Cargills Bank

Banking on the Human Spirit

MORE THAN just a bank

CARGILLS BANK LIMITED Annual Report 2020

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Undaunted by the challenges of 2020, we used this time to reinforce and improve our offerings, engaging more customers from every strata of society. We established our footing as a comprehensive and all-inclusive entity that supports entrepreneurs and Agri development as well as the facilitation of grassroot growth, all while being a trusted retail bank. The access to the Cargills ecosystem combined with our digital presence and passion for inclusivity creates possibilities for all our stakeholders, now and in the future, and will demonstrate that

WE ARE TRULY

MORE THAN

just a bank

Vision and Mission

Founded on the belief that uplifting the people in the rural sector will strengthen our nation, which has predominantly been an agrarian society once renowned as the granary of the East, 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 tag line "Banking on the Human Spirit", embodies our philosophy and belief in the resolve of the human spirit, of people, as they endeavor and strive for success.

The promoters of Cargills Bank are Cargills (Ceylon) PLC and CT Holdings PLC, both highly diversified conglomerates listed on the Colombo Stock Exchange, with interests in Entertainment, Retail, Consumer Foods, Agriculture, Hospitality, Property Development and Financial Services. Cargills is a brand with a trusted heritage of over 176 years, having been established in 1844, and is a market leader in the retail and consumer foods space.

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

OUR VISION

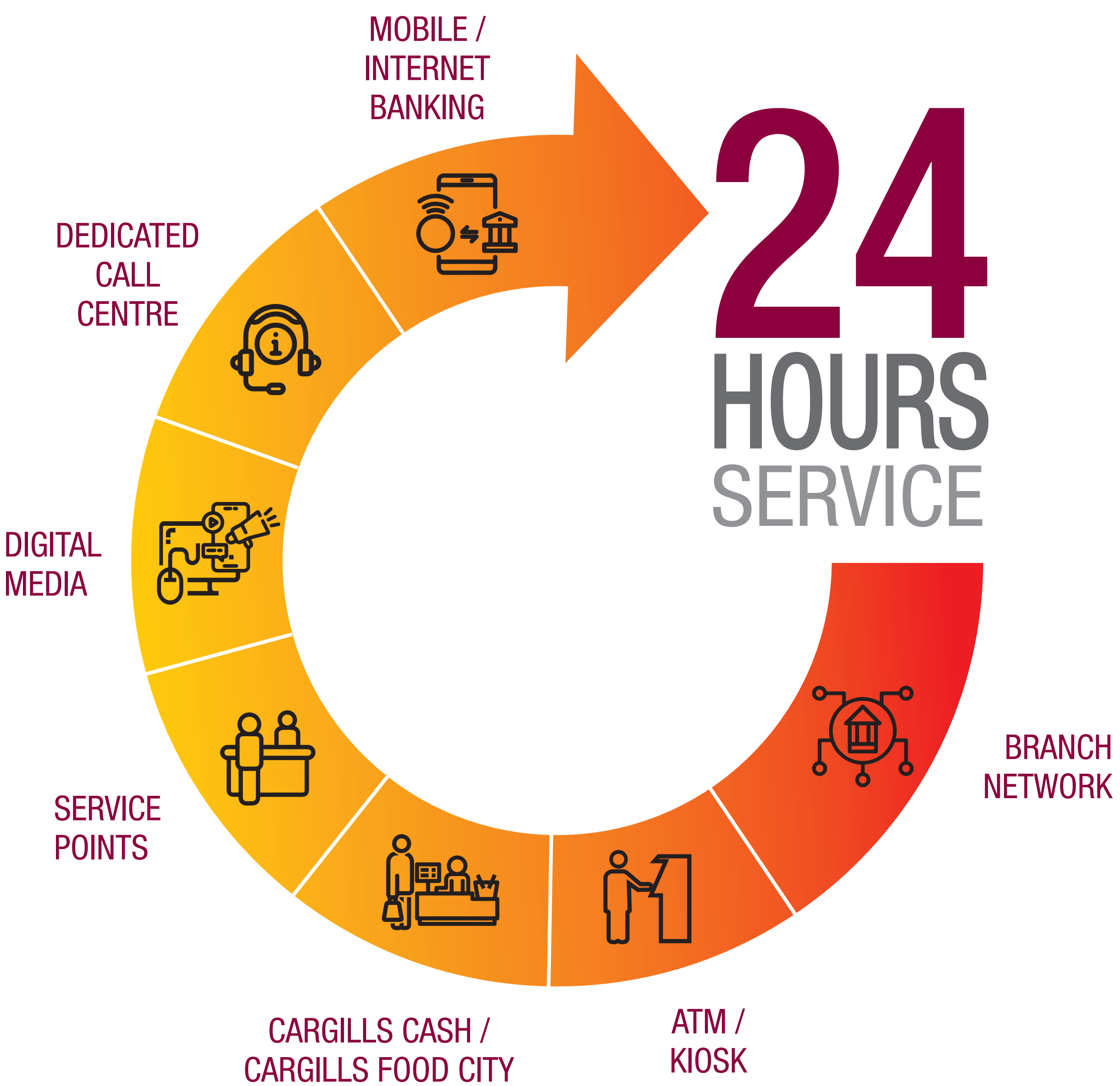
To be the most inclusive bank harnessing the spirit of progress in every Sri Lankan.

OUR MISSION

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

BLENDING PHYSICAL WITH DIGITAL

As we strive to be the most inclusive bank in Sri Lanka, we have adopted an omnichannel approach to meet our customers' needs, merging technology with the strength of the Cargills ecosystem to create a low-cost distribution model. This gives us a broader reach, while providing our customers with a greater convenience and accessibility to our banking services.



Journey of the Bank

2014

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

2015

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

2016

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

2018

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

2019

- 1st ever Image Card Launch
- IPG Launch
- DigiZone KIOSK Expansions
- Balance Transfer & Installment Payment Plan for Credit Cards
- POS Merchant Acquiring
- PCIDSS Certification for Cards
- Cheque on Card Launch
- Expanded Branch Network to 20 Branches

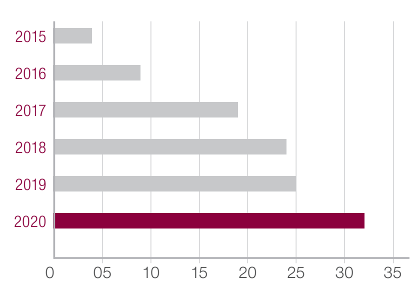
2020

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

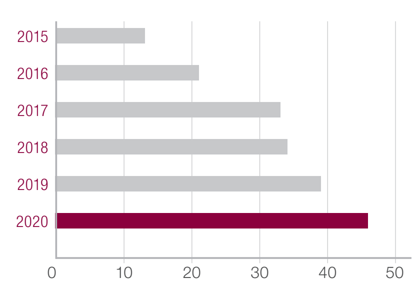
Financial Synopsis

OVERVIEW

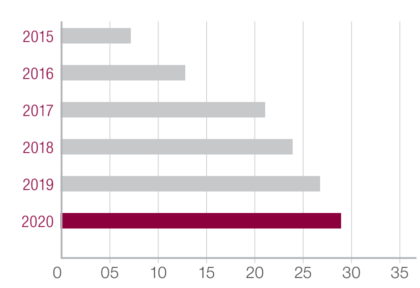
	2020 Rs. '000	2019 Rs. '000	Change %
Operating Results			
Gross Income	4,774,212	4,959,253	(4)
Net Interest Income	1,564,775	2,043,651	(23)
Net Fees and Other income	448,163	408,663	10
Total Operating Income	2,012,938	2,452,314	(18)
Operating Loss Before Taxes	(886,536)	(887,919)	0
Loss for the year	(743,947)	(666,600)	(12)
Assets and Liabilities			
Loans and Advances	29,079,121	27,013,673	8
Customers Deposits	31,997,601	25,042,562	28
Total Assets	46,532,534	39,138,534	19
Total Liabilities	36,798,232	28,706,069	28
Shareholders' Funds	9,734,302	10,432,465	(7)
Key Indicators			
Loss Per Share	(0.84)	(0.75)	
Net Asset Value Per Share	11.02	11.81	
Net Interest Margin (%)	3.88	5.55	
Return on Assets (before income tax) (%)	(2.03)	(2.41)	
Return on Equity (%)	(7.14)	(5.96)	
Non Performing Loans (%)	14.42	12.79	
Regulatory Ratios			
Tier 1 Capital Adequacy Ratio (%)	20.72	26.37	
Tier 1 and 2 Capital Adequacy Ratio (%)	21.28	26.87	
Liquid Asset Ratio (%)	33.63	32.65	



Total Deposits



Total Assets



Loans and Advances

RS. 31,998 MN
28% ▲
Total Deposits

RS. 46,533 MN
19% ▲
Total Assets

RS. 29,079 MN
8% ▲
Loans and Advances

RS. 4,774 MN
- 4% ▼
Gross Income

RS. 2,013 MN
-18% ▼
Operating Income

RS. (744) MN
-12% ▼
Loss After Tax

6 YRS
Years in Operation

450+
Touch Points

150,000+
Customers

AA-(lka)
Fitch Rating

20
Branches

632
Employees

Chairman's Message

"While the world faces economic shutdowns, Sri Lanka is uniquely positioned to build its economy in new areas including agriculture, small and medium enterprises (SMEs), manufacturing, import substitution and information technology.

Considering the new environment, the Bank's Management evaluated the way forward and have identified focused strategies for each business vertical."

Dear Valued Stakeholders,

On behalf of the Board of Directors of Cargills Bank Limited, I am pleased to present to you the Annual Report and Audited Financial Statements for the year ended 31 December 2020.

A CHALLENGING YEAR IN RETROSPECT

The past year has been exceptionally difficult with the pandemic bringing about the largest social and economic disruptions across the world in modern history. While the precautionary steps taken by the Sri Lankan authorities were largely successful in containing the spread of the virus, the resulting economic fallout hindered the recovery of our economy, which was already facing headwinds even before. While the world faces economic shutdowns, Sri Lanka is uniquely positioned to build its economy in new areas including agriculture, small and medium enterprises (SMEs), manufacturing, import substitution and information technology.

To revive economic activity and improve the business environment, the Government and the Central Bank of Sri Lanka took many proactive measures such as introducing moratoriums and concessionary funding schemes to support the impacted sectors. The reduction in the Statutory Reserve Ratio (SRR) injected liquidity into the financial system and allowed banks to lower lending rates which in turn, enabled people to sustain their businesses against this challenging backdrop. The SME sector - the backbone of our economy

- was at the centre of these relief efforts as they are the most vulnerable to volatile business conditions. Parallel to these measures, support was extended to local industries to facilitate import substitution, while guidelines were provided for essential businesses and services, including key export generating sectors, to operate during and post lockdown.

Managing a global crisis of this scale is unprecedented and we commend the Government and the Central Bank for their swift response and untiring efforts towards mitigating the impact. Another trait that stood out during these tough times was the true resilience and determination of the people, which helped the country recover from the disruptions of the pandemic.

STAYING ALIGNED TO OUR VISION

Cargills Bank was founded on the ethos of equality, accessibility and connectivity to bring positive change to society. This represents the values of our promoters, who have a legacy built on trust and commitment. From offering affordable nutrition to customers without compromise, to creating new markets for local farmers and SME entrepreneurs, sustainable development is a hallmark of Cargills. At Cargills Bank, we embody these values of progress by taking banking to the underbanked, leveraging the extensive Cargills Group ecosystem.

During the year, the Bank proactively adapted to ensure that customers had continued access to their banking facilities, while also supporting them to lessen the burden created by the prevalent situation. With the necessary safety protocols in place, we ensured that our branches remained operational while our digital banking capabilities allowed customers to undertake financial transactions safely and securely in the comfort of their homes. The Bank also extended moratoriums to its customers (both within and outside the Central Bank directives) and provided concessionary funding to customers through the Central Bank refinance schemes.

Leveraging our promoter's widespread supermarket chain, Cargills Food City, we are able extend our reach to different customer segments. This financially inclusive agency banking network proved particularly useful for our customers as they had island-wide access to key banking services as well as our Cargills Cash service, which allows customers to deposit or withdraw funds free of charge at Cargills Food City outlets.

The Bank also extended its support to several Cargills Group-wide initiatives aimed at supporting farmers, SMEs and entrepreneurs. The Cargills Sarubima Agriculture Modernization Programme continued to gain traction, with the Bank facilitating low-cost financing for farmers to invest in micro irrigation to enhance productivity and yields whilst reducing inputs and the cost of production. The Cargills Group also launched the Village to Home initiative - providing a platform for SME entrepreneurs to showcase their products to a wider audience - and the Bank supported these entrepreneurs to meet their banking and payment needs, while also increasing their financial literacy.

The Government's plans to promote domestic production to help our nation achieve self-sufficiency in agriculture is a welcome prospect in which the Bank is uniquely positioned to support through our links with the Cargills Group and we intend on playing a far greater role in the years to come.

USHERING IN THE DIGITAL AGE OF BANKING

The banking sector played a lead role in ensuring the smooth functioning of the economy, maintaining uninterrupted operations amidst a challenging operational environment. Given the urgent need to transition from physical to digital, consumer expectations of cashless banking were accelerated by the global crisis and are still on the rise. In view of this, the sector expeditiously rolled out and promoted digital and cashless solutions to meet the changing banking needs of customers in a safe and secure manner.

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Chairman's Message cont.

Further, in support of the Central Bank's Digital 2020 initiative towards a cashless society, the Bank enabled the acceptance of LankaQR payments at Cargills Food City outlets - the first supermarket chain to do so - allowing customers to pay for their groceries with a secure and faster checkout. We envision a greater role in the developing digital payments space, while also exploring process related functionality improvement using QR codes.

We also welcome the Central Bank's initiative to explore digital Know Your Customer (KYC) verification which could be a significant steppingstone towards financial inclusivity and will continue to support the regulator's digital strategies.

A YEAR OF REFLECTION

The significant challenges during the year under review resulted in the Bank reporting a substantial loss, largely on account of a deterioration in Net Interest Margins and high provisioning due to the loan portfolio quality.

Considering the new environment, the Bank's Management evaluated the way forward and have identified focused strategies for each business vertical;

- Retail - providing convenience to our customers through a multichannel experience leveraging the synergies of our digital technology infrastructure and the Cargills ecosystem
- SME - supporting entrepreneur development by supplementing financial solutions with market opportunities and guidance
- Agriculture - supporting the development of the agriculture sector by financing the development of the value chain

The planned listing of Cargills Bank on the Colombo Stock Exchange had to be postponed on account of the unforeseen circumstances due to the prevalent situation and an extension was granted to its listing deadline. Further, the Central Bank also extended the deadline to increase regulatory capital to Rs. 20 Bn by two years - till the 31 December 2022 - and the Bank has commenced the process towards raising capital to meet this target within the stipulated deadline.

> This unprecedented crisis has also presented us with an opportunity to revisit how we plan, operate, develop and capitalize on our flexible business model. Looking back, our short history has been hurdled with many obstacles, but we remain undeterred from what we set out to be - more than just a bank

APPRECIATING YOUR SUPPORT IN THE THROES OF CHANGE

Firstly, we wish to take this opportunity to honour and celebrate all frontliners who stood strong to ensure that our communities were kept safe and healthy all the while risking their own health and well-being without question. Through the bad days and the good, we have witnessed their commitment, for which we owe them a profound debt of gratitude. While acknowledging their contribution, we also express our heartfelt sympathy for all whose lives have been impacted by the pandemic.

At this juncture, I would like to express my gratitude towards two stakeholders that have allowed Cargills Bank to persevere in the face of remarkable challenges: our customers and our team. We thank our customers for their continuous confidence in the vision of the Bank and for standing by us these past few years. You remain the reason for us to grow and be better each day.

To our team, your unwavering courage, support and resolve in times of adversity is inspiring. You have rallied together and risen fast and that is a testament to the true spirit of Cargills Bank. Moreover, we are also grateful for the dedication shown by our senior management and my colleagues on the Board, all of whom have tirelessly contributed their energy and expertise towards ensuring the success of our common endeavor. You all set an extraordinary example of commitment and solidarity and united, we will rise to the occasion stronger than ever.

We express our best wishes to our outgoing Managing Director/ CEO, Mr. Rajendra Theagarajah. We also warmly welcome Mr. Senarath Bandara to the helm of the Bank and look forward to utilizing his vast industry experience to help pave the way towards unlocking the true potential of our business model. We are highly confident that his strengths will motivate the team to steer towards realizing the vision of Cargills Bank.

We also recognize the invaluable role the Governor and all Central Bank officials have played in maintaining stability in the sector. Their guidance is a source of encouragement and we look to you for support as we continue our journey. Finally, we wish to thank our esteemed shareholders for their patronage these past six years and we rely on their continued support to help us harness the spirit of progress.

LEARNING FROM THE PAST TO SHAPE THE FUTURE

While the Bank has inherited challenges from the onset, they are not comparable to those faced this past year. However, this unprecedented crisis has also presented us with an opportunity to revisit how we plan, operate, develop and capitalize on our flexible business model. Looking back, our short history has been hurdled with many obstacles, but we remain undeterred from what we set out to be - more than just a bank.

Ranjit Page
Chairman

Colombo
25 March 2021

CEO's Statement

"Our main priority upon the declaration of lockdowns in March 2020 was to ensure continuity of operations and access to finances for our customers throughout the pandemic. The Bank's comprehensive Internet and Mobile Banking solutions for retail and corporate customers was a significant factor in our ability to ensure our customers have access to banking facilities."

Dear Stakeholder,

I am honored and excited to be leading such a dynamic team towards our mission of transforming Cargills Bank into a powerful force for empowerment and sustainable development at the grassroots of our nation's economy, growing into our role of becoming Sri Lanka's most inclusive bank by leveraging on technology and the expansive Cargills ecosystem to deliver vital banking and financial solutions across the country.

OPERATING ENVIRONMENT

The year in review presented truly historic challenges as the recovery of the local economy was set back by the onset of the COVID-19 pandemic.

The prolonged disruptions created by the pandemic, particularly in relation to the movement of people and trade, resulted in the economy recording a contraction after almost two decades of continuous growth, declining 3.6% in 2020. However, it should be noted that the performance was better than forecast by local and international agencies. Within the key sectors of the economy the Agriculture sector contracted by 2.4%, Industry sector contracted by 6.9% and Services sector contracted by 1.5% over the previous year.

Despite most industries experiencing a downturn, the decline in crude oil imports and controls placed on certain non-essential imports resulted in an improvement in the country's trade deficit by US$ 2 Bn. Foreign Remittance earnings meanwhile rose 5.8% YoY to US$ 7.1 Bn. However, the Tourism sector was substantially affected due to the local and global travel restrictions to contain the spread of the pandemic and reported a 74% decline in earnings to US$ 957 Mn. As a result, the Gross Official Reserves position ended the year at US$ 5.7 Bn, equivalent to 4.2 months of imports.

The Central Bank of Sri Lanka (CBSL) played a proactive role in ensuring financial services stability while supporting the economy mitigate the impact from the pandemic. The CBSL continued with its accommodative monetary policy, and progressively lowered the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) from 6.5% and 7.5% respectively prior to the onset of the pandemic to 4.5% and 5.5% by the end of the year.

Parallel to these efforts, CBSL ensured greater liquidity in the financial services system by reducing the Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of licensed commercial banks (LCBs) by a total of 300 basis points to 2%, which was in effect from June 2020. This liquidity injection to the financial system allowed the sector to further support its customers through lower lending rates.

To ease the burden on business and consumer cash flows as a result of a loss in economic activity due to the pandemic, the CBSL directed the banking sector to offer loan moratoriums to their customers and also provided support through the Saubhagya Working Capital loan facility, which was a special refinance plan introduced by CBSL to ease the working capital needs of businesses.

Due to the economic headwinds facing the country, concerns on the budget deficit and the strain on Gross Official Reserves, Sri Lanka's sovereign credit rating was downgraded to Caa1, from B2 by Moody's Investor Services, while Fitch Ratings downgraded Sri Lanka's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'CCC' from 'B-'. The Government is nevertheless confident that the use of Modern Monetary Theory will lead to a swift recovery of the Sri Lankan economy. Following a sharp decline in economic activity in Q2 2020 (GDP growth of -16.3%), the economy posted a growth of 1.3% in each of Q3 2020 and Q4 2020 respectively.

OPERATIONAL HIGHLIGHTS

Our main priority upon the declaration of lockdowns in March 2020 was to ensure continuity of operations and access to finances for our customers throughout the pandemic.

The Bank's comprehensive Internet and Mobile Banking solutions for retail and corporate customers was a significant factor in our ability to ensure our customers have access to banking facilities, and they were able to remotely check account balance and history, transfer funds and make payments - including for utility bills, mobile phone and internet bills, settle credit card bills, open high yielding fixed deposits, etc. The Bank recorded a 20% YoY increase in the total number of users across Internet and Mobile Banking channels, a 40% YoY increase in the number of active users and a 30% expansion in the value of transactions conducted through both channels.

This digital presence was supported by the Bank's extensive island-wide presence enabled through our agency banking relationship with Cargills Food City (CFC), which ensured that customers who did not have access to online and mobile banking platforms were still able to manage all of their essential transactions with Cargill Bank.

Meanwhile, our POS and IPG solutions, which were launched in 2019, saw a 3X growth during the period as we facilitated payment acceptance. We note a marked positive change in consumer attitude towards eCommerce as businesses proactively established the logistics infrastructure to build trust and effectively serve customers.

Cargills Bank was among the first acquiring banks for JustPay and LankaQR payment solutions, and we continued to support the CBSL's Digital 2020 goal of accelerating the development of the cashless payment ecosystem during the year. We presently support six local FinTech partners to access the JustPay and LankaQR payment infrastructure, enabling them to facilitate cashless payments through our platform to a wider segment of consumers. Further, we actively participated in promoting awareness and usage of LankaQR among both merchants and consumers.

The Bank also onboarded CFC to accept LankaQR payments, making it the first supermarket chain to accept LankaQR payments. This will serve to significantly expand opportunities for users of LankaQR payment apps to make regular transactions, which we believe will provide invaluable momentum to the broader expansion of cashless payments island wide.

Identifying the need to support a savings culture in the country, Cargills Bank maintained competitive savings interest rates during the year, and launched the 'Diriya Investment Planner' product in June 2020. The product

CEO's Statement contd.

allows customers to set a savings target within a specified period, which we believe will help customers to secure their future needs. We supported the product launch with a special introductory interest rate during the period under review and the performance of the Diriya product exceeded our expectations.

Such measures supported the growth of the Bank's savings deposit base, further complementing the increasingly diverse portfolio of savings products offered by Cargills Bank, which also offers regular savings, salary saver, high-return saver, minor savings and senior citizens savings accounts, all of which offer highly competitive returns.

The year under review was a difficult year for our business customers as both local and global measures to contain the pandemic compressed economic growth. Cargills Bank supported the CBSL's initiatives to sustain businesses by proactively reaching out to our customers to understand their respective difficulties. In addition to providing moratoriums, the Bank also sought to restructure repayment plans to support customers who faced cash flow constraints. Similarly, the Bank also facilitated eligible Micro, Small and Medium Enterprises (SME) to gain access to the CBSL's Saubhagya COVID-19 loan scheme to help them overcome the disruptions to the economy.

We also sought to further our mission of supporting local farmers and micro entrepreneurs through the 'Cargills Village to Home' initiative, a Group-wide program to support small-scale entrepreneurs by creating a marketplace for them through the Cargills Food City supermarket network. Farmers and entrepreneurs are allocated stalls within high foot traffic CFC premises during selected weekends, while marketing and communication are utilized to create awareness to provide them with maximum exposure to access these new markets.

The Bank directly assisted these efforts by providing opportunities to participate in the Programme, opened bank accounts free of charge for participants, provided POS machines and individual LankaQR codes to enroll them as merchants to accept non-cash payments (debit and credit card payments as well as contactless payments), and provided financial advisory clinics to improve their financial literacy.

In addition to providing moratoriums, the Bank also sought to restructure repayment plans to support customers who faced cash flow constraints. Similarly, the Bank also facilitated eligible Micro, Small and Medium Enterprises (SME) to gain access to the CBSL's Saubhagya COVID-19 loan scheme to help them overcome the disruptions to the economy.

The Bank also supported the development of the Agriculture and Dairy sectors by providing low-cost finance and grants through CBSL refinance programs such as the Smallholder Agriculture Partnership Programme (SAPP) and Saubhagya loan scheme.

The Cargills Sarubima Agriculture Modernization Programme enables farmers to make the switch from traditional farming techniques to modern techniques using micro irrigation. Finance, technology, training, installation, advisory services and a market place are provided by the Cargills Group so that farmers practice better soil management, water management, pest control and agriculture best practices to improve crop yield, reduce the cost of production and also apply for the globally recognized Good Agriculture Practices (GAP) certification from the Department of Agriculture, thereby allowing farmers to gain a higher price for their produce.

The successful deployment of Work from Home (WFH) capabilities ensured continued service to customers with minimal interruptions, and only critical functions were operated from the Bank's premises. Protocols were introduced to manage Branch banking services with strict compliance of the health and safety guidelines issued by the authorities to ensure the safety of our customers and employees. The ability to effectively pivot to WFH to minimize service disruptions in this environment also demonstrated the robustness of the Bank's Business Continuity Planning (BCP) arrangements.

Facilitating the adoption of modern agriculture techniques to support farmers to increase their income and adapt to climate change.

Mr. Senarath Bandara, MD/ CEO Cargills Bank, with Mr. D. Kumaratunge, Director - Payments and Settlement of the Central Bank of Sri Lanka, at the launch of LankaQR payments in Cargills Food City

FINANCIAL HIGHLIGHTS

The macroeconomic environment had a significant bearing on the performance of Cargills Bank which recorded constrained top and bottom line performance during the period under review.

Gross income declined by 4% Year-on-Year (YoY) to Rs. 4,774 Mn, due to Interest Income reducing 6% YoY to Rs. 4,118 Mn on account of the reducing interest rate environment, especially in 2H 2020, the impact of moratoriums and the Bank's prudent expansion of its Loans and Advances portfolio, which reported a growth of 8% YoY to Rs. 29.1 Bn as at 31 December 2020.

Meanwhile, interest expenses rose by 9% YoY to Rs. 2,553 Mn driven largely by the 28% YoY growth in the Bank's deposit portfolio to Rs. 32 Bn. The composition of fixed deposits limited the Bank's ability to accrue the benefits of the falling interest rate environment in a timely manner. However, strategies implemented by the Bank in 2H 2020 to focus on CASA growth, resulted in an improvement in the CASA Ratio from 16% to 28% as at 31 December 2020. The strong growth in the deposit portfolio resulted in an improvement of the Liquid Asset Ratio to 33.63%, vs. 32.65% in the previous year.

As a result of the above, Net Interest Income declined 23% YoY to Rs. 1,565 Mn. The Net Interest Margin declined to 3.88% for the period under review, vs. 5.55% in the corresponding period.

Net fee and commission income increased by 19% YoY to Rs. 457 Mn, supported by a healthy growth in the Bank's credit card business, which reported a 40%+ growth in cardholders. The Bank's inward remittance business also contributed to the growth in Fee and Commission income. Our partnership with blockchain based channel, Ripple, continued to show positive momentum with volumes doubling over the previous year.

Overall, Total Operating Income declined 18% YoY to Rs. 2,013 Mn.

The Bank couldn't fully implement its recoveries strategy due to the operating environment during the period under review, resulting in a deterioration in portfolio quality. The Non-Performing Loans (NPL) percentage increased to 14.42% as at 31 December 2020, compared 12.79% at the beginning of the year. NPLs remained concentrated in the top 25 customers, and the Bank is confident of improving this position in 2021. Meanwhile, Impairment losses on Financial Instruments and other assets was recorded at Rs. 802 Mn, down 30% from the corresponding period.

Understanding that the post-COVID environment would require a period of consolidation, the Bank implemented prudent cost control measures resulting in a 4% YoY decline in total operating costs for 2020 to Rs. 2,098 Mn. As a result, the Bank was able to contain its operating losses before tax to Rs. 886 Mn, broadly unchanged from the previous year. Meanwhile, the Bank reported a post-tax loss of Rs. 744 Mn, as compared with a loss of Rs. 667 Mn for the corresponding period.

Due to the losses incurred during the year, the Bank's capital fell below the CBSL's Rs. 10 Bn minimum capital requirement. The Bank has identified measures to be compliant with the regulatory capital requirement and will rectify this position in 2021. Nevertheless, it should be noted that the Bank maintains a healthy Tier 1 Capital Adequacy Ratio % of 20.72% (vs. a minimum requirement of 8%).

OUTLOOK

Having now established the required infrastructure - products, processes, technology - the team has developed a long term business plan to effectively establish Cargills Bank's business model to support entrepreneur development and financial inclusion utilizing technology, while achieving the portfolio growth and business profitability targets.

We will leverage the extent of the Cargills ecosystem to broaden our reach and service geography utilizing an omnichannel approach. We have implemented technology that would allow us to establish customer service points at identified CFC locations, complementing our own service point expansion, and thereby facilitating access to our customers at a low cost.

The CBSL's digital initiatives are also timely, especially the move towards digital Know your Customer (KYC). We strongly believe non-face-to-face customer on-boarding through digital KYC would promote inclusiveness in the financial services sector and expand a customer's choice. We signed a Memorandum of Understanding (MoU) with the Department of Registration of Persons in March 2021 to facilitate the introduction of non-face-to-face customer on-boarding in Cargills Bank.

Technology has the potential to substantially reduce the cost to serve a customer, allowing banks to offer better service and benefits to their customers.

We will also continue to develop in the payments space, where we now cover cards (chip and PIN enabled, NFC), and transaction acquiring through POS, IPG, JustPay and LankaQR platforms. Successful delivery of eCommerce services during the pandemic has shifted consumer spending habits, and we see substantial growth potential in the non-cash payments space.

> Having now established the required infrastructure - products, processes, technology - the team has developed a long term business plan to effectively establish Cargills Bank's business model to support entrepreneur development and financial inclusion utilizing technology, while achieving the portfolio growth and business profitability targets.

We see our mobile banking app as a crucial component in our offering and continue to expand the feature set of the app, offering new solutions to customers to deliver a convenient banking experience. We especially see potential to utilize QR technology to provide customers with a differentiated service.

Our technology initiatives will also complement our focus on the Micro and Agriculture sector, where we see substantial potential to transform communities. Demand for credit to develop this sector has improved as a growing marketplace has built the confidence of farmers to invest in agriculture modernization and dairy development. The Bank, together with the Cargills Group, is focused on facilitating the development of this sector.

We particularly see the need to support value chain development, where there are opportunities to finance the different verticals of the supply chain, such as processing, storage, and transport. The low interest loans facilitated to the sector through CBSL refinance schemes will promote investment and growth, while a ready-made marketplace is available both within and outside the Group.

Cargills Bank undertook a special promotion to recognize the efforts of frontline staff

Supporting local farmers and entrepreneurs with finance, advisory services and a market place utilizing the strength of the ecosystem

The Bank has also prioritized SME development, which is an important pillar for the growth of the economy. Measures taken to encourage local manufacturing should stimulate this sector, and a successful vaccination campaign is expected to stimulate demand in the economy. The Sri Lankan economy is expected to grow by 4-6% in 2021 as activity recovers following consecutive years with disruptions.

We are also cognizant of our portfolio quality and have taken steps to improve portfolio performance. Thus far, we have seen a reduction in our NPL% post the Balance Sheet date and expect our targeted strategies to enhance portfolio quality during the year. We will also continue to monitor and work with our customers to support their growth as the debt moratoriums expire.

The Bank's Fitch Rating was also revised during the year under review to A+(lka) with a stable outlook, supported by the strength of our promoters CT Holdings and Cargills. Meanwhile, further to the revision in Fitch's country rating, the Bank's rating was revised to AA-(lka) with a Stable Outlook. With the underlying support of the CT Holdings/Cargills Group, Cargills Bank's rating is on par with industry leaders.

Due to the pandemic situation, the CBSL extended the deadline for banks to increase their minimum capital to Rs. 20 Bn by two years to 31 December 2022. Further, the deadline for Cargills Bank to list on the Colombo Stock Exchange was extended by one year to 30 June 2021. We continue to maintain a dialogue with the CBSL on our measures to comply with the regulator's direction.

Having faced a turbulent operating environment over the past two years, the Bank has established a sound foundation to return to operational profitability. We are now able to fully demonstrate the potential of our business model and provide an effective and low-cost service to our customers. With the support of the Cargills ecosystem, we are confident of enhancing growth in the Bank's portfolio in a sustainable and secure manner.

ACKNOWLEDGEMENTS

At the outset, we wish to acknowledge and thank our out-going Managing Director/ CEO, Mr. Rajendra Theagarajah for guiding the Bank through turbulent times to where we stand today. I step into this role with firm confidence that we will be able to build on the foundation that he helped to maintain, and ultimately secure our common vision of establishing a bank which is technologically agile, and fully aligned to the needs of the country.

Given the unprecedented nature of the past year, we also wish to thank our employees for continuing to perform to the highest values and standards of Cargills Bank, in the face of tremendous challenges. We are extremely grateful and inspired by their commitment.

CEO's Statement contd.

We also take this opportunity to thank all Sri Lankans who engaged in essential services - from our frontline healthcare workers and law enforcement, to the farmers, drivers, and many other essential individuals who helped keep our nation functioning in the face of a unprecedented moment of disruption in modern history.

We also wish to express our appreciation to the officials at CBSL for their efforts in maintaining financial stability while facilitating economic growth. We look forward to furthering efforts in the digital, payments, Agriculture, and SME development areas, understanding their transformative capability to bring social upliftment.

Finally, on behalf of the entire Cargills Bank family, I wish to thank our customers and stakeholders for their unreserved support and confidence in our mission to become the most inclusive bank in Sri Lanka. The challenges we face ahead are still many, but with their support, we are assured to succeed, and in so doing, create a brighter and more sustainable future for our nation.

Senarath Bandara
Managing Director/ Chief Executive Officer

25 March 2021

Board of Directors

RANJIT PAGE

Chairman (Non-Executive Director)

Ranjit Page possesses over 38 years of management experience with expertise in food retailing, food service and manufacturing, having introduced the concept of super marketing to the Sri Lankan masses. He is the Deputy Chairman/ Managing Director of C T Holdings PLC and Deputy Chairman/ Chief Executive Officer of Cargills (Ceylon) PLC and also serves on the Boards of several other companies.

SENARATH BANDARA

Managing Director/ Chief Executive Officer

Senarath Bandara is a banking professional with a distinguished career spanning over 30 years at Bank of Ceylon and retired as its General Manager/ Chief Executive Officer.

He 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; a member of the Council of Wayamba University of Sri Lanka, served as Chairman of the Asia-Pacific Rural Agriculture Credit Association (APRACA) a regional association operating based out of Bangkok; Thailand; served 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 (PIM), University of Sri Jayewardenepura, Postgraduate Executive Diploma in Bank Management from the Institute of Bankers of Sri Lanka and an Advanced Management Program from Harvard Business School, USA. He is a Fellow of the Institute of Bankers of Sri Lanka.

PRABHU MATHAVAN

(Executive Director)

Prabhu Mathavan is an Associate Member of the Chartered Institute of Management Accountants (UK) and the Institute of Chartered Accountants of Sri Lanka. He also holds a Bachelor's Degree in Commerce. He possesses over 27 years of experience in the fields of Finance, Auditing, Accounting and Taxation.

MANGALA BOYAGODA

Senior Director (Non-Executive Independent Director)

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

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

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

Board of Directors contd.

FAIZAL SALIEH

(Non-Executive Independent Director)

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

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

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

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

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

RICHARD EBELL

(Non-Executive Independent Director)

Richard Ebell is a Fellow of the Institute of Chartered Accountants of Sri Lanka and of the Chartered Institute of Management Accountants (CIMA), UK, and holds a Diploma in Marketing from the Chartered Institute of Marketing UK. He has 44 years of experience in finance, central services, operations and Board roles after qualifying as a Chartered Accountant.

He is a Past President of CIMA, Sri Lanka Division. He was active in establishing an Audit Committee Forum and is engaged with an Independent Directors Forum, both associated with the Sri Lanka Institute of Directors. He has previously served in the capacity of Independent Non-Executive Director on the Boards of several listed and regulated entities, and as Chairman of their Board Audit Committees.

MS. RUVINI FERNANDO

(Non-Executive Independent Director)

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

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

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

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

MS. MARIANNE PAGE

(Non-Executive Director)

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

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

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

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

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

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

YUDHISHTRAN KANAGASABAI

(Non-Executive Director)

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

As an Independent Non-Executive Director, he currently serves as the Chairman of the Board Audit Committee and Related Party Transaction Committee of Ceylon Tobacco Company PLC and as the Chairman of the Board Audit Committee of Millenium IT ESP (Pvt) Limited, Eswaran Brothers Export (Private) Limited and Ambeon Capital PLC. He also serves as a Non-Executive Independent Director, and as a Member of the Board Audit Committees of Cargills (Ceylon) PLC, Hunter and Company PLC and Lanka Canneries Limited. He continues to serve on the Boards of Cargills Foods Company (Pvt) Limited and South Asia Textiles (Pvt) Ltd as a Non-Executive Director.

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.

Corporate Governance

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

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

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

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

ANNUAL CORPORATE GOVERNANCE REPORT OF CARGILLS BANK LIMITED

For the year ended 31 December 2020

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 CBSL, Sections 1 and 2 are not applicable for this document.

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

No.	Rule	Degree of Compliance
	b) Approve the overall business strategy of the Bank including Risk Policy, Risk Management Procedures and Mechanisms	Complied with. The overall business strategy was approved by the Board in the Bank's Business Plan for FY 2020. Risk Management Policies, Risk Management Procedures and Mechanisms with measurable goals are available.
	c) Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently	Complied with. The Board Integrated Risk Management Committee is responsible for overseeing the implementation of the risk management function. Board approved Risk Frameworks, Policies, Key Risk Indicators (KRIs), 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 Bank's internal control systems and management information systems	Complied with. Internal Control system has been reviewed on a regular basis by the Internal Audit division and findings are directly reported to the Board by the Board Audit Committee. Further, specific Information Systems (IS) audits have been conducted by the Internal Audit division and an IS audit with limited scope was outsourced to an external firm.
	f) Identify and designate Key Management Personnel	Complied with. The Bank has identified and designated Key Management Personnel (KMP) as per LKAS 24. Board approval has been obtained for the KMPs list.

Corporate Governance contd.

No.	Rule	Degree of Compliance
	g) Define the area of authority and key responsibilities for the Board Directors themselves and for the Key Management Personnel	Complied with. The Bank has a Board approved Code of Corporate Governance which includes the roles and responsibilities of the Directors and KMPs. Areas of authority and responsibilities for members of the Corporate Management are stated in the Job Descriptions of each member.
	h) Ensure an appropriate oversight of the affairs of the Bank by Key Management Personnel	Complied with. The Board has formulated the following subcommittees to exercise an appropriate oversight of the affairs of the Bank by the Key Management Personnel, that is consistent with Board policy. » Board Audit Committee » Board Human Resources and Remuneration Committee » Board Nomination Committee » Board Integrated Risk Management Committee » Board Credit Committee » Board Strategic Planning Committee » Board Related Party Transactions Review Committee
	i) Periodically assess the effectiveness of the Board of Directors' own governance practices	Complied with. An evaluation, specifically designed to cover this direction was completed by the Directors for the purpose of evaluating the effectiveness of governance practices in 2020. This is done on an annual basis and appropriate steps are taken to strengthen the governance practices.
	j) Ensure an appropriate succession plan for Key Management Personnel	Complied with. A succession plan was reviewed by the Board Human Resources 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.

No.	Rule	Degree of Compliance
	l) Understand the regulatory environment and maintain relationships with regulators.	Complied with. The Board collectively, as well Directors individually, recognize their duties to comply with laws and regulations which are applicable to the Bank. The Compliance Report includes an update on new laws and regulations which is provided monthly to the Board, and these laws/regulations are also uploaded on the Banks intranet, shared with Corporate Management and discussed as required at Corporate Management meetings.
	m) Exercise due diligence in the hiring and 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. 7 of 2007 in connection with the external audit.
3 (1) (ii)	The Board shall appoint the Chairman and the Chief Executive Officer (CEO)	Complied with. Positions of the Chairman and the Chief Executive Officer (CEO) are separated. The functions and responsibilities of the Chairman and the CEO are defined in line with Direction 3 (5) of these Directions. The Bank has a Board approved Code of Corporate Governance which sets out the roles and responsibilities and the separation of duties/ functions of the Chairman and CEO.
3 (1) (iii)	The Board shall meet regularly	Complied with. The Board usually meets at monthly intervals but meets more frequently whenever it is needed. The Board met 13 times during the year.

No.	Rule	Degree of Compliance
3 (1) (iv)	The Board shall ensure arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board Meetings	Complied with. All Board members are given equal opportunity in this regard where proposals relate to the promotion of business and the management of risks of the Bank. Directors could thus submit proposals for inclusion in the agenda on matters relating to the business of the Bank or any other matter pertinent to the operation of the Bank.
3 (1) (v)	The Board shall ensure a 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 2020. Further, no Director has been absent from three consecutive regular Board meetings during 2020.
3 (1) (vii)	Appoint a Company Secretary and set out clear responsibilities and ensure the secretariat services to the Board and shareholders are carried out in line with statutes and applicable regulations.	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 have the access to advices and services of the Company Secretary	Complied with. As set out in the Bank's Code of Corporate Governance, all Board members have full access to advice and assistance of the Company Secretary to ensure that proper Board procedures are followed, and all applicable rules and regulations are complied with.
3 (1) (ix) and (x)	Maintain the minutes of Board Meetings with sufficient detail and serve as a reference for regulators and supervisory authorities	Complied with. Minutes of Board meetings are maintained in sufficient detail to satisfy the requirements of this direction by the Company Secretary and are open for inspection by any Director. The minutes are read together with the corresponding Board papers, which supplement information in the minutes.

No.	Rule	Degree of Compliance
3 (1) (xi)	Seeking independent professional advice in appropriate circumstances	Complied with. This requirement is included in the Code of Corporate Governance of the Bank and is used when required by the Directors.
3 (1) (xii)	Avoid conflicts of interests, or the appearance of conflicts of interest due to commitments to other organizations and related parties	Complied with. Directors make declarations of interest when they join the Bank Board and annually thereafter. They also update their declaration quarterly. Conflicts of interest (if any) are addressed based on this information. The Board has taken steps to ensure that conflicts and potential conflicts of interest of Directors are disclosed to the Board by way of a self-declaration at the Board meeting. Directors do not participate in making decisions on matters in which they have an interest and thus avoid conflicts of interest with the activities of the Bank. Their presence is disregarded in assessing existence of a quorum for the agenda item at meetings at which such issues are considered.
3 (1) (xiii)	Formal schedule of matters to ensure the direction and control of the Bank.	Complied with. This is included in the Bank's Code of Corporate Governance.
3 (1) (xiv)	Inform the Director of Bank Supervision in a possible insolvency	Not applicable. No such situation has arisen during the year.
3 (1) (xv)	The Board shall ensure the Bank is capitalized at levels as required by the Monetary Board	Not Complied with. Measures are being taken to comply with the minimum capital requirement. Progress is informed to the Central Bank on regular basis.
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.

Corporate Governance contd.

No.	Rule	Degree of Compliance
3 (2)	The Board's Composition	
3 (2) (i)	The Board shall comprise not less than 7 and not more than 13 Directors	Complied with. There were 9 Directors on the Board as at 31 December 2020.
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 onethird of the number of Directors of the Board	Complied with. As at 31 December 2020, the Board consists of nine Directors of which two are Executive Directors. All other Directors are Non-Executive.
3 (2) (iv)	The Board shall have at least three Independent Non-Executive Directors or one third of the total number of Directors, whichever is higher	Complied with. As at 31 December 2020, the Board had 4 Independent Non-Executive Directors, which is over one-third of the total number of Directors. The following individuals are Independent, Non-Executive Directors. 1. Mangala Boyagoda 2. Faizal Salieh 3. Richard Ebell 4. Ms. Ruvini Fernando
3 (2) (v)	Alternate Director is appointed to represent an Independent Director to satisfy the required criteria	Not Applicable. No alternate directors were appointed for the year 2020.
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.

No.	Rule	Degree of Compliance
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 2020 were duly constituted with more than 50% of the Directors present being Non-Executive Directors.
3 (2) (viii)	The composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the annual Corporate Governance report	Complied with. This report serves the said requirement. The composition of the Board as at 31 December 2020 is as follows: 1. Ranjit Page - Chairman/ NED 2. Senarath Bandara - MD/ CEO (Appointed as MD/ CEO designate and Executive Director from 8 September to 30 September 2020 and MD/CEO from 1 October 2020) 3. Prabhu Mathavan - ED 4. Mangala Boyagoda - Senior Director/ INED 5. Faizal Salieh - INED 6. Richard Ebell - INED 7. Ms. Ruvini Fernando - INED 8. Ms. Marianne Page - NED 9. Yudhishtran Kanagasabai - NED Profiles are given on pages 19 to 21.
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	Complied with Rajendra Theagarajah - MD/ CEO resigned w.e.f. 30 September 2020, due to personal reasons.

No.	Rule	Degree of Compliance
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.
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.
3 (4) (ii)	Extent of delegation to be within appropriate limits	Complied with. The delegated responsibilities to Board Sub Committees are set out in their respective TORs. These TORs have been approved by the Board.
3 (4) (iii)	The Board shall review the delegation processes in place on a periodic basis	Complied with.
3 (5)	The Chairman and CEO	
3 (5) (i)	The roles of Chairman and CEO shall be separate and not be performed by the same individual	Complied with. The roles of Chairman and CEO are separate and not performed by the same individual.

No.	Rule	Degree of Compliance
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. Therefore, a senior independent Director Mangala Boyagoda was appointed (w.e.f. June 2015). The Bank's Code of Corporate Governance covers the role and functions of the Senior Director.
3 (5) (iii)	Disclose relationships, if any, between the Chairman and the CEO and Board Members and the nature of any relationships including among members of the Board	Complied with. The Board is aware that there are no relationships, whether financial, business or family or any other material/relevant relationship between the Chairman and the CEO. The Board is aware that there is family, financial and business relationship between Ranjit Page (Chairman) and Ms. Marianne Page. Ranjit Page (Chairman) and Yudy Kanagasabai are both Directors of Cargills (Ceylon) PLC and Cargills Foods Company (Private) Limited.
3 (5) (iv), (vi), (vii) and (viii)	The role of Chairman to be in line with the duties and responsibilities set out in the Directive	Complied with. The duties and responsibilities of the Chairman are included in the Bank's Code of Corporate Governance. The Board's annual assessment process includes an area to measure the effectiveness of the Chairman, in order to facilitate the effective discharge of the responsibilities of the Chairman.
3 (5) (v)	Formal Agenda is approved by the Chairman prior to circulation by the Secretary	Complied with. The Company Secretary circulates the formal agenda after obtaining the approval of the Chairman.
3 (5) (ix)	The Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever	Complied with. Chairman is a non-executive Director. The Chairman does not directly get involved in the supervision of key management personnel or any other executive duties.

No.	Rule	Degree of Compliance
3 (5) (x)	The Chairman shall ensure effective communication with shareholders and that the views of shareholders are communicated to the Board	Complied with. At general meetings, shareholders are given the opportunity to take up matters for which clarification is required. These matters are adequately clarified by the Chairman and/or CEO and/or any other officer.
3 (5) (xi)	The CEO to function as the apex executive in charge of the day-to-day management of the Bank's operations and business	Complied with. CEO function as the executive in charge of the day to day management of the Bank's operations and business supported by the members of the Corporate Management.
3 (6)	Board Appointed Committees	
3 (6) (i)	Establishing Board Sub Committees, their functions and reporting	Complied with. The Board has formed sub committees to exercise appropriate oversight of the affairs of the Bank (refer 3(1)(i)(h)). Each committee has a Secretary to arrange the meetings and maintain minutes. Board 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)	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. 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. He also holds a Diploma in Marketing from the Chartered Institute of Marketing (CIM), UK.
	b) All members of the Committee shall be Non-Executive Directors (NED)	Complied with. Members are; Richard Ebell (Chairman) Faizal Salieh Ms. Ruvini Fernando All members are Non-Executive Directors.

No.	Rule	Degree of Compliance
	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 Auditor's on their independence, and objectivity and effectiveness of the audit processes	Complied with. The Audit Committee had discussed with the External Auditors the scope and nature of the audit, independence of the Auditors and the conduct of the audit in accordance with SLAuS. The Committee received a declaration from KPMG as required by the Companies Act No. 7 of 2007, confirming that they do not have any relationship or interest in the Company, which may have a bearing on their independence.
	e) Develop and implement a policy on the engagement of an External Auditor to provide non-audit services in accordance with relevant regulations	Complied with. A policy on non-audit related services was developed and approved by the Board. Compliance with the policy is monitored by the Board Audit Committee.
	f) Discuss and finalise the nature and scope of the audit, with the External Auditors	Complied with. The Committee met with the external auditors to discuss and finalise the scope and to ensure that the Bank is in compliance with the relevant Directions in relation to corporate governance and the management's internal controls over financial reporting. Further, ensured that the preparation of the financial statements for external purposes in accordance with relevant accounting principles and reporting obligations.

No.	Rule	Degree of Compliance
	g) Review the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its annual report, accounts and quarterly reports before submission to the Board	Complied with. Quarterly Financial Statements and year-end Financial Statements are circulated to the members of the Audit Committee. Discussions take place at committee meetings regarding such Financial Statements prior to a recommendation being made to the Board for their adoption. The Audit Committee reviews Financial Statements for disclosures, major judgemental areas, changes in accounting policies and practices, validity of the going concern assumption, compliance with relevant accounting standards and other legal requirements, and in respect of the Audited Financial Statements, any significant adjustments arising from audit.
	h) Discuss independently without presence of executive management with the External Auditors any issues with relation to the audit	Complied with. The Audit Committee met the external auditors twice during the year without executive management present.
	i) Review the External Auditor's management letter and the management's response thereto	Complied with. The Audit Committee has reviewed the management letter relating to 2019 and management responses thereto and follow up thereafter
	j) Internal Audit function of the Bank review the adequacy of the scope, functions and resources of the Internal Audit Department	Complied with. The Internal Audit scope, functions and resource availability has been reviewed and the Internal Audit Plan has been approved by the Board Audit Committee.
	» Review the Internal Audit program and results of the Internal Audit Process.	Complied with. The Board Audit Committee has reviewed the internal audit reports and directed that necessary action be taken where necessary to implement audit recommendations.
	» 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 2019 was reviewed by the Board Audit Committee. Performance Evaluations Process for 2020 is in progress.

No.	Rule	Degree of Compliance
	» Recommend any appointment or termination of Head of Audit and Senior staff in Internal Audit.	Complied with. There had been no requirement to appoint or terminate Senior Internal Audit staff during the year.
	» Committee is apprised of resignation of senior staff in Internal Audit department.	Complied with. There had been no resignation of senior staff in Internal Audit department.
	» Internal Audit is independent of the function it Audits.	Complied with. Head of Internal Audit reports functionally to the Board Audit Committee that ensures independence of Internal Audit and its functions.
	k) Consider major findings of internal investigations and management's responses thereto	Complied with. Significant findings on investigations carried out by the Internal Auditors along with the responses of the management are tabled and discussed at Audit Committee Meetings.
	l) The Committee would have at least two meetings with the External Auditors without the Executive Directors being present	Complied with. The Audit Committee met the external auditors twice during the year without Executive Directors present.
	m) Terms of Reference of the Committee	Complied with. Audit Committee charter ensures authority to investigate matters, resource requirements to do so, access to full information and authority to obtain external advice if necessary. The charter was reviewed and approved during the year.
	n) Regular committee meetings	Complied with. The Audit Committee met ten times during the year.

No.	Rule	Degree of Compliance
	o) The Board shall disclose details of the activities of the Audit Committee, number of Audit Committee Meetings held in the year, and details of attendance of each individual Director at such meetings.	Complied with. Refer 'Audit Committee Report' on pages 60 to 61. The Board was briefed with regard to items discussed at Audit Committee meetings.
	p) The Secretary of the Committee may be the Company Secretary or the Head of the Internal Audit function	Complied with. The Head of Internal Audit acts as the Secretary to the Audit Committee and maintains detailed minutes of all meetings.
	q) Review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters	Complied with. The Bank has a Whistle-blowing Policy approved by the Audit Committee and the Board of Directors. A process and proper arrangements are in place to conduct fair and independent investigations and appropriate follow up action.
3 (6) (iii)	Board Human Resources and Remuneration Committee (BHRRC)	
	a) The Committee shall have a policy to determine the remuneration relating to Directors, CEO and Key Management Personnel of the Bank.	Complied with. A remuneration policy for all employees has been reviewed by the BHRRC and approved by the Board.
	b) The Committee shall set documented goals and targets for the Directors, CEO and the Key Management Personnel	Complied with.
	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 2020 is in progress.

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

No.	Rule	Degree of Compliance
	f) The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors	Complied with. Committee is chaired by Mangala Boyagoda - Senior Director, who is an Independent Non-Executive Director. The Committee comprises 3 Independent Directors and one Non-Independent Non-Executive Director. The CEO was present at Nomination Committee meetings by invitation.
3 (6) (v)	Board Integrated Risk Management Committee (BIRMC)	
	a) Composition of Board Integrated Risk Management Committee (BIRMC)	Complied with. Composition of the Committee is as follows: 1. Faizal Salieh - Chairman (Independent Non-Executive Director) 2. Richard Ebell (Independent Non-Executive Director) 3. Ms. Ruvini Fernando (Independent Non-Executive Director) 4. Senarath Bandara - (Managing Director/ Chief Executive Officer) 5. Prabhu Mathavan (Executive Director) 6. Alex Perera - (Chief Risk Officer) 7. Gayantha Wijekoon (Compliance Officer) Compliance Officer of the Bank acted as the Secretary of the Committee while Corporate Management personnel participated by invitation when required.
	b) Assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information.	Complied with. The IRM framework, credit risk, liquidity risk, interest rate risk, operational risk, foreign exchange risks, strategic risk, reputational risk, capital adequacy planning and management, financial position and compliance reviews are discussed and risk assessments were presented to the BIRMC on a quarterly basis. These risks are captured through a KRI dashboard which is presented to the Board on a monthly basis. The Assets and Liabilities Committee (ALCO) reviewed the risks such as market and liquidity risk monthly and key matters were discussed at the BIRMC on a quarterly basis. Operational risk Key Risk Indicators have been developed (covering Risk Register, Operational Loss reporting and KRI) and presented to the BIRMC. The Risk Management team updates the Board monthly, highlighting key macro and strategic risks observed during the month.

No.	Rule	Degree of Compliance
	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, Executive Risk Management Committee and Executive Credit Committee have been carried out. The Chief Risk Officer sits in all these committees. Performance against qualitative and quantitative risk limits are reviewed in these committees.
	d) Take prompt corrective action to mitigate the effects of specific risks in case such risks are at levels beyond the prudent levels decided by the committee on the basis of the Bank's policies and regulatory and supervisory requirements	Complied with. The relevant committees reviewed the KRI dashboard and specifically discussed indicators at level beyond approved internal limits.
	e) Meet at least quarterly to assess all aspects of risk management including updated business continuity plans	Complied with. The committee met 9 times during 2020.
	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 reports to BIRMC periodically and to the Board on a monthly basis.

No.	Rule	Degree of Compliance
3 (7)	Related party transactions	
3 (7) (i) and (ii)	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person including related parties	Complied with. The Board approved Related Party Transactions (RPT) Policy is in place which has set the procedure to be followed when transacting with Related Parties. The Bank has a process to identify Related Parties. The list of Bank's Related Parties are reviewed on a quarterly basis and the list is updated to the Bank's Intranet. Monthly confirmation is obtained from the relevant branches and departments confirming that they have complied with the Related Party Transactions Policy. Additionally, the Compliance department conducts periodic reviews of the process and transactions to ensure that the RPT policy is being adhered to.
3 (7) (iii)	The Board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3 (7) (i) above, in a manner that would grant such parties 'more favourable treatment' than that accorded to other constituents of the Bank carrying on the same business	Complied with. Bank's Related Parties are identified, reviewed and updated to the Bank's Intranet. The Bank is required to adhere to Bank's RPT policy and procedures. Related Party Transactions are reviewed by the Bank's Board Related Party Transactions Review Committee and escalated to the board for approval where necessary. The process ensures the Bank does not grant Related Parties of the Bank "more favourable treatment".
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.

No.	Rule	Degree of Compliance
3 (7) (v)	Accommodation granted to persons or concerns of persons or close relations of persons, who subsequently are appointed as Directors of the Bank	Complied with. No such situation had arisen.
3 (7) (vi) and (vii)	A bank shall not grant any accommodation or 'more favourable treatment' relating to the waiver of fees and/ or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest	Complied with. No such situation had arisen.
3 (8)	Disclosures	
3 (8) (i)	Financial reporting, statutory reporting and regulatory reporting	Complied with. Annual Audited Financial Statements and Interim Financial Statements of the Bank were prepared and published in the newspapers (in Sinhala, Tamil and English) in accordance with the formats prescribed by the Supervisory and Regulatory Authorities and applicable accounting standards.
3 (8) (ii)	The Board shall ensure that the following minimum disclosures are made in the Annual Report:	
	a) A statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures	Complied with. Disclosures on compliance with applicable accounting standards and regulatory requirements in preparation of the Annual Audited Financial Statements have been made in the statements of 'Directors Responsibility for Financial Reporting' and 'CEO's and CFO's Responsibility for Financial Reporting' on pages 68 to 69 and 75 respectively.
	b) A report by the Board on the Bank's Internal Control Mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements	Complied with. Report by the Board on the effectiveness of the Bank's Internal Control Mechanism to ensure that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting is given in the 'Directors Statement of Internal Controls Over Financial Reporting' on pages 70 to 72.

Corporate Governance contd.

No.	Rule	Degree of Compliance
	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 pages 73 to 74.
	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 19 to 21. Directors transactions with the Bank and their remunerations have been disclosed in the Note 48 to the Financial Statements on pages 129 to 133.
	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 48 on pages 129 to 133.
	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 48 to the Financial Statements on pages 129 to 133. In addition to the above, total deposits made and accommodation obtained as at 31 December 2020 by the other Key Management Personnel (selected members of corporate management) amounted to Rs. 38 Mn and Rs. 45 Mn respectively.
	g) External Auditor's 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.

No.	Rule	Degree of Compliance
	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 pages 68 to 69.
	i) A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision to be disclosed to the Public	Not Applicable. There were no regulatory lapses that have been pointed out by the Director of Bank Supervision to be disclosed to the Public during the year.

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

Risk Management

STEWARDSHIP & GOVERNANCE

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

The Bank's risk appetite is pro-actively expressed and monitored both in terms of qualitative and quantitative measures. Risk Monitoring is carried out by robust and effective management information systems. This facilitates timely review of risk positions and exceptions.

Risk control is carried out by establishing and communicating risk limits and Key Risk Indicators (KRI) through policies, standards and procedures that define responsibility and authority for the various risks assumed by the Bank. The Bank's risk management process leverages a range of tools to identify, measure and manage risk on an ongoing basis.

INTEGRATED RISK MANAGEMENT FRAMEWORK (IRMF)

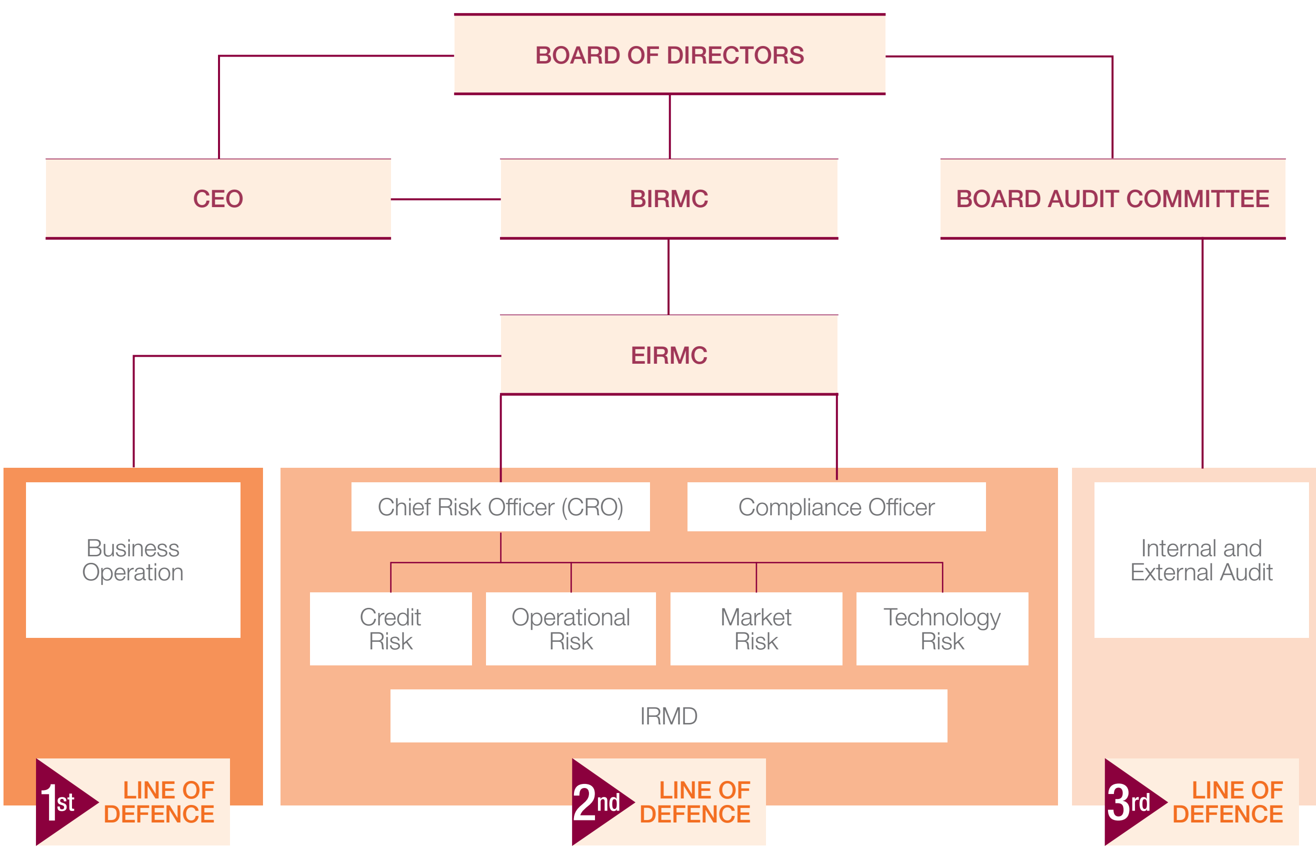
The framework facilitates oversight of and accountability for various risks at different levels of the Bank. Key elements of the Integrated Risk Management Framework are as follows:

Risk Governance and Management Structure

Risk Appetite
Risk Management Tools
A culture of risk awareness

Role of the Board and Board Committees

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



Risk Governance and Management Structure of the Bank

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

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

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

Objectives of the IRMF

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

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

Integrated Risk Management Division (IRMD)

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

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

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

Units Under IRMD and Key Responsibilities

Credit Risk	» Implementation of credit risk framework, policies and tools » Independent credit risk reviews prior to approval » Post disbursement review mechanism and recommendations » Monitoring stressed credits and excesses
Operational Risk	» Identification, assessment, measurement and monitoring of operational risk and introducing mitigation effects » Management of risks arising from the controls placed within the Bank » Monitoring and governance of IT and IS risks
Market Risk	» Treasury Middle Office independent review of positions and limits » Stress testing based on Interest rate, FX rate, Liquidity gap, Maturity mismatch, Repricing gap » Monitoring asset and liability management

Key Implementations During 2020	» Strengthening of existing Risk Management Policy Framework » Development and improvement of the ICAAP framework » Automating risk metrics using Excel VBA, Google Data Studio and Google Script » Risk model review and validation in line with SLFRS 9 - Providing guidance on alignment of the Bank's risk appetite with financial reporting Introduced Risk Data Analytics team and IT Risk unit. Automation and central repository for Bank's risk rating of customers » Strengthening the credit process through continuous process Improvements » Publishing periodic reviews on key Industries/ segments » Development, validation, and calibration of risk models » Risk Register move to workflow system » Expansion of the role of IT and IS risk management and governance. Implementation of strategy in line with CBSL Technology Risk Resilience initiative
Bank's Priorities for 2021	» Expansion of the Integrated Risk Management Framework » Risk data centralization, back testing and analytics » Development and improvement of the ICAAP framework » Centralization the stress testing framework » Making the LRM process robust and increase the coverage » Expand the strategic risk evaluation process and reporting » Focus on key risks related to Information Security inline with the CBSL technology risk resilience framework » Automation of risk controls and risk reporting » Capital augmentation and the raising of capital for the year » Operational risk stress testing module » Enhancement of Risk Register and KRI coverage with risk related Internal Audit and Compliance finding » Improve Cybersecurity posture through robust risk analysis

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 model governance.

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

IRMD uses internally developed risk scoring models to rate Business Banking, SME, Retail, Credit Cards, Micro and Agri facilities. The rating considers both quantitative and qualitative factors and is reviewed at least annually. The rating models used by IRMD are independently validated annually in accordance with the regulatory requirement. The workflow based centralized risk rating system developed by the Bank enables central storing of risk ratings of bank wide all customers.

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

During 2020, Cargills Bank further strengthen the Loan Review Mechanism unit under the Integrated Risk Management Division, to independently review the quality of the loan book and to encourage qualitative improvements in credit administration. The unit reviews loans, usually within three months of sanction, in key areas such as the credit approval and monitoring processes, risk rating, compliance, and portfolio quality.

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

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

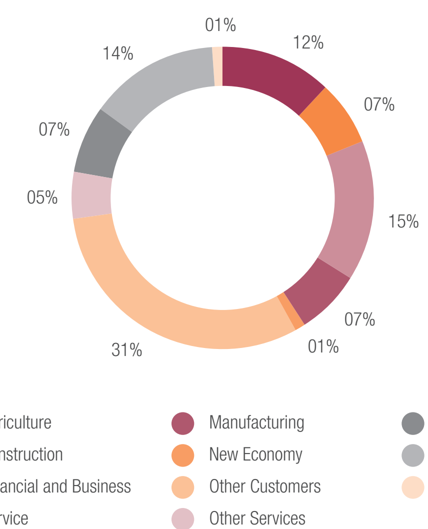
Accountability for credit risk performance is vested with individual business units and unhealthy trends are addressed at all levels of the Bank.

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

Concentration Risk

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

Sector Concentration

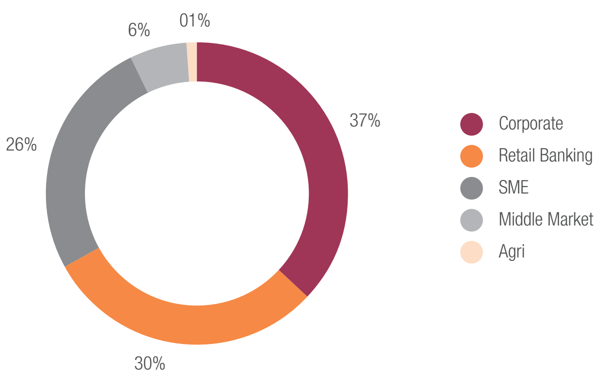


Counterparty Risk

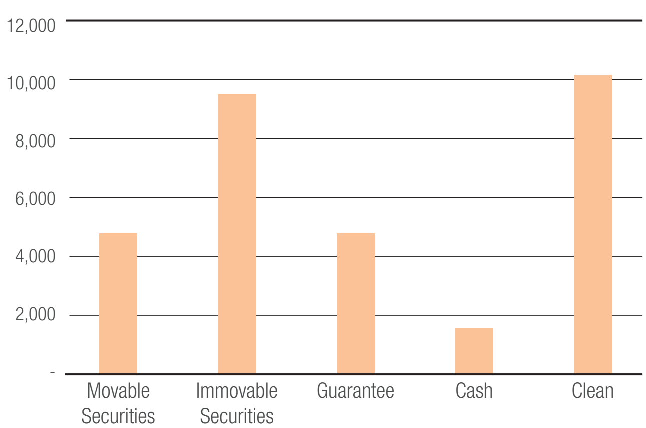
Counterparty risk is managed through the laid down policies/procedures and limit structures including single borrower limits and Group exposure limits with sub-limits for products etc. The limits set by the Bank are more stringent than those stipulated by the regulator. This provides the Bank with a 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.

Risk Management contd.

Business Unit Exposure



Collateral Concentration
(Rs. Mn)



Operational Risk

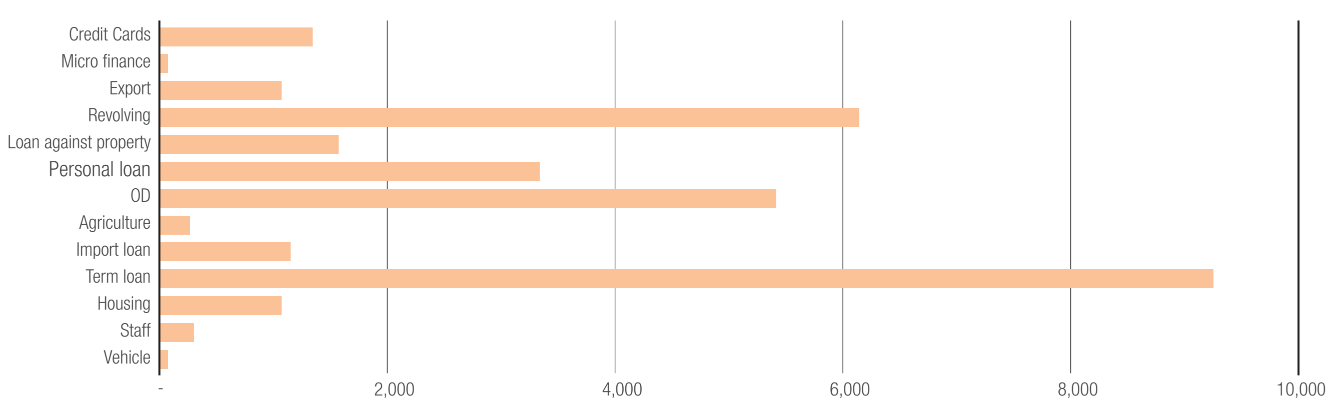
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The key to management of operational risk lies in the Bank's ability to assess its process for vulnerability and establish controls as well as safeguards while providing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

Operational Risk Governance Structure

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

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

Product Concentration
(Rs. Mn)



During the year 2020, RMD established IT Risk Management unit under ORMU which was recommended by the CBSL under technology resilient framework. The main responsibility of the unit was to monitor the effectiveness of the Bank's IT/ IS management controls and recommend best practices where necessary and report to various forums as appropriate.

Operational Risk Reporting

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

Risk Control Self-Assessment is a process of assessing operational risks in all the products and processes which have been compiled by the respective departments. It is a process of self-assessment by the business/ process owners in each respective business/ operational department facilitated by Operational Risk Management Unit. The Risk Control Self-Assessment process will identify issues that need attention of the management and remain outstanding for considerable period of time. Findings of the Risk Control Self-Assessment will get reported in Risk Register.

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

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

   Risk Register also provides a systematic means of identifying control gaps that threaten the achievement of defined business or process objectives and monitoring what management is actually doing to close these gaps. The findings from a Risk Register will be used to formulate appropriate action plans to address identified control gaps. These registered items are constantly followed up by the Operational Risk Management unit till resolution.

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

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

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

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

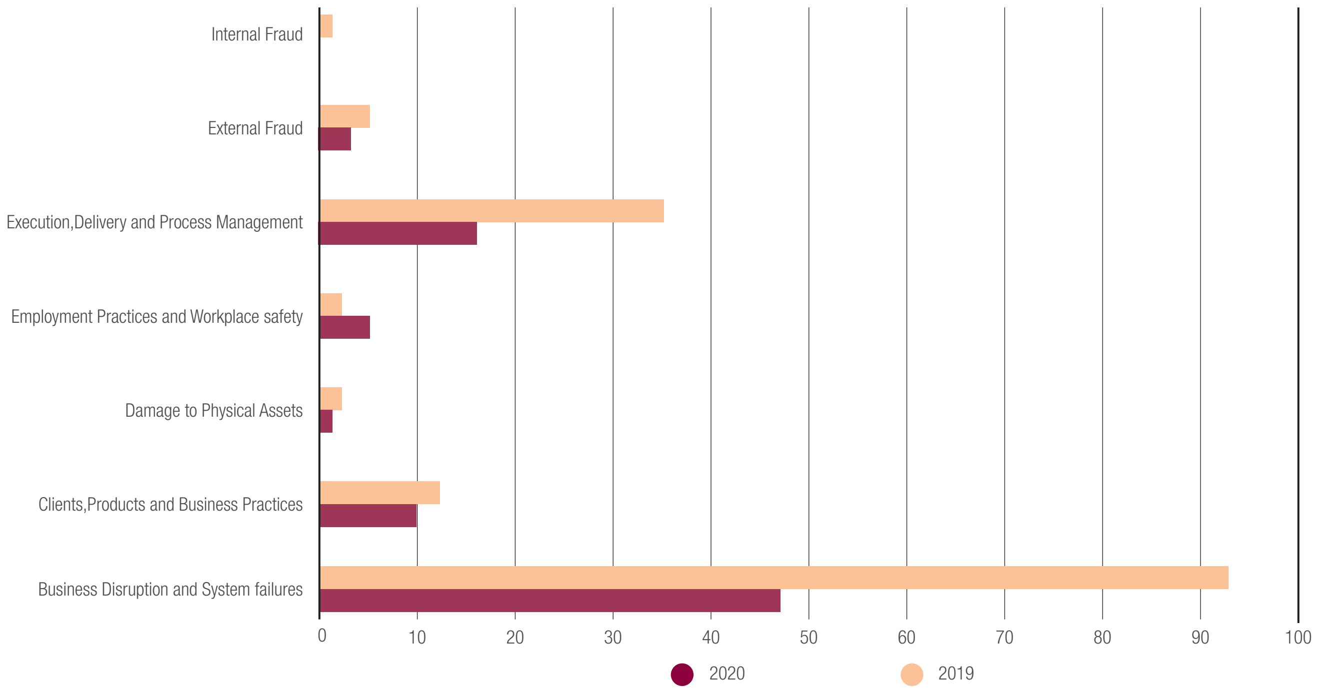
The Operational Risk Management Committee (ORMC)

The committee was more active and energized in 2020 providing link between department level and the management. This approach enabled shorter issue resolution time. Any unresolved issues were referred to ERMC for necessary action. The ORMC is further authorized by the ERMC to;

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

Risk Management contd.

Operational Risk Events



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

Market Risk

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

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

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

Liquidity Risk

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

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

Strategic Risk

Strategic risk arises from inability to implement appropriate business plans, strategies, and poor resource allocation, inability to adapt to changes and not meeting set targets in the business environment.

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

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

Reputational Risk

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

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

Compliance Risk

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

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

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

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

Legal Risk

Legal risk is the risk of financial or reputational loss that can result from lack of awareness or misunderstanding of, ambiguity in, or reckless indifference to, the way laws and regulations apply to our business, its relationships, processes, products and services.

The Bank's internal legal team covers all legal related activities, with external expertise obtained when required. The Risk Management Division provides feedback on improvements through review mechanisms.

Risk Management contd.

Information Security Management

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

The Bank has implemented state of the art security solutions that enable early detection of security incidents and response while strengthening measures to mitigate effectively and efficiently. As an ISO/IEC 27001:2013 and PCI-DSS certified organization, the Bank has implemented Information Security policies and procedures, in line with regulatory requirements and fosters staff awareness through E-Learning and specialized training programs.

Capital Adequacy

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

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

The disclosure requirement as per the Banking Act Direction No. 1 of 2016, is included on pages 146 to 156 of the annual report.

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 seven (7) members of which three (3) members are Independent Non-Executive Directors. The Head of Compliance was the Secretary to the Committee until 31 December 2020.

The following are the members of the Committee:

1. Faizal Salieh - Chairman *(Independent Non-Executive Director)*
2. Richard Ebell *(Independent Non-Executive Director)*
3. Ms. Ruvini Fernando *(Independent Non-Executive Director)*
4. Rajendra Theagarajah, MD/ CEO, *resigned w.e.f. 30 September 2020 and was replaced by Senarath Bandara appointed w.e.f. 1 October 2020*
5. Prabhu Mathavan *(Executive Director)*
6. Alex Perera *(Chief Risk Officer) Secretary w.e.f. 1 January 2021.*
7. Gayantha Wijekoon *(Head of Compliance)*

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

ROLE 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 framework for credit, market, liquidity, operational, strategic and other risks, including the relevant policies, processes and systems that the Management uses to manage risk exposures as well as the risk measurement methodologies and approaches to stress testing.
- Reviewing, assessing, monitoring and providing feedback to the Management on the various categories of risk the Bank faces, including but not limited to credit, market, liquidity, operational and strategic risk, the exposures in each category, significant concentrations within those risk categories, metrics used to monitor the exposures and the Management's views and actions on the acceptable and appropriate levels of the risk exposures.
- Reviewing the independence and authority of the Risk Management and Compliance functions.
- Reviewing and assessing the Bank's Risk Capital Framework.
- Reviewing the adequacy and effectiveness of Management level committees such as the Executive Risk Management Committee (ERMC), the Assets and Liabilities Management Committee (ALCO) and the Executive Credit Committee (ECC) in assessing, mitigating and managing the enterprise-wide risks withinthe 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 2020, the year under review, the Committee

- Strengthened the Integrated Risk Management Framework by reviewing and developing policies related to credit, market, liquidity and operational risks, the risk-based delegation of authorities and the pricing mechanism.
- Reviewed and improved the risk management tools such as rating models and dashboards. The integrated risk scoring model was recalibrated and validated. With a view

Board Integrated Risk Management Committee Report contd.

to increasing the accuracy and efficiency of the risk quantification tools, and advanced quantitative risk evaluation techniques based on global best practices,the Bank continues to be focused on risk data centralization and analytics, developing a predictive analytical model for consumer credit risk evaluation and using technology based automation.

» Assessed and monitored the Bank's overall risk profile by way of a comprehensive risk indicator system and monitored the compliance with internally set risk appetite limits.
» Strengthened credit risk management through an independent loan review mechanism and portfolio management.
» Strengthened the Credit Risk Monitoring Processes on stressed credit, watch-listed customers, and credit excesses enabling early identification of warning signals in order to enable the Management to proactively address and remedy stressed credits. The BIRMC works in tandem with the Board Credit Committee (BCC) in this regard.
» Further strengthened the Stress Testing process in the wake of the risk challenges posed by the COVID-19 pandemic.
» Strengthened the Internal Capital Adequacy Assessment Process (ICAAP) to review capital adequacy under stressed scenarios for budgeted performances.
» Introduced a Heat Map in the reporting of key risks.
» Automated Risk reporting tools such as the Risk Register and Operational Loss Reports, making reporting more accurate and timely.
» Strengthened the operational risk management framework through a comprehensive Risk Control Self-Assessment process where Key Risk Indicators, Operational Loss Reporting and the Risk Register were used to arrive at integrated risk ratings and reporting.
» Further strengthened the Compliance risk management framework by conducting a Bank-wide Risk Assessment (BWRA) on products, Departments/ Business units, Transaction types, Delivery types, Customer segments from a Compliance/ Anti-Money Laundering perspective.
» Reviewed and assessed the Anti-Money Laundering and Regulatory Compliance measures of the Bank, branch network, products, processes and procedures by conducting targeted reviews.
» Assessed Information Security risk controls and action plans to strengthen the Bank's risk mitigants on Information Technology/ Information Security. Initiated Information Technology and Information Security monitoring through the KRI dashboard.
» Reviewed and recommended internal policy documents for Board approval in accordance with their respective review cycles.
» The Bank has not met the minimum capital requirement as at 31 December 2020. The Board has submitted a capital augmentation plan to the regulator which, inter alia, advises how the matter could be addressed

MEETINGS

The TOR of the BIRMC mandates meetings to be held every quarter and as often as it deems necessary. The committee held nine (9) meetings during the year.

REPORTING

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

The recommendations made by the BIRMC during the year under review were approved by the Board without any material changes.

PERFORMANCE EVALUATION

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

Faizal Salieh
Chairman - Board Integrated Risk Management Committee

Colombo
25 March 2021

Board Nomination Committee Report

COMPOSITION OF THE COMMITTEE

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

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

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

Profiles of the Members of the Committee are given on pages 19 to 21 of this report.

ROLE AND RESPONSIBILITIES

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

» Establish a procedure to select/ appoint new Directors and Key Management Personnel.

» Consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.

» Set criteria such as qualifications, experience and key attributes required to be considered for appointment or promotion to the post of CEO and to Key Management Positions.

» Ensure that Directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified and set out in the Banking Act and other relevant statutes, and the directions issued by the Central Bank of Sri Lanka from time to time.

» Consider and recommend from time to time, the requirements of additional/ new expertise and the succession arrangements for retiring Directors and Key Management Personnel.

» Regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and make recommendations to the Board with regard to any changes.

AUTHORITY

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

FREQUENCY OF MEETINGS AND QUORUM

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

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

The Committee met twice (2) during the year and all the members attended the meetings.

ACTIVITIES OF THE COMMITTEE

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

» Terms of Reference of the Committee

» Re-election of Directors

» Committee evaluation for 2019

» Appointment of a Managing Director/ CEO

» Appointment of a Key Management Personnel

Mangala Boyagoda
Chairman - Board Nomination Committee

Colombo
25 March 2021

Board Human Resources and Remuneration Committee Report

COMPOSITION OF THE COMMITTEE

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

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

Permanent Attendee

Rajendra Theagarajah
(Managing Director/ CEO till 30 September 2020)

Senarath Bandara
(Managing Director/ CEO from 1 October 2020)

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

Profiles of the Members of the Committee are given on pages 19 to 21 of this report.

PURPOSE OF ESTABLISHING THE COMMITTEE

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

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

In performing this role the Committee shall also;

- Review and assess Human Resources 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 four (4) times during the year and all the members attended the meetings.

ACTIVITIES OF THE COMMITTEE

The Committee considered and reviewed the following;

- The Organisation Chart of the Bank
- Terms of Reference of the Committee
- The Succession Plan for Corporate Management
- The Succession Plan for Treasury related functions
- Revision of Staff Benefits
- Committee Evaluation for 2019

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

1. Staff Housing Loan Policy
2. Policy on Learning and Growth
3. HR and Remuneration Policy
4. Staff Medical Claim Policy
5. Staff Vehicle Loan Policy
6. Health and Safety Policy
7. Appointment of a MD/ CEO
8. Appointment of a Key Management Personnel

Ranjit Page
Chairman - Board HR and Remuneration Committee

Colombo
25 March 2021

Board Strategic Planning Committee Report

COMPOSITION OF THE COMMITTEE

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

1. Ranjit Page - Committee Chairman *(Non-Independent Non-Executive Director)*
2. Mangala Boyagoda *(Independent Non-Executive Director)*
3. Faizal Salieh *(Independent Non-Executive Director)*
4. Richard Ebell *(Independent Non-Executive Director)*
5. Rajendra Theagarajah *(MD/ CEO - Member till 30 September 2020)*
6. Senarath Bandara *(MD/ CEO - Member from 1 October 2020)*
7. Prabhu Mathavan *(Executive Director)*
8. Ms. Ruvini Fernando *(Independent Non-Executive Director)*
9. Ms. Marianne Page *(Non-Independent Non-Executive Director)*
10. Yudhishtran Kanagasabai *(Non-Independent Non-Executive Director)*

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

Profiles of the Members of the Committee are given on pages 19 to 21 of this report.

PURPOSE OF ESTABLISHING THE COMMITTEE

The purpose of the Committee is to assist the Board to fulfil its larger role and responsibility in the development and execution of an appropriate and effective strategy for the Bank's profitability, growth and long term sustainability.

In performing this role, the Committee shall inter alia;

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

FREQUENCY OF MEETINGS AND QUORUM

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

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

The Committee met twice during the year and all the members attended the meetings.

ACTIVITIES OF THE COMMITTEE

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

- Committee evaluation for 2019
- Strategy review-realignment in a post COVID-19 environment
- Budget and Business Plan for 2021

Ranjit Page
Chairman - Board Strategic Planning Committee

Colombo
25 March 2021

Board Related Party Transactions Review Committee Report

COMPOSITION OF THE COMMITTEE

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

1. Ms. Ruvini Fernando - Committee Chairperson
   (Independent Non-Executive Director)
2. Faizal Salieh
   (Independent Non-Executive Director)
3. Mangala Boyagoda
   (Independent Non-Executive Director)

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

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

Profiles of the Members of the Committee are given on pages 19 to 21 of this report.

ROLE AND RESPONSIBILITIES

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

- Oversight of processes for identifying and capturing all related parties promptly and monitoring and capturing related party transactions (RPTs).
- Ensuring RPTs are not undertaken on more favourable terms than are available to non-related parties under similar circumstances.
- To review RPTs which may be considered “recurrent”, on a quarterly basis.
- To review other RPTs before they are undertaken, and make appropriate recommendations to the Board.
- Periodically review the terms of reference and the related party policy.
- Performing other activities the Committee deems necessary for the performance of its duties and functions.

FREQUENCY OF MEETINGS AND QUORUM

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

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

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

ACTIVITIES OF THE COMMITTEE

The Committee considered and/or reviewed the following;

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

Ruvini Fernando

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

Colombo
25 March 2021

Board Credit Committee Report

The primary role of the Board Credit Committee (BCC) is to oversee the Bank's credit and lending strategies, in order to meet the overall objectives of the Bank. The Committee oversees 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 ensuring that relevant regulations are complied with.

Five BCC meetings were held during the year 2020.

COMPOSITION OF THE COMMITTEE

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

1. Yudhishtran Kanagasabai Chairman of the Committee - *(Non-Executive Director)*
2. Ranjit Page *(Non-Executive Director)*
3. Mangala Boyagoda *(Non-Executive Independent Director)*
4. Ms. Ruvini Fernando *(Non-Executive Independent Director)*

Alex Perera - Chief Risk Officer, functioned as the Secretary of the Committee till 25 August 2020.

Ms. Amendra de Silva - Company Secretary was appointed as Secretary of the Committee w.e.f. 26 August 2020.

ROLE AND RESPONSIBILITIES

The roles and responsibilities of the Committee include;

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

AREAS OF FOCUS IN 2020

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

Yudhishtran Kanagasabai
Chairman - Board Credit Committee

Colombo
25 March 2021

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

Richard Ebell
(Independent Non-Executive Director), as Chairman

Faizal Salieh
(Independent Non-Executive Director)

Ms Ruvini Fernando
(Independent Non-Executive Director)

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

Rajendra Theagarajah, Director/ CEO (till 30 September 2020), Senarath Bandara, Director/ CEO (from 1 October 2020) and Prabhu Mathavan, Executive Director, attend meetings as representatives of management, and other employees of the Bank attended meetings by invitation as required during the year, to assist BAC awareness of key issues and relevant developments, and provide briefings and responses to questions asked.

KPMG, external auditors, attend BAC meetings as required.

REGULATORY COMPLIANCE

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

QUALIFICATIONS

The Chairman of the BAC, Richard Ebell, is a Fellow of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Chartered Institute of Management Accountants (CIMA), UK, and has experience in finance and operations since qualifying as a Chartered Accountant in 1977. The other members of the BAC have in-depth experience in banking, finance and other relevant areas. The profiles of BAC members are included on pages 19 to 21 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 ten times in 2020. Attendance at these meetings was:

Richard Ebelll	10 / 10 Meetings
Faizal Salieh	10 / 10 Meetings
Ms. Ruvini Fernando	10 / 10 Meetings

KPMG were present at five of these meetings.

FINANCIAL REPORTING

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

INTERNAL AUDIT

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

Major findings of audits and internal investigations were considered by the BAC and appropriate recommendations were made, whose implementation was followed up with management.

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

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

EXTERNAL AUDIT

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

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

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

COMMUNICATION WITH THE BOARD

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

EVALUATION OF THE COMMITTEE

Self- evaluations of the workings of the Committee were Initiated in December 2020. 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
25 March 2021

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

Your Directors take pleasure in presenting this report to our stakeholders together with the audited Financial Statements for the year ended 31 December 2020.

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

GENERAL

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

The Report of the Board of Directors and the Financial Statements were approved by the Board of Directors on 25 March 2021.

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;

	2020 Rs. '000	2019 Rs. '000
Loss before taxation	(886,536)	(887,414)
Taxation	142,589	220,814
Loss for the year	(743,947)	(666,600)
Accumulated loss brought forward	(1,030,112)	(374,608)
Transfer to reserve fund	-	-
Losses to be carried forward	(1,772,667)	(1,030,112)

FINANCIAL STATEMENTS

The Financial Statements of the Bank are given on pages 76 to 145 of this Annual Report.

INCOME

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

	2020 Rs. '000	2019 Rs. '000
Interest income	4,117,856	4,390,508
Fees and commission income	456,906	384,008
Net gains/ (losses) from trading	5,478	13,662
Net gains/ (losses) from financial investments	120,792	81,003
Other income	73,180	90,072

SHAREHOLDERS' FUNDS AND RESERVES

The Bank's total reserves as at 31 December 2020 stood at a negative balance of Rs. 1,660 Mn. This comprises an accumulated loss of Rs. 1,773 Mn, statutory reserve of Rs. 32.3 Mn and fair value through OCI reserve positive balance of Rs. 80.1 Mn. The movement in reserves and accumulated loss are shown in Notes 41 and 42 to the Financial Statements.

AUDITOR'S REPORT

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

ACCOUNTING POLICIES

The accounting policies adopted in preparation of the Financial Statements are given on pages 84 to 102.

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 48 to the Financial Statements.

DIRECTORS' REMUNERATION

Directors' remuneration and other benefits of the Directors are given in Note 15 and 48 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 2020 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
Rajendra Theagarajah - Managing Director/ CEO	Executive	Non-Independent (Resigned w.e.f. 30 September 2020)
Senarath Bandara - Managing Director/ CEO	Executive	Non-Independent (Appointed as MD/ CEO designate and Executive Director w.e.f. 8 September to 30 September 2020 and as MD/ CEO w.e.f. 1 October 2020)
Prabhu Mathavan	Executive	Non-Independent
Mangala Boyagoda - Senior Director	Non-Executive	Independent
Faizal Salieh	Non-Executive	Independent
Richard Ebell	Non-Executive	Independent
Ms. Ruvini Fernando	Non-Executive	Independent
Ms. Marianne Page	Non-Executive	Non-Independent
Yudhishtran Kanagasabai	Non-Executive	Non-Independent

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

DIRECTORS' INTEREST

Related party transactions of the Bank are disclosed in Note 48 to the Financial Statements on pages 129 to 133. In addition, transactions with entities where Directors of the Bank hold directorates are disclosed on page 66 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.

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

AUDITORS
In accordance with the Companies Act No. 7 of 2007, a resolution for the re-appointment of Messrs KPMG, Chartered Accountants, is being proposed at the Annual General Meeting. Audit and audit related fees payable to KPMG for the year under review amounted to Rs. 3.6 Mn (Audit - Rs. 1.9 Mn and Audit related services - Rs. 1.7 Mn). The non-audit fees payable to KPMG for the year under review amounted to Rs. 1.4 Mn.

STATED CAPITAL
The Stated Capital of the Bank is Rs. 11,394.4 Mn, the details of which are given in Note 40 to the Financial Statements.

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

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

CORPORATE GOVERNANCE FOR LICENSED COMMERCIAL BANKS IN SRI LANKA
The Bank has complied with the Central Bank Banking Act directions on Corporate Governance (except for direction 3(1)(xv)) and a detailed statement is provided on pages 22 to 43 of the Annual Report.

CAPITAL EXPENDITURE
The Bank's expenditure on Property, Plant and Equipment at cost amounted to Rs. 105 Mn during 2020, details of which are given in Note 29 to the Financial Statements. Expenditure on Intangible Assets at cost amounted to Rs. 108 Mn during 2020, 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 2020 was 265. The schedule providing information on shareholders' analysis is on pages 157 to 158 '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 28% in accordance with income tax legislation. Deferred tax was calculated based on the Balance Sheet Liability Method in accordance with Sri Lanka Accounting Standards.

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

The Annual General Meeting will be held at the Sri Lanka Foundation Institute, No. 100, Padanama Mawatha, Independence Square, Colombo 7 on 28 May 2021. The Notice of Meeting can be found on page 159 of the Annual Report.

GOING CONCERN

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

For and on behalf of the Board of Directors,

Ranjit Page
Chairman

Senarath Bandara
Managing Director/ CEO

Ms. Amendra de Silva
Company Secretary

Colombo
25 March 2021

Directors' Interest

In addition to the related party transactions disclosed in Note 48 in this report, the Bank carries out transactions in the ordinary course of business on arm's length basis with entities where the Chairman or Director of the Bank is the Chairman or Director of such entities.

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

Company	Relationship	Accommadation granted/ Deposit	Interest paid Rs. '000	Interest charged Rs. '000	Fees and expenses charged Rs. '000	Balance outstanding 31 December 2020 Rs. '000	Balance outstanding 31 December 2019 Rs. '000
Sierra Construction (Pvt) Ltd	Common Directors	Loan and Advances	-	51,378	25	465,223	519,942
		Off Balance sheet accommodation	-	-	-	120,000	388,144
United Hotels Company Limited	Common Directors	Loan and Advances	-	61,518	57	803,047	722,185
		Deposits	-	-	-	500	2,261
		Undrawn limits	-	-	-	-	1,059
Dankotuwa Porcelain PLC	Common Directors	Deposits	-	-	-	1,899	892
Lebara Foundation	Common Directors	Deposits	2	-	2	212	1,012
Wealth Trust Securities (Pvt) Ltd	Common Directors	Deposits	-	1,204	-	116	160
Asiri Hospital Holdings PLC	Common Directors	Loan and Advances	-	-	-	-	375,650

Financial Statements

Directors’ Responsibility for Financial Reporting

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

The responsibilities of the External Auditor in relation to the Financial Statements are set out in the Report of the Auditors given on page 76 of the Annual Report.

In terms of Sections 150(1) and 151(1) of the Companies Act No. 7 of 2007, the Directors of the Bank are responsible for ensuring that the Bank prepares its Financial Statements in a manner that gives a true and fair view of the state of affairs of the Bank as at 31 December 2020 and the loss of the Bank for the financial year ended on 31 December 2020 and places them before a General Meeting. The Financial Statements comprise the Statement of Financial Position as at 31 December 2020, and 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 2020; and
b) the financial performance of the Bank for the financial year then ended.

The Financial Statements of the Bank have been certified by the Bank’s Head of Finance, the person responsible for their preparation, as required by the Act. Financial Statements of the Bank have been signed by two Directors of the Bank on 25 March 2021 as required by Section 150(1) of the Companies Act.

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

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

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

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

The Directors have taken adequate measures with regard to inspecting financial reporting systems through Audit Committee Meetings and granting approvals for the issuing of Interim Financial Statements. The Directors have also instituted effective and comprehensive systems of internal controls. These comprises internal checks, internal audit and the whole system of financial and other controls required to carry on the banking business in an orderly manner, while safeguarding assets, preventing and detecting frauds and other irregularities and as far as practicable securing the accuracy and reliability of records. The results of such reviews carried out during the year ended 31 December 2020 are given on pages 70 to 72 of the Annual Report, ‘Directors’ Statement on Internal Controls over Financial Reporting’.

The External Auditor's Assurance Report on the Bank’s Internal Controls over Financial Reporting is given on pages 73 to 74 of the Annual Report.

The Bank’s External Auditors, Messrs KPMG, carried out reviews and sample checks on the system of internal controls as they considered appropriate and necessary for expressing their opinion on the Financial Statements and maintaining accounting records. They have examined the Financial Statements made available to them together with all financial records, related data and minutes of the Shareholders' and Directors' meetings and expressed their opinion which appears as reported by them on pages 76 to 77 of this Annual Report.

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

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

By Order of the Board

Ms. Amendra De Silva
Company Secretary

Colombo
25 March 2021

Directors’ Statement on Internal Controls Over Financial Reporting

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

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

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal Controls over financial reporting as and when there are changes to the business environment or regulatory guidelines. The process is regularly reviewed by the Board and is in accordance with the Guidance for Directors of Banks on the Directors’ Statement on Internal Controls issued by the Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal controls over financial reporting 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 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 is in the process of updating the procedure manuals and policy documents to keep them updated and relevant with the increasing banking operations. The Bank's updated controls to reflect the current banking operations during the year 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 the compliance with policies and procedures and the effectiveness of the Internal Control Systems on an ongoing basis using samples and rotational procedures and highlights significant findings in respect of any noncompliance. Further, the Internal Audit Department evaluates the appropriateness and adequacy of procedures in place to ensure the compliance with applicable laws and regulations and examines the reliability and integrity of financials and other operating information, examines the status of the Bank’s economical and efficient use of resources. The annual internal audit plan is reviewed and approved by the Board Audit Committee. Findings of the Internal Audit Department are submitted to the Board Audit Committee for review at their periodic meetings. Most of the key departments and all the branches were audited during the year and observations reported to the Audit Committee. Some audits were conducted as remote audits given the pandemic situation prevailed in the country. Selected Information System (IS) audits were also carried out by the Internal Audit Department.

The department also conducted reviews on credit granting process and the 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 the internal audit functions emphasizing on the scope of audits and quality of the same. The minutes of the Board Audit Committee meetings are forwarded to the Board on a periodic basis. Further details of the activities undertaken by the Board Audit Committee of the Bank are set out in the Audit Committee Report on page 60.
» Apart from the Audit Committee, several Board committees have been established with appropriate empowerment to ensure an effective management and supervision of the Bank's core areas of business operations. These Committees include the Board Integrated Risk Management Committee, Strategic Planning Committee, Human Resource and Remuneration Committee, the Nomination Committee, the Credit Committee and the Related Party Transaction Review Committee.
» Operational committees have also been established with appropriate empowerment to ensure 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 Sri Lanka Accounting Standards - SLFRS 9 - Financial Instruments
The Bank adopted SLFRS 9 - "Financial Instruments" with effect from 1 January 2018. This standard had a significant impact on the Bank's methodology on calculating the impairment losses for loans and advances.

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

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

Preparation of Financial statements and the necessary adjustments was mainly based on spread sheet applications. The process followed by the Bank for quantification of adjustments will be documented for better clarity and auditability.

The Bank's Risk Department commenced reviews and testing these processes and will continue to review.

The Bank continues to focus on strengthening the review and testing process of the models developed. The Bank has documented the polices and procedure related changes made to underlying assumptions during 2020 and obtained approval of the Board Audit Committee and the Board. The Board ensured the models developed to calculate the impairment provisions have been adequately tested and calibrated.

CONFIRMATION

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

Directors' Statement on Internal Controls Over Financial Reporting contd.

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 2020 and have reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal controls over financial reporting of the Bank.

The Assurance Report of the External Auditors in connection with Internal Controls over Financial Reporting is on pages 73 to 74.

Senarath Bandara
Managing Director/ Chief Executive Officer

Ms. Amendra De Silva
Company Secretary

Colombo
25 March 2021

Auditor's Report on Internal Control

KPMG
(Chartered Accountants)
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P. O. Box 186,
Colombo 00300, Sri Lanka.

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TO THE BOARD OF DIRECTORS OF CARGILLS BANK LIMITED

We were engaged by the Board of Directors of Cargills Bank Limited (Bank) to provide assurance on the Directors' Statement on Internal Control (Statement) included in the annual report for the year ended 31 December 2020 set out on pages 70 to 72 in this annual report.

MANAGEMENT'S RESPONSIBILITY FOR THE STATEMENT ON INTERNAL CONTROL

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

OUR RESPONSIBILITIES AND COMPLIANCE WITH SASAE 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 annual report, including the Statement on Internal Control is considered and approved for submission to the Board of Directors.

f) Considered whether the Directors' 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.

Auditor's Report on Internal Control contd.

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

OUR CONCLUSION

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

Chartered Accountants

Colombo
25 March 2021

CEO's and CFO's Responsibility for Financial Reporting

The Financial Statements of Cargills Bank Limited (the Bank) for the year ended 31 December 2020 are prepared and presented in compliance with the following requirements:

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

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

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

Further the Board assessed the effectiveness of the Bank's internal controls over financial reporting during the year ended 31 December 2020, as required by the Banking Act Direction No. 11 of 2007, the result of which is given on pages 70 to 72 of the Annual Report, 'Directors' Statement on Internal Controls over Financial Reporting'. The 'External Auditor's Assurance Report on the Bank's Internal Controls over Financial Reporting' is given on pages 73 to 74 of the Annual Report.

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

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

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

We confirm to the best of our knowledge that;
Prudential requirements have been satisfied and there are no material litigation that is pending against the Bank other than disclosed in Note 44 to the Financial Statements.

All contributions, levies and taxes paid on behalf of and in respect of the employees of the Bank as at 31 December 2020 have been paid or where relevant provided for.

Senarath Bandara Managing Director/ Chief Executive Officer	Ms. Imesha Sanjeewanie *Head of Finance*

Colombo
25 March 2021

Independent Auditor's Report

KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
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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 31 December 2020, and the income statement, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies set out on pages 78 to 145 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 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

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

Other Information

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

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

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

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

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

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

Report on Other Legal and Regulatory Requirements

As disclosed in Note 53.6.2.1 to the financial statements, the Bank has not met the minimum capital requirement of Rs. 10 Bn imposed by the Central Bank of Sri Lanka and has kept the said regulator informed of the shortfall.

As required by section 163 (2) of the Companies Act No. 7 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Bank.

Chartered Accountants

Colombo, Sri Lanka
25 March 2021

Income Statement

FINANCIAL STATEMENTS

For the year ended 31 December	Note	2020 Rs. '000	2019 Rs. '000	Change %
Gross income		4,774,212	4,959,253	(4)
Interest income		4,117,856	4,390,508	(6)
Less: Interest expenses		2,553,081	2,346,857	9
Net interest income	7	1,564,775	2,043,651	(23)
Fees and commission income		456,906	384,008	19
Less: Fees and commission expenses		208,193	160,082	30
Net fees and commission income	8	248,713	223,926	11
Net gains from trading	9	5,478	13,662	(60)
Net gains from derecognition of financial assets	10	120,792	81,003	49
Net other operating income	11	73,180	90,072	(19)
Total operating income		2,012,938	2,452,314	(18)
Less: Impairment losses on financial instruments and other assets	12	801,718	1,148,299	(30)
Net operating income		1,211,220	1,304,015	(7)
Less: Expenses				
Personnel expenses	13	798,619	873,427	(9)
Depreciation and amortization expenses	14	490,745	416,271	18
Other operating expenses	15	808,392	902,236	(10)
Operating loss before taxes on financial services		(886,536)	(887,919)	0
Less: Taxes on financial services	16	-	(505)	100
Loss before income tax		(886,536)	(887,414)	0
Less: Income tax expenses	17	(142,589)	(220,814)	35
Loss for the year		(743,947)	(666,600)	(12)
Attributable to:				
Equity holders of the Bank		(743,947)	(666,600)	(12)
Loss for the year		(743,947)	(666,600)	(12)
Basic loss per share (Rs.)	18	(0.84)	(0.75)	(12)

The notes to the Financial Statements appearing on pages 84 to 145 form an integral part of these Financial Statements.

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December	Note	2020 Rs. '000	2019 Rs. '000	Change %
Loss for the year		(743,947)	(666,600)	(12)
Other comprehensive income, net of tax				
Items that will not be reclassified to profit or loss				
Net actuarial gains/ (losses) on defined benefit plans	38	(5,169)	18,265	(128)
Change in fair value of investment in equity measured at Fair value through other comprehensive income		1,707	1,550	10
Deferred tax asset related to the above	32.1	6,518	(5,919)	210
		3,056	13,896	(78)
Items that will be reclassified to profit or loss				
Net gains on investment in financial assets measured at fair value through other comprehensive income				
Sri Lanka government securities		59,947	87,349	(31)
Deferred tax asset related to the above	32.1	(17,219)	(26,142)	34
		42,728	61,207	(30)
Total other comprehensive income for the year, net of tax		45,784	75,103	(39)
Total comprehensive loss for the year		(698,163)	(591,497)	(18)
Attributable to:				
Equity holders of the Bank		(698,163)	(591,497)	(18)
Total comprehensive loss for the year		(698,163)	(591,497)	(18)

The notes to the Financial Statements appearing on pages 84 to 145 form an integral part of these Financial Statements.

Statement of Financial Position

As at 31 December	Note	2020 Rs. '000	2019 Rs. '000	Change %
ASSETS				
Cash and cash equivalents	21	1,420,123	993,133	43
Balances with Central Bank of Sri Lanka	22	443,993	1,040,397	(57)
Placements with Banks	23	-	689,336	(100)
Derivative financial instruments	24	3,658	386	847
Financial assets measured at fair value through profit or loss	25	1,596,166	-	100
Financial assets at Amortized costs - Loans and Advances to other customers	26	29,079,121	27,013,673	8
Financial assets at Amortized costs - Debt and other Instruments	27	436,049	477,663	(9)
Financial assets measured at fair value through other comprehensive income	28	11,533,615	6,667,681	73
Property, plant and equipment	29	657,912	858,304	(23)
Intangible assets	30	357,739	457,570	(22)
Deferred tax assets	32	498,536	366,648	36
Other assets	33	505,622	573,743	(12)
Total assets		46,532,534	39,138,534	19
LIABILITIES				
Due to banks	34	1,556,948	1,517,942	3
Derivative financial instruments	35	149	2,281	(93)
Financial liabilities at amortized cost - Due to depositors	36	31,997,601	25,042,562	28
Financial liabilities at amortized cost - Due to other borrowers	37	2,121,192	948,298	124
Retirement benefit obligations	38	64,763	43,577	49
Lease Liability	31	339,985	444,214	(23)
Other liabilities	39	717,594	707,195	1
Total liabilities		36,798,232	28,706,069	28

As at 31 December	Note	2020 Rs. '000	2019 Rs. '000	Change %
EQUITY				
Stated capital	40	11,394,421	11,394,421	-
Statutory reserves	41	32,386	32,386	-
Accumulated loss	42	(1,772,667)	(1,030,112)	(72)
Other reserves	41.2	80,162	35,770	124
Total equity attributable to equity holders of the bank		9,734,302	10,432,465	(7)
Total equity and liabilities		46,532,534	39,138,534	19
Contingent liabilities and commitments	43	16,089,767	11,638,569	38
Net asset value per share (Rs.)	45	11.02	11.81	(7)
Memorandum Information				
Number of Employees		632	650	
Number of Branches		20	20	

The notes to the Financial Statements appearing on pages 84 to 145 form an integral part of these Financial Statements.

Certification

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

Ms. Imesha Sanjeewanie
Head of Finance

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

Senerath Bandara
Managing Director/ Chief Executive Officer

Mangala Boyagoda
Senior Director

Colombo
25 March 2021

Statement of Changes in Equity

FINANCIAL STATEMENTS

	Stated Capital Rs. '000	Statutory Reserves Rs. '000	Retained Losses Rs. '000	Other Reserves (FVOCI Reserves) Rs. '000	Total Rs. '000
Balance as at 1 January 2019	11,394,421	32,386	(374,608)	(28,237)	11,023,962
Total comprehensive income for the year 2019					
Loss for the year	-	-	(666,600)	-	(666,600)
Other comprehensive income, net of tax	-	-	11,096	64,007	75,103
Total comprehensive income/ (loss) for the year 2019	-	-	(655,504)	64,007	(591,497)
Balance as at 31 December 2019	11,394,421	32,386	(1,030,112)	35,770	10,432,465
Balance as at 1 January 2020	11,394,421	32,386	(1,030,112)	35,770	10,432,465
Total comprehensive income for the year 2020					
Loss for the year	-	-	(743,947)	-	(743,947)
Other comprehensive income, net of tax	-	-	1,392	44,392	45,784
Total comprehensive income/ (loss) for the year 2020	-	-	(742,555)	44,392	(698,163)
Balance as at 31 December 2020	11,394,421	32,386	(1,772,667)	80,162	9,734,302

Statement of Cash Flows

For the year ended 31 December	Note	2020 Rs. '000	2019 Rs. '000
Cash flows from operating activities			
Loss before income tax		(886,536)	(887,414)
Adjustments for:			
Non-cash items included in loss before tax	49	1,365,901	1,634,923
Losses on sale of property, plant and equipment and other assets	11	(1,037)	(7,953)
Dividend income	11	(960)	(935)
Interest paid on lease liability	31.3	(46,679)	(57,300)
Benefits paid on defined benefit plans	38	(3,287)	(1,202)
Operating profits before changes in operating assets and liabilities		427,402	680,119
Increase in operating assets	50	(8,585,416)	(5,333,921)
Increase in operating liabilities	51	7,033,471	5,131,306
Cash (used in)/ generated from operating activities before income tax		(1,124,543)	477,504
Income taxes paid		-	-
Net cash (used in)/ generated from operating activities		(1,124,543)	477,504
Cash flows from investing activities			
Net purchase of property, plant and equipment	29	(105,186)	(124,301)
Proceeds from sale of property, plant and equipment		1,044	8,533
Net purchase of intangible assets	30	(108,156)	(110,416)
Dividends received	11	960	935
Net cash used in investing activities		(211,338)	(225,249)
Cash flows from financing activities			
Net proceeds from the issue of ordinary share capital		-	-
Payment of lease liability	31	(95,561)	(85,107)
Change in securities sold under repurchase agreements		1,172,894	285,775
Interest paid		-	-
Net cash generated from financing activities		1,077,333	200,668
Net (decrease)/ increase in cash and cash equivalents		(258,548)	452,923
Cash and cash equivalents at the beginning of the year		1,687,644	1,234,721
Cash and cash equivalents at the end of the year		1,429,096	1,687,644
Reconciliation of cash and cash equivalents			
Cash and cash equivalents (Before impairment)	21	1,429,096	994,853
Placements with Banks (Before impairment)	23	-	692,791
		1,429,096	1,687,644

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

Notes to the Financial Statements

1. REPORTING ENTITY

1.1 Domicile and Legal Form

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

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

1.2 Principal Activities and Nature of Operations

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

1.3 Number of Employees

The total number of employees of the Bank as at 31 December 2020 was 632 (2019 - 650).

2. BASIS OF ACCOUNTING

2.1 Statement of Compliance

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

The formats used in the preparation of the Financial Statements and the Disclosures made therein also comply with the specified format prescribed by 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 62 to 65, 68 to 69 and 80 to 81 respectively.

These Financial Statements include the following components,

» Income Statement, Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Bank for the year under review. Refer pages 78 to 79.
» A Statement of Financial Position providing the information on the financial position of the Bank as at the year end. Refer pages 80 to 81.
» A Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Bank. Refer page 82.
» A Statement of Cash Flows providing the information to the users, on the ability of the Bank to generate cash and cash equivalents and the need to utilize those cash flows. Refer page 83.
» Notes to the Financial Statements comprising Accounting Policies and other explanatory information. Refer pages 84 to 145.

2.3 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Bank for the year ended 31 December 2020 were approved and authorized for issue by the Board of Directors on 25 March 2021.

2.4 Basis of Measurement

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

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

2.5 Functional and Presentation Currency

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

2.6 Comparative Information

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

The comparative information is reclassified whenever necessary to conform with the current year's presentation and to be in compliance with the Circular No. 2 of 2019 issued by Central Bank of Sri Lanka on publication of Annual and Quarterly Financial Statements and other Disclosures by Licensed banks in order to provide a better presentation.

2.7 Presentation of Financial Statements

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

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

2.8 Offsetting

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

2.9 Rounding

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

2.10 Materiality and Aggregation

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

2.11 Use of Judgement 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 Bank's performance. The outbreak necessitated the Government to respond at unprecedented levels to protect the health of the population, local economy and livelihoods. Thus, the pandemic has increased the estimation uncertainty in the preparation of these Financial Statements including, the extent and duration of the disruption to businesses, expected economic downturn, and subsequent recovery.

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

2.11.1 Judgements

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

- Note 3.2.1.3: Classification of financial assets

  Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial assets are Solely Payment of Principal and Interest (SPPI).

- Note 3.2.1.3.2: Assessment of credit risk

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

2.11.2 Assumptions and estimation uncertainties

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

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

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

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

Note 3.20.1.2: Recognition of deferred tax assets: availability of future taxable profit against which carryforward tax losses can be utilized.

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

Note 3.2.5.2: impairment of financial instruments: key assumptions used in estimating recoverable cash flows.

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

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, 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.

2.12 Events after the Reporting Date

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

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

2.13 Changes in accounting policies

The Bank has consistently applied the accounting policies to all the periods presented in these 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 retranslated to the Functional Currency at the middle exchange rate of the Functional Currency Ruling at the Reporting date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the Functional Currency at the beginning of the year is adjusted for payments and effective interest during the year, and the amortized cost in foreign currency translated at the exchange rate at the Reporting Date.

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

ASSETS, LIABILITIES AND BASES OF THEIR VALUATION

3.2 Financial Instruments

3.2.1 Initial Recognition, Classification and Subsequent Measurement

3.2.1.1 Date of recognition

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

Financial Assets

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

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as 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 amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

3.2.1.3.1 Business Model Assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether Management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's Management;

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

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

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

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

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

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

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

3.2.1.4 Derivatives recorded at fair value through profit or loss

Derivatives held for risk management purposes

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

Other derivatives

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

3.2.1.5 Securities purchased under resale agreements (Reverse Repos)

When the Bank purchases a financial asset and simultaneously enters into an agreement to resale the asset (or a similar asset) at a fixed price on a future date (Reverse Repo), the arrangement is accounted for as a financial asset in the Statement of Financial Position reflecting the transaction's economic substance as a loan granted by the Bank.

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

3.2.1.6 Cash and cash equivalents

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

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

3.2.1.7 Balances with Central Bank

As required by Section 93 of the Monetary Law Act, a cash balance to fulfill the statutory reserve requirement of 2% (2% for the period 16 June 2020 to 31 December 2020, 4% for the period from 16 March 2020 to 15 June 2020, 5% for the period from 1 March 2019 to 15 March 2020 and 6% for the period from 16 November 2018 to 28 February 2019) of the rupee deposit liabilities to be maintained with CBSL.

FINANCIAL LIABILITIES

3.2.2 Recognition and measurement of financial liabilities

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

» Financial liabilities at amortized cost; and

» Financial liabilities at fair value through profit or loss,

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

3.2.2.1 Classification and subsequent measurement of financial liabilities

The subsequent measurement of financial liabilities depends on their classification.

3.2.2.1.1 Financial liabilities at amortized cost

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

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

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

3.2.2.1.2 Financial liabilities at fair value through profit or loss

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

Deposits and borrowings

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

Due to banks and other financial institutions

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

Due to customers

These include non-interest-bearing deposits, savings deposits, term deposits, deposits payable at call and certificates of deposit.

Subsequent to initial recognition deposits are measured at their amortized cost using the EIR method, except where the Bank designates liabilities at fair value through profit or loss. Interest paid/ payable on these deposits is recognized in profit or loss.

Securities sold under repurchase agreements (Repos)

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

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

3.2.3 Determination of Fair Value

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

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

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

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

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk 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 recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3.2.4 Reclassification of Financial Assets 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 SLFRS 9.

3.2.5 Impairment of Financial Assets

3.2.5.1 Recognition of ECL

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

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

No impairment loss is recognized on equity investments.

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

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

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

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

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 recognized but which are not credit-impaired are referred to as “Stage 2 financial instruments”.

There were no material changes to the policies during the year ended 31 December 2020 due to COVID-19.

3.2.5.2 Measurement of ECL

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

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

3.2.5.3 Restructured Financial Assets

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

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

3.2.5.4 Credit-Impaired Financial Assets

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

Evidence that a financial asset is credit-impaired includes the following observable data;

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

A loan that has been renegotiated due to a deterioration in the borrower’s condition is usually considered to be credit-impaired unless there is an evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is past due for a period more than 90 days or classified as non-performing under the CBSL No. 3 of 2008 is considered as credit impaired.

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

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

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

3.2.5.6 Write-off

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

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

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

3.2.6 Derecognition of Financial Assets and Financial Liabilities

3.2.6.1 Financial assets

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

» The rights to receive cash flows from the asset have expired.

» The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:

» The Bank has transferred substantially all the risks and rewards of the asset, or

» The Bank has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

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

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained, substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

3.2.6.2 Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or 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 recognized in profit or loss.

3.2.7 Modification of Financial assets and Financial Liabilities

Financial Assets

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

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

» fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and

» other fees are included in profit or as a part of the gain or loss on recognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (refer write-off policy). This approach impacts the result of the quantitative evaluation and means that the recognition criteria are not usually met in such cases.

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

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

Financial Liabilities

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

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

3.2.8 Offsetting financial instruments

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

3.3 Property, Plant and Equipment

Recognition and measurement

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

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

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

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

Subsequent expenditure

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

Depreciation

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

Furniture and Fittings	5 years
Office Equipment	5 years
Computer Hardware	4 years
Motor Vehicle	4 years
Machinery	5 years
Improvements to Leasehold Buildings	8-15 years

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

Borrowing Costs

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

3.4 Leases

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

» The contract involves the use of an identified asset this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplies has substantive substitution right, then the asset is not identified;

» The Bank has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and

» The Bank has the right to direct the use of the asset. The Bank has the right when it has the decision making rights that are most relevant to changing how and for what purpose the asset is used.

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

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

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

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

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

» fixed payments, including 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.

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.

3.5 Intangible Assets

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

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

Subsequent expenditure

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

Amortization

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

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

3.6 Impairment of Non-Financial Assets

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

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

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

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

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying 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 amortization, if no impairment loss had been recognized.

3.7 Employee Benefits

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

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

Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments 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.

3.7.2 Defined Benefit Plan- Gratuity

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

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

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

The Bank recognizes all actuarial gains and losses arising from the defined benefit plan in other comprehensive income (OCI) and all other expenses related to defined benefit plans are recognize as personnel expenses in the Income Statement.

3.7.3 Short-Term Employee Benefits

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

3.7.4 Terminal Benefits

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

3.8 Provisions

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

3.9 Financial guarantees and Loan Commitments

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

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

3.10 Contingent liabilities and Commitments

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

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

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

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

3.11 Restructuring

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

3.12 Onerous Contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Bank from a contract 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.

3.13 Stated Capital and Reserves

3.13.1 Debt Vs Equity

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Distributions thereon are recognized as interest or dividend depending on the debt or equity classification.

3.13.2 Share Issue Costs

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

3.13.3 Reserves

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

3.14 Earnings Per Share

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

RECOGNITION OF INCOME AND EXPENSES

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

3.15 Interest

Effective Interest rate

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

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

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs, 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.

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

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

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

Amortised cost and gross carrying amount

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

Calculation of interest income and expense

The effective interest rate of a financial asset or liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. The effective interest rate is revised 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 amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverse to the gross basis.

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

Presentation

Interest income calculated using effective interest method presented in the statement of profit or loss and OCI includes

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

3.16 Fee and Commission Income

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

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

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

3.17 Net Trading Income

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

3.18 Net income from other financial instruments at FVTPL

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

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

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

3.20.1 Income Tax Expense
Income tax expense comprised with current and deferred tax. Income tax is recognized in the Income Statement except to the extent it relates to items recognized directly in equity or OCI, in which case it is recognized in equity or OCI.

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

Accordingly, provision for taxation is made on the basis of the accounting profit for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 6 of 2017 and the amendments thereto, at the rates specified.

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

Deferred tax is not recognized for:

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

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

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

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

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

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

3.20.2 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.

3.20.3 Value Added Tax on Financial Services

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

3.20.4 Economic Service Charge (ESC)

As per the provisions of the Finance Act No. 11 of 2004, and amendments thereto, the ESC was introduced with effect from 1 April 2014. Currently, the ESC is payable at 0.25% on ‘Exempt Turnover’ and is deductible from the income tax payments. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in five subsequent years.

ESC has been abolished with effect from 1 January 2020, pending parliamentary approval for amendment to the Economic Service Charge Act No. 13 of 2006.

3.20.5 Nation Building tax on Financial Services (NBT)

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

4 STATEMENT OF CASH 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 OPERATING SEGMENTS

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

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

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

» Banking
» Treasury and Investments
» Unallocated

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

6 STANDARDS ISSUED BUT NOT EFFECTIVE

A number of new standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Bank has not early adopted the new or amended standards in preparing these financial statements.

A. Onerous contracts - Cost of Fulfilling a Contract (Amendments to LKAS 37)

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.

The amendments apply for annual reporting periods beginning on or after 1 January 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments are recognised as an opening balance adjustment to retained earnings or other components of equity, as appropriate. The Bank does not anticipate this amendment to have a significant impact.

B. Interest Rate Benchmark Reform - Phase 2 (Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16)

The amendments and the issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate.

The amendments provide a practical relief from certain requirements in SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 relating to:

» changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities; and
» hedge accounting.

The amendments will require the Bank to disclose additional information about the entity's exposure to risks arising from interest rate benchmark reform and related risk management activities. The Bank is in the process of assessing the impact of this standard on its accounting and reporting. This amendment is effective for annual periods beginning on or after 1 January 2021.

C. Other Standards

The following new and amended standards are not expected to have a significant impact on the Bank's financial statements.

- *COVID-19-Related Rent Concessions (Amendment to SLFRS 16).*

The amendments provide relief to lessees from applying SLFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 Pandemic. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them is in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession.

The practical expedient will only apply if;

» the revised consideration is substantially the same or less than the original consideration;
» the reduction in lease payments relates to payments due on or before 30 June 2021; and
» no other substantive changes have been made to the terms of the lease.

The amendment applies to annual reporting periods beginning on or after 1 June 2020.

- *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to LKAS 16).*

This amendment prohibits deducting from the cost of an item of property, plant and from any proceeds proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

The amendment applies to annual reporting periods beginning on or after 1 January 2022

- *Reference to Conceptual Framework (Amendments to SLFRS 3)*

Key amendments are as follow:

» add to SLFRS 3 as a requirement that, for transactions and other events within the scope of LKAS 37 or IFRIC 21, an acquirer applies LKAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has in an assumed business combination combination;
» add to SLFRS 3 an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination

The amendment applies to annual reporting period beginning on or after 1 January 2022

- *Classification of Liabilities as Current or Non-current (Amendments to LKAS 1).*

The amendments in Classification of Liabilities as Current or Non-current (Amendments to LKAS 1) affect only the presentation of liabilities in the statement of financial position, not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those item.

The Key amendments are as follows:

» the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. The classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. The standard also clarifies that settlement refers to a transfer to a counterparty counterparty of cash, equity instruments, other assets or services.

The amendment applies to annual reporting periods beginning on or after 1 January 2023

- *Annual Improvements to SLFRS Standards 2018-2020.*

As part of its process to make non-urgent but necessary amendments to accounting Standards, the IASB International Accounting Standards Board (the Board) has issued the Annual Improvements to SLFRS Standards 2018–2020. The amendments are effective for annual reporting periods beginning on or after 1 January 2022.

Key Aspects covered are as follow:

I. SLFRS 1 First-time Adoption of International Financial Reporting Standards

This amendment simplifies the application of SLFRS 1 for a subsidiary that becomes a first time adopter of SLFRS Standards later than its parent.

II. SLFRS 9 Financial Instruments

This amendment clarifies that, for the purpose of performing the '10 percent test' for derecognition of financial liabilities in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf.

For the year ended 31 December	Note	2020 Rs. '000	2019 Rs. '000
7 NET INTEREST INCOME			
Interest income	7.1	4,117,856	4,390,508
Less: Interest expenses	7.2	2,553,081	2,346,857
Net interest income		1,564,775	2,043,651
7.1 Interest income			
Cash and cash equivalents		179	11,998
Placements with banks		17,412	7,100
Reversed repurchased agreements		31,690	5,401
Financial investments measured at fair value through profit or loss*		46,166	-
Financial assets measured at amortized cost - Loans and Advances to customers*		3,323,670	3,752,913
Financial assets measured at amortized costs - Debt and other Instruments*		32,654	44,301
Financial investments measured at fair value through other comprehensive income*		666,085	568,795
Total interest income		4,117,856	4,390,508
7.2 Interest expenses			
Due to banks		76,710	102,962
Financial liabilities measured at amortized cost - Due to depositors*		2,357,509	2,091,433
Financial liabilities measured at amortized cost - Due to other borrowers*		108,372	81,966
Repurchase agreements		10,490	70,496
Total interest expenses		2,553,081	2,346,857
Net interest income		1,564,775	2,043,651

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

	Note	2020 Rs. '000	2019 Rs. '000
8 NET FEES AND COMMISSION INCOME			
Fee and commission income	8.1	456,906	384,008
Less: Fee and commission expenses	8.2	208,193	160,082
Net fees and commission income		248,713	223,926
8.1 Fee and commission income			
Loans and advances		42,257	44,048
Debit and Credit cards		268,368	158,832
Trade and remittances		50,347	63,600
Deposits		12,171	29,671
Guarantees		58,469	59,621
Other financial services		25,294	28,236
Total fee and commission income		456,906	384,008

Notes to the Financial Statements contd.

For the year ended 31 December	Note	2020 Rs. '000	2019 Rs. '000
8.2 Fee and commission expenses			
Debit and Credit cards		160,155	107,475
Brokerage Fee		6,220	10,431
Other financial services		41,818	42,176
Total fee and commission expenses		208,193	160,082
9 NET GAINS FROM TRADING			
Derivative financial instruments			
From Banks and other customers		5,478	13,662
Total net gains from trading		5,478	13,662
10 NET GAINS FROM DERECOGNITION OF FINANCIAL ASSETS			
Financial assets measured at fair value through other comprehensive income			
Government Securities		120,792	81,003
Total net gains from derecognition of financial assets		120,792	81,003
11 NET OTHER OPERATING INCOME			
Gain on sale of property, plant and equipment and other assets		1,037	7,953
Gains on revaluation of foreign exchange		69,855	79,439
Dividend income		960	935
Rent and other income		1,328	1,745
Total net other operating income		73,180	90,072
12 IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS AND OTHER ASSETS			
Financial Assets at amortized cost - Loans and advances to other customers	26.2	797,259	1,049,637
Financial assets at amortized costs - Debt and other instruments	27.2	1,537	(227)
Cash and Cash Equivalents	21.1	7,253	(1,346)
Placements with banks	23.1	(3,455)	3,455
Contingent liabilities and Commitments	43.1.1	(46,514)	63,391
Total Impairment Charges		756,080	1,114,910
Direct write-offs		22,044	-
Write-off other assets	12.1	23,594	33,389
Total Impairment charges for financial instruments and other assets		801,718	1,148,299

Note 12.1 Write-off other assets include net write-off of Tax credits, ESC and Notional tax which cannot be carried forward/ recovered.

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
12.2 Impairment charge for year				
(a) 2020				
Financial Assets at amortized cost				
- Loans and advances to other customers	(21,249)	155,856	662,652	797,259
Financial assets at Amortized costs - Debt and other instruments	1,537	-	-	1,537
Cash and Cash Equivalents	7,253	-	-	7,253
Placements with Banks	(3,455)	-	-	(3,455)
Contingent Liabilities and Commitments	16,923	(52,113)	(11,324)	(46,514)
Total Impairment Charge	1,009	103,743	651,328	756,080
(b) 2019				
Financial Assets at amortized cost				
- Loans and advances to other customers	(82,049)	(39,553)	1,171,239	1,049,637
Financial assets at Amortized costs - Debt and other instruments	(227)	-	-	(227)
Cash and Cash Equivalents	(1,346)	-	-	(1,346)
Placements with Banks	3,455	-	-	3,455
Contingent Liabilities and Commitments	21,721	51,146	(9,476)	63,391
Total Impairment Charges	(58,446)	11,593	1,161,763	1,114,910

For the year ended 31 December	Note	2020 Rs. '000	2019 Rs. '000
13 PERSONNEL EXPENSES			
Salary and bonus	13.1	603,929	638,395
Contributions to defined contribution plans		90,622	90,027
Provision to defined benefit obligations	38.1	19,304	12,572
Other staff related expenses		84,764	132,433
Total Personnel expenses		798,619	873,427

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

For the year ended 31 December	Note	2020 Rs. '000	2019 Rs. '000
14 DEPRECIATION AND AMORTIZATION EXPENSES			
Depreciation of property, plant and equipment	29	298,121	289,051
Amortization of intangible assets	30.1	192,624	127,220
Total Depreciation and amortization expenses		490,745	416,271

Notes to the Financial Statements contd.

FINANCIAL STATEMENTS

For the year ended 31 December	Note	2020 Rs. '000	2019 Rs. '000
15 OTHER OPERATING EXPENSES			
Directors' emoluments	15.1	17,130	19,339
Auditor's remunerations		5,153	4,276
Audit fee and expenses		1,975	1,975
Audit related fee and expenses		1,725	1,700
Non-audit fee and expenses		1,453	601
Professional and legal expenses		114,791	37,641
Sri Lanka Deposit Insurance scheme contribution		22,739	16,898
Office administration and establishment expenses		648,579	824,082
		808,392	902,236

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

For the year ended 31 December	Note	2020 Rs. '000	2019 Rs. '000
16 TAXES ON FINANCIAL SERVICES			
Value Added Tax (VAT) on financial services		-	(378)
Nation Building Tax (NBT) on financial services		-	(51)
Debt Repayment Levy (DRL)	16.1	-	(76)
		-	(505)

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

For the year ended 31 December	2020 Rs. '000	2019 Rs. '000
17 INCOME TAX EXPENSES		
Current tax expense		
Income tax on current year profit	-	-
Under/ (over) provision in respect of previous years	-	9,119
Deferred tax expense		
Origination and reversal of temporary differences	(142,589)	(229,933)
Total Income tax expenses	(142,589)	(220,814)

17.1 Reconciliation of the accounting loss to income tax expense

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

	2020		2019	
	Rs. '000	%	Rs. '000	%
Accounting loss before tax from operations	(886,536)	100	(887,414)	100
Tax effect at the statutory income tax rate	(248,230)	28	(248,476)	28
Tax effect of exempt income	-	-	(6,857)	1
Tax effect of non-deductible expenses	387,329	(44)	461,034	(52)
Tax effect of deductible expenses	(454,349)	51	(315,459)	36
Taxable profit/ (loss) on disposal of lease/ fixed assets	(32,256)	4	(2,227)	-
Tax losses utilized during the year	347,506	(39)	111,986	(13)
Income tax on current year profit	-	-	-	-
Under/ (over) provision in respect of prior years	-	-	9,119	(1)
Deferred tax expense/ (reversal)	(142,589)	16	(229,933)	26
Income tax expense	(142,589)	16	(220,814)	25

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

	Note	2020 Rs. '000	2019 Rs. '000
17.3 Tax expenses recognized in Other Comprehensive Income			
Deferred tax on net actuarial gains/ (losses) on defined benefit plans		6,518	(5,919)
Deferred tax on net losses on investment in financial assets measured at fair value through other comprehensive income		(17,219)	(26,142)
Total recognized in OCI		(10,701)	(32,061)
17.4 Tax losses/ credits carried forward			
Tax losses brought forward		811,117	411,168
Add: Tax losses arising during the year		1,241,096	399,949
Less: Tax losses utilized during the year		-	-
Unutilized Tax losses/ credits carried forward		2,052,213	811,117

18 EARNINGS PER SHARE

18.1 Basic EPS

	Note	2020	2019
Amount used as the numerator			
Loss after tax attributable for equity holders of the bank (Rs. '000)		(743,947)	(666,600)
Amount used as the denominator			
Weighted average number of ordinary shares in issue during the year	18.1.1	883,142,858	883,142,858
Basic loss per share (Rs.)		(0.84)	(0.75)

18.1.1 Weighted average number of ordinary shares

	2020	2019
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 loss per share is the same as basic loss per share as shown in Note 18.1.

19 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

19.1 (a) 2020

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

(b) 2019

	Note	Fair value through P/L Rs. '000	Fair Value through OCI Rs. '000	Amortized Cost Rs. '000	Total Rs. '000
Financial assets					
Cash and cash equivalents	21	-	-	993,133	993,133
Balances with Central Bank of Sri Lanka	22	-	-	1,040,397	1,040,397
Placements with Banks	23	-	-	689,336	689,336
Derivative financial instruments	24	386	-	-	386
Financial assets at Amortized costs - Loans and Advances to other customers	26	-	-	27,013,673	27,013,673
Financial assets at Amortized costs - Debt and other Instruments	27	-	-	477,663	477,663
Financial assets at fair value through other comprehensive income - Government securities	28	-	6,654,235	-	6,654,235
Financial assets at fair value through other comprehensive income - Equity instruments	28	-	13,446	-	13,446
Other assets*	33	-	-	326,589	326,589
Total financial assets		386	6,667,681	30,540,791	37,208,858

(b) 2019 Contd.

	Note	Fair value through P/L Rs. '000	Fair Value through OCI Rs. '000	Amortized Cost Rs. '000	Total Rs. '000
Financial liabilities					
Due to banks	33	-	-	1,517,942	1,517,942
Derivative financial instruments	34	2,281	-	-	2,281
Financial liabilities at amortized cost - Due to depositors	35	-	-	25,042,562	25,042,562
Financial liabilities at amortized cost - Due to other borrowers	36	-	-	948,298	948,298
Lease liability	30	-	-	444,214	444,214
Other liabilities**	38	-	-	403,844	403,844
Total financial liabilities		2,281	-	28,356,860	28,359,141

* Other assets only includes other receivables

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

20 FAIR VALUE OF FINANCIAL INSTRUMENTS

20.1 Financial instruments measured at fair value - fair value hierarchy

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

	Note	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
As at 31 December 2020					
Financial Assets					
Derivative financial instruments	24	-	3,658	-	3,658
Financial assets measured at fair value through profit or loss	25	1,596,166	-	-	1,596,166
Financial assets measured at fair value through other comprehensive income	28				
- Government securities		11,518,462	-	-	11,518,462
- Equity securities		-		15,153	15,153
Total assets at fair value		13,114,628	3,658	15,153	13,133,439
Liabilities					
Derivative financial instruments	35	-	149	-	149
Total liabilities at fair value		-	149	-	149
As at 31 December 2019					
Financial Assets					
Derivative financial instruments	24	-	386	-	386
Financial assets measured at fair value through other comprehensive income	28	-	-	-	-
- Government securities		6,654,235	-	-	6,654,235
- Equity securities		-	-	13,446	13,446
Total assets at fair value		6,654,235	386	13,446	6,668,067
Liabilities					
Derivative financial instruments	35	-	2,281	-	2,281
Total liabilities at fair value		-	2,281	-	2,281

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 2020 (Rs. '000)	Valuation Technique	Significant Valuation inputs
Level 2	Derivative Financial Assets	3,658	Adjusted Forward Rate Approach. This approach considers the present value of projected forward exchange rate as at the Reporting date as the fair value. The said forward rate is projected based on the spot exchange rate and the forward premium/ discount calculated using extrapolated interest rates of the currency pairs under consideration. In computing the present value, interest rate differential between two currencies under consideration is used as the discount rate.	Spot exchange rate
	Derivative Financial Liabilities	149		
Level 3	Unquoted Equities	15,153	Fair value is based on net assets per share as per latest audited Financial Statements of these companies as at following dates Credit Information Bureau - 31 December 2019 Lanka clear (Pvt) Limited - 31 March 2020 The investments and related gains/ losses are not material to the bank	Net assets per share

20.2.1 Reconciliation of Level 3 asset balance

Opening balance	13,446
Total Gain/ (loss) recognized in OCI	1,707
Balance as of 31 December	15,153

20.3 Financial instruments not measured at Fair Value

For financial assets and liabilities with short term maturities or with short term re-pricing intervals, it is assumed that the carrying amounts are approximate to their fair value. This assumption is also applied to the demand deposits and savings deposits which do not have a specific maturity.

The following table sets out the fair values of financial assets and liabilities not measured at fair value and related fair value hierarchy:

	Note	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Carrying Amount = Fair value Rs. '000
As at 31 December 2020					
Assets					
Cash and cash equivalents	21	-	1,420,123	-	1,420,123
Balances with Central Bank of Sri Lanka	22	-	443,993	-	443,993
Financial assets at Amortized costs - Loans and Advances to other customers	26	-	-	29,079,121	29,079,121
Financial assets at Amortized costs - Debt and other Instruments	27	-	-	436,049	436,049
Other assets*	33	-	-	252,676	252,676
Total financial assets not at fair value		-	1,864,116	29,767,846	31,631,962
Liabilities					
Due to banks	34	-	1,556,948	-	1,556,948
Financial liabilities at amortized cost - Due to depositors	36	-	-	31,997,601	31,997,601
Financial liabilities at amortized cost - Due to other borrowers	37	-	2,121,192	-	2,121,192
Lease liability	31	-	-	339,985	339,985
Other liabilities**	39	-	-	414,924	414,924
Total financial liabilities not at fair value		-	3,678,140	32,752,510	36,430,650
As at 31 December 2019					
Assets					
Cash and cash equivalents	21	-	993,133	-	993,133
Balance with Central Bank of Sri Lanka	22	-	1,040,397	-	1,040,397
Placements with banks	23	-	689,336	-	689,336
Financial assets at Amortized costs - Loans and Advances to other customers	26	-	-	27,013,673	27,013,673
Financial assets at Amortized costs - Debt and other Instruments	27	-	-	477,663	477,663
Other assets*	33	-	-	326,589	326,589
Total financial assets not at fair value		-	2,722,866	27,817,925	30,540,791
Liabilities					
Due to banks	34	-	1,517,942	-	1,517,942
Financial liabilities at amortized cost - Due to depositors	36	-	-	25,042,562	25,042,562
Financial liabilities at amortized cost - Due to other borrowers	37	-	948,298	-	948,298
Lease liability	31	-	-	444,214	444,214
Other liabilities**	39	-	-	403,844	403,844
Total financial liabilities not at fair value		-	2,466,240	25,890,620	28,356,860

* Other assets only includes other receivables

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

Notes to the Financial Statements contd.

As at 31 December	Note	2020 Rs. '000	2019 Rs. '000
21 CASH AND CASH EQUIVALENTS			
Cash in hand			
Coins and notes held in local currency		533,789	450,370
Coins and notes held in foreign currency		17,759	9,500
Balances with banks		877,548	534,983
Gross Cash and cash equivalents		1,429,096	994,853
Less: Provision for Impairment	21.1	(8,973)	(1,720)
Net Cash and cash equivalents		1,420,123	993,133

21.1 Movement in impairment during the year

Stage 1			
Opening balance as at 1 January		1,720	3,066
Charge/ (write back) to Income Statement		7,253	(1,346)
Closing balance as at 31 December		8,973	1,720

22 BALANCES WITH CENTRAL BANK OF SRI LANKA

Statutory balances with Central Bank of Sri Lanka			
Central Bank of Sri Lanka		443,993	1,040,397
Total Balances with Central Bank of Sri Lanka		443,993	1,040,397

22.1 As required by the provisions of Section 93 of the Monetary Law Act, a cash balance is maintained with the Central Bank of Sri Lanka. As at 31 December 2020, the minimum cash reserve requirement was 2% (4% upto March 2020) of the rupee deposit liabilities.

23 PLACEMENTS WITH BANKS

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

23.1 Movement in impairment during the year

Stage 1			
Opening balance as at 1 January		3,455	-
Charge/ (write back) to income statement		(3,455)	3,455
Closing balance as at 31 December		-	3,455

As at 31 December	Note	2020 Rs. '000	2019 Rs. '000
24 DERIVATIVE FINANCIAL INSTRUMENTS			
Foreign currency derivatives			
Forward foreign exchange contracts		3,658	386
Total Derivative financial instruments		3,658	386
25 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS			
Money market fund investments	25.1	1,596,166	-
Total Financial assets measured at fair value through profit or loss		1,596,166	-

25.1 Money market fund investments

As at 31 December		2020		2019	
	No.of units	Cost	Market value	Cost	Market value
NDB Wealth Money Plus Fund	65,885,151	1,500,000	1,545,066	-	-
Comtrust Money market Fund	4,327,236	55,747	51,100	-	-
Total		1,555,747	1,596,166	-	-

	Note	2020 Rs. '000	2019 Rs. '000
26 FINANCIAL ASSETS AT AMORTIZED COSTS - LOANS AND ADVANCES TO OTHER CUSTOMERS			
Gross loans and advances			
Stage 1		17,450,348	19,963,594
Stage 2		7,428,834	4,676,233
Stage 3		6,854,139	4,230,787
Total Gross Loans and Advances		31,733,321	28,870,614
Less: Provision for Impairment			
Stage 1	26.2	68,805	90,054
Stage 2	26.2	342,306	186,450
Stage 3	26.2	2,243,089	1,580,437
Total impairment for loans and advances		2,654,200	1,856,941
Net loans and advances		29,079,121	27,013,673

Notes to the Financial Statements contd.

As at 31 December	2020 Rs. '000	2019 Rs. '000
26.1 Analysis		
26.1.1 By product		
Loans and advances		
Overdrafts	5,410,917	6,108,798
Trade finance	2,348,027	2,643,312
Housing loans	1,078,142	1,033,887
Personal loans	3,722,864	3,587,429
Staff loans	256,727	199,215
Term loans	8,808,696	8,396,188
Loans against Property	1,538,790	1,463,448
Agriculture loans	370,043	445,312
Money market loans	6,324,909	4,008,163
Vehicle loans	80,547	64,915
Credit Cards	1,385,025	860,228
Micro Finance	75,174	59,719
Others	333,460	-
Total gross loans and advances	31,733,321	28,870,614
26.1.2 By currency		
Sri Lankan Rupee	28,975,070	26,116,058
United States Dollar	2,724,664	2,719,850
Great Britain Pounds	2,610	2,344
Singapore Dollars	30,977	32,362
Total gross loans and advances	31,733,321	28,870,614
26.1.3 By industry		
Agriculture and fishing	3,888,262	3,346,195
Manufacturing	2,985,069	2,290,287
Tourism	2,319,162	2,127,417
Transport	412,362	320,004
Construction	3,851,675	4,243,703
Traders	4,827,519	4,857,937
New economy	609,870	433,644
Financial and business services	4,699,798	2,900,840
Infrastructure	28,722	14,870
Other services	838,484	2,410,560
Other customers	7,272,398	5,925,157
Total gross loans and advances	31,733,321	28,870,614

As at 31 December	2020 Rs. '000	2019 Rs. '000
26.2 Movement in provision for impairment during the year		
Opening balance as at 1 January	1,856,941	807,304
Charge/ (write back) to income statement	797,259	1,049,637
Closing balance as at 31 December	2,654,200	1,856,941
Stage 1		
Opening balance as at 1 January	90,054	172,103
Charge/ (write back) to income statement	(21,249)	(82,049)
Closing balance as at 31 December	68,805	90,054
Stage 2		
Opening balance as at 1 January	186,450	226,003
Charge/ (write back) to income statement	155,856	(39,553)
Closing balance as at 31 December	342,306	186,450
Stage 3		
Opening balance as at 1 January	1,580,437	409,198
Charge/ (write back) to income statement	662,652	1,171,239
Closing balance as at 31 December	2,243,089	1,580,437
Total Impairment Provision	2,654,200	1,856,941

COVID-19 Iinitiatives

For facilities subject to the COVID-19 repayment deferral arrangements, an assessment of Significant Increase in Credit Risk (SICR) has been determined based on various measures of the customer's current financial position, future earnings capacity and the sectors in which the customers operate from which the facilities are categorised into risk categories. SICR is then determined based on the resulting risk categorisation. Based on the risk categorisation, required impairment provisions have been made.

26.3 Stage wise movement in impairment

2020	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Loans and advances to other customers at amortised cost				
Balance at 1 January	90,054	186,450	1,580,437	1,856,941
Transfer to Stage 1	15,482	(8,157)	(7,325)	-
Transfer to Stage 2	(21,495)	38,880	(17,385)	-
Transfer to Stage 3	(6,744)	(53,437)	60,181	-
Net remeasurement of loss allowance	(16,743)	143,379	578,735	705,371
Impairment on new loans granted during the year	35,451	94,720	233,004	363,175
Financial assets that have been derecognised	(27,200)	(59,529)	(109,543)	(196,272)
Write offs	-	-	(75,015)	(75,015)
Balance as at 31 December	68,805	342,306	2,243,089	2,654,200

26.3 Stage wise movement in impairment Contd.

2019	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Loans and advances to other customers at amortised cost				
Balance at 1 January	172,103	226,003	409,198	807,304
Transfer to Stage 1	29,144	(28,366)	(778)	-
Transfer to Stage 2	(12,011)	12,713	(702)	-
Transfer to Stage 3	(14,847)	(63,819)	78,666	-
Net remeasurement of loss allowance	(66,201)	20,151	875,916	829,866
Impairment on new loans granted during the year	42,616	85,173	224,664	352,453
Financial assets that have been derecognised	(60,750)	(65,405)	(6,527)	(132,682)
Write-offs	-	-	-	-
Balance as at 31 December	90,054	186,450	1,580,437	1,856,941

As at 31 December	Note	2020 Rs. '000	2019 Rs. '000
27 FINANCIAL ASSETS AT AMORTIZED COSTS - DEBT AND OTHER INSTRUMENTS			
Sri Lanka Development Bonds		381,864	372,347
Trust Certificates	27.1	57,995	107,589
Gross Financial assets measured at amortized cost		439,859	479,936
Less: Provision for Impairment	27.2	(3,810)	(2,273)
Net Financial assets measured at amortized cost		436,049	477,663

27.1 Trust Certificate

Asset Securitization Trust Certificates		
Trade Finance and Investment PLC	57,995	107,589
Total Trust Certificates	57,995	107,589

27.2 Movement in impairment during the year

Stage 1		
Opening balance as at 1 January	2,273	2,500
Charge/ (write back) to income statement	1,537	(227)
Closing balance as at 31 December	3,810	2,273

As at 31 December	Note	2020 Rs. '000	2019 Rs. '000

28 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Government securities			
Treasury bills		2,403,845	3,929,680
Treasury bonds		9,114,617	2,724,555
Total Government securities		11,518,462	6,654,235
Equity securities			
Quoted shares		-	-
Unquoted shares	28.1	15,153	13,446
Total Equity securities		15,153	13,446
Financial assets measured at fair value through other comprehensive income		11,533,615	6,667,681

28.1 Unquoted shares

As at 31 December		2020		2019	
	No. of Shares	Market Value	Cost	Market Value	Cost
Lanka Clear (Pvt) Ltd	50,000	8,858	3,500	7,509	3,500
Credit Information Bureau of Sri Lanka	300	6,295	2,383	5,937	2,383
Total		15,153	5,883	13,446	5,883

29 PROPERTY, PLANT AND EQUIPMENT

2020	Improvements to Leasehold Buildings Rs. '000	Computer Hardware Rs. '000	Office Equipment, Furniture and Fittings Rs. '000	Motor Vehicles Rs. '000	Machinery Rs. '000	Work in Progress Rs. '000	Right-of-Use Asset Rs. '000	Total 2020 Rs. '000
Cost								
Balance as at 1 January	126,372	618,853	234,388	14,850	86,771	2,082	535,967	1,619,283
Additions during the year	-	101,261	3,565	-	956	(596)	-	105,186
Disposals during the year	-	(155)	(342)	-	-	-	-	(497)
Transfers/ Adjustments	-	-	487	-	(36)	-	(7,909)	(7,458)
Write-Off	-	-	-	-	-	-	-	-
Balance as at 31 December	126,372	719,959	238,098	14,850	87,691	1,486	528,058	1,716,514

29 PROPERTY, PLANT AND EQUIPMENT CONTD.

2020	Improvements to Leasehold Buildings Rs. '000	Computer Hardware Rs. '000	Office Equipment, Furniture and Fittings Rs. '000	Motor Vehicles Rs. '000	Machinery Rs. '000	Work in Progress Rs. '000	Right-of-Use Asset Rs. '000	Total 2020 Rs. '000
Accumulated Depreciation								
Balance as at 1 January	62,780	383,314	125,676	14,850	55,368	-	118,402	760,390
Charge for the year	13,604	122,253	37,027	-	10,042	-	115,201	298,127
Disposals during the year	-	(156)	(342)	-	-	-	-	(498)
Transfers/ Adjustments	-	-	(3)	-	(3)	-	-	(6)
Write-Off	-	-	-	-	-	-	-	-
Balance as at 31 December	76,384	505,411	162,358	14,850	65,407	-	233,603	1,058,013
Less: Impairment								
Balance as at 1 January	-	-	589	-	-	-	-	589
Charge/ (Write back) to income statement	-	-	-	-	-	-	-	-
Net write-off during the year	-	-	-	-	-	-	-	-
Balance as at 31 December	-	-	589	-	-	-	-	589
Carrying Value as at 31 December	49,988	214,548	75,151	-	22,284	1,486	294,455	657,912

2019	Improvements to Leasehold Buildings Rs. '000	Computer Hardware Rs. '000	Office Equipment, Furniture and Fittings Rs. '000	Motor Vehicles Rs. '000	Machinery Rs. '000	Work in Progress Rs. '000	Right-of-Use Asset Rs. '000	Total 2019 Rs. '000
Cost								
Balance as at 1 January	118,380	557,114	197,490	24,098	78,026	-	-	975,108
Adjustment on initial application of SLFRS16	-	-	-	-	-	-	535,967	535,967
Additions during the year	7,992	64,764	38,072	-	11,391	2,082	-	124,301
Disposals during the year	-	(2,544)	(1,174)	(9,248)	(2,646)	-	-	(15,612)
Transfers/ Adjustments	-	(481)	-	-	-	-	-	(481)
Write-Off	-	-	-	-	-	-	-	-
Balance as at 31 December	126,372	618,853	234,388	14,850	86,771	2,082	535,967	1,619,283
Accumulated Depreciation								
Balance as at 1 January	48,837	275,619	90,996	23,577	47,342	-	-	486,371
Charge for the year	13,943	110,260	35,707	156	10,643	-	118,402	289,111
Disposals during the year	-	(2,505)	(1,027)	(8,883)	(2,617)	-	-	(15,032)
Transfers/ Adjustments	-	(60)	-	-	-	-	-	(60)
Write-Off	-	-	-	-	-	-	-	-
Balance as at 31 December	62,780	383,314	125,676	14,850	55,368	-	118,402	760,390

2019	Improvements to Leasehold Buildings Rs. '000	Computer Hardware Rs. '000	Office Equipment, Furniture and Fittings Rs. '000	Motor Vehicles Rs. '000	Machinery Rs. '000	Work in Progress Rs. '000	Right-of-Use Asset Rs. '000	Total 2019 Rs. '000
Less: Impairment								
Balance as at 1 January	-	-	589	-	-	-	-	589
Charge/ (Write back) to income statement	-	-	-	-	-	-	-	-
Net write-off during the year	-	-	-	-	-	-	-	-
Exchange rate variance and other adjustments	-	-	-	-	-	-	-	-
Balance as at 31 December	-	-	589	-	-	-	-	589
Carrying Value as at 31 December 2019	63,592	235,539	108,123	-	31,403	2,082	417,565	858,304

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

29.2 Title restrictions on property, plant and equipment

There were no restrictions on the title of the property, plant and equipment of the Bank as at the reporting date.

29.3 Property, plant and equipment pledged as security for liabilities

There were no items of Property, plant and equipment pledged as securities for liabilities of the Bank as at the reporting date.

29.4 Fully depreciated property, plant and equipment

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

As at 31 December	2020 Rs. '000	2019 Rs. '000
Improvements to leasehold buildings	3,912	-
Computer hardware	193,286	169,598
Office Equipment, Furniture and Fittings	70,268	46,382
Machinery	42,497	36,548
Motor vehicles	14,850	14,850
Computer Software	124,968	99,769
Total	449,781	367,147

29.5 Right of use assets and Lease liability

The Banks material leases only include land and buildings.

Right of use Asset	2020	2019
Balance as at 1 January	417,565	535,967
Additions	-	-
Adjustments	(7,909)	-
Less: Depreciation	(115,201)	(118,402)
Balance as at 31 December	294,455	417,565

As at 31 December	2020 Rs. '000	2019 Rs. '000
30 INTANGIBLE ASSETS		
Computer software	357,739	457,570
Total	357,739	457,570
30.1 Computer software		
Cost		
Opening balance	889,411	783,695
Additions during the year	108,156	110,416
Transfers/ adjustments	(96,299)	(4,700)
Closing balance	901,268	889,411
Accumulated amortization		
Opening balance	431,841	309,321
Charge for the year	192,624	127,220
Transfers/ adjustments	(80,936)	(4,700)
Closing balance	543,529	431,841
Carrying Value	357,739	457,570

31 LEASE LIABILITY

Set out below are the carrying amounts of lease liabilities and the movement for the year ended 31 December 2020

Lease liability as at 1 January	444,214	-
Recognition of lease liability on initial application of SLFRS 16	-	529,321
Additions/ Modifications	(8,668)	-
Interest expense	46,679	57,300
Payments	(142,240)	(142,407)
Lease liability as at 31 December	339,985	444,214
31.1 Maturity analysis - Contractual Undiscounted Cash Flows		
Less than one year	-	63,998
One to five years	179,270	412,110
More than five years	489,894	271,644
Total undiscounted lease liability	669,164	747,752
31.2 Lease liability recognized in the statement of Financial Position		
Current	80,611	104,154
Non-Current	259,374	340,060
Total	339,985	444,214
31.3 Amounts recognised in Income Statement		
Interest on lease liabilities	46,679	57,300
Total	46,679	57,300
31.4 Amounts recognized in the Statement of Cash Flow		
Total cash outflow of leases	142,240	142,407
Total	142,240	142,407

32 DEFERRED TAX ASSETS/(LIABILITIES)

32.1 Summary of Net Deferred Tax Asset

	2020		2019	
	Temporary difference	Tax effect	Temporary difference	Tax effect
Opening Balance as at 1 January	1,309,455	366,648	602,769	168,776
Recognized in profit or loss				
Charge for the year	509,246	142,589	821,191	229,933
Recognized in other comprehensive income				
Effect on actuarial losses/ (gains) on defined benefit plans	23,437	6,562	(25,604)	(7,169)
Effect on fair value losses on financial investments measured at FVOCI	(61,498)	(17,219)	(93,365)	(26,142)
Effect on fair value gains on equity instruments measured at FVOCI	(157)	(44)	4,464	1,250
Closing Balance as at 31 December	1,780,483	498,536	1,309,455	366,648

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	2020	2019	2020	2019	2020	2019
Deferred Tax Assets on:						
Defined benefit plans	16,686	17,315	(629)	5,025	-	-
Actuarial losses on defined benefit plans	1,447	-	-	-	1,447	(2,055)
Carried forward tax losses	411,264	177,319	233,943	93,810	-	-
Impairment Provision	141,655	270,423	(128,768)	141,543	-	-
Impact from SLFRS 16 Leases	12,748	(7,462)	20,210	7,462	-	-
	583,800	457,595	124,756	247,840	1,447	(2,055)
Deferred Tax Liabilities on:						
Accelerated depreciation for tax purposes	54,090	71,922	(17,833)	2,983	-	-
Actuarial gains on defined benefit plans	-	5,114	-	-	(5,114)	5,114
Unrealised gains on Financial assets measured at fair value through OCI - Financial Investments	30,696	13,477	-	-	17,219	26,142
Unrealised gains on Financial assets measured at fair value through OCI - Equity Instruments	478	434	-	-	44	(1,250)
	85,264	90,947	(17,833)	2,983	12,150	30,006
Deferred tax effect on profit or loss and other comprehensive income			142,589	229,933	(10,701)	(32,061)
Net deferred tax asset as at 31 December	498,536	366,648	-	-	-	-

32.3 The total temporary differences arising from tax losses and tax credits amounted to Rs. 2,052 Mn resulting in a deferred tax asset of Rs. 575 Mn as at 31 December 2020, out of which, based on an internal assessment carried out by the Board of Directors, the recognition of deferred tax asset has been limited to Rs. 411 Mn. The unrecognised deferred tax asset as at 31 December 2020 was Rs. 164 Mn.

As at 31 December	Note	2020 Rs. '000	2019 Rs. '000
33 OTHER ASSETS			
Deposits and prepayments		150,272	109,608
Other receivables		252,676	326,589
Pre-paid staff cost		29,544	47,004
Tax recoverable	33.1	73,130	90,542
Total other assets		505,622	573,743

33.1 Tax recoverable

Withholding Tax recoverable	72,625	72,551
Economic Service Charge recoverable	-	17,486
Crop levy recoverable	505	505
	73,130	90,542

ESC amounting to Rs. 23 Mn was written off during the year

34 DUE TO BANKS

Borrowings		
Local currency borrowings	1,167,458	652,508
Foreign currency borrowings	389,490	865,434
Total Due to banks	1,556,948	1,517,942

35 DERIVATIVE FINANCIAL INSTRUMENTS

Forward foreign exchange contracts	149	2,281
Total	149	2,281

36 FINANCIAL LIABILITIES AT AMORTIZED COST - DUE TO DEPOSITORS

Local currency deposits	29,291,665	23,077,970
Foreign currency deposits	2,705,936	1,964,592
Total Due to depositors	31,997,601	25,042,562

As at 31 December	Note	2020 Rs. '000	2019 Rs. '000
36.1 Analysis of due to depositors			
36.1.1 By product			
Current account deposits		1,554,155	1,120,910
Savings deposits		7,464,381	2,943,386
Time deposits		21,036,070	19,573,463
Certificate of deposits		1,932,342	1,388,621
Margin deposits		10,653	16,182
Total		31,997,601	25,042,562
36.1.2 By currency			
Sri Lanka Rupees		29,291,665	23,050,567
United States Dollars		2,611,659	1,895,255
Great Britain Pound		51,936	44,559
Euro		7,348	48,823
Australian Dollars		14,113	-
Other currencies		20,880	3,358
Total		31,997,601	25,042,562
36.1.3 By institution/ customers			
Deposits from banks		1,003,627	1,170,873
Deposits from finance companies		1,401,124	753,467
Deposits from other corporates		12,276,226	16,683,452
Deposits from other customers		17,316,624	6,434,769
Total		31,997,601	25,042,562

37 FINANCIAL LIABILITIES AT AMORTIZED COST - DUE TO OTHER BORROWERS

Term Borrowings		896,714	892,848
Securities sold under repurchase (repo) agreements		1,224,478	55,450
Total due to other borrowers		2,121,192	948,298

The market value of eligible securties adequatly covers the repurchase value of the securities

38 RETIREMENT BENEFIT OBLIGATIONS

Balance as at 1 January		43,577	51,233
Expenses recognized in the Income statement	38.1	19,304	12,572
Amounts paid during the year		(3,287)	(1,202)
Benefits payable for those who left during the period		-	(761)
Actuarial losses/ (gains) recognized in OCI		5,169	(18,265)
Loss/ (gains) due to change in experience assumptions		1,645	(13,856)
Loss/ (gains) due to change in financial assumptions		4,289	(4,083)
Gains due to change in demographic assumptions		(765)	(326)
Balance as at 31 December		64,763	43,577

As at 31 December	2020 Rs. '000	2019 Rs. '000
38.1 Expense Recognised in the Income Statement – Gratuity		
Current service cost	14,947	10,243
Past service cost	-	(3,563)
Interest cost	4,357	5,892
	19,304	12,572
38.2 Details of actuarial assumptions are as follows,		
Discount rate per annum	7.0%	10.0%
Future salary increases	5%	6%
Retirement age (years)	60 Years	60 Years

An actuarial valuation of the retirement benefit obligation was carried out as at 31 December 2020 by Mr. M. Poopalanathan, AIA a firm of professional actuaries. The valuation method used by the actuaries to value the fund is the 'Project Unit Credit Method (PUC)', the method recommended by the Sri Lanka Accounting Standard LKAS 19 on 'Employee Benefits'.

The liability is not externally funded.

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	Sensitivity effect on defined benefit obligation	
	2020 Rs. '000	2019 Rs. '000
1% increase in discount rate	(3,483)	(1,580)
1% decrease in discount rate	3,865	1,696
1% increase in salary escalation rate	4,194	1,939
1% decrease in salary escalation rate	(3,841)	(1,835)

As at 31 December	Note	2020 Rs. '000	2019 Rs. '000
39 OTHER LIABILITIES			
Accrued expenditure		258,219	212,386
Cheques sent on clearing/ PO issued		101,830	67,714
Impairment provision in respect of undrawn credit commitments and financial gurantees	43.1	44,451	90,965
Other payables		313,094	336,130
Total other liabilities		717,594	707,195

As at 31 December	2020 Rs. '000	2019 Rs. '000
40 STATED CAPITAL		
Opening balance as at 1 January	11,394,421	11,394,421
Issue of ordinary shares	-	-
Closing balance as at 31 December	11,394,421	11,394,421
40.1 Movement in number of ordinary shares		
Opening balance as at 1 January	883,142,858	883,142,858
Issue of ordinary shares	-	-
Closing balance as at 31 December	883,142,858	883,142,858
41 RESERVES		
41.1 Statutory Reserve		
Opening balance as at 1 January	32,386	32,386
Transfers during the year	-	-
Closing balance as at 31 December	32,386	32,386

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

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

As at 31 December	2020 Rs. '000	2019 Rs. '000
41.2 Fair Value through OCI reserve		
Balance as at 1 January	35,770	(28,237)
Other comprehensive income for the year	44,392	64,007
Balance as at 31 December	80,162	35,770

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

42 ACCUMULATED LOSSES		
Balance as at 1 January	(1,030,112)	(374,608)
Total comprehensive income		
Profit/ (loss) for the year	(743,947)	(666,600)
Other comprehensive income	1,392	11,096
Transfer to statutory reserves	-	-
Balance as at 31 December	(1,772,667)	(1,030,112)

Notes to the Financial Statements contd.

FINANCIAL STATEMENTS

As at 31 December	2020 Rs. '000	2019 Rs. '000
43 CONTINGENT LIABILITIES AND COMMITMENTS		
43.1 Contingent liabilities		
Guarantees	6,857,447	5,073,074
Documentary credits	2,004,703	1,061,296
Bills for collection	198,198	255,998
Forward exchange purchases	448,244	998,336
Spot exchange purchases	10,403	115,609
Other	1,495	-
Total gross contingent liabilities	9,520,490	7,504,313
Less: impairment	(44,451)	(90,965)
Total net contingent liabilities	9,476,039	7,413,348

43.1.1 Movement in impairment during the year

	Stage 01 Rs. '000	Stage 02 Rs. '000	Stage 03 Rs. '000	Total Rs. '000
Opening balance as at 1 January 2020	24,711	52,183	14,071	90,965
Charge/ (write back) to income statement	16,923	(52,113)	(11,324)	(46,514)
Closing balance as at 31 December 2020	41,634	70	2,747	44,451
Opening balance as at 1 January 2019	2,990	1,037	23,547	27,574
Charge/ (write back) to income statement	21,721	51,146	(9,476)	63,391
Closing balance as at 31 December 2019	24,711	52,183	14,071	90,965

As at 31 December	2020 Rs. '000	2019 Rs. '000
43.2 Commitments		
Undrawn commitments	6,557,147	4,069,628
Capital commitments		
Commitments in relation to property, plant and equipment	29,890	11,044
Commitments in relation to intangible assets	26,691	53,584
Total capital commitments	56,581	64,628
Total commitments	6,613,728	4,134,256
Total commitments and contingencies	16,089,767	11,638,569

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.

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 allowance stating that the Bank was not in it's commercial operations to deduct such expenses to arrive at Taxable Income.

The Bank did not agree with the determination issued by the CGIR and therefore, the Bank has appealed to the Tax Appeals Commission. At present, 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

As at 31 December	2020 Rs. '000	2019 Rs. '000
45 NET ASSET VALUE PER SHARE		
Amount used as the numerator		
Shareholders' funds (Rs. '000)	9,734,302	10,432,465
Amount used as the denominator		
Total no. of shares	883,142,858	883,142,858
Net assets value per ordinary share (Rs.)	11.02	11.81

46 ANALYSIS OF ASSETS AND LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The table below summarizes the maturity profile of the undiscounted cash flows of the Company's assets and liabilities as at 31 December 2020

31 December	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Total 2020 Rs. '000	Total 2019 Rs. '000
Interest earning assets							
Placements with Banks	-	-	-	-	-	-	689,336
Derivative financial instruments	3,658	-	-	-	-	3,658	386
Financial assets measured at fair value through profit or loss	1,596,166	-	-	-	-	1,596,166	-
Financial assets at Amortized costs - Loans and Advances to other customers	13,483,293	4,299,990	6,067,704	2,757,983	2,470,151	29,079,121	27,013,673
Financial assets at Amortized costs - Debt and other Instruments	391,713	44,336	-	-	-	436,049	477,663
Financial assets - measured at fair value through other comprehensive income	15,472	3,874,905	5,356,873	1,203,608	1,067,604	11,518,462	6,654,235
Total interest earning assets	15,490,302	8,219,231	11,424,577	3,961,591	3,537,755	42,633,456	34,835,293

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

31 December	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Total 2020 Rs. '000	Total 2019 Rs. '000
Non-interest earning assets							
Cash and cash equivalents	1,420,123	-	-	-	-	1,420,123	993,133
Balances with Central Bank of Sri Lanka	227,290	166,916	43,664	6,123	-	443,993	1,040,397
Financial assets							
- measured at fair value through other comprehensive income	-	-	-	-	15,153	15,153	13,446
Property, plant and equipment	-	-	-	-	657,912	657,912	858,304
Intangible assets	-	-	-	357,739	-	357,739	457,570
Deferred tax assets	-	-	411,264	-	87,272	498,536	366,648
Other assets	417,388	84,780	1,994	1,460	-	505,622	573,743
Total non-interest earning assets	2,064,801	251,696	456,922	365,322	760,337	3,899,078	4,303,241
Total assets	17,555,103	8,470,927	11,881,499	4,326,913	4,298,092	46,532,534	39,138,534
Interest bearing liabilities							
Due to banks	1,389,615	43,378	70,237	53,718	-	1,556,948	1,517,942
Financial liabilities at amortized cost							
- Due to depositors	16,380,309	12,029,269	3,146,795	441,228	-	31,997,601	25,042,562
Financial liabilities at amortized cost							
- Due to other borrowers	1,168,154	56,324	896,714	-	-	2,121,192	948,298
Total interest bearing liabilities	18,938,078	12,128,971	4,113,746	494,946	-	35,675,741	27,508,802
Non-interest bearing liabilities							
Derivative financial instruments	149	-	-	-	-	149	2,281
Retirement benefit obligations	-	-	-	-	64,763	64,763	43,577
Lease Liability	49,240	41,151	161,219	50,763	37,612	339,985	444,214
Other liabilities	717,594	-	-	-	-	717,594	707,195
Stated capital	-	-	-	-	11,394,421	11,394,421	11,394,421
Statutory reserves	-	-	-	-	32,386	32,386	32,386
Accumulated losses	-	-	-	-	(1,772,667)	(1,772,667)	(1,030,112)
Other Reserves	-	-	-	-	80,162	80,162	35,770
Total non-interest bearing liabilities	766,983	41,151	161,219	50,763	9,836,677	10,856,793	11,629,732
Total liabilities and equity	19,705,060	12,170,122	4,274,965	545,709	9,836,677	46,532,534	39,138,534

47 OPERATING SEGMENTS

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

The following table presents the income, loss and asset and liability information on the Bank's business segments for the year ended 31 December 2020.

	Banking		Treasury/ Investments		Unallocated		Total	
For the year ended 31 December	2020	2019	2020	2019	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Net interest income	867,978	1,601,129	696,797	442,522	-	-	1,564,775	2,043,651
Foreign exchange profit	1,396	(25,752)	68,459	105,191	-	-	69,855	79,439
Net fees and commission income	251,905	239,577	(3,192)	(15,651)	-	-	248,713	223,926
Other income	1,328	1,745	126,270	94,665	1,997	8,888	129,595	105,298
Operating income by segment	1,122,607	1,816,699	888,334	626,727	1,997	8,888	2,012,938	2,452,314
Credit loss expenses	(754,018)	(1,111,470)	(2,062)	(3,440)	-	-	(756,080)	(1,114,910)
Impairment for other losses	(45,638)	(33,389)	-	-	-	-	(45,638)	(33,389)
Net operating income	322,951	671,840	886,272	623,287	1,997	8,888	1,211,220	1,304,015
Depreciation and Operating expenses	(2,076,339)	(2,185,454)	(21,417)	(6,480)	-	-	(2,097,756)	(2,191,934)
Operating loss by segment	(1,753,388)	(1,513,614)	864,855	616,807	1,997	8,888	(886,536)	(887,919)
VAT on financial services	-	-	-	-	-	505	-	505
Segment result	(1,753,388)	(1,513,614)	864,855	616,807	1,997	9,393	(886,536)	(887,414)
Income tax (expense)/ reversal							142,589	220,814
Loss for the year							(743,947)	(666,600)
Other information								
Segment assets	31,098,931	30,370,122	15,433,603	8,768,412	-	-	46,532,534	39,138,534
Segment liabilities	33,287,276	27,755,490	3,510,956	950,579	-	-	36,798,232	28,706,069

48 RELATED PARTY DISCLOSURES

48.1 Transactions with Key Management Personnel (KMP)

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

The pricing applicable to such transactions is based on the assessment of 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)

For the year ended 31 December	2020 Rs. '000	2019 Rs. '000
Non Executive Directors emoluments	17,130	19,339
Executive Directors emoluments	56,089	68,108
Post employment benefits	7,956	8,031
Total	81,175	95,478

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

48.2 Transactions with Key Management Personnel and their Close Family Members of the Bank

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.

For the year ended 31 December	2020 Rs. '000	2019 Rs. '000
Items in the Statement of Financial Position		
Assets		
Financial assets at amortized cost - Loans and advances to other customers	-	1,349
Credit Card	262	283
Total	262	1,632
Liabilities		
Financial liabilities at amortized cost - Due to depositors	185,580	394,854
Total	185,580	394,854
Commitments and contingencies		
Undrawn faculties	9,105	17,186
Total	9,105	17,186
Net accommodation as a percentage of the Bank's regulatory capital		
Direct and indirect accommodations	0%	0%
Items in the Profit or loss		
Interest income	15	464
Interest expense	(24,230)	(416,086)
Fee income	70	69
Compensation to KMP	(81,175)	(95,478)
Total	(105,320)	(511,031)
Shareholdings of related companies		
Number of shares	1,100,000	1,100,000
Shareholding %	12%	12%

48.3 Transactions with Related Companies

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

As at 31 December	2020 Rs. '000	2019 Rs. '000
48.3.1 Transactions with Significant Shareholders		
Items in the Statement of Financial Position		
Assets		
Financial assets at amortized cost - Loans and advances to other customers	-	-
Other receivables	-	31
Total	-	31
Liabilities		
Financial liabilities at amortized cost - Due to depositors	166,535	97,589
Securities sold under repurchase agreements	-	-
Other investments	-	-
Other payables	20,687	9,120
Total	187,222	106,709
Commitments and contingencies		
Off balance sheet	-	-
Undrawn faculties	-	-
Total	-	-
Net accommodation as a percentage of the Bank's regulatory capital		
Direct and indirect accommodations	0%	0%
Items in the Profit or loss	-	-
Interest income	-	-
Interest expense	(4,848)	(10,795)
Fee income	279	-
Fee expense	-	-
Rent Expense	(8,726)	(9,790)
Reimbursement of expenses	14,471	3,205
Other expense	(10,044)	(10,913)
Total	(8,868)	(28,293)
Shareholdings of related companies		
Number of shares	574,042,858	574,042,858
Shareholding %	65%	65%

Notes to the Financial Statements contd.

As at 31 December	2020 Rs. '000	2019 Rs. '000
48.3.2 Transactions with Subsidiaries of Significant Shareholders		
Items in the Statement of Financial Position		
Assets		
Financial assets at amortized cost - Loans and advances to other customers	31	695
Other receivables	20,327	20,652
Total	20,358	21,347
Liabilities		
Financial liabilities at amortized cost - Due to depositors	1,984,994	1,457,211
Securities sold under repurchase agreements	-	-
Other investments	-	-
Other payables	99,529	56,946
Total	2,084,523	1,514,157
Commitments and contingencies		
Off balance sheet	42,170	196,848
Undrawn facilities	742,640	545,824
Total	784,810	742,672
Net accommodation as a percentage of the Bank's regulatory capital		
Direct and indirect accommodations	0%	0%
Items in the Profit or loss		
Interest income	492	8
Interest expense	(119,474)	(141,370)
Fee income	9,234	7,318
Fee expense	-	-
Rent Expense	(65,860)	(68,822)
Reimbursement of expenses	8,986	9,489
Other expense	(43,751)	(97,770)
Total	(210,373)	(291,147)
Shareholdings of related companies		
Number of shares	-	-
Shareholding %	0%	0%

As at 31 December	2020 Rs. '000	2019 Rs. '000
48.3.3 Transactions with Provident Fund of Significant Shareholder		
Items in the Statement of Financial Position		
Assets		
Financial assets at amortized cost - Loans and advances to other customers	-	-
Other receivables	-	-
Total	-	-
Liabilities		
Financial liabilities at amortized cost - Due to depositors	22,803	24,147
Securities sold under repurchase agreements	-	-
Other investments	-	-
Other payables	-	-
Total	22,803	24,147
Commitments and contingencies		
Off balance sheet	-	-
Undrawn faculties	-	-
Total	-	-
Net accommodation as a percentage of the Bank's regulatory capital		
Direct and indirect accommodations	0%	0%
Items in the Profit or loss		
Interest income	-	-
Interest expense	(1,197)	(408)
Fee income	-	-
Fee expense	-	-
Rent Expense	-	-
Reimbursement of expenses	-	-
Other expense	-	-
Net gains from derecognition of financial assets	14,794	(509)
Total	13,597	(918)
Shareholdings of related companies		
Number of shares	-	-
Shareholding %	0%	0%

As at 31 December		2020 Rs. '000	2019 Rs. '000
49 NON-CASH ITEMS INCLUDED IN PROFIT BEFORE TAX			
Depreciation of property, plant and equipment	14	298,121	289,051
Amortisation of intangible assets		192,624	127,220
Adjustments to fixed assets		7,454	421
Interest cost	31.3	46,679	57,300
Impairment losses on loans and advances	12	797,259	1,049,637
Impairment losses on other financial instruments	12	(41,179)	65,273
Tax credit write off		23,594	33,389
Impairment losses on property, plant and equipment		22,045	-
Charge for defined benefit plans	38	19,304	12,572
		1,365,901	1,634,923
50 CHANGE IN OPERATING ASSETS			
Change in balances with Central Bank of Sri Lanka		596,405	(45,992)
Change in Derivative financial instruments		(3,271)	(362)
Change in Financial assets - at fair value through profit or loss		(1,596,166)	-
Change in loans and advances to other customers		(2,862,707)	(4,145,912)
Change in debt and other instruments		40,077	46,566
Change in Financial assets - at fair value through OCI		(4,804,280)	(1,030,613)
Change in deposits and pre-payments		(40,665)	6,341
Change in other assets		85,191	(163,949)
		(8,585,416)	(5,333,921)
51 CHANGE IN OPERATING LIABILITIES			
Change in derivative financial instruments		(2,132)	(12,723)
Change in deposits from banks, customers and debt securities issued		6,994,045	5,293,051
Change in accruals and deferred income		45,833	(21,694)
Change in other liabilities		(4,275)	(127,328)
		7,033,471	5,131,306

52 EVENTS AFTER THE REPORTING DATE

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

53 FINANCIAL RISK MANAGEMENT

53.1 Introduction

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

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

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

53.2 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.

53.2.1 Credit quality analysis

As at 31 December	2020				2019
	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000	Total Rs. '000
Financial assets at amortised cost: loans and advances					
Grade 0 - 2 performing loans	17,450,348	7,428,834	1,728,137	26,607,319	25,227,630
Grade 3: NPA special mention	-	-	350,943	350,943	633,716
Grade 4: NPA substandard	-	-	520,920	520,920	1,305,510
Grade 5: NPA doubtful	-	-	1,378,304	1,378,304	1,400,823
Grade 6: NPA loss	-	-	2,875,835	2,875,835	302,935
Gross loans and advances	17,450,348	7,428,834	6,854,139	31,733,321	28,870,614
Expected credit loss allowance/ impairment	(68,805)	(342,306)	(2,243,089)	(2,654,200)	(1,856,941)
Net loans and advances	17,381,543	7,086,528	4,611,050	29,079,121	27,013,673
Financial assets at amortised cost : Debt and other instruments					
Sri Lanka Development bonds	381,864	-	-	381,864	372,347
Trust Certificates	57,995	-	-	57,995	107,589
Gross debt and other instruments	439,859	-	-	439,859	479,936
Expected credit loss allowance impairment	(3,810)	-	-	(3,810)	(2,273)
Net debt and other instruments	436,049	-	-	436,049	477,663
Cash and cash equivalents (Balances with Banks)					
Balances with Local Banks	162,133	-	-	162,133	191,051
Balances with Foreign Banks	715,415	-	-	715,415	343,932
Gross Balances with Banks	877,548	-	-	877,548	534,983
Expected credit loss allowance	(8,973)	-	-	(8,973)	(1,720)
Net Balances with Banks	868,575	-	-	868,575	533,263

Notes to the Financial Statements contd.

Measurement of expected credit losses (ECL)
Inputs, assumptions and techniques used for estimating impairment under SLFRS 9 is disclosed under accounting policies Note 3.2.5

Significant increase in credit risk
When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information, based on the Bank's historical experience and expert credit assessment 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.

All Moratorium customers within Stage 1 was moved to 31- 60 DPD Bucket as the Bank considers that when a customer is provided assistance it automatically results in a Significant Increase in Credit Risk (SICR) and an impact on ECL was recognized when assessing provisions.

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

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

	2020			2019		
	Base	Best	Worse	Base	Best	Worse
Scenario probability weighting	58%	14%	28%	68%	14%	18%

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

The key drivers for credit risk are GDP growth, 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 2020 would have reduced by approximately 30% (2019 - 25%). The total loans and advances in stage 2 as at 31 December 2020 amounts to Rs. 7 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 2020 would have further increased by approximately 81% (2019 - 169%). The total loans and advances in stage 1 as at 31 December 2020 amounts to Rs. 17 Bn for the Bank. The management believes that a movement of the entire stage 1 loan portfolio to stage 2 is highly unlikely.

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

Year	GDP Growth	Inflation (CCPI) (YoY)	Interest Rate (RF)	Unemployment
Base case - 5-year average				
2019	4.33%	4.96%	9.59%	4.90%
2020	5.80%	5.46%	6.61%	5.80%
Best Case - 5-year average				
2019	5.33%	3.96%	8.59%	3.90%
2020	6.80%	4.46%	5.61%	4.80%
Worst Case - 5-year average				
2019	3.33%	5.96%	10.59%	5.90%
2020	4.80%	6.46%	7.61%	6.80%

As at 31 December 2020, the base case assumptions have been updated to reflect the rapidly evolving situation with respect to COVID-19 by using the economic forecast provided by the CBSL.

Measurement of ECL

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

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

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

LGD is the magnitude of the likely loss if there is a default. The bank used 45% of LGD in absence of history of recovery rates. EAD represents the expected exposure in the event of a default. The bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract. the bank used credit conversion factors mentioned in the regulatory guidelines. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable.

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

Collateral held and other Credit enhancement

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

53.2.2 Concentrations of Credit Risk

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

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

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

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

(*) Loans and receivables appearing in the Note 26 on page 113 do not agree due to the impairment.

53.3 Liquidity risk and fund management

Liquidity risk is the risk that the Bank will be unable to honor 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.ent 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.

53.3.1 Exposure to Liquidity Risk

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

	2020 %	2019 %
Statutory liquid asset ratio		
As at 31 December	33.63	32.65
Average for the period	33.28	27.85
Maximum for the period	38.42	32.77
Minimum for the period	29.91	22.86
Statutory minimum requirement	20.00	20.00

Break up of liquid assets

As at 31 December	2020 Rs. '000	2019 Rs. '000
Cash	546,736	500,044
Treasury Bills and Securities issued or guaranteed by the government of Sri Lanka	2,056,863	3,770,139
Goods Receipts/ Liquid Assets permitted under Extraordinary policy measures due to Covid-19	80,650	-
Balances with licened commercial banks	135,041	762,511
Balances with banks abroad	291,368	316,462
Treasury Bonds	8,110,317	2,702,118
Sri lanka Development bonds	376,083	362,345
Total	11,597,058	8,413,619

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

» Interest subsidy receivable on Senior Citizen Special Deposit Scheme.

» Exposures to State Owned Entities guaranteed by the Government and classified in Stage 1 under SLFRS 9: Financial Instruments for financial reporting purposes with maturity not exceeding one year with hair cut of 10%.

- Fixed deposits held by banks in other licensed banks (remaining period to maturity exceeds 1 year but less than or equal to 2 years, with the hair-cut of 20% and if the remaining period to maturity exceeds 2 years but less than or equal to 3 years, with hair-cut of 30%.
- Loans secured by deposits under lien equivalent to 20% of deposits.
- Receivables from Employees Provident Fund (EPF) in settlement of loans. Maturity analysis for the financial liabilities is shown below with their undiscounted contractual cash flows over the future periods.

53.3.2 Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31 December 2020

31 December	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Total 2020 Rs. '000	Total 2019 Rs. '000
Interest earning assets							
Placements with Banks	-	-	-	-	-	-	689,336
Derivative financial instruments	3,658	-	-	-	-	3,658	386
Financial assets measured at fair value through profit or loss	1,596,166	-	-	-	-	1,596,166	-
Financial assets at Amortized costs - Loans and Advances to other customers	13,483,293	4,299,990	6,067,704	2,757,983	2,470,151	29,079,121	27,013,673
Financial assets at Amortized costs - Debt and other Instruments	391,713	44,336	-	-	-	436,049	477,663
Financial assets - measured at fair value through other comprehensive income	15,472	3,874,905	5,356,873	1,203,608	1,067,604	11,518,462	6,654,235
Total interest earning assets	15,490,302	8,219,231	11,424,577	3,961,591	3,537,755	42,633,456	34,835,293
Non-interest earning assets							
Non-interest earning assets	2,064,801	251,696	456,922	365,322	760,337	3,899,078	4,303,241
Total assets	17,555,103	8,470,927	11,881,499	4,326,913	4,298,092	46,532,534	39,138,534
Interest bearing liabilities							
Due to banks	1,389,615	43,378	70,237	53,718	-	1,556,948	1,517,942
Financial liabilities at amortized cost - Due to depositors	16,380,309	12,029,269	3,146,795	441,228	-	31,997,601	25,042,562
Financial liabilities at amortized cost - Due to other borrowers	1,168,154	56,324	896,714	-	-	2,121,192	948,298
Total interest bearing liabilities	18,938,078	12,128,971	4,113,746	494,946	-	35,675,741	27,508,802
Non-interest bearing liabilities							
Non-interest bearing liabilities	766,983	41,151	161,219	50,763	9,836,677	10,856,793	11,629,732
Total liabilities	19,705,060	12,170,122	4,274,965	545,709	9,836,677	46,532,534	39,138,534

53.4 Market risk

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

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

53.4.1 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		2020			2019		
		Market Risk Measurement			Market Risk Measurement		
	Note	Carrying Amount Rs. '000	Trading Portfolios Rs. '000	Non-Trading Portfolios Rs. '000	Carrying Amount Rs. '000	Trading Portfolios Rs. '000	Non-Trading Portfolios Rs. '000
Assets Subject to Market Risk							
Cash and cash equivalents	21	-	-	-	-	-	-
Placements with banks	23	-	-	-	689,336	-	689,336
Derivative financial instruments	24	3,658	3,658	-	386	386	-
Financial assets measured a fair value through profit or loss	25	1,596,166	-	1,596,166	-	-	-
Financial assets at Amortized costs - Loans and Advances to other customers	26	29,079,121	-	29,079,121	27,013,673	-	27,013,673
Financial assets measured at fair value through other comprehensive income	28	11,533,615	-	11,533,615	6,667,681	-	6,667,681
		42,212,560	3,658	42,208,902	34,371,076	386	34,370,690
Liabilities Subject to Market Risk							
Due to banks	34	1,556,948	-	1,556,948	1,517,942	-	1,517,942
Derivative financial instruments	35	149	149	-	2,281	2,281	-
Financial liabilities at amortized cost - Due to depositors	36	31,997,601	-	31,997,601	25,042,562	-	25,042,562
Financial liabilities at amortized cost - Due to other borrowers	37	2,121,192	-	2,121,192	948,298	-	948,298
		35,675,890	149	35,675,741	27,511,083	2,281	27,508,802

53.4.2 Exposure to interest rate risk– Sensitivity Analysis

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

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

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

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

As at 31 December 2020	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Non-Sensitive Rs. '000	Total 2020 Rs. '000
Financial Assets							
Cash and Cash Equivalents	-	-	-	-	-	1,420,123	1,420,123
Balance with Central Bank of Sri Lanka	-	-	-	-	-	443,993	443,993
Derivative financial instruments	-	-	-	-	-	3,658	3,658
Financial assets measured at fair value through profit or loss	1,596,166	-	-	-	-	-	1,596,166
Financial assets at Amortized costs - Loans and Advances to other customers	24,122,549	147,812	3,493,120	48,984	-	1,266,656	29,079,121
Financial assets at Amortized costs - Debt and other Instruments	391,713	44,336	-	-	-	-	436,049
Financial assets measured at fair value through other comprehensive income	15,472	3,874,905	5,356,873	1,203,608	1,067,604	15,153	11,533,615
Other assets	-	-	-	-	-	252,676	252,676
Total Financial Assets	26,125,900	4,067,053	8,849,993	1,252,592	1,067,604	3,402,259	44,765,401
Financial Liabilities							
Due to banks	1,187,937	43,378	70,237	53,718	-	201,678	1,556,948
Derivative Financial Instruments	-	-	-	-	-	149	149
Financial liabilities at amortized cost - Due to depositors	14,510,324	11,749,984	2,287,069	379,253	-	3,070,971	31,997,601
Financial liabilities at amortized cost - Due to other borrowers	1,168,154	56,324	896,714	-	-	-	2,121,192
Lease liability	-	-	-	-	-	339,985	339,985
Other liabilities	-	-	-	-	-	414,923	414,923
Total Financial Liabilities	16,866,415	11,849,686	3,254,020	432,971	-	4,027,706	36,430,798
Interest rate sensitivity gap	9,259,485	(7,782,633)	5,595,973	819,621	1,067,604	(625,447)	8,334,603
1% increase	92,595	(77,826)	55,960	8,196	10,676	-	89,601
1% decrease	(92,595)	77,826	(55,960)	(8,196)	(10,676)	-	(89,601)

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

As at 31 December 2019	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Non-Sensitive Rs. '000	Total as at 31.12.2019 Rs. '000
Financial Assets							
Cash and Cash Equivalents	-	-	-	-	-	993,133	993,133
Balance with Central Bank of Sri Lanka	-	-	-	-	-	1,040,397	1,040,397
Placements with banks	689,336	-	-	-	-	-	689,336
Derivative financial instruments	386	-	-	-	-	-	386
Financial assets at Amortized costs - Loans and Advances to other customers	23,059,878	3,605,940	217,170	130,685	-	-	27,013,673
Financial assets at Amortized costs - Debt and other Instruments	-	9,647	468,016	-	-	-	477,663
Financial assets measured at fair value through other comprehensive income	-	4,335,814	1,487,204	726,806	104,411	13,446	6,667,681
Other assets	-	-	-	-	-	327,094	327,094
Total Financial Assets	23,749,600	7,951,401	2,172,390	857,491	104,411	2,374,070	37,209,363
Financial Liabilities							
Due to banks	728,496	576,472	63,439	2,288	10,308	136,939	1,517,942
Derivative Financial Instruments	2,281	-	-	-	-	-	2,281
Financial liabilities at amortized cost - Due to depositors	9,318,765	10,564,697	1,629,281	1,195,120	-	2,334,699	25,042,562
Financial liabilities at amortized cost - Due to other borrowers	3,257	52,194	892,847	-	-	-	948,298
Lease liability	34,567	69,557	176,636	100,947	62,507	-	444,214
Other liabilities	-	-	-	-	-	403,844	403,844
Total Financial Liabilities	10,087,366	11,262,920	2,762,203	1,298,355	72,815	2,875,482	28,359,141
Interest rate sensitivity gap	13,662,234	(3,311,519)	(589,813)	(440,864)	31,596	(501,412)	8,850,222
1% increase	136,622	(33,115)	(5,898)	(4,409)	316	-	93,516
1% decrease	(136,622)	33,115	5,898	4,409	(316)	-	(93,516)

As at 31 December	2020 Rs. '000	2019 Rs. '000
53.4.2 (b) Exposure to interest rate risk		
Savings deposits	7,464,381	2,943,386
Time deposits	21,036,070	19,573,463
Certificate of deposits	1,932,342	1,388,621
Total	30,432,793	23,905,470

53.4.3 Exposure to currency risk

As at 31 December	2020			2019
	Sensitivity		Amount	Amount
	+5%	-5%	Rs' 000	Rs' 000
Foreign exchange position - USD	39,013	(39,013)	780,257	27,263
Foreign exchange position - AUD	350	(350)	7,000	3,144
Foreign exchange position - AED	155	(155)	3,095	2,760
Foreign exchange position - EUR	2,282	(2,282)	45,636	4,285
Foreign exchange position - THB	40	(40)	798	1,341
Foreign exchange position - SGD	229	(229)	4,572	8,527
Foreign exchange position - GBP	39	(39)	771	9,973
Foreign exchange position - JPY	43,864	(43,864)	877,275	1,152,786
Foreign exchange position - CAD	-	-	-	502
Foreign exchange position - SEK	190	(190)	3,800	5,300
Foreign exchange position - DKK	57	(57)	1,131	1,131
Foreign exchange position - KWD	4	(4)	85	85
Foreign exchange position - CNY	389	(389)	7,773	3,967
Foreign exchange position - MYR	30	(30)	604	1,039
Foreign exchange position - QAR	226	(226)	4,521	481
Foreign exchange position - INR	3,643	(3,643)	72,851	6,432
Foreign exchange position - MMK	-	-	-	2,838
Foreign exchange position - NOK	30	(30)	600	600
Foreign exchange position - IDR	235,669	(235,669)	4,713,384	5,302,384
Foreign exchange position - OMR	1	(1)	24	-
Foreign exchange position - SAR	-	-	-	195
Foreign exchange position - RUB	21	(21)	420	719
Foreign exchange position - SCR	21	(21)	427	427

53.5 Operational risk

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

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

53.6 Capital Management

53.6.1 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.

53.6.2 Regulatory Capital

Capital Adequacy Ratio (CAR) is calculated based on the Central Bank of Sri Lanka Directions stemming from Basel III Accord. These guidelines require the Bank to maintain a CAR of not less than 8% with common equity capital (Tier I) in relation to total risk-weighted assets and a minimum overall CAR of 12% inclusive of Tier I and Tier II in relation to total risk-weighted assets.

As at 31 December	2020 Rs. '000	2019 Rs. '000
Common Equity Tier1 (CET 1) Capital		
Paid-up ordinary shares/ Common stock/ Assigned capital	11,394,421	11,394,421
Statutory reserve fund	32,386	32,386
Published retained profits/(accumulated losses)(+/-)	(1,772,667)	(1,030,112)
General and other reserves	44,963	21,462
Minority interests (consistent with the above capital constituents)	-	-
	9,699,103	10,418,157
Deductions/Adjustments		
Net Deferred Tax Assets	498,536	366,648
Other intangible assets	357,739	457,570
Advances granted to employees of the Bank for the purchase of shares of the Bank (ESOP)	-	-
50% of Investments in unconsolidated banking and financial subsidiary companies	-	-
50% Investments in the capital of other banks and financial institutions	-	-
Total Tier 1 Capital	8,842,828	9,593,939
Tier II Capital		
Revaluation reserves (as approved by Central Bank of Sri Lanka)	-	-
General provisions	239,957	183,278
Approved subordinated term debt	-	-
Deductions/Adjustments		
50% of investments in unconsolidated banking and financial subsi diary companies	-	-
50% investments in the capital of other banks and financial inst itutions	-	-
Total Tier II Capital	239,957	183,278
Total Capital	9,082,785	9,777,217
Capital adequacy ratios		
Common Equity Tier 1 Capital Ratio	20.72	26.37
Tier 1 Capital Ratio	20.72	26.37
Total Capital Ratio	21.28	26.87

53.6.2.1 Minimum Capital

The Bank is required maintain a minimum capital of Rs. 10 Bn in accordance with the Central Bank Circular on Enhancement of Minimum Capital Requirement of Banks, issued on 23 December 2014, which has not been met and the Bank has informed the regulator of the shortfall along with the detail plans on bridging the shortfall.

TEMPLATE 01

Key Regulatory Ratios – Capital and Liquidity

Item	31 December 2020	31 December 2019
Regulatory Capital (LKR '000)		
Common Equity Tier 1	8,842,828	9,593,939
Tier 1 Capital	8,842,828	9,593,939
Total Capital	9,082,785	9,777,217
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio (Minimum Requirement – 2020: 6.5 and 2019: 7)	20.72	26.37
Tier 1 Capital Ratio (Minimum Requirement – 2020: 8 and 2019: 8.5)	20.72	26.37
Total Capital Ratio (Minimum Requirement – 2020: 12 and 2019: 12.5)	21.28	26.87
Leverage Ratio (Minimum Requirement - 3)	16.71	23.57
Regulatory Liquidity		
Statutory Liquid Assets (LKR '000)	11,597,058	8,413,619
Statutory Liquid Ratio (Minimum Requirement – 20%)		
Domestic Banking Unit (%)	33.63	32.65
Off-Shore Banking Unit (%)	83.49	1,115.25
Liquidity Coverage Ratio (%) – Rupee (Minimum Requirement – 2020:90 and 2019:100)	133	281
Liquidity Coverage Ratio (%) – All Currency (Minimum Requirement – 2020:90 and 2019:100)	119.2	203.59

TEMPLATE 02

Basel III Computation of Capital Ratios

Item	Amount (LKR '000) 31 December 2020	Amount (LKR '000) 31 December 2019
Common Equity Tier 1 (CET1) Capital after Adjustment	8,842,828	9,593,939
Common Equity Tier 1 (CET1) Capital	9,699,103	10,418,157
Equity Capital (Stated Capital)/ Assigned Capital	11,394,421	11,394,421
Reserve Fund	32,386	32,386
Published Retained Earnings/ (Accumulated Retained Losses)	(1,772,667)	(1,030,112)
Published Accumulated Other Comprehensive Income (OCI)	44,963	21,462
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	856,275	824,218
Goodwill (net)	-	-
Intangible Assets (net)	357,739	457,570
Others (specify) – Deferred tax asset	498,536	366,648
Additional Tier 1 (AT1) Capital after Adjustments	-	-
Additional Tier 1 (AT1) Capital	-	-
Qualifying Additional Tier 1 Capital Instruments	-	-
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to AT1 Capital	-	-
Investment in Own Shares	-	-
Others (Specify)	-	-
Tier 2 Capital after Adjustments	239,957	183,278
Tier 2 Capital	239,957	183,278
Qualifying Tier 2 Capital Instruments	-	-
Revaluation Gains	-	-
Loan Loss Provisions	239,957	183,278
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	9,699,103	10,418,157
Total Tier 1 Capital	8,842,828	9,593,939
Total Capital	9,082,785	9,777,217

Pillar III Market Disclosures contd.

SUPPLEMENTARY INFORMATION

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

31 December	2020	2019
Total Risk Weighted Assets (RWA)		
RWAs for Credit Risk	36,840,127	32,565,478
RWAs for Market Risk	2,985,642	1,176,608
RWAs for Operational Risk	2,861,975	2,642,616
CET1 Capital Ratio (Including Capital Conservative Buffer, Countercyclical Capital Buffer and Surcharge on D-SIBs) (%)	20.72	26.37
Of which: Capital Conservative Buffer (%)	2.00	2.50
Of which: Countercyclical Buffer (%)	-	-
Of which: Capital Surcharge on D-SIBs (%)	-	-
Total Tier 1 Capital Ratio	20.72	26.37
Total Capital Ratio (Including Capital Conservative Buffer, Countercyclical Capital Buffer and Surcharge on D-SIBs) (%)	21.28	26.87
Of which: Capital Conservative Buffer (%)	2.00	2.50
Of which: Countercyclical Buffer (%)	-	-
Of which: Capital Surcharge on D-SIBs (%)	-	-

TEMPLATE 03
Computation of Leverage Ratio

Item	Amount (LKR '000)	
	31 December 2020	31 December 2019
Tier 1 Capital	8,786,571	10,355,341
Total Exposures	52,597,693	43,938,616
On-Balance Sheet Items (excluding Derivatives and Securities Financing Transactions, but including Collateral)	45,653,683	38,654,665
Derivative Exposure	-	-
Securities Financing Transaction Exposure	-	-
Other Off-Balance Sheet Exposure	6,944,010	5,283,951
Basel III Leverage Ratio (%) (Tier 1/ Total Exposure)	16.71	23.57

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

Item	Amount (LKR '000)			
	31 December 2020		31 December 2019	
	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
Total Stock of High Quality Liquid Assets (HQLA)	10,473,075	10,473,075	7,025,260	7,025,260
Total Adjusted Level 1 Assets	10,605,814	10,605,814	7,025,526	7,025,526
Level 1 Assets	10,473,075	10,473,075	7,025,260	7,025,260
Total Adjusted Level 2A Assets	-	-	-	-
Level 2 Assets	-	-	-	-
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	43,950,091	9,546,329	32,383,798	5,191,976
Deposits	19,968,299	1,996,830	17,827,871	1,782,787
Unsecured Wholesale Funding	10,329,607	7,111,197	5,371,881	3,183,174
Secured Funding Transactions	-	-	-	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	13,652,185	438,301	9,184,046	226,015
Additional Requirements	-	-	-	-
Total Cash Inflows	3,128,429	1,680,123	4,482,185	2,689,206
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	3,128,429	1,680,123	4,482,185	2,689,206
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		133		281

Pillar III Market Disclosures contd.

SUPPLEMENTARY INFORMATION

TEMPLATE 04

Basel III Computation of Liquidity Coverage Ratio (All Currency)

Item	Amount (LKR '000)			
	31 December 2020		31 December 2019	
	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
Total Stock of High Quality Liquid Assets (HQLA)	10,490,835	10,490,835	7,034,760	7,034,760
Total Adjusted Level 1 Assets	10,623,574	10,623,574	7,035,026	7,035,026
Level 1 Assets	10,490,835	10,490,835	7,034,760	7,034,760
Total Adjusted Level 2A Assets	-	-	-	-
Level 2 Assets	-	-	-	-
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	48,812,318	10,816,319	35,809,258	6,276,955
Deposits	21,576,964	2,157,696	18,839,205	1,883,921
Unsecured Wholesale Funding	11,816,058	8,145,045	6,766,055	4,123,944
Secured Funding Transactions	-	-	-	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	15,419,297	513,578	10,203,998	269,091
Additional Requirements	-	-	-	-
Total Cash Inflows	3,798,854	2,015,335	4,735,532	2,821,631
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	3,798,854	2,015,335	4,735,532	2,821,631
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		119.2		203.59

TEMPLATE 07

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

Asset Class	Amount (LKR '000) as at 31 December 2020					
	Exposure before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)	
	On-Balance Sheet Amount	Off-Balance Sheet Amount	On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density
Claims on Central Government and CBSL	12,359,473	-	12,359,473	-	76,373	0.62%
Claims on Foreign Sovereigns and Their Central Banks	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-
Claims on Banks Exposures	1,667,392	401,078	1,667,392	8,022	1,107,030	66.08%
Claims on Financial Institutions	2,816,204	-	2,816,204	-	1,675,697	59.50%
Claims on Corporates	9,563,763	10,480,913	9,563,763	6,446,017	15,483,514	96.71%
Retail Claims	12,378,918	4,995,953	12,378,918	342,564	12,721,482	100.00%
Claims Secured by Residential Property	1,046,092	-	1,046,092	-	1,018,041	97.32%
Claims Secured by Commercial Real Estate	-	-	-	-	-	-
Non-Performing Assets (NPAs)	2,976,701	-	2,976,701	147,407	3,594,453	115.06%
High-risk Categories	-	-	-	-	-	-
Cash Items and Other Assets	1,715,081	-	1,715,081	-	1,163,533	67.84%
Total	44,523,624	15,877,944	44,523,624	6,944,010	36,840,123	71.58%

Pillar III Market Disclosures contd.

SUPPLEMENTARY INFORMATION

TEMPLATE 08

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

Risk Weight	Amount (LKR '000) as at 31 December 2020 (Post CCF and CRM)							
	0%	20%	50%	75%	100%	150%	>150%	Total Credit Exposure Amount
Asset Classes								
Claims on Central Government and CBSL	11,977,609	381,864	-	-	-	-	-	12,359,473
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	-	240,439	798,817	-	589,405	46,753	-	1,675,414
Claims on Financial Institutions	-	145,271	2,048,580	-	622,353	-	-	2,816,204
Claims on Corporates	-	25,098	1,012,375	-	14,972,307	-	-	16,009,780
Retail Claims	-	-	-	-	12,721,482	-	-	12,721,482
Claims Secured by Residential Property	-	-	-	-	964,441	-	-	964,441
Claims Secured by Commercial Real Estate	-	-	-	-	-	-	-	-
Non-Performing Assets (NPAs)	-	-	56,101	-	2,208,969	940,689	-	3,205,759
High-risk Categories	-	-	-	-	-	-	-	-
Cash Items and Other Assets	551,549	-	-	-	1,163,533	-	-	1,715,082
Total	12,529,158	792,672	3,915,873	-	33,242,490	987,442	-	51,467,635

TEMPLATE 09
Market Risk under standardized Measurement Method

Item	RWA Amount (LKR' 000) As at 31 December 2020
(a) RWA for Interest Rate Risk	2,985,642
General Interest Rate Risk	
i. Net Long or Short Position	321,925
ii. Horizontal Disallowance	-
iii. Vertical Disallowance	-
iv. Options	-
Specific Interest Rate Risk	-
(b) RWA for Equity	-
i. General Equity Risk	-
ii. Specific Equity Risk	-
(c) RWA for Foreign Exchange and Gold	36,352
Capital Charge for Market Risk [(a)+(b)+(c)]* CAR	358,277

TEMPLATE 10
Operational Risk under Basic Indicator Approach/ The standardized Approach/ The Alternative Standardised Approach

Business Lines	Capital Charge Factor	Fixed Factor	Gross Income		
			1st Year	2nd Year	3rd Year
Basic Indicator Approach	15%		1,931,274	2,529,463	2,408,011
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	343,437
The Standardised Approach	-
The Alternative Standardised Approach	-

Risk Weighted Amount for Operational Risk (LKR '000)	
The Basic Indicator Approach	2,861,975
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 2020				
	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	1,420,123	551,549	551,549	-	-
Balances with Central Banks	443,993	443,993	443,993	-	-
Placements with Banks	-	868,574	868,574	-	-
Derivative Financial Instruments	3,658	3,658	-	3,658	-
Financial Assets Designated at Fair Value through Profit or Loss	1,596,166	1,596,166	1,596,166	-	-
Loans and Receivables to Banks	-	-	-	-	-
Loans and Receivables to Other Customers	29,079,121	29,079,121	29,079,121	-	13,925,880
Financial Investments - Available-For-Sale	11,533,615	11,533,615	11,533,615	11,533,615	-
Financial Investments - Held-To-Maturity	436,049	436,049	436,049	-	-
Investments in Subsidiaries	-	-	-	-	-
Investments in Associates and Joint Ventures	-	-	-	-	-
Property, Plant and Equipment	657,913	657,913	657,913	-	-
Investment Properties	-	-	-	-	-
Goodwill and Intangible Assets	357,739	357,739	-	-	357,739
Deferred Tax Assets	498,536	498,536	-	-	498,536
Other Assets	505,620	505,620	505,620	-	-
Liabilities					
Due to Banks	1,556,948	1,556,948	-	-	-
Derivative Financial Instruments	149	149	-	-	-
Other Financial Liabilities Held-For-Trading	-	-	-	-	-
Financial Liabilities Designated at Fair Value Through Profit or Loss	-	-	-	-	-
Due to Other Customers	31,997,601	31,997,601	-	-	-
Other Borrowings	2,121,192	2,121,192	-	-	-

Pillar III Market Disclosures contd.

SUPPLEMENTARY INFORMATION

Item	Amount (LKR '000) as at 31 December 2020				
	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
Debt Securities Issued	-	-	-	-	-
Current Tax Liabilities	-	-			
Deferred Tax Liabilities	-	-	-	-	-
Other Provisions	64,763	64,763	-	-	-
Other Liabilities	1,057,577	1,057,577	-	-	-
Due to Subsidiaries	-	-	-	-	-
Subordinated Term Debts	-	-	-	-	-
Off-Balance Sheet Liabilities					
Guarantees	6,857,447	6,857,447	6,857,447	-	-
Performance Bonds	-	-	-	-	-
Letters of Credit	2,004,703	2,004,703	2,004,703	-	-
Other Contingent Items	656,845	656,845	656,845	-	-
Undrawn Loan Commitments	6,557,147	6,557,147	6,557,147	-	-
Other Commitments	56,581	56,581	-	-	-
Shareholders' Equity					
Equity Capital (Stated Capital)/ Assigned Capital	11,394,421	11,394,421	-	-	-
of which Amount Eligible for CET1	11,394,421	11,394,421	-	-	-
of which Amount Eligible for AT1	11,394,421	11,394,421	-	-	-
Retained Earnings	(1,772,668)	(1,772,668)	-	-	-
Accumulated Other Comprehensive Income	80,161	80,161	-	-	-
Other Reserves	32,386	32,386	-	-	-
Total Shareholders' Equity	9,734,300	9,734,300	-	-	-

TOP 23 SHAREHOLDERS

As at 31 December		2020		2019	
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 contd.

SUPPLEMENTARY INFORMATION

COMPOSITION OF SHAREHOLDERS

As at 31 December	2020		2019	
Shareholder Name	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	8,710,000	0.99%	9,810,000	1.11%
Shares held by Institutions	234,340,000	26.53%	234,340,000	26.53%
Balance held by Public	64,950,000	7.35%	63,850,000	7.23%
Total	883,142,858	100%	883,142,858	100%
Shares held by Resident	830,531,858	94.04%	830,531,858	94.04%
Shares held by Non-Resident	52,611,000	5.96%	52,611,000	5.96%
Total	883,142,858	100%	883,142,858	100%

MOVEMENT IN NUMBER OF SHARES REPRESENTED BY THE STATED CAPITAL

Year	Details	No. of Shares	Stated capital Rs.
2011	Share issue	2	20
2013	Share issue	439,999,998	4,968,849,980
2015	Right issue	43,000,000	623,500,000
2016	Right issue	400,142,858	5,802,071,441
Total		883,142,858	11,394,421,441

Notice of Meeting

NOTICE IS HEREBY GIVEN THAT the Ninth Annual General Meeting of Cargills Bank Limited will be held on 28 May 2021 at 10 a.m. at the Sri Lanka Foundation Institute, No. 100, Padanama Mawatha, Independence Square, Colombo 7 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 2020 with Report of the Auditors thereon.

2. To re-elect as a Director Mr. Richard Ebell who retires by rotation in terms of Article 86 of the Articles of Association of the Bank.

3. To re-elect as a Director Ms. Ruvini Fernando who retires by rotation in terms of Article 86 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.

By Order of the Board,

Ms. Amendra de Silva
Company Secretary

Colombo
25 March 2021

Notes:

1. A member is entitled to attend and vote at the Meeting or appoint a Proxy holder to attend and vote at the meeting instead of him/her. The Proxy holder need not be a member of the Company.

2. A Form of Proxy accompanies this notice.

3. The completed form of Proxy must be deposited at the registered office of the Bank, No. 696, Galle Road, Colombo 3 not less than forty eight (48) hours before the time appointed for the holding of the meeting.

Notes

Notes

Form of Proxy

I/We ……… of

……

being a Member/Members of Cargills Bank Limited hereby appoint ……………………………………………………………………

……

(holder of NIC No : ………………………..) of ……………………………………………………………………………or failing him/her;

Mr. Ranjit Page (Chairman of the Bank)	or failing him
Mr. Senarath Bandara (MD/CEO of the Bank)	or failing him
Mr. Prabhu Mathavan	or failing him
Mr. Faizal Salieh	or failing him
Mr. Richard Ebell	or failing him
Ms. Ruvini Fernando	or failing her
Ms. Marianne Page	or failing her
Mr. Yudhishtran Kanagasabai	

as my/our Proxy to represent me/us and to vote for on my/our behalf at the Ninth Annual General Meeting of the Bank to be held on 28 May 2021 and at any adjournment thereof and at every poll which may be taken in consequence thereof (Please indicate your preference with "√");

	For	Against
1. To receive and consider the Annual Report of the Board of Directors and Statement of Audited Accounts for the year ended 31 December 2020 with Report of the Auditors thereon.		
2. To re-elect as a Director Mr. Richard Ebell who retires by rotation in terms of Article 86 of the Articles of Association of the Bank.		
3. To re-elect as a Director Ms. Ruvini Fernando who retires by rotation in terms of Article 86 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 …………….. 2021

……………………………………… ……………………………………………………

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

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

INSTRUCTIONS AS TO COMPLETION OF THE PROXY FORM

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

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

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

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

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

Corporate Information

NAME OF THE COMPANY
Cargills Bank Limited

LEGAL FORM
A public limited liability company incorporated in Sri Lanka on 3 November 2011 under the Companies Act No. 7 of 2007.
A licensed Commercial Bank under the Banking Act No. 30 of 1988.

REGISTRATION NUMBER
PB 4847

ACCOUNTING YEAR-END
December 31

HEAD OFFICE 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. 32 A,
Sir Mohamed Macan Markar Mw,
Colombo 03.

LAWYERS
Julius and Creasy
No. 41, Janadhipathi Mawatha,
Colombo 01.

COMPLIANCE OFFICER
Gayantha Wijekoon

COMPANY SECRETARY
Ms. Amendra de Silva

BOARD OF DIRECTORS
Ranjit Page - Chairman
(Non-Executive Director)
Senarath Bandara
(Managing Director/ CEO)
(Appointed w.e.f. 1 October 2020)
Prabhu Mathavan
(Executive Director)
Mangala Boyagoda - Senior Director
(Independent Non-Executive Director)
(Retiring w.e.f. 29 April 2021)
Faizal Salieh
(Independent Non-Executive Director)
Richard Ebell
(Independent Non-Executive Director)
Ms. Ruvini Fernando
(Independent Non-Executive Director)
Ms. Marianne Page
(Non-Executive Director)
Yudhishtran Kanagasabai
(Non-Executive Director)

BOARD SUB-COMMITTEES

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

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

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

Board Audit Committee
Richard Ebell - Committee Chairman
Faizal Salieh
Ms. Ruvini Fernando
Chandima Samarasinghe - Secretary

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

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

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

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Banking on the Human Spirit

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