thereafter on sound financial and working capital management to create wealth. We conducted these programmes in collaboration with Cargills Group, which works towards uplifting business standards and financial success of suppliers including farmers and SME owners.

In addition, we supported customers' working capital requirements through the introduction of an invoice discounting scheme for our suppliers to receive up to 85 percent of the value of goods supplied.

During the year under review, in line with our CSR focus, we provided stationary, books and essentials to students of the Paragoda Kithulagoda Vidyalaya Bulathsinhala and completed a blood donation campaign with our team members which had a commendable staff participation rate.

HOW WE ENGAGE THROUGH BEST PRACTICES

We are well aware of the fact that business partners are critical to the success of the operations. We maintain cordial and mutually beneficial relations with our business partners.

Trust is vital to our growth as a Bank. As such, we strive to create an environment that protects the rights and privacy of our customers. To this end, we have put in place systems and processes to protect customer data and provide them with efficiency and convenience as aforementioned. Accordingly, our card operation complies with the global industry standard PCI-DSS certification.

We use both conventional media and digital platforms to communicate with our customers including electronic and print media as well as social media platforms. In addition, we focus on advertising to introduce our retail and card products to customers.

Our marketing and communication efforts are based on the Bank's core values to integrate customer wellbeing and economic growth while creating long term growth opportunities and a diverse portfolio to create sustainable business outcomes.

Natural Capital

Our Natural Capital comprises both renewable and non-renewable resources that we use to carry out our daily operations. We concentrate on efficient use of natural resources to meet sustainable development goals and improve our environmental impact.

KEY INPUTS

- Efficient utilisation of resources
- Minimising energy usage
- Creating paperless operations by digitising processes

STRATEGIC DRIVERS

- Resource utilisation action steps
- Engaging employees in environmentally friendly practices

KEY OUTPUTS

- Reduction of the usage of paper
- Energy cost management

CHALLENGES

- Increasing energy costs
- Lowering organisational carbon footprint
- Availability constraints of raw materials

OUR RESPONSE

- Set up a management committee to review and implement control measures
- Undertook a stringent analysis of costs to identify any areas of effective reduction e.g. energy, fuel, stationary, postage, etc.
- Implementing practical steps to optimise resource usage
- Engaging employees in sustainable environmental practices
- Enhanced communication frequency with team members

Mindful of the fact that efficient management of resources has become an imminent consideration on a global scale, during the year under review, we formed a cross functional team to optimise the usage of resources and manage cost. Following careful analysis of the availability of resources and practices to use resources efficiently, the committee implemented a set of guidelines for the organisation.

We optimised our vehicle usage and travel time by combining routes for business travel and improving cross functional collaboration to combine business visits to reduce fuel expenses and usage.

We accelerated our efforts to go paperless within the year 2022. We continued to digitise our internal workflows using Google Suite to expand the usage of paperless processes. In the meantime, we encourage customers to opt for mobile and internet banking and e-statements whenever possible. The Bank sends both Credit Card and Account statements as E-statements in place of increasing paper usage through traditional communication. Furthermore, the usage of digital channels to view account balances, communicate with the bank and perform transactions was encouraged to advocate our customers to use these services and reduce the overall carbon footprint of transactions.

SUPPORTING OUR CUSTOMERS

During the year, we took measures to support our customers to manage the challenging environment. We actively participated in a number of Central Bank refinance programs to provide farmers and SMEs with low interest loans to grow their business in a sustainable manner.

Board of Directors

Ranjit Page

Chairman (Non-Executive Director)
Retired w.e.f. 21st January 2023

Ranjit Page possesses over 40 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.

Richard Ebell

Chairman
(Non-Executive Independent Director)
Appointed as Chairman w.e.f. 21st January 2023

Richard Ebell is a Fellow of the Institute of Chartered Accountants, Sri Lanka, and a Fellow of the Chartered Institute of Management Accountants, UK, and holds a Diploma in Marketing from the Chartered Institute of Marketing, UK.

He worked at Hayleys PLC for 30 years, leaving as Finance Director in 2009, and at Loadstar (Pvt) Ltd (now part of the Michelin Group) as Chief Financial Officer for 2 years thereafter, gaining varied experience throughout those engagements.

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 and a member of other Board Committees, over the last 14 years.

He joined the Board of Cargills Bank in mid- 2015, and has served on multiple committees of the Bank since then. He was Senior Independent Director prior to his appointment as Chairman on 21 January 2023.

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)
Retired w.e.f. 21st January 2023

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

Ms. Ruvini Fernando

(Non-Executive Independent Director)

Ms. Fernando is employed at PricewaterhouseCoopers Colombo as Deals Leader - Sri Lanka and Maldives. 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 has a career spanning over 30 years in senior positions at global financial institutions Credit Lyonnais, Smith New Court and Lehman Brothers. She has had a long-standing experience and involvement in Asian financial markets and built a strong network of relationships with leading International Fund Managers and Sri Lankan Corporates.

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.

Marianne continues to be in the forefront of showcasing Sri Lankan corporates to international fund managers while based out of Singapore. She currently acts as a consultant to the CT CLSA group of companies which she was instrumental in establishing in 1992.

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

Yudhishtran Kanagasabai

(Non-Executive Director)

Yudy Kanagasabai counts over 35 years of experience at PricewaterhouseCoopers, Sri Lanka, Maldives and Singapore, before he retired as the Senior Partner of Pricewaterhouse Coopers, Sri Lanka and the Maldives on 31 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 Committee of Cargills (Ceylon) PLC and MainGate (Private) Limited. He continues to serve as a Non-Executive Director and member of the Board Audit Committees of Colombo City Holdings PLC and Cargills Foods Company (Pvt) Limited and is the Chairman of Dankotuwa Porcelain PLC and Taprobane Capital Plus (Pvt) Limited.

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.

Yudy is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

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 Property Development (Pvt) 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.

Asoka Pieris

(Non-Executive Director)

Appointed w.e.f. 20th January 2023

Asoka Pieris has wide and varied experience in the fields of Finance, Marketing and Manufacturing both in Sri Lanka and overseas.

Currently he is on the Board of Directors of Cargills (Ceylon) PLC and is the Managing Director of Cargills Foods Company (Private) Limited. He has been previously employed at Singer Group of companies in various capacities, including as CEO and CFO of Singer Group in Sri Lanka and CFO of Singer Asia and Director of the group's Public Companies in Sri Lanka and Bangladesh. He has held Board positions in several other companies and has also been a Director of Hatton National Bank PLC and Chairman of its Audit Committee.

He is an Associate member of the Institute of Chartered Accountants of Sri Lanka and a Fellow member of the Chartered Institute of Management Accountants, UK and a Certified Global Management Accountant.

Corporate Governance

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

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

1. 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 emphasises good governance and inspires a positive work ethic in the Bank's employees.

ANNUAL CORPORATE GOVERNANCE REPORT OF CARGILLS BANK LIMITED

For the year ended 31 December 2022

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 - As at 31 December 2022
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.
	b) Approve the overall business strategy of the Bank including Risk Policy and Risk Management Procedures and Mechanisms with measurable goals, for at least the next three years.	Partially complied. The overall business strategy was approved in 2021 by the Board in the Bank's Business Plan for the financial year 2021-2023. Due to the uncertainties and economic crisis in the country during 2022, the Bank has developed a detailed plan for the years 2022 & 2023. The rolling forward of this plan is in progress. The Risk Management Policies and Risk Management Procedures and Mechanisms with measurable goals are available.

Section No.	Rule	Degree of Compliance - As at 31 December 2022
	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, shareholders and borrowers	Complied with. A Board approved Communication Policy is in place.
	e) Review the adequacy and the integrity of 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 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.
	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 2022. This is done on an annual basis and appropriate steps are taken to strengthen the governance practices.

Corporate Governance

Section No.	Rule	Degree of Compliance - As at 31 December 2022
3 (1) (i)	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.
	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, and meets more frequently whenever it is needed. The Board met 12 times during the year.
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.

Section No.	Rule	Degree of Compliance - As at 31 December 2022
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 2022. Further, no Director has been absent from three consecutive regular Board meetings during 2022.
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) (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.
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.
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.

Corporate Governance

Section No.	Rule	Degree of Compliance - As at 31 December 2022
3 (1) (xv)	The Board shall ensure the Bank is capitalised at levels as required by the Monetary Board	Complied with. The bank has maintained it's minimum capital requirement in the current year through the issue of perpetual debentures amounting Rs.1.5 Bn in December 2021.
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 with the Company Secretary.
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 8 Directors on the Board as at 31 December 2022.
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 2022, the Board consisted of eight Directors of which two were 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 2022, the Board had 3 Independent Non-Executive Directors, which is over one-third of the total number of Directors. The following individuals are Independent, Non-Executive Directors. 1. Richard Ebell 2. Ms. Ruvini Fernando 3. 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 2022.
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 2022 were duly constituted with more than 50% of the Directors present being Non-Executive Directors.

Section No.	Rule	Degree of Compliance - As at 31 December 2022
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 are disclosed in the Annual Corporate Governance report	Complied with. This report serves the said requirement. The composition of the Board as at 31 December 2022 is as follows: 1. Ranjit Page - Chairman/NED 2. Senarath Bandara - MD/CEO 3. Prabhu Mathavan - ED 4. Richard Ebell - INED 5. Ms. Ruvini Fernando - INED 6. Ms. Marianne Page - NED 7. Yudhishtran Kanagasabai - NED 8. Buwaneka Perera - INED Profiles are given on pages 44 to 45
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 2022. One Director retired during 2022.
3 (2) (xii)	A process to identify whether a Director or an Employee of the Bank is appointed, elected or nominated as a Director of another bank	Complied with. Declarations signed by Directors on quarterly and annual basis will identify any issues arising. None of the Directors are Directors or employees of any other bank. Employees are prohibited from taking up any other appointment according to their Letters of Appointment.
3 (3)	Criteria to assess the fitness and propriety of Directors	
3 (3) (i)	Age of a person who serves as Director does not exceed 70 years	Complied with. Faizal Salieh retired w.e.f. 4th August 2022 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 through policies and procedures.
3 (4) (ii)	Extent of delegation to be within appropriate limits	Complied with. The delegated responsibilities to Board Sub Committees are set out in their respective TORs. These TORs have been approved by the Board.

Corporate Governance

Section No.	Rule	Degree of Compliance - As at 31 December 2022
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, Ranjit Page is a Non-Executive, Non-Independent Director. Faizal Salieh was appointed as Senior Director on 29th April 2021 and on his retirement, Richard Ebell was appointed as Senior Director w.e.f. 4th August 2022. The Bank's Code of Corporate Governance covers the role and functions of the Senior Director.
3 (5) (iii)	Disclose relationships, if any, between the Chairman and the CEO and Board Members and the nature of any relationships including among members of the Board	Complied with. The Board is aware that there are no relationships, whether financial, business or family or any other material/relevant relationship between the Chairman and the CEO. The Board is aware that there is a family, financial and business relationship between Ranjit Page (Chairman) and Ms. Marianne Page. Ranjit Page (Chairman) and 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 - As at 31 December 2022
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 report 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)	Board 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 Richard Ebell is an Independent Non-Executive Director and possesses required qualifications. 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 (up to 03rd August 2022) Buwaneka Perera Ms. Marianne Page (w.e.f. 04th August 2022) All members are Non-Executive Directors.
	c) Make recommendations on matters in connection with the External Auditor, Central Bank guidelines, the relevant accounting standards and the service period, audit fee and any resignation or dismissal of the Auditor	Complied with. The Committee has recommended re-appointment of the External Auditors the fees payable to the auditors, implementation of the Central Bank guidelines, application of the relevant accounting standards and compliance with other statutory requirements.
	d) Review and monitor the External Auditors' on their independence, and objectivity and effectiveness of the audit processes	Complied with. The Audit Committee had discussed with the External Auditors the scope and nature of the audit, independence of the Auditors and the conduct of the audit in accordance with SLAuS. The Committee received a declaration from KPMG as required by the Companies Act No. 7 of 2007, confirming that they do not have any relationship or interest in the Company, which may have a bearing on their independence.
	e) Develop and implement a policy on the engagement of an External Auditor to provide non-audit services in accordance with relevant regulations	Complied with. A policy on non-audit related services was developed and approved by the Board. Compliance with the policy is monitored by the Board Audit Committee.

Corporate Governance

Section No.	Rule	Degree of Compliance - As at 31 December 2022
3 (6) (ii)	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.
	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 2021 was reviewed by the Board Audit Committee. Performance Evaluations Process for 2022 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 appraised of resignation of senior staff in Internal Audit department.	Complied with. Resignation of staff in Internal Audit department had been informed to the Committee.
	• 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.

Section No.	Rule	Degree of Compliance - As at 31 December 2022
	k) Consider major findings of internal investigations and management's responses thereto	Complied with. Significant findings on investigations carried out by the Internal Auditors along with the responses of the management are tabled and discussed at Audit Committee Meetings.
	l) The Committee would have at least two meetings with the External Auditors without the Executive Directors being present	Complied with. The Audit Committee met the external auditors twice during the year without Executive Directors present.
	m) Terms of Reference of the Committee	Complied with. Audit Committee charter ensures authority to investigate matters, resource requirements to do so, access to full information and authority to obtain external advice if necessary.
	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.
	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. HR and 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	Partially Complied. The Bank has set goals and targets for the Directors, CEO and the Key Management Personnel but it was not documented and presented to BHRRC.
	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 2022 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.

Corporate Governance

Section No.	Rule	Degree of Compliance - As at 31 December 2022
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 recommended 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.
	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 Faizal Salieh upto 4th August 2022, who was an Independent Non-Executive Director. On his retirement, Richard Ebell (Independent Non-Executive Director) was appointed as Chairman of the Committee w.e.f. 4th August 2022. The Committee comprises 2 Independent Directors and one Non-Independent Non-Executive Director as at 31st December 2022.
3 (6) (v)	Board Integrated Risk Management Committee (BIRMC)	
	a) Composition of Board Integrated Risk Management Committee (BIRMC)	Complied with. Reconstituted Composition of the Committee as at 31.12.2022 is as follows: 1. Yudhishtran Kanagasabai Chairman (Non-Executive Director) 2. Richard Ebell (Independent Non-Executive Director) 3. Ms. 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.

Section No.	Rule	Degree of Compliance - As at 31 December 2022
	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.
	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 by BIRMC. EIRMC minutes are tabled at the BIRMC meeting as a permanent agenda item. Moreover all relevant risk reports are recommended by the management level Sub-Committees for BIRMC review.
	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 6 times during 2022.
	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.

Corporate Governance

Section No.	Rule	Degree of Compliance - As at 31 December 2022
3 (7)	Related Party Transactions	
3 (7) (i) (ii)	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person including related parties	Complied with. The Board approved Related Party Transactions (RPT) Policy is in place which has set the procedure to be followed when transacting with Related Parties. The Bank has a process to identify Related Parties. The list of Bank's Related Parties are reviewed on a quarterly basis and the list is updated to the Bank's Intranet. Monthly confirmation is obtained from the relevant branches and departments confirming that they have complied with the Related Party Transaction Policy. Additionally, the Compliance department conducts periodic reviews of the process and transactions to ensure that the RPT policy is being adhered to.
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.
3 (7) (iv)	A bank shall not grant any accommodation to any of its Directors or to a close relation of such Director unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation	Complied with. This requirement has been included in the Bank's RPT policy and procedures to ensure compliance to the direction.
3 (7) (v)	Accommodation granted to persons or concerns of persons or close relations of persons, who subsequently are appointed as Directors of the Bank	Complied with. No such situation had arisen.
3 (7) (vi) (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.

Section No.	Rule	Degree of Compliance - As at 31 December 2022
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 84 and 88 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 85 to 86.
	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 87.
	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 44 to 45. Directors transactions with the Bank and their remunerations have been disclosed in the Note 49 to the Financial Statements on pages 150 to 154.
	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 150 to 154.

Corporate Governance

Section No.	Rule	Degree of Compliance - As at 31 December 2022
3 (8) (ii)	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 150 to 154. 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 2022 by the other Key Management Personnel (selected members of corporate management) amounted to Rs. 106.9 Mn, Rs. 36 Mn and Rs. 37.7 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.
	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 84.
	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 as at 31.12.2022.

Directors' attendance at the Board and Sub-Committee Meetings for 2022 is set out in the table below;

Name of the Director	Board	BAC	BIRMC	BSPC	BHRRC	BNC	BCC	BRPTRC
V R Page	9/12	-	-	2/2	2/2	3/3	7/7	-
K B S Bandara	12/12	-	6/6	2/2	-	-	-	-
P S Mathavan	12/12	-	6/6	2/2	-	-	-	-
M O F Salieh	7/7	5/5	4/4	-	1/1	2/2	-	2/2
R A Ebell	12/12	9/9	6/6	2/2	1/1	3/3	-	4/4
Ms. W Y R Fernando	12/12	-	6/6	2/2	-	3/3	7/7	4/4
Ms. M M Page	12/12	4/4	-	2/2	-	-	3/3	-
Y Kanagasabai	12/12	-	2/2	2/2	2/2	-	4/4	-
P E A B Perera	11/12	9/9	-	2/2	2/2	-	7/7	2/2

Risk Management

In the year 2022 we witnessed unprecedented level of Macroeconomic volatility, impacting every segment of the Sri Lankan economy. The country suffered from multiple internal and external economic shocks. Significant devaluation of the local currency, spike in inflation, sovereign debt default, supply shortages and social disruptions which resulted in the deeper recession. The Bank's Risk Management efforts were key to the successful navigation of the aforementioned macroeconomic volatility. The Risk Management team took timely decisions to manage exposure to risk effectively and pursue growth in spite of the volatile external factors.

At Cargills Bank, we consider the uncertainty of future outcomes and the benefits of those outcomes as the key lenses for risk evaluation. Risk management function focuses on mitigating the downside 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 sovereign risk 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 supervision 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) and applicable laws in the area of risk management.

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

f) Provide analysis and recommendations to support the business units to achieve Bank's overall strategic objectives.

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.

Risk Management

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. • Review Moratorium and Watch listed clients. • 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. • Early warnings monitoring (NPCF ratios, Sector concentrations and trends). • Model Validation. • Assess Key Risk Indicators on monthly basis.
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. • Continuous focus on meeting the information security objectives and requirements of the Bank in line with emerging technology and Bank's Strategy. • Monitoring and governance of IT and IS risks covering. • Control risk, Project risk and Change risk.
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 2022	• 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. • Automation and central repository for Bank's risk rating of customers. • Overall Collective and Individual Impairment process governance in line 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. • Enhanced Technology Risk Management Framework in line with CBSL guide. • Centralisation the stress testing framework. • Developed and improved Collective and Individual Impairment process governance in line with the CBSL Direction 13 of 2021. • Development of the CBSL mandated Recovery Plan.

Bank's Priorities for 2023	• Bank will list in the CSE and focus on Capital Augmentation plan as agreed with CBSL. • Improve Risk Tolerance Framework and risk management policies. • Risk reporting to be more relevant, risk focus and quality to support for decision making. • To develop risk models to have robust inventory of credit scoring models and have model documentation with periodic validation and recalibration. • Risk data centralisation, back testing and analytics. • IFRS9 risk model validation and provisioning process governance model parameter review and model governance. • Making the LRM process robust and increase the coverage. • Improve on key risks related to Information Security in line with the CBSL technology risk resilience. • Improve Cybersecurity posture through robust risk analysis framework. • Moving from Basic approach to Standardise approach on calculating Capital charge for Operational Risk.

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 on facilities.

IRMD uses internally developed risk scoring to rate its obligors (Business Banking, SME, Retail, Credit Cards, Micro and Agri facilities) which estimates/ evaluates the borrower's risk of default. 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 centralised risk rating system developed by the Bank enables central storing of risk ratings of bank wide all customers.

The Bank's Credit Administration Division Manual reviewed timely manner in order to improve the risk management culture and ensures efficient post-sanction processes and credit disbursements complying with the Bank's guidelines and regulatory frameworks.

During 2022, Cargills Bank focused improved methods for managing and mitigating credit risk due to the challenging economic environment brought on by the disruptions caused by the pandemic, rising inflation, interest rates pressure on the exchange rate etc. These consequences included credit risk concealment and changes in the creditworthiness of specific sectors.

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 finalised, 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.

Risk Management

Concentration Risk

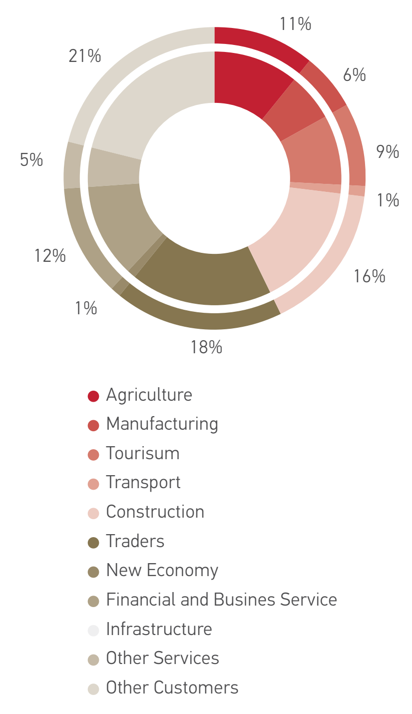
Management of concentration risk is primarily through diversification of business across industry sectors, products, counterparties and geographies. Concentration risk is measured through the Normalised Herfindahl-Hirschman Index (HHI) and is computed as part of the Bank's ICAAP process in which concentration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

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.

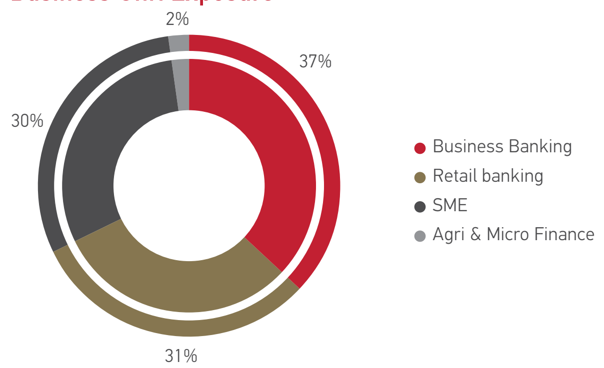
Loans and receivables to banks, both local and foreign, constitute a key component of counterparty risk. It is being monitored through a specific set of policies, procedures and a limit structure. At frequent intervals, the counterparty bank exposures are monitored against the established prudent limits 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.

Sector Concentration

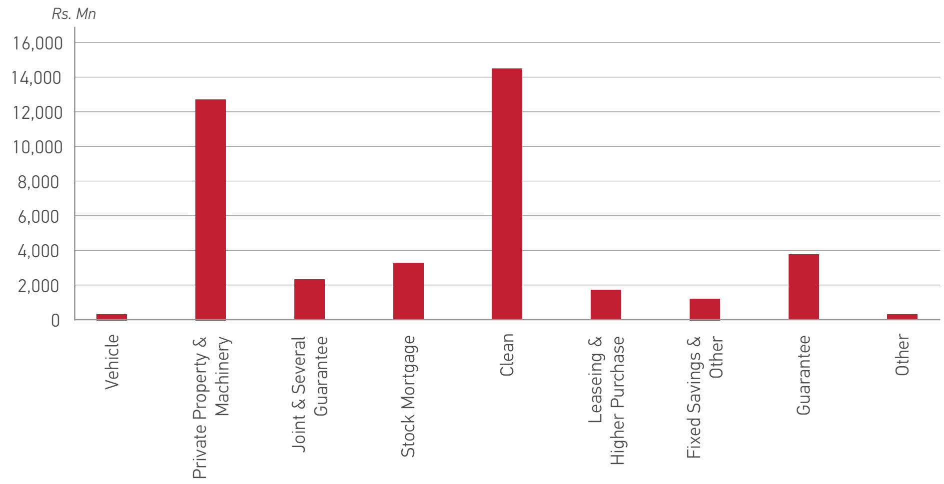


Details of Product Wise Exposure and Sector Wise Exposure are provided in Pages 127 and 128 of the Annual Report.

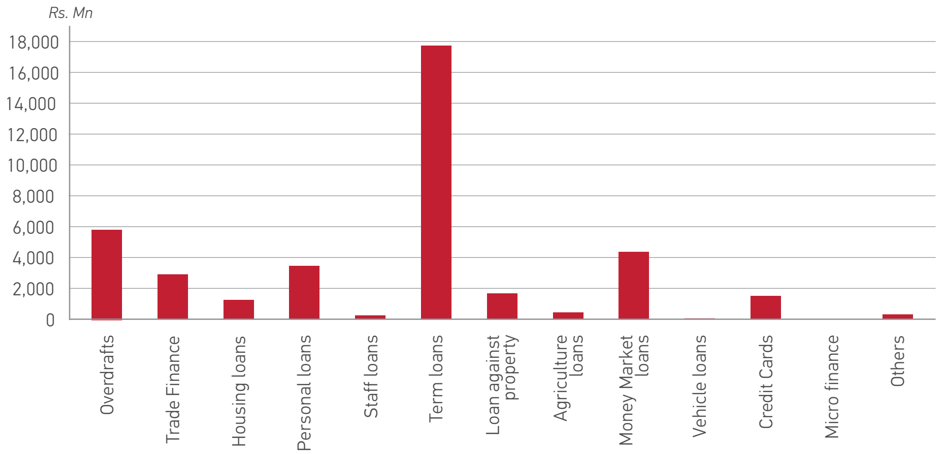
Business Unit Exposure



Collateral Concentration



Product Concentration



Operational Risk

Socio economic events and the COVID-19 Pandemic gave rise to a multitude of operational challenges. The Bank had 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.

In spite of certain relaxation of systems and procedures such as remote working arrangements, there was no increase in the operational risk profile in terms of incidents and losses. With good risk governance and the rigorous risk management function, the Bank was able to successfully maintain its stability and resilience although it continued to be a year of ongoing challenges.

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

The Operational Risk Unit

ORU 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/operation 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. 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 management action to address them. 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.

Risk Management

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 oversees the critical aspects covering overall operations of the Bank. It provides 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 authorised by the EIRMC to;

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

Operational Risk Events

Risk event	2022	2021
Business Disruption & System Failures	60%	63%
Clients, Products & Business Practices	19%	12%
Execution, Delivery & Process Management	18%	24%
Internal Fraud	0%	1%
Damage to Physical Assets	3%	0%
Employment Practices and Workplace Safety	0%	0%
External Fraud	0%	0%

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

The Banking sector witnessed a severe shortage in market liquidity. Cargills Bank adopted forward looking cautious liquidity management practices which helped navigating through testing times.

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 Board, BIRMC, and ALCO constantly assess the soundness of liquidity indicators to ensure they are controlled within prescribed parameters. 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 overseeing 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.

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 organisational standards, codes of conduct, internal policies and procedures applicable to its business activities.

Information Security/Technology Risk Management

The Bank understands the growing threat to the banking industry in information security and technology risk along with tighter regulatory and compliance requirement. Cargills bank continue to strategise to build a risk resilient culture within the bank. We aim to achieve this through risk awareness and risk focused governance approach. Cargills Bank has implemented a 3-tier governance architecture with dedicated information security unit. The front end to manages and responds to the threats, by actively engaging with the IT operation. The Bank has invested industry standard preventive and detective technologies with the Security Operations Center (SOC). Information security risk unit was established under the Risk Management Department in line with the technology risk resilience framework of Central Bank of Sri Lanka (CBSL). Both information security and information security risk units report to the Board Integrated Risk Management Committee (BIRMC) through Information Security Council (ISC).

Sri Lanka has introduced a new privacy law in 2022, creating a new dimension to the banking industry. Growing threat landscape in the regulatory and legal environment has challenged the conventional banking practices. This has created a need for digital transformation of processes. Security literacy within the community is a key constraint toward adaptation of digital channels. The Bank has deployed beyond perimeter monitoring mechanism to identify the treats faced by customers within the parameters of their the relationship with Cargills Bank. Constant awareness on the security practices were created among the customers and Bank's agents.

Capital Adequacy and ICAAP Framework

In line with the Basel requirements and as prescribed in the ICAAP framework, the Bank uses internal models to assess and quantify the risk profile. Internal limits which are more stringent than the regulatory requirements provide early warnings about capital adequacy. ICAAP supports the regulatory review process providing valuable inputs for evaluating the required capital in line with future business plans. It integrates strategic focus and risk management plans with the capital plan in a meaningful manner. The ICAAP process also identifies gaps in managing qualitative and quantitative aspects of reputational risk, human

Risk Management

resources risk, compliance risk and strategic risk which are not covered under Pillar 1 of Basel III. The Bank is compliant with both regulatory and its own prudential requirements of capital adequacy.

Stress Testing

Stress testing is an effective communication tool of the senior management, risk owners and risk managers as well as supervisors and regulators since it offers a broader view of all risks borne by the Bank. The outcomes of stress testing are reported to the EIRMC and BIRMC on a quarterly basis for appropriate, proactive decision making. The Bank conducts stress testing for severe shocks on its major risk exposures on a periodic basis. Bank evaluates the sensitivity of the current and forward risk profile relative to Bank's risk appetite, and assess the stress impact on resilience of capital, funding, liquidity, operations and earnings.

The Bank's governance framework for stress testing sets out the responsibilities and approaches to stress testing activities undertaken at the Bank, business line and risk type levels. The Bank uses a range of stress testing techniques, including scenario analysis, sensitivity analysis and reverse stress testing to perform stress testing for different purposes. The framework covers all the material risks such as credit risk including NPCF, operational risk, liquidity risk, FX risk, IRRBB risk. The Bank evaluates various degrees of stress levels identified in the Stress Testing Policy as Minor, Moderate and Severe.

Board Integrated Risk Management Committee Report

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

COMPOSITION

The Committee comprises eight (8) members of which two (2) 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. Yudhishtran Kanagasabai *(Non-Executive Director)* Appointed as the Chairman of the Committee w.e.f 4th August 2022
2. Faizal Salieh - Chairman *(Senior Independent Non-Executive Director)* Retired as the Chairman of the Committee w.e.f 4th August 2022
3. Richard Ebell *(Independent Non-Executive Director)*
4. Ms. Ruvini Fernando *(Independent Non-Executive Director)*
5. Senarath Bandara *(MD/CEO)*
6. Prabhu Mathavan *(Executive Director)*
7. Alex Perera *(Chief Risk Officer)*
8. Gayantha Wijekoon *(Head of Compliance)*
9. Chandrasada Amarasingha *(Deputy General Manager - Retail and Business Banking)*

Members of the Corporate Management attended meetings as and when required as invitees during the year under review.

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 Integrated Risk Management Committee (EIRMC), 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 2022, 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. Advanced quantitative risk evaluation techniques based on global best practices were used.
- With a view to increasing the accuracy and efficiency of the risk quantification tools, the Bank continues to be focused on risk data centralisation and analytics, developing a predictive analytical model for consumer credit risk evaluation and using technology-based automation.

Board Integrated Risk Management Committee Report

- 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. Scenario assessments were used for Credit, Market and Liquidity risk management due to the high volatility in the Macroeconomic variable.
- Strengthened the Internal Capital Adequacy Assessment Process (ICAAP) to review capital adequacy under multiple stressed scenarios for budgeted performances.
- Improvements made in the Operational risk identification and assessment process. Risk Register and Operational Loss Reports, were improved inline with the regulatory guidelines.
- 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.
- Strengthened the Compliance risk management framework by conducting periodic 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.
- Monitored the Bank's integration to new reporting platforms implemented by the Central Bank such as goAML
- 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 six (6) 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.

Yudhishtran Kanagasabai
Chairman - Board Integrated Risk Management Committee

Colombo
22 March 2023

Board Nomination Committee Report

COMPOSITION OF THE COMMITTEE

The Board Nomination Committee (BNC) comprises four Non-Executive Directors, three of whom are independent. The following Directors served/serve on the Committee.

1. Richard Ebell - Committee Chairman appointed w.e.f. 4th August 2022 *(Independent Non-Executive Director)*
2. Faizal Salieh - Committee Chairman retired w.e.f. 4th August 2022 *(Independent Non-Executive Director)*
3. Ranjit Page retired w.e.f. 21st January 2023 *(Non-Independent Non-Executive Director)*
4. Ms. Ruvini Fernando *(Independent Non-Executive Director)*
5. Buwaneka Perera appointed w.e.f. 25th January 2023 *(Independent Non-Executive Director)*
6. Asoka Pieris appointed w.e.f. 25th January 2023 *(Non-Independent Non-Executive Director)*

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 and as and when deemed necessary.

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

The Committee met three (3) times during the year and all the members eligible to attend, participated at the meetings.

ACTIVITIES OF THE COMMITTEE

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

- Procedure to select Directors/CEO and KMPs.
- The election/re-election of Directors taking into consideration the performance during the year, including whether the member concerned was an active participant and contributed at Board Meetings/Board committee meetings with respect to the overall discharge of the Board's responsibilities.
- The status of Directors' years of service and retirement details in terms of the Corporate Governance Direction No. 11 of 2007 (as amended).
- Appointment of a Director considering the balance in the composition of the Board members.
- Appointment of a Chairman of the Bank.
- Appointment of a Senior Director.
- Appointment of a KMP.
- Committee evaluation for 2021.

Richard Ebell
Chairman - Board Nomination Committee

Colombo
22 March 2023

Board Human Resources and Remuneration Committee Report

COMPOSITION OF THE COMMITTEE

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

1. Asoka Pieris - Committee Chairman appointed w.e.f. 25th January 2023 *(Non-Independent Non-Executive Director)*
2. Ranjit Page - Committee Chairman retired w.e.f. 21st January 2023 *(Non-Independent Non-Executive Director)*
3. Richard Ebell appointed w.e.f. 4th August 2022 *(Independent Non-Executive Director)*
4. Faizal Salieh retired w.e.f. 4th August 2022 *(Independent Non-Executive Director)*
5. Yudhishtran Kanagasabai *(Non-Independent Non-Executive Director)*
6. Buwaneka Perera *(Independent Non-Executive Director)*

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 policy in positioning employment, retention, training, development, remuneration and other performance based payments.
- 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.
- The Organisational Structure of the Bank.

In performing this role, the Committee shall also;

- Review and assess 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 twice during the year and all members eligible to attend, participated at the meetings.

ACTIVITIES OF THE COMMITTEE

The Committee considered and reviewed the following;

- The Succession Plan for the Corporate Management to ensure that succession arrangements were in place for critical positions.
- The annual increments/incentives for staff.
- Promotions of staff based on a comprehensive performance evaluation.
- Talent retention measures and guidance and direction provided in retaining qualified, competent performers at different levels of the organisation.
- Policies on Learning and Growth, Staff Housing Loans, Staff Vehicle Loans, Occupational Health and Safety and Medical Policy.
- The committee evaluation for 2021.

Asoka Pieris
Chairman - Board HR and Remuneration Committee

Colombo
22 March 2023

Board Strategic Planning Committee Report

COMPOSITION OF THE COMMITTEE

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

1. Richard Ebell - Committee Chairman appointed w.e.f. 25th January 2023 *(Independent Non-Executive Director)*
2. Ranjit Page - Committee Chairman retired w.e.f. 21st January 2023 *(Non-Independent Non-Executive Director)*
3. Faizal Salieh - Senior Director retired w.e.f. 4th August 2022 *(Independent Non-Executive Director)*
4. Senarath Bandara *(MD/CEO)*
5. Prabhu Mathavan retired w.e.f. 21st January 2023 *(Executive Director)*
6. Ms. Ruvini Fernando *(Independent Non-Executive Director)*
7. Ms. Marianne Page *(Non-Independent Non-Executive Director)*
8. Yudhishtran Kanagasabai *(Non-Independent Non-Executive Director)*
9. Buwaneka Perera *(Independent Non-Executive Director)*
10. Asoka Pieris appointed w.e.f. 25th January 2023 *(Non-Independent Non-Executive Director)*

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 and strategic direction.
- Review and assess whether the Bank is responsive to changes in the competitive environment by realigning its strategies and action plans periodically where appropriate to strengthen its competitive position.
- Review and assess whether the strategic plans of the Bank address the expectations of all key stakeholders, including in particular its shareholders.
- Review and assess whether the annual business plans and financial budgets, including capex budgets developed by the Executive Management are aligned 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.

FREQUENCY OF MEETINGS AND QUORUM

- Committee meetings shall be held twice a year or more frequently if required.
- The quorum required at a meeting shall be five (5) including the MD/CEO, two of whom shall be Independent Non-Executive Directors.
- The Committee met twice during the year and all the members eligible to attend, participated at the meetings.

ACTIVITIES OF THE COMMITTEE

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

- Business Plan review for the first half of 2022
- Initiatives to harness the business model and expansion of touch points
- Listing and Capital raising
- Budget 2023
- Business Plan 2023
- Committee evaluation for 2021

Richard Ebell
Chairman - Board Strategic Planning Committee

Colombo
22 March 2023

Board Related Party Transactions Review Committee Report

COMPOSITION OF THE COMMITTEE

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

1. Ms. Ruvini Fernando
   Committee Chairperson
   (Independent Non-Executive Director)
2. Faizal Salieh
   retired w.e.f. 4th August 2022
   (Independent Non-Executive Director)
3. Richard Ebell
   (Independent Non-Executive Director)
4. Buwaneka Perera
   appointed w.e.f. 4th August 2022
   (Independent Non-Executive Director)

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. In doing this the Committee will consider whether the RPT in its entirety is in the best interests of the Bank.
- 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 eligible to attend, participated at the meetings.

ACTIVITIES OF THE COMMITTEE

The Committee considered and/or reviewed the following;

- Related Parties of the Bank.
- Related Party Transactions entered in to by the Bank.
- Terms pertaining to Related Party Transactions to ensure that more favourable terms were not granted to related parties.
- Audits carried out by Internal Audit and Compliance departments and made recommendations as appropriate.
- The gap analysis carried out to identify the areas, which were required to be covered in the Related Party Policy in compliance with the CSE listing requirements.
- Committee evaluation for 2021

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

Colombo
22 March 2023

Board Credit Committee Report

COMPOSITION OF THE COMMITTEE

The Committee comprises four (4) members of whom two (2) members are Non-Executive Independent Directors. The following Directors served/serve on the Committee;

1. Buwaneka Perera - Committee Chairman
   appointed w.e.f. 4th August 2022
   (Independent Non-Executive Director)
2. Yudhishtran Kanagasabai
   Committee Chairman and Member till 4th August 2022
   (Non-Independent Non-Executive Director)
3. Ranjit Page
   retired w.e.f. 21st January 2023
   (Non-Independent Non-Executive Director)
4. Ms. Ruvini Fernando
   (Independent Non-Executive Director)
5. Ms. Marianne Page
   appointed w.e.f. 4th August 2022
   (Non-Independent Non-Executive Director)
6. Asoka Pieris
   appointed w.e.f. 25th January 2023
   (Non-Independent Non-Executive Director)

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

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.

Seven (7) BCC meetings were held during the year 2022 and all members eligible to attend participated at the meetings.

ROLE AND RESPONSIBILITIES

The role 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 maximise 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.
- Handling such other issues referred to the Committee from time to time by the Board.

AREAS OF FOCUS IN 2022

- Macro-Economic conditions and its impact on the loan portfolio.
- Review of facilities where there were delays in repayment, including segments which were vulnerable to the current macro-economic conditions.
- 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.
- Ensured that the lending portfolios were managed as per the stipulated credit risk parameters.
- Close monitoring of the portfolio under moratorium.
- Considered the findings of the Credit Audit performed on Business units and made appropriate recommendations.
- LRM - close review on the findings and providing adequate feed back to the management.
- Committee Evaluation for 2021

Buwaneka Perera
Chairman - Board Credit Committee

Colombo
22 March 2023

Board Audit Committee Report

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

COMPOSITION OF THE COMMITTEE

1. Richard Ebell
   (Independent Non-Executive Director), as Chairman
2. Buwaneka Perera
   (Independent Non-Executive Director)
3. Faizal Salieh
   retired w.e.f. 03rd August 2022
   (Independent Non-Executive Director)
4. Ms. Marianne Page
   appointed w.e.f. 04th August 2022
   (Non-Executive Director)
5. Asoka Pieris
   appointed w.e.f. 25th January 2023
   (Non-Independent Non-Executive Director)
6. Yudhishtran Kanagasabai
   appointed w.e.f. 25th January 2023
   (Non-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, attended 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, Mr 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 44 to 45 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 2022. Attendance at these meetings was:

Richard Ebelll	9 / 9 Meetings
Buwaneka Perera	9 / 9 Meetings
Faizal Salieh	5 / 5 Meetings
Ms Marianne Page	4 / 4 Meetings

KPMG were present at three 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 served 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 outsourced Information Systems audits 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. Written reports and verbal updates were provided also as thought necessary, highlighting matters of particular relevance.

EVALUATION OF THE COMMITTEE

Self-evaluations of the workings of the Committee were initiated in December 2022. 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

Colombo
22 March 2023

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

Your Directors take pleasure in presenting this report to their stakeholders together with the audited Financial Statements for the year ended 31 December 2022.

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 22 March 2023.

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;

	2022 Rs. '000	2021 Rs. '000
Profit/(loss) before taxation	206,437	(368,655)
Taxation	(281,327)	(91,528)
Profit/(loss) for the year	487,764	(277,127)
Accumulated loss brought forward	(2,055,814)	(1,772,667)
Other comprehensive income, net of tax	(92,320)	(132,313)
Losses to be carried forward	(1,598,139)	(2,055,814)

FINANCIAL STATEMENTS

The Financial Statements of the Bank are given on pages 92 to 171 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:

	2022 Rs. '000	2021 Rs. '000
Interest income	8,002,096	4,099,607
Fees and commission income	1,272,446	767,818
Net gains/(losses) from trading	994	(1,196)
Net gains/(losses) from derecognition of financial assets	20,814	(18,368)
Net other operating income	192,260	146,309

SHAREHOLDERS' FUNDS AND RESERVES

The Bank's total reserves as at 31 December 2022 stood at a negative balance of Rs. 1,674 Mn. This comprises an accumulated loss of Rs. 1,598 Mn, statutory reserve of Rs. 57 Mn and fair value through OCI reserve negative balance of Rs. 133 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 90 to 91. 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 97 to 171.

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 2022 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 (Retired w.e.f. 21st January 2023)
Richard Ebell *Chairman*	Non-Executive	Independent (Appointed as Senior Director w.e.f. 4th August 2022 to 20th January 2023 and as Chairman w.e.f. 21st January 2023)
Senarath Bandara *Managing Director/CEO*	Executive	Non-Independent
Prabhu Mathavan	Executive	Non-Independent (Retired w.e.f. 21st January 2023)
Faizal Salieh *Senior Director*	Non-Executive	Independent (Retired w.e.f. 4th August 2022)
Ms. Ruvini Fernando	Non-Executive	Independent
Ms. Marianne Page	Non-Executive	Non-Independent
Yudhishtran Kanagasabai	Non-Executive	Non-Independent
Buwaneka Perera	Non-Executive	Independent
Asoka Pieris	Non-Executive	Non-Independent (Appointed w.e.f.20th January 2023)

In terms of Article 86 of the Articles of Association of the Bank, Ms. Ruvini Fernando and Ms. Marianne Page retire by rotation and being eligible offer themselves for re-election, on the unanimous recommendation of the Board of Directors.

Mr. Asoka Pieris who was appointed on 20th January 2023 offers himself for election 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 150 to 154. In addition, transactions with entities where Directors of the Bank hold directorates are disclosed on page 81. 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. 4.6 Mn (Audit - Rs. 2.6 Mn and Audit related services - Rs. 2 Mn). The non-audit fees payable to KPMG for the year under review amounted to Rs. 5.4 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.

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

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 Banking Act directions on Corporate Governance except for direction Nos. 3 (1) (i) (b) and 3 (6) (iii) (b) and a detailed statement is provided on pages 46 to 60 of the Annual Report.

CAPITAL EXPENDITURE

The Bank's expenditure on Property, Plant and Equipment at cost amounted to Rs. 182 Mn during 2022, details of which are given in Note 29 to the Financial Statements. Expenditure on Intangible Assets at cost amounted to Rs. 157.8 Mn during 2022, 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 2022 was 265. The schedule providing information on shareholders' analysis is on pages 183 to 184 '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% for the first half and 30% for the second half of the year in accordance with income tax legislation. Deferred tax was calculated based on the Balance Sheet Liability Method in accordance with Sri Lanka Accounting Standards.

ANNUAL GENERAL MEETING

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

The Annual General Meeting will be held at the Institute of Chartered Accountants of Sri Lanka, No: 30A, Malalasekara Mawatha, Colombo - 07 on Friday, 28th April 2023. The Notice of Meeting can be found on page of 185 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,

Richard Ebell *Chairman*	Senarath Bandara *Managing Director/CEO*	Ms. Amendra de Silva *Company Secretary*

Colombo
22 March 2023

Directors' Interest in Contracts with the Bank

In addition to the related party transactions disclosed in Note 49 in this report, the Bank carries out transactions in the ordinary course of business on arm's length basis with entities where the Chairman or Director of the Bank is the Chairman or Director of such entities.

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

Company	Relationship	Accommodation Granted/Deposit	Interest Paid	Interest charged	Fees and expenses charged	Balance outstanding 31-Dec-22	Balance outstanding 31-Dec-21
	Rs' 000	Rs' 000	Rs' 000	Rs' 000	Rs' 000	Rs' 000	Rs' 000
Sierra Construction (Pvt) Ltd	Common Directors	Loan and Advances		60,809	1,681	341,672	-
		Deposits	(40)	-	-	5,742	-
		Off balance Sheet	-	-	-	71,752	-
Sunshine Holdings PLC	Common Directors	Deposits	(3,945)				
Dankotuwa Porcelain PLC	Common Directors	Deposits	-	-	0.20	6,597	2664
Edinborough Products (Pvt) Ltd	Common Directors	Loan and Advances	-	-	-	-	128,312
		Deposits	-	-	-	-	6,951
Double Yummm (Pvt) Ltd	Common Directors	Loan and Advances			27	-	
		Deposits	(5,626)			60,942	-
Sierra Cables PLC	Common Directors	Loan and Advances	-	2,938	428	10,257	162,195
		Deposits	(2,034)	-	-	3,329	50,748
		Off balance Sheet	-	-	-	-	134,174
Sri Lanka Institute of Directors	Common Directors	Deposits	-	-	-	-	10,310

AUGMENTING GROWTH THROUGH OUR ECOSYSTEM

Our hub-and-spoke model allows the Bank to expand its presence with minimal investment, utilising the established locations of the Cargills Food City network.

Financial Reports

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 90 to 91 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 2022 and the loss of the Bank for the financial year ended on 31 December 2022 and such Financial Statements are placed before a General Meeting. The Financial Statements comprise the Statement of Financial Position as at 31 December 2022, 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 2022; 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 22 March 2023 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 2022 are given on page 86 of the Annual Report, 'Directors' Statement on Internal Controls over Financial Reporting'.

The Auditor's Report on Internal Controls is given on page 87 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 90 to 91 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
22 March 2023

Directors' Statement on Internal Controls Over Financial Reporting

In line with the Banking Act Direction No. 11 of 2007, Section 3 (8) (ii) (b), the Board of Directors 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 of the key departments and branches were audited during the year and observations reported to the Audit Committee.
- Selected Information System (IS) audits were carried out by the Internal Audit Department. In addition, three IS audits were completed by two 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 pages 76 to 77.
- 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.

Directors' Statement on Internal Controls Over Financial Reporting

- 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 on an ongoing basis. It has documented changes in the polices and procedures applied and obtained approval of the Board Audit Committee and the Board. In addition, during the year under review, the Bank engaged the Accounting Advisory Services team of KPMG Sri Lanka to undertake an independent validation of the existing ECL Models used by the Bank and material recommendations stemming from the aforesaid validation exercise were incorporated to the ECL models of the Bank subsequent to a detailed deliberation.

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 2022 and have reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal controls over financial reporting of the Bank.

The Assurance Report of the External Auditors in connection with Internal Controls over Financial Reporting is on page 87.

Senarath Bandara
Managing Director/
Chief Executive Officer

Ms. Amendra De Silva
Company Secretary

Colombo
22 March 2023

Auditor's Report on Internal Control

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

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TO THE BOARD OF DIRECTORS OF CARGILLS BANK LIMITED

We were engaged by the Board of Directors of Cargills Bank Limited ("Bank") to provide assurance on the Directors' Statement on Internal Control ("Statement") included in the annual report for the year ended 31st December 2022 set out on pages 85 to 86 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 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 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 draft financial statements, including the draft Statement on Internal Control, is considered and approved for submission to the Board of Directors. The final annual report and reports on internal control and Corporate Governance are approved by circulation.
f. Considered whether the Director's Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.
g. Obtained written representations from directors on matters material to the Statement on Internal Control where other sufficient appropriate audit evidence cannot reasonably be expected to exist.

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

Our Conclusion

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

KPMG

Chartered Accountants

Colombo
22 March 2023

CEO's and CFO's Responsibility for Financial Reporting

The Financial Statements of Cargills Bank Limited (the Bank) for the year ended 31 December 2022 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 add;
- 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); and
- 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 Central Bank of Sri Lanka which also compliance with the disclosure requirements of Sri Lanka Accounting standard - LKAS 1 (presentation of Financial statement) . The Bank presents the financial results to its shareholders on a quarterly basis.

The Accounting Policies used in the preparation of the Financial Statements are appropriate and are consistently applied by the Bank.

There are no material departures from the prescribed Accounting Standards in their adoption.

Comparative information has been reclassified wherever necessary to comply with the current presentation.

Significant accounting policies and estimates that involved a high degree of judgement and complexity were discussed with the Audit Committee and the External Auditors. The Board of Directors and the Management of the Bank accept the responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgements relating to the Financial Statements were made on a prudent and reasonable basis; 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 with use of comprehensive core banking system, 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. The Bank's Internal Audit Department has conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Bank were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting. We confirm that to the best of our knowledge, the Financial Statements, Significant Accounting Policies and other financial information included in this Annual Report, fairly present in all material respects the financial position, results of the operations and the Cash Flows of the Bank during the year under review. We also confirm that the Bank has adequate resources to continue in operation and have applied the Going Concern basis in preparing these Financial Statements

Further the Board assessed the effectiveness of the Bank's internal controls over financial reporting during the year ended 31 December 2022 , as required by the Banking Act Direction No. 11 of 2007, the result of which is given on pages 85 to 86 of the Annual Report, 'Directors' Statement on Internal Controls over Financial Reporting'. The 'Auditor's Report on Internal Controls' is given on page 87 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 90 to 91 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 76 to 77 for details.

The Bank has taken appropriate actions to implement new Sri Lanka Accounting Standards and direction issued by Central Bank of Sri Lanka on due dates and all the processes are in place to address the requirements of the Sri Lanka Accounting Standards and respective regulatory directions.

We confirm to the best of our knowledge that;

- Prudential requirements have been satisfied and there are no material litigation that is pending against the Bank other than disclosed in Note 44 to the Financial Statements.
- There are no material non compliances
- All contributions, levies and taxes paid on behalf of Bank and in respect of the employees of the Bank as at 31 December 2022 have been paid or where relevant provided for.

Senarath Bandara
Managing Director/
Chief Executive Officer

Ms. Dilhani Gajanayaka
Head of Finance

Colombo
22 March 2023

Independent Auditor's Report

KPMG
(Chartered Accountants)
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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, 2022, 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 92 to 171 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, 2022, 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.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

KPMG

Chartered Accountants

Colombo, Sri Lanka
22 March 2023

Income Statement

For the year ended 31 December	Note	2022 Rs. '000	2021 Rs. '000	Change %
Gross income		9,488,610	4,994,170	90
Interest income		8,002,096	4,099,607	95
Less: Interest expense		4,797,845	2,259,926	112
Net interest income	7	3,204,251	1,839,681	74
Fees and commission income		1,272,446	767,818	66
Less: Fees and commission expense		410,078	275,737	49
Net fees and commission income	8	862,368	492,081	75
Net gains/(losses) from trading	9	994	(1,196)	183
Net gains from derecognition of financial assets	10	20,814	(18,368)	213
Net other operating income	11	192,260	146,309	31
Total operating income		4,280,687	2,458,507	74
Less: Impairment losses on financial instruments and other assets	12	1,463,485	684,510	114
Net operating income		2,817,202	1,773,997	59
Less: Expenses				
Personnel expenses	13	915,285	842,691	9
Depreciation and amortisation	14	437,014	420,213	4
Other operating expenses	15	1,017,128	773,594	31
Operating profit/(loss) before taxes on financial services		447,775	(262,501)	271
Less: Taxes on financial services	16	241,338	106,154	127
Profit/(loss) before income tax		206,437	(368,655)	156
Less: Income tax expense/(reversal)	17	(281,327)	(91,528)	(207)
Profit/(loss) for the year		487,764	(277,127)	276
Profit attributable to:				
Equity holders of the Bank		487,764	(277,127)	276
Profit/(loss) for the year		**487,764**	**(277,127)**	**276**
Basic earnings per share (Rs.)	18	0.55	(0.31)	276
Diluted earnings per share (Rs.)	18	0.55	(0.31)	276

The Notes to the Financial Statements appearing on pages 97 to 171 form an integral part of these Financial Statements.

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December	Note	2022 Rs. '000	2021 Rs. '000	Change %
Profit/(loss) for the year		487,764	(277,127)	276
Other comprehensive income, net of tax				
Items that will not be reclassified to profit or loss				
Net actuarial gains/(losses) on defined benefit obligations	38	(5,701)	(6,016)	5
Change in fair value of investment in equity measured at fair value through other comprehensive income	20.2.1	1,575	1,288	22
Deferred tax asset related to the above	32.1	(283)	166	(271)
		(4,409)	(4,562)	3
Items that will be reclassified to profit or loss				
Net gains/(losses) on investment in financial assets measured at fair value through other comprehensive income				
Sri Lanka government securities		(125,001)	(175,109)	29
Deferred tax asset related to the above	32.1	37,090	47,358	(22)
		(87,911)	(127,751)	31
Total other comprehensive income/(loss) for the year, net of tax		(92,320)	(132,313)	30
Total comprehensive income/(loss) for the year		395,444	(409,440)	197
Attributable to:				
Equity holders of the Bank		395,444	(409,440)	197
Total comprehensive income/(loss) for the year		**395,444**	**(409,440)**	**197**

The Notes to the Financial Statements appearing on pages 97 to 171 form an integral part of these Financial Statements.

Statement of Financial Position

As at 31 December	Note	2022 Rs. '000	2021 Rs. '000	Change %
ASSETS				
Cash and cash equivalents	21	1,232,272	1,214,754	1
Balances with Central Bank of Sri Lanka	22	1,311,926	567,802	131
Placements with Banks	23	-	601,151	(100)
Derivative financial instruments	24	-	3,200	(100)
Financial assets at amortised cost - Loans and advances to other customers	26	35,960,080	40,490,736	(11)
Financial assets at amortised cost - Debt and other financial instruments	27	1,996,950	15,528	12,761
Financial assets measured at fair value through other comprehensive income	28	10,253,496	10,783,609	(5)
Property, plant and equipment and right-of-use assets	29	475,180	518,272	(8)
Intangible assets	30	335,150	258,942	29
Deferred tax assets	32	955,721	637,588	50
Other assets	33	1,232,034	675,479	82
Total assets		**53,752,809**	**55,767,061**	**(4)**
LIABILITIES				
Due to banks	34	514,193	926,405	(44)
Derivative financial instruments	35	30	3,009	(99)
Financial liabilities at amortised cost - Due to depositors	36	37,802,680	40,182,402	(6)
Financial liabilities at amortised cost - Other borrowings	37	3,688,924	3,969,617	(7)
Retirement benefit obligations	38	96,806	81,336	19
Lease liability	31	340,542	332,675	2
Other liabilities	39	1,589,329	946,756	68
Total liabilities		44,032,504	46,442,200	(5)
EQUITY				
Stated capital	40	11,394,421	11,394,421	-
Statutory reserves	41	56,774	32,386	75
Retained losses	42	(1,598,139)	(2,055,814)	22
Other reserves	41	(132,751)	(46,132)	(188)
Total equity attributable to equity holders of the Bank		9,720,305	9,324,861	4
Total liabilities and equity		**53,752,809**	**55,767,061**	**(4)**
Contingent liabilities & commitments	43	22,292,738	18,687,750	19
Net asset value per share (Rs.)	45	11.01	10.56	4
Memorandum Information				
Number of employees		598	622	
Number of branches		23	21	

The Notes to the Financial Statements appearing on pages 97 to 171 form an integral part of these Financial Statements.

Certification

These Financial Statements have been prepared in compliance with requirements of the Companies Act No. 07 of 2007.

Ms. D. Gajanayaka
Head of Finance

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

S. Bandara
Managing Director/Chief Executive Officer

R.A. Ebell
Chairman

22 March 2023
Colombo

Statement of Changes in Equity

	Stated Capital	Statutory Reserves	Retained Profit/ (losses)	Other Reserves (Fair Value Through Other Comprehensive Income Reserve)	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
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					
Profit/(loss) for the year	-	-	(277,127)	-	(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**
Balance as at 01 January 2022	11,394,421	32,386	(2,055,814)	(46,132)	9,324,861
Total comprehensive income for the year 2022					
Profit/(loss) for the year	-	-	487,764	-	487,764
Other comprehensive income, net of tax	-	-	(5,701)	(86,619)	(92,320)
Total comprehensive income/(loss) for the year 2022	-	-	482,063	(86,619)	395,444
Transactions with equity holders recognised directly in equity					
Transfers during the year	-	24,388	(24,388)	-	-
Total transactions with equity holders	-	24,388	(24,388)	-	-
Balance as at 31 December 2022	**11,394,421**	**56,774**	**(1,598,139)**	**(132,751)**	**9,720,305**

Statement of Cash Flows

For the year ended 31 December	Note	2022 Rs. '000	2021 Rs. '000
Cash flows from operating activities			
Profit/(loss) before income tax		206,437	(368,655)
Adjustments for:			
Non-cash items included in profit/(loss) before tax	50	2,623,208	1,170,489
Gains/(losses) on sale of property, plant & equipment and other assets	11	(315)	368
Dividend income	11	(720)	(1,360)
Interest paid on lease liabilty	31.3	(34,271)	(40,857)
Benefits paid on defined benefit plans	38	(12,674)	(10,542)
Operating profits before changes in operating assets and liabilities		2,781,665	749,443
Increase in operating assets	51	(324,582)	(9,697,043)
Increase in operating liabilities	52	(2,118,078)	7,679,497
Cash generated from/(used in) operating activities before income tax		339,005	(1,268,103)
Income taxes paid		-	-
Net cash generated from/(used in) operating activities		339,005	(1,268,103)
Cash flows from investing activities			
Net purchase of property, plant and equipment	29	(177,616)	(31,823)
Investment in debentures	27	(160,353)	-
Proceeds from sale of property, plant and equipment	29	755	337
Net purchase of intangible assets	30	(193,576)	(53,386)
Dividends received	11	720	1,360
Net cash generated from/(used in) investing activities		(530,070)	(83,512)
Cash flows from financing activities			
Net proceeds from the issue of perpetual debenture		-	1,500,000
Payment of lease liability	31.4	(91,513)	(102,296)
Change in securities sold under repurchase agreements		(280,693)	348,425
Net cash generated from/(used in) financing activities		(372,206)	1,746,129
Net increase/(decrease) in cash and cash equivalents		(563,270)	394,514
Cash and cash equivalents at the beginning of the year		1,823,610	1,429,096
Cash and cash equivalents at the end of the year		**1,260,340**	**1,823,610**
Reconcilliation of cash and cash equivalents			
Cash and cash equivalents	21	1,260,340	1,222,459
Placements with Banks	23	-	601,151
		1,260,340	1,823,610
Less: Impairment charges	21	(28,068)	(7,705)
Total Cash and cash equivalents		**1,232,272**	**1,815,905**

The Notes to the Financial Statements appearing on pages 97 to 171 form an integral part of these Financial Statements.

Notes to the Financial Statements

1. REPORTING ENTITY

1.1 Domicile and Legal Form

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

The Bank does not have an identifiable Parent of its own. Further, the Bank does not hold any investments in the form of a subsidiary, joint venture or an associate. Corporate information is presented in the inner back cover of this Annual Report.

1.2 Principal Activities and Nature of Operations

On 21 January 2014, in terms of Section 5 of the Banking Act No. 30 of 1988 (as amended from time to time), the Bank has been issued with a commercial banking license by the Central Bank of Sri Lanka (CBSL) to carry on domestic banking business and off-shore banking business. The Bank provides a comprehensive range of financial services encompassing accepting deposits, corporate and retail banking, project financing, trade finance, treasury services, issuing of credit cards and debit cards, offshore banking, resident and non-resident foreign currency operations, invoice discounting, electronic banking services such as: telephone banking, internet banking, mobile banking and money remittance facilities, etc.

1.3 Number of Employees

The total number of employees of the Bank as at 31 December 2022 was 598. (2021 - 622).

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. 07 of 2007 and the Banking Act No. 30 of 1988 and amendments thereto. These Financial Statements except for information in the Statement of Cash Flows have been prepared following the accrual basis of accounting.

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

2.2 Responsibility for Financial Statements

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

The Board of Directors acknowledges their responsibility for Financial Statements as set out in the 'Annual Report of the Board of Directors' on the Affairs of the Bank', 'Directors' Responsibility for Financial Reporting' and the certification on the 'Statement of Financial Position' on pages 78 to 80, 84 and 94 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 92 to 93.
- A Statement of Financial Position providing the information on the financial position of the Bank as at the year end. Refer page 94.
- A Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Bank. Refer page 95.
- A Statement of Cash Flows providing the information to the users, on the ability of the Bank to generate cash and cash equivalents and the need to utilise those cash flows. Refer page 96.
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information. Refer pages 97 to 171.

2.3 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Bank for the year ended 31 December 2022 were approved (including comparatives for the year 2021) and authorised for issue by the Board of Directors on 22 March 2023.

Notes to the Financial Statements

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

Items	Measurement basis
Financial assets measured at fair value through profit or loss (FVTPL) including derivative financial instrument	Fair value
Financial assets measured at fair value through other comprehensive income (FVOCI)	Fair value
Net defined benefit (asset)/liability	Present value of the defined benefit obligation

2.5 Going Concern
The directors have made an assessment of the Bank's ability to continue as a going concern and are satisfied that it has the resources to continue in business for a foreseeable future.

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

2.6 Functional and Presentation Currency
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.

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

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

2.9 Offsetting
Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the 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.

Extraordinary Economic Conditions

With a view of meeting the challenges faced by businesses and individuals engaged in various economic sectors due to the prevailing extraordinary macroeconomic circumstances, the Central Bank of Sri Lanka (CBSL) via its direction on Concessions to affected borrowers amidst the prevailing extraordinary macroeconomic circumstances requested banks to provide concession to affected borrowers on a need basis. Concessions granted by the Bank under this circular include grace period on capital or interest or both capital and interest for a period of six months from the date of the aforesaid circular, based on the new repayment capacity of the borrower.

When a customer is provided with a moratorium and the same results in a Significant Increase in Credit Risk (SICR), the impact on Expected Credit Loss (ECL) is recognised when assessing provision by applying risk elevation for Probability of Default (PD) to reflect the impact of moratorium granted.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses and fair value measurement. The impact of these estimates where relevant is discussed further in the respective Notes to these Financial Statements. Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to estimates are recognised prospectively.

2.12.1 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 of 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 the way in which the risk management is carried out within the Bank's Risk Management Framework with due consideration given to factors such as governance, identification, assessment, monitoring, reporting and mitigation are discussed in the Section on "Risk Management" on pages 61 to 68. 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 authorised for issue.

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

Notes to the Financial Statements

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 of 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, at FVOCI as at FVTPL in the event such 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 realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's Management; the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how Managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activities. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

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

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

Notes to the Financial Statements

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 maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (refer write-off policy).

This approach impacts the result of the quantitative evaluation and means that the recognition criteria are not usually met in such cases.

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

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

Financial Liabilities

The Bank derecognises a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different.

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

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

3.2.6 *Offsetting Financial Instruments*

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

3.3 Leases

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

- The contract involves the use of an identified asset. This may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has substantive substitution right, then the asset is not identified;
- The Bank has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and

Notes to the Financial Statements

- 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 29.6 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 (DCP) - Employees' Provident Fund and Employees' Trust Fund

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

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

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

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

3.5.2 Defined Benefit Plan (DBP) - Gratuity

A DBP is a post-employment benefit plan other than a DCP as defined in the Sri Lanka Accounting Standard - LKAS 19 on "Employee Benefits".

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

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

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

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

Notes to the Financial Statements

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.

3.10 Recognition of Income and Expenses

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

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

3.11 Net Income from Other Financial Instruments at FVTPL

Net income from other financial instruments at FVTPL relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships and financial assets and financial liabilities designated at FVTPL. It includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

3.12 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.

3.13 Expenditure Recognition

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

3.13.1 Income Tax Expense

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

3.13.2 Crop Insurance Levy (CIL)

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

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

3.13.3 Value Added Tax on Financial Services

Details of Taxes on Financial Services are given in Note 16 to the Financial Statements.

3.13.4 Social Security Contribution Levy

In terms of the provisions of the Social Security Contribution Act No. 25 of 2022, Social Security Contribution Levy (SSCL) was introduced with effect from 01 October 2022 and is payable to the Department of Inland Revenue within the statutory due dates.

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 2023 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. Under the amendments, the Bank will recognise a separate deferred tax asset and a deferred tax liability, respectively in relation to the deductible temporary difference on the lease liability and the taxable temporary difference on the right-of-use asset as against the current treatment of recognising a net deferred tax asset/liability. There will be no impact on retained earnings on adoption of the amendments. 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.

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).
- Definition of Accounting Estimates (Amendments to IAS 8).
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16).

Notes to the Financial Statements

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 expenses 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 fair value through other comprehensive income (FVOCI) and held to maturity financial assets 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 (ECL) 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 (POCI) 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 Expense

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

However, for financial assets that have become credit impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net carrying amount of the financial asset. 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	2022 Rs. '000	2021 Rs. '000
Interest income	7.1	8,002,096	4,099,607
Less: Interest expense	7.2	4,797,845	2,259,926
Net interest income		3,204,251	1,839,681

7.1 Interest Income

Placements with banks	8,398	19,588
Reverse repurchase agreements	3,346	5,891
Financial assets measured at fair value through profit or loss	-	63,949
Investments in debenture	24,762	-
Financial assets measured at amortised cost - Loans and advances to other customers	6,234,071	3,427,695
Financial assets measured at amortised cost - Debt and other financial instruments	-	6,245
Financial assets measured at fair value through other comprehensive income	1,731,519	576,239
Total interest income	8,002,096	4,099,607

7.2 Interest Expense

Due to banks	55,622	45,273
Financial liabilities measured at amortised cost - Due to depositors	4,269,284	2,078,459
Financial liabilities measured at amortised cost - Other borrowings	168,258	114,081
Repurchase agreements	304,681	22,113
Total interest expense	4,797,845	2,259,926
Net interest income	3,204,251	1,839,681

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, sales commission, placement fees and syndication fees, etc. are recognised as the related services are rendered.

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

For the year ended 31 December	Note	2022 Rs. '000	2021 Rs. '000
Fee and commission income	8.1	1,272,446	767,818
Less: Fee and commission expense	8.2	410,078	275,737
Net fees and commission income		862,368	492,081

Notes to the Financial Statements

8.1 Fee and Commission Income

For the year ended 31 December	2022 Rs. '000	2021 Rs. '000
Loans and advances	42,076	57,984
Debit and credit cards	615,931	453,019
Trade and remittances	417,615	102,733
Deposits	12,813	12,422
Guarantees	86,082	67,252
Other financial services	97,929	74,408
Total fee and commission income	1,272,446	767,818

8.2 Fee and Commission Expense

Debit and credit cards	339,319	231,308
Brokerage fee	3,992	3,410
Other financial services	66,767	41,019
Total fee and commission expense	410,078	275,737

9. NET GAINS/(LOSSES) FROM TRADING

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

For the year ended 31 December	2022 Rs. '000	2021 Rs. '000
Derivative financial instruments		
Inter bank	994	(1,196)
Total net gains/(losses) from trading	994	(1,196)

10. NET GAINS 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 fair value through other comprehensive income (FVOCI) and financial assets measured at amortised cost.

For the year ended 31 December	2022 Rs. '000	2021 Rs. '000
Government securities	20,814	(18,368)
Total net gains/(losses) from derecognition of financial assets	20,814	(18,368)

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 (FVOCI), gains/losses on disposal of property, plant and equipment, and rental and other income.

For the year ended 31 December	2022 Rs. '000	2021 Rs. '000
Gains/(losses) on sale of property, plant and equipment and other assets	315	(368)
Gains on foreign exchange		
Inter bank	24,510	7,484
Others	164,771	136,083
Dividend income	720	1,360
Rent and other income	1,944	1,750
Total net other operating income	192,260	146,309

12. IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS AND OTHER ASSETS

Recognition of Expected Credit Loss (ECL)

The Bank recognises loss allowances for Expected Credit Losses (ECL) on the following financial instruments that are not measured at fair value through profit or loss (FVTPL):

- Cash and cash equivalents;
- Placements with banks;
- Financial assets that are loans and advances;
- Financial assets that are debt instruments;
- Financial guarantee contracts issued; and
- Undrawn credit commitments.

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.

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".

Notes to the Financial Statements

12. IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS AND OTHER ASSETS CONTD.

Measurement of Expected Credit Loss (ECL)

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

- Financial assets that are not credit impaired at the reporting date: as the present value of all cash shortfalls (i.e, the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- Financial assets that are credit impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- The undrawn amounts including financial guarantees are converted into likely future exposures using Credit Conversion Factors (CCF) as specified in the BASEL III guidelines and included within the collective model which will reflects the days past due, Probability of Default (PD) and Loss Given Default (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 fair value through other comprehensive income (FVOCI) 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, Banking Act Direction No 13 of 2021 on Classification, recognition and measurement of credit facilities in a licensed banks too requires credit facility where contractual payments are past due for more than 90 days, contracts restructured for more than 2 time (other than upgraded facilities) and rescheduled contract (other than upgraded facilities) to be classified as credit impaired contracts.

Presentation of Allowance for Expected Credit Loss (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 Income Statement.

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.

Impairment Charges for the Year

For the year ended 31 December	Note	2022 Rs. '000	2021 Rs. '000
Financial assets at amortised cost - Loans and advances to other customers	26.2	434,947	537,295
Financial assets at amortised cost - Debt and other instruments	27.2	13,227	(3,810)
Cash and cash equivalents	21.1	20,363	(1,268)
Contingent liabilities and commitments	43.1.2	(37,060)	106,783
Total impairment charges		431,477	639,000
Direct write-offs		1,031,085	26,866
Write-off other assets	12.1	923	18,644
Total impairment charges for financial instruments and other assets		1,463,485	684,510

12.1 Write-off of other assets includes net write-off of tax related receivables and other operational write-offs which cannot be carried forward/recovered.

Notes to the Financial Statements

12.2 Analysis of Impairment Changes – Stage Wise Impairment

For the year ended 31 December	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
(a) 2022				
Financial assets at amortised cost - Loans and advances to other customers	(77,730)	357,527	155,150	434,947
Financial assets at amortised cost - Debt and other instruments	13,227	-	-	13,227
Cash and cash equivalents	4,786	15,577	-	20,363
Contingent liabilities and commitments	12,597	25,314	(74,972)	(37,060)
Total impairment charges	**(47,120)**	**398,418**	**80,178**	**431,477**
(b) 2021				
Financial assets at amortised cost - Loans and advances to other customers	83,504	274,977	178,814	537,295
Financial assets at amortised cost - 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**

13. PERSONNEL EXPENSES

For the year ended 31 December	Note	2022 Rs. '000	2021 Rs. '000
Salary and bonus		681,341	639,467
Contributions to defined contribution plans	13.1	93,989	91,280
Provision for defined benefit obligations	38	25,242	21,099
Other staff related expenses		114,713	90,845
Total personnel expenses		**915,285**	**842,691**

13.1 Personnel expenses reported above include emoluments and post employment benefit expenses incurred on behalf of Executive Directors amounting to Rs. 58.4 Mn and Rs. 8.6 Mn, respectively (2021 - Rs. 71 Mn and 10.1 Mn, respectively).

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 and depreciation rates of the assets for the year ended 31 December 2022 & 2021 are as follows:

	Years	Rate
Furniture and Fittings	5 years	20%
Office Equipment	5 years	20%
Computer Hardware	4 years	25%
Motor Vehicle	4 years	25%
Machinery	5 years	20%
Improvements to Leasehold Buildings	8 - 15 years	6.67% - 12.5%

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. The depreciation rates 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	2022 Rs. '000	2021 Rs. '000
Depreciation of property, plant and equipment	29	319,648	268,030
Amortisation of intangible assets	30	117,366	152,183
Total depreciation and amortisation expenses		437,014	420,213

Notes to the Financial Statements

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	2022 Rs. '000	2021 Rs. '000
Directors' emoluments	15.1	14,552	14,433
Auditors' remunerations		10,141	6,471
Audit fee and expenses		2,600	2,105
Audit related fee and expenses		2,075	1,930
Non-audit fee and expenses		5,466	2,436
Professional and legal expenses		55,196	15,249
Sri Lanka Deposit Insurance Scheme contribution		37,951	27,977
Office administration and establishment expenses		899,288	709,464
Total other operating expenses		1,017,128	773,594

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

16. TAXES ON FINANCIAL SERVICES

The value addition attributable to the supply of financial services is calculated by adjusting the economic depreciation computed on rates prescribed by the Department of Inland Revenue to the accounting profit before income tax and emoluments payable. Emoluments payable include benefits in money and not in money including contribution or provision relating to terminal benefits.

For the year ended 31 December	2022 Rs. '000	2021 Rs. '000
Value Added Tax (VAT) on financial services	241,338	106,154
Total taxes on financial services	241,338	106,154

17. INCOME TAX EXPENSES

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, if any related to income tax including uncertain tax treatments do not meet the definition of Income Tax, and therefore are accounted under LKAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Current Taxation

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

Accordingly, provision for taxation is made on the basis of the accounting profit for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 24 of 2017 and the amendments thereto, at the rates specified.

Deferred Taxation
Refer Note 32 to the Financial Statements.

For the year ended 31 December	Note	2022 Rs. '000	2021 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	(281,327)	(91,528)
Total income tax expenses		**(281,327)**	**(91,528)**

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

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

For the year ended 31 December	2022		2021	
	Rs. '000	%	Rs. '000	%
Accounting profit/(loss) before tax from operations	447,775	100	(262,501)	100
Tax effect at the statutory income tax rate	(116,557)	26	(63,000)	24
Tax effect of exempt income	-	-	(70)	0
Tax effect of non-deductible expenses	529,500	(118)	280,354	(107)
Tax effect of deductible expenses	(383,257)	86	(118,975)	45
Taxable profit/(loss) on disposal of lease/fixed assets	(4)	-	(34,357)	13
Tax losses utilised during the year	(29,682)	7	(63,952)	24
Income tax on current year profit	-	-	-	-
(Over)/under provision in respect of prior years	-	-	-	-
Deferred tax expense/(reversal)	(281,327)	-	(91,528)	-
Income tax expense/(reversal)	**(281,327)**	-	**(91,528)**	-

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% for the first half and 30% for the second half of the year of 2022 (2021 - 24%).

17.3 Tax Expense Recognised in Other Comprehensive Income

For the year ended 31 December	Note	2022 Rs. '000	2021 Rs. '000
Deferred tax on net actuarial gains/(losses) on defined benefit plans		266	166
Deferred tax on net gains/(losses) on investment in financial assets measured at fair value through other comprehensive income		36,540	47,358
Total recognised in other comprehensive income		**36,806**	**47,524**

Notes to the Financial Statements

17.4 Tax Losses/Credits Carried Forward

For the year ended 31 December	2022 Rs. '000	2021 Rs. '000
Tax losses brought forward	1,658,958	2,052,213
Adjustment to tax losses	2,901	(127,597)
Add: Tax losses arising during the year	-	-
Less: Tax losses utilised during the year	(989,401)	(265,658)
Unutilised Tax losses/credits carried forward	**672,458**	**1,658,958**

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	2022 Rs. '000	2021 Rs. '000
Amount used as the numerator			
Profit/(loss) after tax attributable for equity holders of the Bank		487,764	(277,127)
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 earning/(loss) per share (Rs.)		**0.55**	**(0.31)**

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.

19.1

As at 31 December	Note	Fair value through P/L Rs. '000	Fair Value through OCI Rs. '000	Amortised Cost Rs. '000	Total Rs. '000
(a) 2022					
Financial assets					
Cash and cash equivalents	21	-	-	1,232,272	1,232,272
Balances with Central Bank of Sri Lanka	22	-	-	1,311,926	1,311,926
Placements with Banks	23	-	-	-	-
Derivative financial instruments	24	-	-	-	-
Financial assets measured at fair value through profit or loss	25	-	-	-	-
Financial assets at amortised cost - Loans and advances to other customers	26	-	-	35,960,080	35,960,080
Financial assets at amortised cost - Debt and other financial instruments	27	-	-	1,996,950	1,996,950
Financial assets - at fair value through other comprehensive income - Government securities	28	-	10,235,480	-	10,235,480
Financial assets - at fair value through other comprehensive income - Equity instruments	28	-	18,016	-	18,016
Other assets*	33	-	-	775,904	775,904
Total financial assets		-	10,253,496	41,277,132	51,530,628
Financial liabilities					
Due to banks	34	-	-	514,193	514,193
Derivative financial instruments	35	30	-	-	30
Financial liabilities at amortised cost - Due to depositors	36	-	-	37,802,680	37,802,680
Financial liabilities at amortised cost - Other borrowings	37	-	-	3,688,924	3,688,924
Lease liability	31	-	-	340,542	340,542
Other liabilities**	39	-	-	1,158,596	1,158,596
Total financial liabilities		30	-	43,504,935	43,504,965

Notes to the Financial Statements

19. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES CONTD.

As at 31 December	Note	Fair value through P/L Rs. '000	Fair Value through OCI Rs. '000	Amortised Cost Rs. '000	Total Rs. '000
(b) 2021					
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 measured at fair value through profit or loss	25	-	-	-	-
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	-	-	378,254	378,254
Total financial assets		3,200	10,783,609	43,268,225	54,055,034
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

* 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 maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

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

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

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.

Notes to the Financial Statements

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.

As at 31 December	Note	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
(a) 2022					
Financial Assets					
Derivative financial instruments	24	-	-	-	-
Financial assets measured at fair value through profit or loss	25	-	-	-	-
Financial assets measured at fair value through other comprehensive income	28				
Government securities		10,235,480	-	-	10,235,480
Equity Securities		-	-	18,016	18,016
Total assets at fair value		10,235,480	-	18,016	10,253,496
Liabilities					
Derivative financial instruments	35	-	30	-	30
Total liabilities at fair value		-	30	-	30
(b) 2021					
Financial Assets					
Derivative financial instruments	24	-	3,200	-	3,200
Financial assets measured at fair value through profit or loss	25	-	-	-	-
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

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 2022 (Rs.'000)	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. 360/USD to 372/USD • Interest rate differencials between currencies under consideration
	Derivative Financial Liabilities	30	3,009		
Level 3	Unquoted equities	18,016	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 2021 Lanka Clear (Pvt) Limited - 31 March 2022 The investments and related gains/losses are not material to the Bank.	Net asset value 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

	2022 Rs. '000	2021 Rs. '000
Balance as at 01 January	16,441	15,153
Total gains/(losses) recognised in other comprehensive income	1,575	1,288
Balance as at 31 December	18,016	16,441

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.

Notes to the Financial Statements

20.3 Financial Instruments not Measured at Fair Value Contd.

The following table sets out the fair values of financial assets and liabilities not measured at fair value and analyses them by the level in fair value hierarchy into which each fair value measurement is categorised.

As at 31 December	Note	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Carrying Amount Fair value Rs. '000
(a) 2022					
Assets					
Cash and cash equivalents	21	-	1,232,272	-	1,232,272
Balances with Central Bank of Sri Lanka	22	-	1,311,926	-	1,311,926
Placements with Banks	23	-	-	-	-
Financial assets at amortised cost - Loans & advances to other customers	26	-	-	35,960,080	35,960,080
Financial assets at amortised cost - Debt and other financial instruments	27	-	-	1,996,950	1,996,950
Other assets*	33	-	-	775,904	775,904
Total financial assets not at fair value		**-**	**2,544,198**	**38,732,934**	**41,277,132**
Liabilities					
Due to banks	34	-	514,193	-	514,193
Financial liabilities at amortised cost - Due to depositors	36	-	-	37,802,680	37,802,680
Financial liabilities at amortised cost - Other borrowings	37	-	3,688,924	-	3,688,924
Lease liability	31	-	-	340,542	340,542
Other liabilities**	39	-	-	1,158,596	1,158,596
Total financial liabilities not at fair value		**-**	**4,203,117**	**39,301,818**	**43,504,935**
(b) 2021					
Assets					
Cash and cash equivalents	21	-	1,214,754	-	1,214,754
Balance with Central Bank of Sri Lanka	22	-	567,802	-	567,802
Placements with banks	23	-	601,151	-	601,151
Financial assets at amortised cost - Loans & 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
Other assets*	33	-	-	378,254	378,254
Total financial assets not at fair value		**-**	**2,383,707**	**40,884,518**	**43,268,225**
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	30	-	-	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**

* 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	2022 Rs. '000	2021 Rs. '000
Cash in hand			
Coins and notes held in local currency		606,491	529,089
Coins and notes held in foreign currency		21,651	2,004
Balances with banks		632,198	691,366
Gross cash and cash equivalents		1,260,340	1,222,459
Less: Provision for impairment	21.1	(28,068)	(7,705)
Total cash and cash equivalents		**1,232,272**	**1,214,754**

21.1 Movement in Provision for Impairment During the Year

Stage 01			
Balance as at 01 January		7,705	8,973
Charge/(write back) to Income Statement	12.2	20,363	(1,268)
Balance as at 31 December		**28,068**	**7,705**

Allowance for impairment on cash and cash equivalent balances are measured based on PDs determined with reference to S&P credit ratings and regulatory loss rates.

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	2022 Rs. '000	2021 Rs. '000
Statutory Balances with Central Bank of Sri Lanka	1,311,926	567,802
Total balances with Central Bank of Sri Lanka	**1,311,926**	**567,802**

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 Monetory Law Act, a cash balance to fulfil the statutory reserve requirement of 4% (4% w.e.f 01 September 2021 and 2% for the remaining comparative period) of the rupee deposit liabilities to be maintained with 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.

Notes to the Financial Statements

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	2022 Rs. '000	2021 Rs. '000
Placements - within Sri Lanka	-	601,151
Placements - outside Sri Lanka	-	-
Gross placements with banks	-	601,151
Less: Provision for impairment	-	-
Net placements with banks	**-**	**601,151**

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

24. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives recorded at fair value through profit or loss (FVTPL). 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	2022 Rs. '000	2021 Rs. '000
Foreign currency derivatives		
Forward foreign exchange contracts	-	3,200
Total derivative financial instruments	-	3,200

25. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS - MEASURED AT FAIR VALUE

Financial assets held for trading are measured at fair value through profit or loss (FVTPL) in the Statement of Financial Position. 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.

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	2022 Rs. '000	2021 Rs. '000
Gross loans and advances			
Stage 1		22,138,056	28,706,889
Stage 2		12,029,934	9,744,067
Stage 3		6,081,727	5,231,275
Total gross loans and advances		40,249,717	43,682,231
Less: Provision for impairment			
Stage 1	26.2	132,422	152,309
Stage 2	26.2	1,026,985	617,283
Stage 3	26.2	3,130,230	2,421,903
Total imapirment for loans and advances		4,289,637	3,191,495
Net loans and receivables		35,960,080	40,490,736

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

As at 31 December	2022 Rs. '000	2021 Rs. '000
26.1.1 By product		
Loans and advances	Amount	Amount
Overdrafts	5,857,717	6,970,137
Trade finance	2,944,972	3,201,221
Housing loans	1,282,296	1,153,283
Personal loans	3,507,052	4,055,767
Staff loans	263,202	271,981
Term loans	17,789,016	15,136,081
Loans against property	1,725,097	1,695,419
Agriculture loans	456,584	417,518
Money market loans	4,405,443	8,920,731
Vehicle loans	71,476	95,021
Credit cards	1,554,323	1,579,712
Micro finance	49,095	66,831
Others	343,444	118,529
Total gross loans and advances	40,249,717	43,682,231
26.1.2 By currency		
Sri Lankan Rupee	36,344,437	41,075,650
United States Dollar	3,848,723	2,575,459
Great Britain Pounds	11,487	4,590
Singapore Dollars	45,070	26,532
Total gross loans and advances	40,249,717	43,682,231

Notes to the Financial Statements

26.1.3 By industry

As at 31 December	2022		2021	
	Rs. '000 Amount	%	Rs. '000 Amount	%
Agriculture & fishing	4,542,854	11.29%	5,283,821	12.10%
Manufacturing	2,242,689	5.57%	2,699,840	6.18%
Tourism	3,631,928	9.02%	2,944,410	6.74%
Transport	435,348	1.08%	508,303	1.16%
Construction	6,495,549	16.14%	7,086,674	16.22%
Traders	7,094,881	17.63%	7,911,658	18.11%
New economy	394,541	0.98%	636,818	1.46%
Financial & business services	4,785,674	11.89%	7,204,917	16.49%
Infrastructure	24,648	0.06%	28,776	0.07%
Other services	1,927,285	4.79%	1,947,671	4.46%
Other customers	8,674,320	21.55%	7,429,343	17.01%
Total gross loans and advances	40,249,717	100%	43,682,231	100%

26.2 Impairment Allowance for Loans and Advances to other Customers at Amortised Cost – Stage Wise Analysis

	Note	Stage 01	Stage 02	Stage 03	Total
(a) 2022					
Balance as at 01 January		152,309	617,283	2,421,903	3,191,495
Charge/(Write back) to Income Statement	12.2	(77,730)	357,527	155,150	434,947
Exchange rate variance on foreign currency provision		57,843	52,175	553,177	663,195
Balance as at 31 December		132,422	1,026,985	3,130,230	4,289,637
(b) 2021					
Balance as at 01 January		68,805	342,306	2,243,089	2,654,200
Charge/(Write back) to Income Statement	12.2	83,504	274,977	178,814	537,295
Exchange rate variance on foreign currency provision		-	-	-	-
Balance as at 31 December		152,309	617,283	2,421,903	3,191,495

26.3 Movement in Impairment Allowance 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) 2022				
Balance as at 01 January	152,309	617,283	2,421,903	3,191,495
Transfer to Stage 1	60,808	(53,295)	(7,513)	-
Transfer to Stage 2	(18,761)	26,959	(8,198)	-
Transfer to Stage 3	(1,388)	(110,493)	111,881	-
Net remeasurement of loss allowance	(53,525)	423,958	(588,872)	(218,439)
Impairment on new loans granted during the year	55,511	329,980	314,261	699,752
Financial assets that have been derecognised	(62,532)	(207,407)	(144,316)	(414,256)
Write offs	-	-	1,031,085	1,031,085
Balance as at 31 December	132,422	1,026,985	3,130,230	4,289,637

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
b) 2021				
Balance as at 01 January	68,805	342,306	2,243,089	2,654,200
Transfer to Stage 1	84,501	(55,193)	(29,308)	-
Transfer to Stage 2	(6,153)	254,722	(248,569)	-
Transfer to Stage 3	(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	**152,309**	**617,283**	**2,421,903**	**3,191,495**

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 fair value through profit or loss (FVTPL):

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

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

As at 31 December	Note	2022 Rs. '000	2021 Rs. '000
Government Treasury bonds		1,849,824	15,528
Investment in Debentures	27.1	**160,353**	-
Gross financial assets measured at amortised cost		2,010,177	15,528
Less: Provision for impairment	27.2	(13,227)	-
Net financial assets measured at amortised cost		**1,996,950**	**15,528**

27.1 Investment in Debentures

Resus Energy PLC	160,353	-
Total investment in debentures	**160,353**	-

27.2 Movement in Provision for Impairment During the Year

Stage 1

Balance as at 01 January	-	3,810
(Write back)/charge to Income Statement	13,227	(3,810)
Balance as at 31 December	**13,227**	-

Notes to the Financial Statements

28. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

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; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Debt instruments at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income, foreign exchange gains and losses, ECL and reversals are recognised in 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	2022 Rs. ‘000	2021 Rs. ‘000
Government securities			
Treasury bills		7,018,927	6,943,182
Treasury bonds		3,216,553	3,823,986
Total Government securities		**10,235,480**	**10,767,168**
Equity securities			
Unquoted shares	28.1	18,016	16,441
Total equity securities		**18,016**	**16,441**
Financial assets measured at fair value through other comprehensive income		**10,253,496**	**10,783,609**

28.1 Unquoted shares

As at 31 December		2022		2021	
	No. of Shares	Market Value	Cost	Market Value	Cost
Lanka Clear (Pvt) Ltd	50,000	11,655	3,500	10,139	3,500
Credit Information Bureau of Sri Lanka	300	6,361	2,383	6,302	2,383
Total		**18,016**	**5,883**	**16,441**	**5,883**

No impairment was recognised since net assets values per share as per the latest Financial Statements were higher than the carrying amount.

None of these strategic investments were disposed of during the year ended 31 December 2022 (2021 Nil) and there were no transfers of any cumulative gain or loss within equity relating to these investments (2021 Nil).

29. PROPERTY, PLANT AND EQUIPMENT AND RIGHT OF USE ASSET

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

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

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

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

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

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 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).

The accounting policy and the estimates used in the computation of depreciation of the property, plant and equipment are expalined in detail in note 14 on page 115.

Notes to the Financial Statements

29. PROPERTY, PLANT AND EQUIPMENT AND RIGHT OF USE ASSET CONTD.

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.

	Improvements to Leasehold Buildings Rs. '000	Computer Hardware Rs. '000	Office Equipment, Furniture & Fittings Rs. '000	Motor Vehicles Rs. '000	Machinery Rs. '000	Work in Progress Rs. '000	Right-of-Use Asset Rs. '000	Total Rs. '000
(a) 2022								
Cost								
Balance as at 01 January	126,391	732,958	242,629	22,957	90,434	1,486	625,329	1,842,184
Additions during the year	1,692	39,828	37,711	3	3,522	-	99,380	182,137
Disposals during the year	-	(871)	(270)	-	(986)	-	-	(2,127)
Transfers/Adjustments	-	-	-	-	-	-	94,859	94,859
Write-Off	(3,046)	(233)	(1,496)	-	-	-	-	(4,775)
Balance as at 31 December	125,037	771,682	278,574	22,960	92,970	1,486	819,568	2,112,278
Accumulated Depreciation								
Balance as at 01 January	89,790	613,305	192,613	15,877	74,414	-	337,324	1,323,323
Charge for the year (Note 14)	13,213	72,399	30,235	2,028	9,290	-	100,084	227,249
Disposals during the year	-	(725)	(265)	-	(986)	-	-	(1,976)
Transfers/Adjustments (Note 14)	-	-	-	-	-	-	92,399	92,399
Write-Off	(3,029)	(183)	(1,274)	-	-	-	-	(4,486)
Balance as at 31 December	99,974	684,796	221,309	17,905	82,718	-	529,807	1,636,509
Less: Impairment								
Balance as at 01 January	-	-	589	-	-	-	-	589
Charge/(write back) to income statement	-	-	-	-	-	-	-	-
Balance as at 31 December	-	-	589	-	-	-	-	589
Carrying amount as at 31 December 2022	25,063	86,886	56,676	5,056	10,252	1,486	289,761	475,180

	Improvements to Leasehold Buildings Rs. '000	Computer Hardware Rs. '000	Office Equipment, Furniture & Fittings Rs. '000	Motor Vehicles Rs. '000	Machinery Rs. '000	Work in Progress Rs. '000	Right-of-Use Asset Rs. '000	Total Rs. '000
(b) 2021								
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)
Transfers/Adjustments	-	-	-	-	-	-	-	-
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 (Note 14)	13,540	108,165	32,557	1,027	9,020	-	103,721	268,030
Disposals during the year	-	(51)	(414)	-	-	-	-	(465)
Transfers/Adjustments (Note 14)	-	-	-	-	-	-	-	-
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
Less: Impairment								
Balance as at 01 January	-	-	589	-	-	-	-	589
Charge/(write back) to income statement	-	-	-	-	-	-	-	-
Balance as at 31 December	-	-	589	-	-	-	-	589
Carrying amount as at 31 December 2021	36,601	119,653	49,427	7,080	16,020	1,486	288,005	518,272

29.1 Impairment of Property Plant and Equipment

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 (2021 - Nil).

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 (2021- Nil).

29.4 Borrowing Cost

There were no capitalised borrowing cost related to the acquisition of property plant and equipment during the year 2022 (2021 - Nil).

Notes to the Financial Statements

29.5 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	2022 Rs. '000	2021 Rs. '000
Improvements to leasehold buildings	11,502	3,779
Computer hardware	554,220	384,777
Office equipment, furniture & fittings	124,477	94,619
Machinery	47,585	43,578
Motor vehicles	14,850	14,850
Computer software	509,132	242,752
Total	1,261,766	784,355

29.6 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%,

As at 31 December	2022 Rs. '000	2021 Rs. '000
Right of Use Asset		
Balance as at 1 January	288,005	294,455
Additions	99,380	99,237
Terminations	-	(1,966)
Adjustments	2,460	-
Depreciation	(100,084)	(103,721)
Balance as at 31 December	289,761	288,005

Refer Note 31 to the Financial 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 capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

Subsequent Expenditure

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

Useful economic lives and amortisation

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

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

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

	Core Banking Software Rs. '000	Other Computer Software Rs. '000	Other Computer Software-Work In Progress Rs. '000	Total Rs. '000
(a) 2022				
Cost				
Balance as at 01 January	207,389	735,642	11,622	954,653
Additions/revaluation during the year	123,384	34,490	35,702	193,576
Transfers	-	26,518	(26,518)	-
Disposals during the year	-	-	-	-
Write-off	-	-	-	-
Balance as at 31 December	330,773	796,650	20,806	1,148,229
Accumulated Depreciation				
Balance as at 01 January	169,205	526,508	-	695,713
Charged for the year	29,377	87,989	-	117,366
Disposals during the year	-	-	-	-
Write-off	-	-	-	-
Balance as at 31 December	198,582	614,497	-	813,079
Carrying amount as at 31 December 2022	132,191	182,153	20,806	335,150

Notes to the Financial Statements

30. INTANGIBLE ASSETS CONTD.

	Core Banking Software Rs. '000	Other Computer Software Rs. '000	Other Computer Software-Work In Progress Rs. '000	Total Rs. '000
(b) 2021				
Cost				
Balance as at 01 January	168,676	696,394	36,198	901,268
Additions/revaluation during the year	15,755	28,220	9,411	53,386
Transfers	22,958	11,028	(33,987)	-
Disposals during the year	-	-	-	-
Write-off	-	-	-	-
Balance as at 31 December	207,389	735,642	11,622	954,654
Accumulated Depreciation				
Balance as at 01 January	124,131	419,398	-	543,529
Charged for the year	45,073	107,110	-	152,183
Disposals during the year	-	-	-	-
Write-off	-	-	-	-
Balance as at 31 December	169,204	526,508	-	695,712
Carrying amount as at 31 December 2021	38,185	209,134	11,622	258,942

31. LEASE LIABILITY

Set out below are the carrying amounts of lease liabilities and the movement during the year.

	2022 Rs. '000	2021 Rs. '000
Balance as at 01 January	332,675	339,985
Additions	99,380	94,987
Interest expense	34,271	40,857
Adjustments	7,479	-
Payments	(133,263)	(143,154)
Balance as at 31 December	340,542	332,675

31.1 Maturity Analysis - Contractual Undiscounted Cash flows

Less than one year	128,531	127,004
One to five years	269,464	234,774
More than five years	101,786	60,867
Total undiscounted lease liability	499,781	422,645

31.2 Lease Liability Recognised in the Statement of Financial Position

Current	92,153	96,265
Non-current	248,389	236,410
Total	340,542	332,675

31.3 Amounts Recognised in the Income Statement

	2022 Rs. '000	2021 Rs. '000
Interest on lease liabilities	34,271	40,857
Total	34,271	40,857

31.4 Amounts Recognised in the Statement of Cash Flows

	2022 Rs. '000	2021 Rs. '000
Total cash outflow of leases	133,263	143,154
Total	133,263	143,154

32. DEFERRED TAX ASSETS

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 realised.

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 recognising 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.

Notes to the Financial Statements

32.1 Summary of Net Deferred Tax Asset

	Note	2022 Temporary difference	2022 Tax effect	2021 Temporary difference	2021 Tax effect
Balance as at 01 January		2,359,867	637,588	1,780,483	498,536
Recognised in profit or loss					
Charge for the year	32.2	937,757	281,327	381,368	91,528
Recognised in other comprehensive income					
Effect on actuarial (gains)/losses on defined benefit plans		888	266	(14)	(3)
Effect on fair value losses on financial investments measured at FVOCI		123,633	37,090	197,326	47,358
Effect on fair value gains on equity instruments measured at FVOCI		(1,833)	(550)	704	169
Balance as at 31 December		**3,420,312**	**955,721**	**2,359,867**	**637,588**

In terms of provisions of the Inland Revenue (Amendment) Act, No. 45 of 2022, corporate income tax rate has been increased to 30% from 24% with effect from 01.10.2022. Accordingly, deferred tax was recalculated at the increased rate of 30% as at 31 December 2022.

The deferred tax reversal to the Income Statement due to the rate revision was Rs. 180 Mn and the deferred tax reversal to Other Comprehensive Income due to the rate revision was Rs. 11 Mn. The impact of the rate change was incorporated into these financial statements prepared as at 31 December 2022.

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	2022	2021	2022	2021	2022	2021
Deferred Tax Assets on:						
Defined benefit plans	27,331	18,077	9,255	1,390	-	-
Actuarial losses on defined benefit plans	1,710	1,444	-	-	266	(3)
Unrealised loss on Financial assets measured at fair value through OCI	53,751	16,662	-	-	37,090	16,662
Carried forward tax losses	201,737	397,956	(196,219)	(13,307)	-	-
Impairment provision	691,779	223,219	468,560	81,565	-	-
Impact from SLFRS 16 Leases	15,234	10,721	4,513	(2,027)	-	-
	991,542	**668,079**	**286,109**	**67,621**	**37,356**	**16,659**
Deferred Tax Liabilities on:						
Accelerated depreciation for tax purposes	34,964	30,182	4,782	(23,908)	-	-
Actuarial gains on defined benefit plans	-	-	-	-	-	-
Unrealised gains on Financial assets measured at fair value through OCI - Financial Investments	-	-	-	-	-	(30,696)
Unrealised gains on Financial assets measured at fair value through OCI - Equity Instruments	859	309	-	-	550	(169)
	35,823	**30,491**	**4,782**	**(23,908)**	**550**	**(30,865)**
Deferred tax effect on profit or loss and other comprehensive income			281,327	91,528	36,806	47,524
Net deferred tax asset as at 31 December	**955,721**	**637,588**	**-**	**-**	**-**	**-**

32.3 The total temporary differences arising from tax losses and tax credits amounted to Rs. 672 Mn (2021 - Rs.1,658 Mn). resulting in a deferred tax asset of Rs. 202 Mn as at 31 December 2022 (2021 - Rs. 398 Mn) 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 2022 was Rs. 54 Mn (2021 - Rs. 43 Mn).

32.4 The Bank's deferred tax charge recognised in Income Statement and OCI for the year ended 31 December 2022, includes benefit/(Loss) from change in tax rate amounting to Rs. 191 Mn.

33. OTHER ASSETS

As at 31 December	Note	2022 Rs. '000	2021 Rs. '000
Deposits and prepayments		312,249	157,418
Other receivables		775,904	378,254
Prepaid staff cost		53,643	41,651
Tax recoverable	33.1	90,238	98,156
Total other assets		1,232,034	675,479

33.1 Tax Recoverable

Withholding Tax recoverable	74,957	74,232
Crop Insurance Levy recoverable	505	505
Debt Repayment Levy recoverable	12,024	20,667
Nation Building Tax recoverable	2,752	2,752
Total taxes recoverable	90,238	98,156

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	2022 Rs. '000	2021 Rs. '000
Borrowings		
Local currency borrowings	233,565	687,515
Foreign currency borrowings	280,628	238,890
Total due to banks	514,193	926,405

Notes to the Financial Statements

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	2022 Rs. '000	2021 Rs. '000
Derivative financial liabilities - Held for trading		
Forward foreign exchange contracts	30	3,009
Total	**30**	**3,009**

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	2022 Rs. '000	2021 Rs. '000
Local currency deposits	34,626,091	36,790,102
Foreign currency deposits	3,176,589	3,392,300
Total Due to depositors	**37,802,680**	**40,182,402**

36.1 Analysis of due to Depositors

36.1.1 By product

Current account deposits	1,991,503	1,741,478
Savings deposits	5,945,969	9,608,577
Time deposits	29,613,127	27,146,619
Certificate of deposits	172,541	1,566,433
Margin deposits	79,540	119,295
Total Due to depositors	**37,802,680**	**40,182,402**

As at 31 December	2022 Rs. '000	2021 Rs. '000
36.1.2 By currency		
Sri Lanka Rupees	34,626,091	36,790,102
United States Dollars	3,099,188	3,232,920
Great Britain Pound	4,623	106,597
Euro	15,366	8,524
Australian Dollars	7,924	4,294
Other currencies	49,488	39,965
Total Due to depositors	37,802,680	40,182,402
36.1.3 By Institution/Customers		
Deposits from banks	971,038	2,019,137
Deposits from finance companies	1,104,088	1,729,297
Deposits from other corporates	12,815,078	15,209,706
Deposits from other customers	22,912,476	21,224,262
Total Due to depositors	37,802,680	40,182,402

37. FINANCIAL LIABILITIES AT AMORTISED COST - OTHER BORROWINGS

	Note	2022 Rs. '000	2021 Rs. '000
Term borrowings		-	699,874
Securities sold under repurchase (repo) agreements		2,188,924	1,763,076
Perpetual Debenture	37.2	1,500,000	1,506,667
Total due to other borrowers		3,688,924	3,969,617

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 31st December	Note	2022 Rs. '000	2021 Rs. '000
Debenture issued	37.2.1	1,500,000	1,506,667
		1,500,000	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 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.

Notes to the Financial Statements

37.2.1 The principal terms of the debenture is as follows: contd.

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

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

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

The Bank did not have any default of principal or interest or other breaches with respect to its debentures during the years ended 31 December 2022 and 2021.

Interest Rate (Per Annum)	Tenor	Date of Issue	Floor Rate on the Interest Rate	Interest Payment Frequency	No.of Debentures	Face Value Rs. '000	Amortised Cost Rs. '000 2022	Amortised Cost Rs. '000 2021
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	1,500,000	1,506,667

38. RETIREMENT BENEFIT OBLIGATIONS

	Note	2022 Rs. '000	2021 Rs. '000
Balance as at 1 January		81,336	64,763
Expenses recognised in the Income statement	38.1	25,242	21,099
Amounts paid during the year		(12,674)	(10,542)
Benefits payable for those who left during the period		(2,799)	-
Actuarial (gains)/losses recognised in OCI		5,701	6,016
(Gains)/losses due to change in experience assumptions		2,092	4,864
(Gains)/losses due to change in financial assumptions		3,106	1,290
(Gains)/losses due to change in demographic assumptions		503	(138)
Balance as at 31 December		**96,806**	**81,336**

38.1 Expense Recognised in the Income Statement - Gratuity

	2022	2021
Amount charged/reversed during the year	-	-
Current service cost	16,295	16,566
Past service cost	-	-
Interest cost	8,947	4,533
	25,242	21,099

38.2 Details of Actuarial Assumptions are as Follows;

	2022	2021
Discount rate per annum	18%	11%
Future salary increases	16%	9%
Retirement age (years)	60 Years	60 Years

As proposed by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) in terms of its 'Frequently Asked Questions (FAQs) on Use of Discount rate under the Uncertain Economic Conditions' issued in January 2023, an adjustment was made to risk spread in the discount rate used for valuation of employee benefit obligations as per LKAS 19. Accordingly. An adjusted discount rate of 18% per annum was used while the actual treasury bill/bond rates during the latter part of the year 2022 were hovering around 30%.

Staff turnover, the probability of a member withdrawing from the employment prior to the retirement age was considered in arriving at the above liability.

As at 31 December 2022, the weighted-average duration of the defined benefit obligation of the permanent cadre was 4.1 years (2021 - 6 years).

An actuarial valuation of the retirement benefit obligation was carried out as at 31 December 2022 by 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.

As at 31 December	Note	Sensitivity effect on defined benefit obligation 2022 Rs. '000	2021 Rs. '000
1% increase in discount rate		(93,535)	(3,995)
1% decrease in discount rate		100,312	4,406
1% increase in salary escalation rate		100,734	4,793
1% decrease in salary escalation rate		(93,085)	(4,413)

39. OTHER LIABILITIES

	Note	2022 Rs. '000	2021 Rs. '000
Accrued expenditure		316,560	371,264
Cheques sent on clearing/PO issued		9,065	57,559
Impairment provision in respect of undrawn credit commitments and financial guarantees	43.1.2	114,173	151,234
Other payables		1,149,531	366,699
Total other liabilities		1,589,329	946,756

Notes to the Financial Statements

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.

	2022 Rs. '000	2021 Rs. '000
Balance as at 01 January	11,394,421	11,394,421
Issue of ordinary shares*	-	-
Balance as at 31 December	**11,394,421**	**11,394,421**

40.1 Movement in Number of Ordinary Shares

Balance as at 01 January	883,142,858	883,142,858
Issue of ordinary shares	-	-
Balance as at 31 December	**883,142,858**	**883,142,858**

* No voting right will be exercised by Cargills (Ceylon) PLC and CT Holdings PLC on any shares held in excess of 30% of the issued capital of the Bank carrying voting rights.

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.

	2022 Rs. '000	2021 Rs. '000
Balance as at 01 January	32,386	32,386
Transfers during the year, net of tax	24,388	-
Balance as at 31 December	**56,774**	**32,386**

41.2 Fair Value through OCI Reserve

The fair value revserve comprises of 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.

	2022 Rs. '000	2021 Rs. '000
Balance as at 01 January	(46,132)	80,162
Other comprehensive income for the year, net of tax	(86,619)	(126,294)
Balance as at 31 December	**(132,751)**	**(46,132)**

42. ACCUMULATED LOSSES/RETAINED

	2022 Rs. '000	2021 Rs. '000
Balance as at 01 January	(2,055,814)	(1,772,667)
Total comprehensive income		
Profit/(loss) for the year	487,764	(277,127)
Other comprehensive income	(5,701)	(6,020)
Transfer to statutory reserves	(24,388)	-
Balance as at 31 December	(1,598,139)	(2,055,814)

43. CONTINGENT LIABILITIES & 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.

No any pending legal claims against the Bank form a part of contingencies as at 31 December 2022. (Refer Note 44)

43.1 Contingent Liabilities

As at 31 December	Note	2022 Rs. '000	2021 Rs. '000
Guarantees	43.1.1	7,716,489	7,853,618
Documentary credits		541,681	989,952
Bills for collection		1,270,467	650,912
Forward exchange purchases		961,452	1,094,404
Spot exchange purchases		-	20
Other		6,474	1,305
Total gross contingent liabilities		10,496,563	10,590,211
Less: impairment provision	43.1.2	(114,173)	(151,234)
Total net contingent liabilities		10,382,390	10,438,977

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.

Notes to the Financial Statements

43.1.2 Movement in impairment allowance during the year

	Stage 1	Stage 2	Stage 3	Total
(a) 2022				
Balance as at 01 January	33,655	17,970	99,609	151,234
Charge/(write back) to Income Statement	12,597	25,314	(74,972)	(37,060)
Balance as at 31 December	**46,252**	**43,284**	**24,637**	**114,173**
(b) 2021				
Balance as at 01 January	41,634	70	2,747	44,451
Charge/(write back) to Income Statement	(7,979)	17,900	96,862	106,783
Balance as at 31 December	**33,655**	**17,970**	**99,609**	**151,234**

43.2 Commitments

As at 31 December	Note	2022 Rs. '000	2021 Rs. '000
Undrawn commitments		11,643,163	8,160,225
Capital commitments			
Commitments in relation to property, plant & equipment		51,793	43,417
Commitments in relation to intangible assets		215,392	45,131
Total capital commitments		267,185	88,548
Total commitments		**11,910,348**	**8,248,773**
Total net contingent liabilities	43.1	10,382,390	10,438,977
Total commitments and contingencies		**22,292,738**	**18,687,750**

44. LITIGATION AGAINST THE BANK

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

There are no pending litigations of a material nature against the Bank as at the reporting date (2021- Nil).

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 unfavorable impact to the Bank.

Income Tax - Year of Assessment 2017/2018
The Commissioner General of Inland Revenue (CGIR) issued a Notice of Assessment for the Year of Assessment 2017/2018. The Bank has lodged an appeal against the said assessment. The appeal is currently determination stage at the Inland Revenue Department.

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

VAT on Financial Services/NBT on Financial services - Years of Assessment 2016/2017 & 2017/2018
The Commissioner General of Inland Revenue (CGIR) issued above Notices disallowing some expenses and capital allowances to arrive at VAT on Financial Services and NBT on Financial Services.

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

Management is of the opinion that the above amounts are not material and will not have an unfavorable impact to the Bank.

45. NET ASSET VALUE PER SHARE

As at 31 December	2022	2021
Amount used as the numerator		
Shareholders' funds (Rs.'000)	9,720,305	9,324,861
Amount used as the denominator		
Total no. of shares	883,142,858	883,142,858
Net assets value per ordinary share (Rs.)	11.01	10.56

Notes to the Financial Statements

46. ANALYSIS OF ASSETS AND LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The table below summarises the maturity profile of the undiscounted cash flows of the Bank's assets and liabilities;

Rs. '000	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31-Dec-22	Total as at 31-Dec-21
Interest earning assets							
Placements with banks	-	-	-	-	-	-	601,151
Derivative financial instruments	-	-	-	-	-	-	3,200
Financial assets measured at fair value through profit or loss	-	-	-	-	-	-	-
Financial assets at Amortised cost - Loans and advances to other customers	11,344,085	7,051,615	4,172,929	8,806,797	4,584,654	35,960,080	40,490,736
Financial assets at Amortised cost - Debt and other financial instruments	10,353	-	269,883	379,048	1,337,666	1,996,950	15,528
Financial assets - measured at fair value through other comprehensive income	1,740,033	5,278,894	1,806,923	971,751	437,879	10,235,480	10,767,168
Total interest earning assets	13,094,471	12,330,509	6,249,735	10,157,596	6,360,199	48,192,510	51,877,783
Non-interest earning assets							
Cash and cash equivalents	1,232,272	-	-	-	-	1,232,272	1,214,754
Balances with Central Bank of Sri Lanka	520,601	459,497	149,757	112,515	69,557	1,311,926	567,802
Financial assets - measured at fair value through other comprehensive income	-	-	-	-	18,016	18,016	16,441
Property, plant and equipment	-	-	-	-	475,180	475,180	518,272
Intangible assets	-	-	-	335,150	-	335,150	258,942
Deferred tax assets	-	-	-	-	955,721	955,721	637,588
Other assets	1,232,034	-	-	-	-	1,232,034	675,479
Total non-interest earning assets	2,984,908	459,497	149,757	447,665	1,518,473	5,560,299	3,889,278
Total assets	16,079,379	12,790,006	6,399,492	10,605,261	7,878,672	53,752,809	55,767,061
Interest bearing liabilities							
Due to banks	281,953	49,676	96,075	86,489	-	514,193	926,405
Derivative financial instruments	30	-	-	-	-	30	-
Financial liabilities at amortised cost - Due to depositors	15,000,940	13,240,241	4,315,183	3,242,063	2,004,253	37,802,680	40,182,402
Financial liabilities at amortised cost - Other borrowings	2,188,924	-	-	-	1,500,000	3,688,924	3,969,617
Total interest bearing liabilities	17,471,847	13,289,917	4,411,258	3,328,552	3,504,253	42,005,827	45,078,424
Non-interest bearing liabilities							
Derivative financial instruments	-	-	-	-	-	-	3,009
Retirement benefit obligations	-	-	-	-	96,806	96,806	81,336
Lease liability	36,120	56,033	99,962	48,910	99,517	340,542	332,675
Other liabilities	1,589,329	-	-	-	-	1,589,329	946,756
Stated capital	-	-	-	-	11,394,421	11,394,421	11,394,421
Statutory reserves	-	-	-	-	56,774	56,774	32,386
Accumulated losses	-	-	-	-	(1,598,139)	(1,598,139)	(2,055,814)
Other Reserves	-	-	-	-	(132,751)	(132,751)	(46,132)
Total non-interest bearing liabilities and equity	1625,450	56,033	99,962	48,910	9,916,628	11,746,982	10,688,637
Total liabilities and equity	19,097,297	13,345,950	4,511,220	3,377,462	13,420,881	53,752,809	55,767,061

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 Lankan 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
- Treasury and Investments
- Unallocated

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

The following table presents the income, profit and asset and liability information on the Bank's business segments.

Rs. '000	Banking		Treasury/Investments		Unallocated		Total	
For the year ended 31 December	2022	2021	2022	2021	2022	2021	2022	2021
Net interest income	2,852,644	1,781,257	351,607	58,424	-	-	3,204,251	1,839,681
Foreign exchange profit	26,652	564	162,629	143,003	-	-	189,281	143,567
Net fees and commission income	853,662	475,856	8,706	16,225	-	-	862,368	492,081
Other income	2,938	1,750	20,814	(19,564)	1,035	992	24,787	(16,822)
Operating income by segment	3,735,897	2,259,427	543,756	198,088	1,035	992	4,280,687	2,458,507
Personnel and other operating expenses	(1,909,519)	(1,598,093)	(22,894)	(18,192)	-	-	(1,932,413)	(1,616,285)
Credit loss expense	(2,125,543)	(684,510)	(644)	-	-	-	(1,463,485)	(684,510)
Total operating expenses	(3,372,360)	(2,282,603)	(23,538)	(18,192)	-	-	(3,395,898)	(2,300,795)
Net operating income	364,571	(23,176)	520,218	179,896	1,035	992	884,789	157,712
Depreciation and amortisation	(433,537)	(419,827)	(3,477)	(386)	-	-	(437,014)	(420,213)
Operating profit/(loss) by segment	(68,966)	(443,003)	516,741	179,510	1,035	992	447,775	(262,501)
VAT on financial services	241,338	(106,154)	-	-	-	-	241,338	(106,154)
Segment result	(310,304)	(549,157)	516,741	179,510	1,035	992	206,437	(368,655)
Income tax expense							(281,327)	(91,528)
Profit/(Loss) for the year							487,764	(277,127)
Other information								
Segment assets	38,948,114	43,120,847	14,804,695	12,646,214	-	-	53,752,809	55,767,061
Segment liabilities	40,062,922	43,430,975	3,969,582	3,011,225	-	-	44,032,504	46,442,200

Notes to the Financial Statements

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

As at 31st December	Note	Amortised Cost 2022 Rs. '000	Amortised Cost 2021 Rs. '000	Fair Value 2022 Rs. '000	Fair Value 2021 Rs. '000
Financial assets measured at fair value through other comprehensive income		2,371,069	1,945,409	2,255,684	1,943,644

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 follows.

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

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

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	2022 Rs. '000	2021 Rs. '000
Non Executive Director emoluments	14,552	14,433
Executive Director emoluments	58,364	71,314
Post employee benefits	8,601	10,092
	81,517	95,839

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

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

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

As at 31 December Items in the Statement of Financial Position	2022 Rs. '000	2021 Rs. '000
Assets		
Financial assets at amortised cost - Loans and advances to other customers	-	-
Credit cards	395	664
Total	395	664
Liabilities		
Financial liabilities at amortised cost - Due to depositors	211,515	215,522
Total	211,515	215,522
Commitments and contingencies		
Undrawn facilities	3,105	2,336
Total	3,105	2,336
Net accommodation as a percentage of the Bank's regulatory capital		
Direct and indirect accommodations	0%	0%
Items in the Income statement		
Interest income	27	2
Interest expense	(25,948)	(11,250)
Fee and commission income	2	16
Compensation to KMP	(81,517)	(95,839)
	(107,436)	(107,071)
Shareholdings of KMP and CFM		
Number of shares	1,100,000	1,100,000
Shareholding %	0.12%	0.12%

Notes to the Financial Statements

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 Shareholders

As at 31 December/For the year ended 31 December Items in the Statement of Financial Position	2022 Rs. '000	2021 Rs. '000
Assets		
Financial assets at amortised cost - Loans and advances to other customers	14	-
Other receivables	3,458	-
Total	**3,472**	**-**
Liabilities		
Financial liabilities at amortised cost - Due to depositors	225,013	95,294
Perpetual Debentures	1,500,000	1,500,000
Other payables	45,792	40,397
Total	**1,770,805**	**1,635,691**
Commitments and contingencies		
Off balance sheet	-	-
Undrawn facilities	1,986	-
Total	**1,986**	**-**
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	(226,145)	(9,137)
Fee and commission income	316	206
Fee and commission expense	-	
Rent expense	(8,145)	(7,963)
Reimbursement of expenses	(23,271)	(20,301)
Other expenses	(10,721)	(9,855)
Total	**(267,966)**	**(47,050)**
Shareholdings of related companies		
Number of shares	574,042,858	574,042,858
Shareholding %	65%	65%
Voting rights %	30%	30%

49.3.2 Transactions with Subsidiaries of Significant Shareholders

As at 31 December/For the year ended 31 December Items in the Statement of Financial Position	2022 Rs. '000	2021 Rs. '000
Assets		
Financial assets at amortised cost - Loans and advances to other customers	92,302	-
Other receivables	20,327	21,891
Capital expenditure	-	75
Total	112,629	21,966
Liabilities		
Financial liabilities at amortised cost - Due to depositors	1,608,948	2,414,950
Securities sold under repurchase agreements	-	-
Other investments	-	-
Other payables	18,810	164,131
Total	1,627,758	2,579,081
Commitments and contingencies		
Off balance sheet	70,269	381,305
Undrawn facilties	1,011,366	829,556
Total	1,081,635	1,210,861
Net accommodation as a percentage of the Bank's regulatory capital		
Direct and indirect accommodations	0%	0%
Items in the Income statement		
Interest income	27,252	-
Interest expense	(291,457)	(111,247)
Fee and commission income	42,849	10,394
Fee and commission expense		
Rent expense	(29,600)	(57,016)
Reimbursement of expenses	(5,618)	(9,507)
Other expenses	(36,062)	(38,166)
Total	(292,636)	(205,542)
Shareholdings of related companies		
Number of shares	-	-
Shareholding %	0%	0%

Notes to the Financial Statements

49.3.3 Transactions with provident fund of Significant Shareholders

As at 31 December/For the year ended 31 December Items in the Statement of Financial Position	2022 Rs. '000	2021 Rs. '000
Assets		
Financial assets at amortised cost- Loans and advances to other customers	-	-
Other receivables	-	-
Total	-	-
Liabilities		
Financial liabilities at amortised cost - Due to depositors	6,971	3,704
Securities sold under repurchase agreements	-	-
Other investments	-	-
Other payables	-	-
Total	6,971	3,704
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	(3,664)	(484)
Fee and commission income	-	-
Fee and commission expense	-	-
Rent expense	-	-
Reimbursement of expenses	-	-
Other expenses	-	-
Net gains from derecognition of financial assets	18,874	1,956
Total	15,210	1,472
Shareholdings of related companies		
Number of shares	-	-
Shareholding %	0%	0%

50. NON-CASH ITEMS INCLUDED IN PROFIT BEFORE TAX

As at 31 December	Note	2022 Rs. '000	2021 Rs. '000
Depreciation of property, plant and equipment	14	319,648	268,030
Amortisation of intangible assets		117,366	152,183
Interest cost - Leases	31	34,271	40,857
Impairment losses on loans and advances	12	434,947	537,295
Revaluation gain/(loss)		663,195	-
Impairment losses on other financial instruments		(3,469)	105,515
Write off other assets		923	18,644
Direct Write-offs		1,031,085	26,866
Charge for defined benefit plans		25,242	21,099
Total		2,623,208	1,170,489

51. CHANGE IN OPERATING ASSETS

As at 31 December	2022 Rs. '000	2021 Rs. '000
Change in balances with Central banks	(744,124)	(123,809)
Change in Derivative financial instruments	3,200	458
Change in Financial assets-at fair value through profit or loss	-	1,596,166
Change in loans and advances to other customers	2,401,429	(11,975,776)
Change in debt and other instruments	(1,834,296)	420,521
Change in Financial assets-at fair value through OCI	406,687	576,185
Change in deposits & pre-payments	(154,831)	(9,434)
Change in other assets	(402,647)	(181,354)
Total	(324,582)	(9,697,043)

52. CHANGE IN OPERATING LIABILITIES

As at 31 December	2022 Rs. '000	2021 Rs. '000
Change in derivative financial instruments	(2,979)	2,860
Change in deposits from banks, customers and debt securities issued	(2,791,934)	7,554,258
Change in accruals and deferred income	(54,704)	113,045
Change in other liabilities	731,539	9,334
Total	(2,118,078)	7,679,497

53. EVENTS AFTER THE REPORTING DATE

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

Notes to 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	2022					2021
			Subject to			
	Carrying Amount	Not Subject to ECL	12-Month ECL (Stage 1)	Life-time ECL- Not Credit Impaired - (Stage 2)	Life-time ECL- Credit Impaired - (Stage 3)	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cash and cash equivalents (balances with Banks) *						
Balances with local banks	196,799	-	196,799	-	-	369,995
Balances with foreign banks	435,399	-	400,784	34,615	-	321,371
Total balances with banks	**632,198**	**-**	**597,583**	**34,615**	**-**	**691,366**
Expected credit loss allowance	(28,068)	-	(12,491)	(15,577)	-	(7,705)
Net balances with banks	**604,130**	**-**	**585,092**	**19,038**	**-**	**683,661**
Balances with Central Bank of Sri Lanka*	1,311,926	1,311,926	-	-	-	567,802
Placements with banks*	-	-	-	-	-	601,151
Financial assets at amortised cost - Loans and advances to other customers						
Grade 0 - 2 performing loans	34,167,990	-	22,138,056	12,029,934	-	38,706,535
Grade 3: NPCF special mention	739,143	-	-	-	739,143	34,640
Grade 4: NPCF substandard	178,439	-	-	-	178,439	129,770
Grade 5: NPCF doubtful	389,349	-	-	-	389,349	193,926
Grade 6: NPCF loss	4,774,796	-	-	-	4,774,796	4,617,360
Total gross loans and advances	**40,249,717**	**-**	**22,138,056**	**12,029,934**	**6,081,727**	**43,682,231**
Expected credit loss allowance/impairment	(4,289,637)	-	(132,422)	(1,026,985)	(3,130,230)	(3,191,495)
Total net loans and advances	**35,960,080**	**-**	**22,005,634**	**11,002,949**	**2,951,497**	**40,490,736**
Financial assets at amortised costs - Debt and other financial instruments**						
Investment in debentures	160,353	-	160,353	-	-	-
Treasury bonds	1,849,824	1,849,824	-	-	-	15,528
Total debt and other instruments	**2,010,177**	**1,849,824**	**160,353**	**-**	**-**	**15,528**
Expected credit loss allowance/impairment	(13,227)	-	(13,227)	-	-	
Net debt and other instruments	**1,996,950**	**1,849,824**	**147,126**	**-**	**-**	**15,528**
Financial assets measured at fair value through other comprehensive income						
Government securities**	10,235,480	10,235,480	-	-	-	10,767,168
Equity securities	18,016	18,016	-	-	-	16,441
Total	**10,253,496**	**10,253,496**	**-**	**-**	**-**	**10,783,609**

Notes to the Financial Statements

54.2.1 Credit quality analysis contd.

As at 31 December	2022					2021
			Subject to			
	Carrying Amount	Not Subject to ECL	12-Month ECL (Stage 1)	Life-time ECL- Not Credit Impaired - (Stage 2)	Life-time ECL- Credit Impaired - (Stage 3)	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Off Balance Sheet						
Contingent liabilities and commitments						
Gross contingent liabilities and commitments						
(i) Contingent Liabilities						
Grade 0 - 2 performing loans	10,455,488	961,452	8,318,598	1,175,438	-	10,420,206
Grade 3: NPCF special mention	-	-	-	-	-	-
Grade 4: NPCF substandard	-	-	-	-	-	-
Grade 5: NPCF doubtful	-	-	-	-	-	15,000
Grade 6: NPCF loss	34,600	-	-	-	34,600	155,005
Gross carrying amount	**10,490,088**	**961,452**	**8,318,598**	**1,175,438**	**34,600**	**10,590,211**
(ii) Undrawn commitments						
Grade 0 - 2 performing loans	11,865,733	267,185	11,117,907	480,641	-	8,139,261
Grade 3: NPCF special mention	20,456	-	-	-	20,456	9,216
Grade 4: NPCF substandard	7,851	-	-	-	7,851	5,111
Grade 5: NPCF doubtful	1,308	-	-	-	1,308	270
Grade 6: NPCF loss	21,475	-	-	-	21,475	6,367
Gross carrying amount	**11,916,823**	**267,185**	**11,117,907**	**480,641**	**51,090**	**8,160,225**
Total gross contingent liabilities and undrawn commitments (Excluding capital commitments)	22,406,911	1,228,637	19,436,505	1,656,079	85,690	18,750,436
Expected credit loss allowance	(114,173)	-	(46,252)	(43,284)	(24,637)	(151,234)
Total net contingent liabilities and commitments	22,292,738	1,228,637	19,390,253	1,612,795	61,053	18,599,202

* External risk gradings as at 31 December 2022 and 2021 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 a 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 (Current and 0-30 DPD) and stage 2 bucket 1 (31-60 DPD) were moved to stage 2 bucket 2 (61-90 DPD) while stage 2 bucket 2 (61-90 DPD) were moved to stage 3. Other moratorium customers in stage 1 bucket 1 (Current) were moved to stage 2 bucket 1 (31-60 DPD) while stage 1 bucket 2 (1-30 DPD) and stage 2 bucket 1 (31-60 DPD) were moved to stage 2 bucket 2 (61-90 DPD). Further, stage 2 bucket 2 (61-90 DPD) were move to stage 3 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	2022			2021		
	Base	Best	Worse	Base	Best	Worse
Scenario probability weighting (%)	15%	5%	80%	58%	14%	28%

Economic factor scenario weightage was changed in 2022 for Base Case (decrease from 58% to 15%), Best Case (decrease from 14% to 5%) and Worst Case (increase from 28% to 80%), in response to the current adverse economic condition.

The key drivers for credit risk are GDP growth, unemployment rates, inflation, 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 2022 would have reduced by approximately 25% (2021 - 46%). The total loans and advances in stage 2 as at 31 December 2022 amounts to Rs. 12 Bn (2021 - Rs 10 Bn) 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 2022 would have further increased by approximately 145% (2021 - 153%). The total loans and advances in stage 1 as at 31 December 2022 amounts to Rs. 22 Bn (2021 - Rs 29 Bn) for the Bank. The management believes that a movement of the entire stage 1 loan portfolio to stage 2 is highly unlikely.

Notes to the Financial Statements

54.2.1 Credit quality analysis contd.

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				
2021	5.10%	5.72%	10.60%	5.10%
2022	(11.80%)	46.40%	29.27%	5.00%
Best Case				
Average 5-year forecast				
2021	6.10%	4.72%	9.60%	4.10%
2022	(10.80%)	45.40%	28.27%	4.00%
Worst Case				
Average 5-year forecast				
2021	4.10%	6.72%	11.60%	6.10%
2022	(12.80%)	47.40%	30.27%	6.00%

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.

As at 31 December	2022				2021			
	Best	Base	Worst	Probability weighted	Best	Base	Worst	Probability weighted
Exposure (Rs. 000)								
Corporate	14,651,390	14,651,390	14,651,390	14,651,390	23,325,031	23,325,031	23,325,031	23,325,031
Retail	12,262,137	12,262,137	12,262,137	12,262,137	11,232,356	11,232,356	11,232,356	11,232,356
Loss Allowance (Rs. 000)								
Corporate	369,655	394,393	421,409	414,723	337,867	424,199	440,467	409,619
Retail	740,987	763,837	785,751	780,462	538,331	580,649	615,898	583,188
Loss Allowance as % of Exposure								
Corporate	3%	3%	3%	3%	1%	2%	2%	2%
Retail	6%	6%	6%	6%	5%	5%	5%	5%

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 & other credit enhancement and their valuation

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

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

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

The Bank holds collaterals and other credit enhancements against its credit exposures. The following table sets out the principal types of collaterals with approximate percentages against different types of financial assets.

As at 31st December	2022				2021			
Rs. 000	Total Maximum exposure to credit risk	Value of collateral	Stage 3 - Maximum exposure to credit risk	Stage 3 - Value of collateral	Total Maximum exposure to credit risk	Value of collateral	Stage 3 - Maximum exposure to credit risk	Stage 3 - Value of collateral
Financial Assets								
Cash and cash equivalent	1,260,340	-	-	-	1,222,459	-	-	-
Placement with banks	-	-	-	-	601,151	-	-	-
Derivative financial instruments	-	-	-	-	3,200	-	-	-
Financial assets at amortised cost								
Loans and advances	40,249,717	20,542,507	6,081,727	2,614,473	43,682,231	25,527,828	5,231,275	2,321,680
Debt and other instruments	1,996,950	-	-	-	15,528	-	-	-
Financial assets - fair value through comprehensive income	10,253,496	-	-	-	10,783,609	-	-	-
Other assets	1,232,034	-	-	-	674,339	-	-	-
Total	54,992,537	20,542,507	6,081,727	2,614,473	56,982,517	25,527,828	5,231,275	2,321,680

Notes to the Financial Statements

54.2.1 Credit quality analysis contd.

Approximately 32% and 9% of the total loans and advances of the Bank are secured against immovable property and cash/deposits held within the Bank respectively. Further 12% of the loans & advances are secured against other securities including movable property, gold, stocks, etc. Approximately 32% of stage 3 loans & advances of the Bank are secured against immovable properties, cash/deposits held within the bank.

Extend to which the loans and advances were covered by cash/deposits held within the Bank, no loss allowance has been recognised in the Financial Statements. Value of the cash collateral held as at 31 December 2022 was stood at Rs. 3.468 Bn.

The Bank held cash and cash equivalents of Rs. 1,260 Mn as at 31 December 2022 (2021 - Rs. 1,222 Mn), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with banks, which are rated AAA (lka) to CCC/C (lka), based on Fitch Ratings.

The Bank holds collateral and other credit enhancements against its credit exposures. The following tables sets out the principal types of collateral held and their approximate collateral percentages against different types of financial assets.

Type of credit exposure	Principal type of collateral held for secured lending	Percentage of exposure that is subject to collateral requirements	
		2022	2021
Loans and advances to retail customers			
Mortgage lending	Residential property	100%	100%
Credit cards	None/Limited cash deposits	-	-
Personal loans	None/Guarantors	-	-
Loans and advances to corporate customers			
Corporate loans	Commercial property, Floating charges over other loans and advances	54%*	62%*

* Based on the exposure covered with collateral.

Collateral repossessed

The Bank's policy is to dispose collaterals repossessed at the earliest possible opportunity.

54.2.2 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:

	Agriculture & fishing	Manufacturing	Tourism	Transport	Construction	Traders	New economy	Financial & business services	Government	Infrastructure	Other services	Other customers	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at 31 December 2022													
Financial Assets													
Cash and cash equivalents	-	-	-	-	-	-	-	1,260,340	-	-	-	-	1,260,340
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-	-	-	-	-	-	-
Placements with Banks	-	-	-	-	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets at amortised cost - Loans and advances to other customers	4,542,854	2,242,689	3,631,928	435,348	6,495,549	7,094,881	394,541	4,785,674	-	24,648	1,927,285	8,674,320	40,249,717
Financial assets at amortised cost - Debt and other financial instruments	-	-	-	-	-	-	-	2,010,177	-	-	-	-	2,010,177
Financial assets - measured at fair value through other comprehensive income	-	-	-	-	-	-	-	18,016	10,235,480	-	-	-	10,253,496
Total	4,542,854	2,242,689	3,631,928	435,348	6,495,549	7,094,881	394,541	8,074,207	10,235,480	24,648	1,927,285	8,674,320	53,773,730
As at 31 December 2021													
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 Instruments	-	-	-	-	-	-	-	15,528	-	-	-	-	15,528
Financial assets - measured at fair value through other comprehensive income/ Available for sale	-	-	-	-	-	-	-	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

Notes to the Financial Statements

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%. LAR calculates the percentage of liquid assets to total liabilities excluding shareholders' funds. For this purpose, 'liquid assets' include cash and cash equivalents, Placements with banks and Government Securities (net). Details of the reported ratio of liquid assets to external liabilities as at the reporting date are as follows:

	2022 %	2021 %
Statutory Liquid Asset Ratio - Domestic Banking Unit	26.70	26.30
Average for the period -Domestic Banking Unit	22.95	27.62
Statutory Liquid Asset Ratio - Consolidated *	27.00	26.52
Statutory minimum requirement	20.00	20.00

* According to the Banking Act Directions No. 08 of 2022, issued on Regulatory Requirements on Liquidity Ratio dated 18th November 2022, The Bank is required to maintain liquid assets of an amount not less than 20% of total adjusted liabilities, on a consolidated basis for the overall Bank.

Composition of liquid assets - Domestic Banking Unit

As at 31 December	2022 Rs. '000	2021 Rs. '000
Cash	644,668	514,180
Treasury bills and securities issued or guaranteed by the government of Sri Lanka	5,917,932	5,254,651
Balances with licensed commercial banks	202,408	314,619
Balances with banks abroad	638,713	392,711
Treasury bonds	3,865,752	3,720,893
Total	11,269,473	10,197,054

54.3.2 Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarises the maturity profile of the discounted cash flows of the Bank's financial assets and liabilities as at 31 December 2022.

Rs. 000	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31-Dec-22	Total as at 31-Dec-21
Interest earning assets							
Placements with banks	-	-	-	-	-	-	601,151
Derivative financial instruments	-	-	-	-	-	-	3,200
Financial assets measured at fair value through profit or loss	-	-	-	-	-	-	-
Financial assets at amortised cost - Loans & advances to other customers	11,344,085	7,051,615	4,172,929	8,806,797	4,584,655	35,960,080	40,490,736
Financial assets at amortised cost - Debt and other financial instruments	10,353	-	269,883	379,048	1,337,666	1,996,950	15,528
Financial assets - measured at fair value through other comprehensive income	1,740,033	5,278,894	1,806,923	971,751	437,879	10,235,480	10,767,168
Total interest earning assets	**13,094,471**	**12,330,509**	**6,249,735**	**10,157,596**	**6,360,199**	**48,192,510**	**51,877,783**
Non-interest earning assets							
Non-interest earning assets	2,984,908	459,497	149,757	447,665	1,518,473	5,560,299	3,889,278
Total assets	**16,079,379**	**12,790,006**	**6,399,492**	**10,605,261**	**7,878,672**	**53,752,809**	**55,767,061**
Interest bearing liabilities							
Due to banks	281,953	49,676	96,075	86,489	-	514,193	926,405
Derivative financial instruments	30	-	-	-	-	30	3,009
Financial liabilities at amortised cost - Due to depositors	15,000,940	13,240,241	4,315,183	3,242,063	2,004,253	37,802,680	40,182,402
Financial liabilities at amortised cost - Other borrowings	2,188,924	-	-	-	1,500,000	3,688,924	3,969,617
Total interest bearing liabilities	**17,471,847**	**13,289,917**	**4,411,258**	**3,328,552**	**3,504,253**	**42,005,827**	**45,081,433**
Non-interest bearing liabilities							
Non-interest bearing liabilities	1,625,450	56,033	99,962	48,910	9,916,628	11,746,982	10,685,628
Total liabilities	**19,097,297**	**13,345,950**	**4,511,220**	**3,377,462**	**13,420,881**	**53,752,809**	**55,767,061**

The Bank's policy is to monitor portfolios and adopt appropriate hedging strategies to ensure that liquidity risk is maintained within prudent levels. Liquidity risk is mainly monitored through a stock approach and a flow approach. Under the stock approach liquidity is measured in terms of key ratios showing the liquidity stored on the Balance Sheet. Under the flow approach the Bank monitors contractual and behavioral liquidity mismatches through static and dynamic maturity analyses. Less than 1-year buckets include a sizable proportion of savings balances which may not be withdrawn within a short period of time based on its behavioral pattern.

Notes to the Financial Statements

54.3.3 Undiscounted cash flow of financial assets and financial liabilities

The following table shows the expected undiscounted cash flows for financial assets and financial liabilities at 31 December 2022.

Rs. 000	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31-Dec-22	Total as at 31-Dec-21
Financial assets							
Cash and cash equivalents	1,232,272	-	-	-	-	1,232,272	1,233,373
Balances with Central Bank of Sri Lanka	520,601	459,497	149,757	112,514	69,557	1,311,926	651,463
Placements with Banks	-	-	-	-	-	-	601,393
Derivative financial instruments	-	-	-	-	-	-	3,200
Financial assets at amortised cost - Loans and Advances to other customers	15,160,038	11,027,557	13,331,684	8,720,367	8,648,537	56,888,183	50,631,521
Financial assets at amortised cost - Debt and other financial instruments	153,729	200,334	1,008,125	865,712	1,563,157	3,791,057	25,219
Financial assets-at fair value through other comprehensive income	7,795,487	675,009	3,233,137	1,515,950	639,075	13,858,658	11,126,266
Financial liabilities							
Due to banks	328,690	99,386	103,867	251,314	-	783,257	941,004
Derivative financial instruments	30	-	-	-	-	30	3,009
Financial liabilities at amortised cost - Due to depositors	21,924,519	13,008,159	4,133,754	3,317,992	-	42,384,424	41,474,067
Financial liabilities at amortised cost - Other borrowings	2,597,438	-	-	-	1,500,000	4,097,438	4,171,751
Lease liability	37,368	62,043	131,168	64,179	130,584	425,342	422,645

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 maximising the returns.

The Bank has completed only eight 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		2022			2021		
			Market Risk Measurement			Market Risk Measurement	
	Note	Carrying Amount Rs. '000	Trading Portfolios Rs. '000	Non-Trading Portfolios Rs. '000	Carrying Amount Rs. '000	Trading Portfolios Rs. '000	Non-Trading Portfolios Rs. '000
Assets Subject to Market Risk							
Placements with banks	23	-	-	-	601,151	-	601,151
Derivative financial instruments	24	-	-	-	3,200	3,200	-
Financial assets measured at fair value through profit or loss	25	-	-	-	-	-	
Financial assets at amortised cost - Loans & advances to other customers	26	35,960,080	-	35,960,080	40,490,736	-	40,490,736
Financial assets at amortised cost - Debt and other financial instruments	27	1,996,950	-	1,996,950	15,528	-	15,528
Financial assets measured at fair value through other comprehensive income	28	10,253,496	-	10,253,496	10,783,609	-	10,783,609
Total		48,210,526	-	48,210,526	51,894,224	3,200	51,891,024
Liabilities Subject to Market Risk							
Due to banks	34	514,193	-	514,193	926,405	-	926,405
Derivative financial instruments	35	30	30	-	3,009	3,009	-
Financial liabilities at amortised cost - Due to depositors	36	37,802,680	-	37,802,680	40,182,402	-	40,182,402
Financial liabilities at amortised cost - Other borrowings	37	3,688,924	-	3,688,924	3,969,617	-	3,969,617
Total		42,005,827	30	42,005,797	45,081,433	3,009	45,078,424

Notes to the Financial Statements

54.4.2 Exposure to interest rate risk - sensitivity analysis

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

The possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments gives rise to interest rate risk. The Bank's policy is to continuously monitor portfolios and adopt hedging strategies to ensure that interest rate risk is 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 2022	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Non-Sensitive Rs. '000	Total as at 31.12.2022 Rs. '000
Financial Assets							
Cash and cash equivalents	-	-	-	-	-	1,232,272	1,232,272
Balance with central banks	-	-	-	-	-	1,311,926	1,311,926
Placements with banks	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-
Financial assets measured at fair value through profit or loss	-	-	-	-	-	-	-
Financial assets at amortised cost - Loans & advances to other customers	22,499,972	3,305,106	3,715,988	2,907,542	1,953,526	1,577,946	35,960,080
Financial assets at amortised cost - Debt and other financial instruments	10,353	-	269,883	379,048	1,337,666	-	1,996,950
Financial assets measured at fair value through other comprehensive income	1,740,033	5,278,894	1,806,923	971,751	437,879	18,016	10,253,496
Other assets	-	-	-	-	-	1,232,034	1,232,034
Total Financial Assets	**24,250,358**	**8,584,000**	**5,792,794**	**4,258,341**	**3,729,071**	**5,372,194**	**51,986,758**
Financial Liabilities							
Due to banks	1,325	49,676	96,075	86,489	-	280,628	514,193
Derivative financial instruments	30	-	-	-	-	-	30
Financial liabilities at amortised cost - Due to depositors	17,245,723	10,525,313	627,646	137,078	4,593,081	4,673,839	37,802,680
Financial liabilities at amortised cost - Other borrowings	2,188,924	-	-	-	1,500,000	-	3,688,924
Retirement benefit obligations	-	96,806	-	-	-	-	96,806
Lease liability	-	-	-	-	-	340,542	340,542
Other liabilities	-	-	-	-	-	1,589,329	1,589,329
Total Financial Liabilities	**19,436,002**	**10,671,795**	**723,721**	**223,567**	**6,093,081**	**6,884,338**	**44,032,504**
Interest rate sensitivity gap	**4,814,356**	**(2,087,795)**	**5,069,073**	**4,034,775**	**(2,364,010)**	**(1,512,144)**	**7,954,254**
1% increase	48,144	(20,878)	50,691	40,348	(23,640)	-	94,664
1% decrease	(48,144)	20,878	(50,691)	(40,348)	23,640	-	(94,664)

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 measured at fair value through profit or loss	-	-	-	-	-	-	-
Financial assets at amortised cost - Loans & 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 - Other borrowings	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)

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.

(b) Exposure to interest rate risk

As at 31 December	2022 Rs. '000	2021 Rs. '000
Savings deposits	5,945,969	9,608,577
Time deposits	29,613,127	27,146,619
Certificate of deposits	172,541	1,566,433
Total	35,731,637	38,321,629

Notes to the Financial Statements

54.4.2 Exposure to interest rate risk - sensitivity analysis contd.

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	Sensitivity		2022	2021
Rs. 000	5% increase	5% decrease	Amount	Amount
Foreign exchange position - USD	57,676	(57,676)	1,153,522	1,225,995
Foreign exchange position - AUD	172	(172)	3,449	423
Foreign exchange position - AED	12	(12)	243	22,663
Foreign exchange position - EUR	771	(771)	15,422	844
Foreign exchange position - THB	-	-	-	-
Foreign exchange position - SGD	6,466	(6,466)	129,315	77,754
Foreign exchange position - GBP	1,774	(1,774)	35,483	3,010
Foreign exchange position - JPY	29,269	(29,269)	585,390	705,463
Foreign exchange position - CAD	0	(0)	1	42
Foreign exchange position - SEK	8	(8)	167	225
Foreign exchange position - DKK	-	-	-	-
Foreign exchange position - KWD	-	-	-	-
Foreign exchange position - CNY	849	(849)	16,987	16,818
Foreign exchange position - MYR	32	(32)	642	-
Foreign exchange position - QAR	-	-	-	-
Foreign exchange position - INR	300	(300)	6,000	49,490
Foreign exchange position - MMK	-	-	-	-
Foreign exchange position - NOK	-	-	-	-
Foreign exchange position - IDR	-	-	-	-
Foreign exchange position - OMR	-	-	-	-
Foreign exchange position - SAR	-	-	-	-
Foreign exchange position - RUB	-	-	-	-
Foreign exchange position - TRY	80	(80)	1,596	-

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

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 Capital Adequacy Ratio (CAR) of not less than 7% with Common Equity Tier I capital (CET I) in relation to total risk-weighted assets and a minimum overall CAR of 12.50% inclusive of Tier I and Tier II in relation to total risk-weighted assets.

As at 31 December	2022 Rs. '000	2021 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	56,774	32,386
Published retained profits/(accumulated losses)	(1,598,139)	(2,055,814)
General and other reserves	(140,724)	(52,813)
	9,712,332	9,318,180
Deductions/Adjustments		
Net Deferred Tax Assets	(955,721)	(637,588)
Other intangible assets	(335,150)	(258,942)
Qualifying Additional Tier 1 Capital Instruments	1,500,000	1,500,000
Total Tier 1 Capital	**9,921,461**	**9,921,650**
Tier II Capital		
General provisions	236,382	315,118
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	236,382	315,118
Total Capital	**10,157,843**	**10,236,768**
Capital adequacy ratios		
Common Equity Tier 1 Capital Ratio (%)	18.95	19.31
Tier 1 Capital Ratio (%)	22.32	22.75
Total Capital Ratio (%)	22.85	23.47

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.

Pillar III Market Disclosures

Disclosures under these requirements mainly include the regulatory capital requirements and liquidity, risk weighted assets, discussion on adequacy to meet current and future capital requirements of banks and linkages between financial statements and regulatory exposures. It is required to disclose the templates specified by the Central Bank of Sri Lanka as per Basel III - Minimum disclosure requirements with effective from July 1, 2017.

TEMPLATE 01

Key Regulatory Ratios - Capital and Liquidity

Item	31-Dec-22	31-Dec-21
Regulatory Capital (LKR '000)		
Common Equity Tier 1	8,421,461	8,421,650
Tier 1 Capital	9,921,461	9,921,650
Total Capital	10,157,843	10,236,768
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 2022: 7 and 2021: 7)	18.95	19.31
Tier 1 Capital Ratio (Minimum Requirement - 2022: 8.5 and 2021: 8.5)	22.32	22.75
Total Capital Ratio (Minimum Requirement - 2022: 12.5 and 2021: 12.5)	22.85	23.47
Leverage Ratio (Minimum Requirement - 3)	14.45	13.86
Regulatory Liquidity		
Statutory Liquid Assets (LKR '000)	11,061,874	10,197,054
Statutory Liquid Asset Ratio (Minimum Requirement - 20%)		
Domestic Banking Unit (%)	26.70	26.3
Off-Shore Banking Unit (%)	90.79	90.79
Statutory Liquid Asset Ratio - Bank (%)	27.00	26.52
Liquidity Coverage Ratio (%) - Rupee (Minimum Requirement - 2022:90 & 2021:100)	176	164
Liquidity Coverage Ratio (%) - All Currency (Minimum Requirement - 2022:90 & 2021:100)	141	147
Net stable funding Ratio (%) (Minimum Requirement - 2022:90 & 2021:100)	127	110

TEMPLATE 02

Basel III Computation of Capital Ratios

Item	Amount (LKR '000)	
	31-Dec-22	31-Dec-21
Common Equity Tier 1 (CET1) Capital after Adjustment	8,421,461	8,421,650
Common Equity Tier 1 (CET1) Capital	9,712,332	9,318,180
Equity Capital (Stated Capital)/Assigned Capital	11,394,421	11,394,421
Reserve Fund	56,774	32,386
Published Retained Earnings/(Accumulated Retained Losses)	(1,598,139)	(2,055,814)
Published Accumulated Other Comprehensive Income (OCI)	(140,724)	(52,813)
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	1,290,871	896,530
Goodwill (net)	-	-
Intangible Assets (net)	335,150	258,942
Others (specify) - Deferred tax asset	955,721	637,588
Additional Tier 1 (AT1) Capital after Adjustments	1,500,000	1,500,000
Additional Tier 1 (AT1) Capital	1,500,000	1,500,000
Qualifying Additional Tier 1 Capital Instruments	1,500,000	1,500,000
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to AT1 Capital	-	-
Investment in Own Shares	-	-
Others (Specify)	-	-
Tier 2 Capital after Adjustments	236,382	315,118
Tier 2 Capital	236,382	315,118
Qualifying Tier 2 Capital Instruments	-	-
Revaluation Gains	-	-
Loan Loss Provisions	236,382	315,118
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	9,712,332	9,318,180
Total Tier 1 Capital	9,921,461	9,921,650
Total Capital	10,157,843	10,236,768

Pillar III Market Disclosures

TEMPLATE 02 CONTD.

	31-Dec-22	31-Dec-21
Total Risk Weighted Assets (RWA)		
RWAs for Credit Risk	39,898,474	39,943,518
RWAs for Market Risk	1,097,152	873,427
RWAs for Operational Risk	3,451,568	2,793,894
CET1 Capital Ratio (Including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	18.95	19.31
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	22.32	22.75
Total Capital Ratio (Including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	22.85	23.47
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-Dec-22	31-Dec-21
Tier 1 Capital	8,421,461	8,421,650
Total Exposures	58,299,707	60,761,614
On-Balance Sheet Items (Excluding Derivatives and Securities Financing Transactions, but including Collateral)	52,461,938	54,867,331
Derivative Exposure	-	-
Securities Financing Transaction Exposure	-	-
Other Off-Balance Sheet Exposure	5,837,769	5,894,283
Basel III Leverage Ratio (%) (Tier 1/ Total Exposure)	14.45	13.86

TEMPLATE 04

4.1 Basel III Computation of Liquidity Coverage Ratio (Rupee)

Item	Amount (LKR '000)			
	31-Dec-22		31-Dec-21	
	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
Total Stock of High Quality Liquid Assets (HQLA)	9,087,222	9,087,222	9,186,365	9,186,365
Total Adjusted Level 1 Assets	9,476,069	9,476,069	9,393,341	9,393,341
Level 1 Assets	9,087,222	9,087,222	9,186,365	9,186,365
Total Adjusted Level 2A Assets	-	-	-	-
Level 2 Assets	-	-	-	-
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	51,013,930	8,753,424	51,015,958	11,779,415
Deposits	23,278,572	2,327,857	22,008,948	2,200,895
Unsecured Wholesale Funding	8,184,504	5,512,613	13,453,067	9,110,842
Secured Funding Transactions	-	-	-	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	19,550,854	912,954	15,553,943	467,678
Additional Requirements	-	-	-	-
Total Cash Inflows	6,024,892	3,596,080	10,047,956	6,172,254
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	6,024,892	3,596,080	10,047,956	6,172,254
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		176		164

Pillar III Market Disclosures

4.2 Basel III Computation of Liquidity Coverage Ratio (All Currency)

Item	Amount (LKR '000)			
	31-Dec-22		31-Dec-21	
	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
Total Stock of High Quality Liquid Assets (HQLA)	9,108,873	9,108,873	9,188,499	9,188,499
Total Adjusted Level 1 Assets	9,497,720	9,497,720	9,395,345	9,395,345
Level 1 Assets	9,108,873	9,108,873	9,188,499	9,188,499
Total Adjusted Level 2A Assets	-	-	-	-
Level 2 Assets	-	-	-	-
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	54,886,905	10,398,271	55,866,255	12,902,667
Deposits	24,644,776	2,464,478	24,224,768	2,422,477
Unsecured Wholesale Funding	10,326,708	7,050,362	14,593,599	9,955,768
Secured Funding Transactions	-	-	-	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	19,915,421	883,432	17,047,888	524,422
Additional Requirements	-	-	-	-
Total Cash Inflows	6,628,769	3,915,456	11,052,370	6,667,024
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	6,628,769	3,915,456	10,730,999	6,667,024
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		141		147

4.3 Net Stable Funding Ratio (NSFR)

Item	Amount (LKR '000)	
	31-Dec-22	31-Dec-21
Total available stable funding (ASF)	34,887,292	36,019,343
Total required stable funding (RSF)	27,522,187	32,822,771
Required stable funding - On balance sheet assets	27,071,164	32,449,279
Required stable funding - Off balance sheet items	451,023	373,491
NSFR (%) (Minimum Requirement - 2022:90 & 2021:100)	127	110

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 covertible 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.

Pillar III Market Disclosures

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 2022					
	Exposure before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA & RWA Density (%)	
	On-Balance Sheet Amount	Off-Balance Sheet Amount	On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density
Claims on Central Government and CBSL	13,415,246	-	13,415,246	-	-	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	751,256	544,695	751,256	10,894	426,659	55.98%
Claims on Financial Institutions	1,857,910	220,976	1,857,910	220,976	2,011,264	96.75%
Claims on Corporates	11,562,407	13,562,532	11,562,407	4,611,129	15,427,830	95.39%
Retail Claims	14,821,407	8,078,708	14,821,407	994,770	13,169,776	83.27%
Claims Secured by Residential Property	3,724,997	-	3,991,582	-	3,724,997	93.32%
Claims Secured by Commercial Real Estate	-	-	-	-	-	-
Non-Performing Assets (NPAs)	2,944,700	-	2,678,115	-	3,430,735	128.10%
High-risk Categories	-	-	-	-	-	-
Cash Items and Other Assets	2,335,355	-	2,335,355	-	1,707,214	73.10%
Total	**51,413,278**	**22,406,911**	**51,413,278**	**5,837,769**	**39,898,474**	**69.69%**

TEMPLATE 08

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

Risk Weight / Asset Classes	Amount (LKR '000) as at 31 December 2022 (Post CCF and CRM)							
	0%	20%	50%	75%	100%	150%	>150%	Total Credit Exposure Amount
Claims on Central Government and CBSL	13,415,246	-	-	-	-	-	-	13,415,246
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	-	152,037	427,723	-	182,390	-	-	762,150
Claims on Financial Institutions	-	45,765	62,021	-	1,971,101	-	-	2,078,886
Claims on Corporates	-	925,763	10,191	-	15,237,582	-	-	16,173,536
Retail Claims	-	-	4,048,221	4,108,454	7,659,502	-	-	15,816,178
Claims Secured by Residential Property	-	-	-	-	3,724,997	-	-	3,724,997
Claims Secured by Commercial Real Estate	-	-	-	-	-	-	-	-
Non-Performing Assets (NPAs)	-	-	201,799	-	1,569,032	1,173,869	-	2,944,700
High-risk Categories	-	-	-	-	-	-	-	-
Cash Items and Other Assets	628,141	-	-	-	1,707,214	-	-	2,335,355
Total	14,043,387	1,123,564	4,749,955	4,108,454	32,051,817	1,173,869	-	57,251,047

TEMPLATE 09

Market Risk under Standardised Measurement Method

Item	RWA Amount (LKR' 000) As at 31 Dec 2022
(a) RWA for Interest Rate Risk	1,097,152
General Interest Rate Risk	
i. Net Long or Short Position	136,854
ii. Horizontal Disallowance	-
iii. Vertical Disallowance	-
iv. Options	-
Specific Interest Rate Risk	-
(b) RWA for Equity	-
i. General Equity Risk	-
ii. Specific Equity Risk	-
(c) RWA for Foreign Exchange & Gold	290
Capital Charge for Market Risk [(a) + (b) + (c)] * CAR	137,144

Pillar III Market Disclosures

TEMPLATE 10

Operational Risk under Basic Indicator Approach/The Standardised Approach/The Alternative Standardised Approach

Business Lines	Capital Charge Factor	Fixed Factor	Gross Income (LKR '000)		
			1st Year	2nd Year	3rd Year
Basic Indicator Approach	15%		4,259,873	2,476,903	1,892,148
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	431,446				
The Standardised Approach	-				
The Alternative Standardised Approach	-				
Risk Weighted Amount for Operational Risk (LKR '000)					
The Basic Indicator Approach	3,451,568				
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 2022				
	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	1,232,272	1,232,272	1,232,272		
Balances with Central Banks	1,311,926	1,311,926	1,311,926		
Placements with Banks	-	-	-		
Derivative Financial Instruments	-	-	-		
Financial Assets Designated at Fair Value through Profit or Loss	-	-	-		
Loans and Receivables to Banks	-	-			
Loans and Receivables to Other Customers	35,960,080	35,960,080	35,960,080		11,620,882
Financial Investments - Available-For-Sale	10,253,496	10,253,496	10,253,496	10,253,496	
Financial Investments - Held-To-Maturity	1,996,950	1,996,950	1,996,950	-	
Investments in Subsidiaries	-	-			
Investments in Associates and Joint Ventures	-	-			
Property, Plant and Equipment	475,180	475,180	475,180		
Investment Properties	-	-			
Goodwill and Intangible Assets	335,150	335,150			335,150
Deferred Tax Assets	955,721	955,721			955,721
Other Assets	1,232,034	1,386,644	1,386,644		
Liabilities					
Due to Banks	514,193	514,193			
Derivative Financial Instruments	30	30			
Other Financial Liabilities Held-For-Trading	-	-			
Financial Liabilities Designated at Fair Value Through Profit or Loss	-	-			
Due to Other Customers	37,802,680	37,802,680			
Other Borrowings	3,688,924	3,688,924			
Debt Securities Issued	-	-			
Current Tax Liabilities	-	-			
Deferred Tax Liabilities	-	-			
Other Provisions	96,806	96,806			
Other Liabilities	1,929,871	1,929,871			
Due to Subsidiaries	-	-			
Subordinated Term Debts	-	-			

Pillar III Market Disclosures

Item	Amount (LKR '000) as at 31 December 2022				
	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	7,716,489	7,716,489	7,716,489		
Performance Bonds	-	-			
Letters of Credit	541,681	541,681	541,681		
Other Contingent Items	2,238,394	2,238,394	2,238,394		
Undrawn Loan Commitments	11,643,163	11,643,163	11,643,163		
Other Commitments	267,185	267,185			
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	(1,598,139)	(1,598,139)			
Accumulated Other Comprehensive Income	(132,751)	(132,751)			
Other Reserves	56,774	56,774			
Total Shareholders' Equity	9,720,306	11,220,306*			

* 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).

Investor Relations

TOP 23 SHAREHOLDERS

As at 31 December		2022		2021	
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.

Investor Relations

COMPOSITION OF SHAREHOLDERS

As at 31 December	2022		2021	
	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	8,355,300	0.95%	8,507,600	0.96%
Shares held by Institutions	234,340,000	26.53%	234,340,000	26.53%
Balance held by Public	65,304,700	7.39%	65,152,400	7.39%
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 Debentures issued by the Bank are given in Note 37.2 to the Financial Statements.

Notice of Meeting

NOTICE IS HEREBY GIVEN THAT the Eleventh Annual General Meeting of Cargills Bank Limited will be held at the Institute of Chartered Accountants of Sri Lanka, No: 30A, Malalasekara Mawatha, Colombo - 07 on Friday, 28 April 2023 at 10.00 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 2022 with Report of the Auditors thereon.
2. To re-elect as a Director Ms. Ruvini Fernando who retires by rotation in terms of Article 86 of the Articles of Association of the Bank.
3. To re-elect as a Director Ms. Marianne Page who retires by rotation in terms of Article 86 of the Articles of Association of the Bank.
4. To elect as a Director Mr. Asoka Pieris 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

Colombo
22 March 2023

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

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. Richard Ebell	or failing him
Mr. Senarath Bandara	or failing him
Ms. Ruvini Fernando	or failing her
Ms. Marianne Page	or failing her
Mr. Yudhishtran Kanagasabai	or failing him
Mr. Buwaneka Perera	or failing him
Mr. Asoka Pieris	

as my/our Proxy to represent me/us and to vote for on my/our behalf at the Eleventh Annual General Meeting of the Bank to be held on 28th April 2023 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 Ms. Ruvini Fernando who retires by rotation in terms of Article 86 of the Articles of Association of the Bank.		
2.	To re-elect as a Director Ms. Marianne Page who retires by rotation in terms of Article 86 of the Articles of Association of the Bank.		
3	To elect as a Director Mr. Asoka Pieris 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 2023

....

Signature/s of Shareholder/s *NIC/PP/ Co. Reg. No. of Shareholder/s*

Note:
1. A Proxy holder need not be a member of the Company.
2. Instructions as to completion of this form are given overleaf.

INSTRUCTIONS AS TO COMPLETION OF THE PROXY FORM

1. Please perfect the Form of Proxy by filling legibly your full name and address, by signing in the space provided and filling in the date of signature.

2. The completed Form of Proxy should be deposited at the registered office of the Bank, No: 696, Galle Road, Colombo - 03 not less than 48 hours before the time appointed for holding of the meeting.

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

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

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

Corporate Information

Name of the Company
Cargills Bank 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
Richard Ebell - Chairman
(Independent Non-Executive Director)

Senarath Bandara
(Managing Director/CEO)

Ms. Ruvini Fernando
(Independent Non-Executive Director)

Ms. Marianne Page
(Non-Executive Director)

Yudhishtran Kanagasabai
(Non-Executive Director)

Buwaneka Perera
(Independent Non-Executive Director)

Asoka Pieris
(Non-Executive Director)

Board Sub-Committees

Board Human Resources and Remuneration Committee
Asoka Pieris
Committee Chairman
Richard Ebell
Yudhishtran Kanagasabai
Buwaneka Perera
Ms. Amendra de Silva - *Secretary*

Board Integrated Risk Management Committee
Yudhishtran Kanagasabai
Committee Chairman
Richard Ebell
Ms. Ruvini Fernando
Senarath Bandara
Prabhu Mathavan
Chief Operating Officer
Chandradasa Amarasinghe
DGM, Retail and Business Banking
Gayantha Wijekoon
Head of Compliance
Alex Perera
Chief Risk Officer - Secretary

Board Nomination Committee
Richard Ebell
Committee Chairman
Ms. Ruvini Fernando
Buwaneka Perera
Asoka Pieris
Ms. Amendra de Silva - *Secretary*

Board Audit Committee
Richard Ebell
Committee Chairman
Buwaneka Perera
Yudhishtran Kanagasabai
Asoka Pieris
Chandima Samarasinghe - *Secretary*

Board Credit Committee
Buwaneka Perera
Committee Chairman
Ms. Ruvini Fernando
Ms. Marianne Page
Asoka Pieris
Ms. Amendra de Silva - *Secretary*

Board Strategic Planning Committee
Richard Ebell
Committee Chairman
Senarath Bandara
Ms. Ruvini Fernando
Ms. Marianne Page
Yudhishtran Kanagasabai
Buwaneka Perera
Asoka Pieris
Ms. Amendra de Silva - *Secretary*

Board Related Party Transactions Review Committee
Ms. Ruvini Fernando
Committee Chairperson
Richard Ebell
Buwaneka Perera
Ms. Amendra de Silva - *Secretary*

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Copyline
a great equation

www.cargillsbank.com