

A Platform for Growth



Annual Report 2019

STATE MORTGAGE & INVESTMENT BANK

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<http://smib.lk/>
About SMIB - Annual Reports

A Platform for Growth

As the premier housing bank to the nation, we have a pivotal role to play in the economy. We successfully navigated through a challenging business landscape to achieve steady performance levels. We believe that this has created a stable platform and a launchpad for the Bank to move forward with greater impetus into the future.

About us



Available Forms

State Mortgage & Investment Bank

Annual Report 2019



Print
Available on
request



CD-Rom
Posted to all
Shareholders



Online
Available as
PDF

OUR STORY

The State Mortgage & Investment Bank being one of the oldest banks of the nation was inaugurated as the Ceylon State Mortgage Bank (CSMB) on 6th December 1931 by Ordinance No. 16 of 1931. State Mortgage & Investment Bank formed by the State Mortgage & Investment Bank Law No. 13 of 1975, amalgamating the Ceylon State Mortgage Bank and the Agricultural and Industrial Credit Corporation, established in 1943. The Bank commenced its operation on 1st January 1979. The Bank was recognized as a Licensed Specialized Bank and the license was issued by the Central Bank of Sri Lanka on 27th April 1998 in terms of the Banking Act No. 30 of 1998.

Since then, deviating from the former lines of business, while paying much attention to the housing needs of the country, the Bank throughout its over eighty years of service, has evolved to become the Housing Bank to the Nation. With the expansion of the Banks activities, the Bank strengthened its resource base by venturing in to various other products. Thus in 1991, the Bank started accepting deposits. In October 2001, Pass-Book Savings product was introduced. The Bank extended its business networks by opening new branches in key locations (at present 24 branches are existence). By spreading its services through branches and facing the challenges and competition of the banking industry the Bank has been able to maintain its position as the "Housing Bank to the Nation".

Vision

“To be the nation’s valued partner in development banking with market leadership in consumer finance”

Mission

SMIB will continue to be the premier housing bank to the nation and a valued partner in development banking;

Customer: We are committed to serve all our customers with attractive financial solutions to suit their housing and development financial needs through superior customer service, innovation, quality and state of art technology.

Business Partners: We will offer best returns for investments with solid security and flexibility.

Employee: We shall provide opportunities for our employees to grow their fullest potentials and to improve their quality of life while creating a healthy and productive work environment with an appreciative team culture.

Shareholders: We are committed to enhance shareholder value through profitable growth while safeguarding stakeholders’ interests.

Technology: We are bound to provide external customers with value added services through automation and technological applications to leverage speed, quality and convenience. We provide internal customers with speed and accurate information to enhance the efficiency and effectiveness of the decision making process.

Society: Being a partner in national development we acknowledge to serve in enhancing the life style of our community.

Corporate Values

What we stand for

We act with integrity and show respect

We exhibit professionalism and excellence in all what we do

We work with dedication and accept accountability for our own actions

We display openness and strive for teamwork

We solicit innovative ideas and proactive solutions

We have hunger for learning and passion for growing with the bank

Financial Highlights

	2019	2018	Change
	Rs. Mn	Rs. Mn	%
Interest Income	5,982	5,525	8.27
Interest Expenses	(3,951)	(3,578)	10.45
Net Interest Income	2,030	1,947	4.25
Profit before Tax	500	480	4.15
Taxation	(81)	(235)	(65.75)
Profit after Tax	419	244	71.42
Investment in Government Securities	1,164	1,149	1.28
Loans and Advance	35,893	34,225	4.87
Total Assets	47,311	42,597	11.07
Customer Deposits	38,872	34,272	13.42
Borrowings	1,612	1,983	-18.71
Stakeholders' Fund	5,659	5,187	9.09
Ratio Analysis			
Profitability Analysis			
	%	%	
Net Interest Margin	4.52	4.60	(1.74)
Return on Equity (ROE)	7.73	4.82	60.37
Return on Assets (ROA)	1.11	1.13	(1.77)
Capital Adequacy			
Equity / Total Assets	11.96	12.18	(1.78)
Equity / Loans & Advances	15.77	15.16	4.03
Tier 1	22.49	22.65	(0.71)
Tier 1 & 11	23.22	23.20	0.09
Liquidity			
Liquid Asset Ratio	25.09	22.34	12.31
Deposit/Loans and Advances	108.30	100.14	8.15
Borrowings/Loans and Advances	4.49	5.79	(22.49)
Rating			
Asset Quality			
NPL/Loans and Advances	21.21	21.76	(2.53)
Loans and Advance to Total Assets	75.87	80.35	(5.58)

Rs. 8.61 Billion

Home Loan Disbursements



Financial Review

What we consider Financial Capital is, essentially the pool of funds available to state Mortgage & Investment Bank. This includes, the capital raised through financing; equity, debt, operations and investments. These generated funds are utilized for activities and capital speculation ventures, to create sustainable returns within the approved risk appetite and to meet regulatory least prerequisites.

OVERVIEW

The year 2019 was a crucial year for the State Mortgage and Investment Bank, with the Bank ending the year with an astounding financial performance recording another noteworthy accomplishment in operating profit (before VAT, DRL and NBT) of Rs.815.90 Mn and Profit After Tax at Rs.419.07 Mn which shows a 11.51% and 71.42% Increments respectively when compared with the year 2018. The Bank saw an overall development in center business territories. A remarkable development in business volumes due to implementation of sound business strategies, ventures on fortifying the brand, and reasonable administration of hazard facilitated these achievements.

The impact of the impressive augmentation in interest cost and the resulting change in the net interest margin were offset a massive addition in business volumes. Subsequently, the interest Income increased to Rs. 5,981.51 Mn. which a change of 8.27% and the asset base of Rs.47,311.43 Mn. which is another gigantic achievement, indicating the sound Management of its credit portfolio and excellent asset quality.

ANALYSIS OF INCOME STATEMENT

Income statement summary

	2019	2018	Change
	Rs (Mn.)	Rs (Mn.)	
Interest Income	5,981.51	5,524.86	8.27%
Total Operating Income	2,173.65	2,080.67	4.47%
Operating profit/(loss) before VAT, NBT & DRL	815.90	731.72	11.51%
Profit/(Loss) before Tax	499.65	479.73	4.15%
Profit/(Loss) for the Year	419.07	244.47	71.42%

INTEREST INCOME

Interest income was increased by 8.27% when compared with 2018. The increase in interest income was mainly driven by higher income from lending, surplus liquidity and Placements with Banks. Compared to 2018, the interest income on loans and advances was grown Rs. 354.87 million and interest income from debts and other instruments was grown by Rs. 36.38 million. Placements with Banks has been recorded a notable growth of 9.79 % when compared with 2018.

NET INTEREST INCOME

Net interest income in the Income statement was Rs. 2,030.16 million for 2019, 4.25% higher than 2018, reflecting an increase in interest income primarily due to the impact of higher interest rates on collateralized agreements, other interest-earning assets and Placements with Banks, increases in Loans , advances and financial instruments owned. Further yields on financial instruments owned to bank also played a vital role. The increase in interest income was partially offset by higher interest expense primarily due to the impact of higher interest rates on other interest-bearing liabilities, collateralized financings and also due to an increases in total average long-term borrowings and deposits.

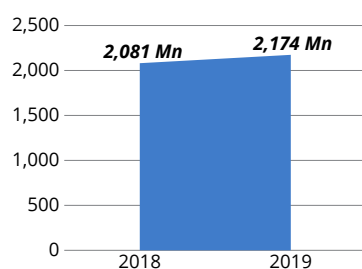
NON-INTEREST INCOME

Non-interest income comprises fee and commission, Net gain/loss from financial investments, and other operating income. Fee and commission income is the principal component of non-interest income which includes fees charged from lending, in the year of 2019 Net fee and commission income which grew by 5.46% over the previous year stood at Rs. 107.47 million against Rs.113.33 million in 2019. Financial assets at fair value through profit or loss reached Rs. 1.84 million in 2019. Further the other Operating Income which includes Dividend and Sundry Income Was RS.28.32 million.

TOTAL OPERATING INCOME

Even though fee and commission income for the year has been slightly changed, increment in Net Interest Income & Other Operating Income mainly contributed for the growth of Total Operating Income. At the end of the year 2019 recorded total operating income was Rs. 2,173.65 Mn denoted the notable increase of 4.47% compared with previous year.

Total Operating Income



ASSET QUALITY AND IMPAIRMENT CHARGES

As a result of growth of the lending portfolio, improvements in the asset quality and applied proactive risk management approach, impairment provision has been decreased to Rs. 131.53 Mn. This improved the provision cover of the Bank enabling it to have a buffer for unexpected losses. In order to enhance quality of the asset base, following sound steps had been taken by the management of the Bank during the financial year 2019.

1. Initiating an income source verification model.
2. Establishment of pre disbursement and monitoring unit for credit proposals.
3. Introducing a sophisticated risk rating model.

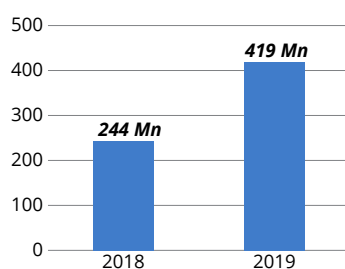
PROFITABILITY

Profit after tax for the Year of 2019 is Rs.419.07 Mn which showed a notable increase of 71.42% compared with 2018 while the Profit before Tax is 499.65 Mn. Although Nation Building Tax (NBT), Value added Tax (VAT) and Debt Repayment Levy (DRL) adversely impacted Our Profit, we are proud

as we have maintained compulsory liquidity and capital sufficiency ratios prescribed by the Central Bank of Sri Lanka.

ROE is a key strategic outcome in financial value creation. It serves as an indicator of the effectiveness of the management approach. Bank maintains a relatively attractive ROE of 7.73% which has increased more than the 60% compared to Previous Year. Further bank's Return on Assets ratio (ROA) is also exhibits a 1.11% level by the end of 2019.

Net Profit after Tax



CONTRIBUTION TO THE NATION

As the Oldest Bank of the Nation, the Bank continues its contribution towards the Nation's development by means of special fee, dividend to the treasury and contribution to the National Insurance Trust Fund besides to the taxes and levy while maintaining required liquidity and capital adequacy ratios prescribed by the Central Bank of Sri Lanka.

However the Bank's has paid Rs.427.98 Mn as contribution to the Government through taxes such as VAT, DRL, NBT and Income Tax in the 2019.

	Rs. Mn
VAT	186.99
NBT	24.91
DRL	109.57
INCOME TAX	106.51
TOTAL	427.98

ANALYSIS OF FINANCIAL POSITION

Asset

Total reported assets base were Rs. 47,311,436,771, and that was 11.07% higher than when compared with the 2018. We have maintained the strength of our balance sheet, as we continued our targeted asset growth, robustness of the focus on core business activities, the interest earning loan portfolio and financial investments accounted the total asset base.

Loans and Advances

Loans and advances (Net) increased on a reported basis by Rs.35, 893 Mn which is a change of 4.87% compared to Previous Year 2018, Which totally backed by increased credit demand from the retail credit lines of Housing Loans, Personal loans and Refinance loans & other loans. The loans and receivables portfolio was diversified across several industry sectors focused on Agriculture, Tourism, SME and Micro finance and housing finance sectors.

Financial Review Contd...

Gross loans and advances

	2019	2018	Change
	Rs	Rs	%
By product			
Mortgage	9,577,227,772	9,323,875,172	2.72%
EPF	8,282,816,696	8,707,071,343	-4.87%
Vehicle	5,799,377	15,443,468	-62.45%
Staff loans	1,117,959,770	985,803,833	13.41%
Personal Loans	16,648,653,558	14,821,377,959	12.33%
Others	1,096,396,335	1,076,948,869	1.81%
Gross loans and advances	36,728,853,508	34,930,520,644	5.15%

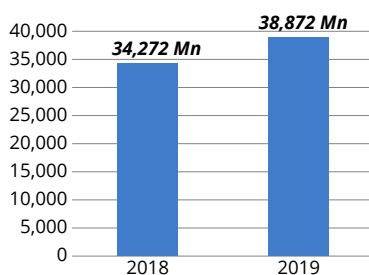
LIABILITIES

In the Year of 2019 total Liabilities reported as a Rs. 41,652,768,226 and in 2018 was a Rs. 37,410,284,396. This was an increase of 11.34% compared to previous year 2018. Which was led by Customer Deposits increased by Rs.38,872Mn notably reflecting 13.42% increase compared to the year 2018 as we won new client mandates and increased balances with existing customers as well as intuitional deposits while the other liabilities showed a decrease and Debt securities stood at Rs.110.18 Mn.

DEPOSIT BASE

With the high competition in the Niche Market and the fluctuating economy (due the Easter attack), we are able to reach an impressive figures in Savings deposits, Fixed deposits and Other deposits (Schemes), where the bank's Total Deposit base increased to Rs.38,872 Mn marked a notable Increase of 13.42% compared to the Previous Year. Which reflects the prudent management practices taken through effective management policies which replicating customer deposit retention and new customer acquisitions. These earned deposit funds were mainly utilized for disbursing loans rather than investment in Government Securities, thereby bringing down the Government Securities to deposit ratio significantly.

Deposit Base



LIQUIDITY COVERAGE

As a licensed specialized government bank (LSB) of Democratic Socialist Republic of Sri Lanka, it is required to maintain a 20% minimum statutory liquidity assets ratio. The bank should compute the statutory liquidity assets in accordance with Section 86 of the Banking Act, No.30 of 1988 and statutory liquidity assets ratio stood at 25.09% level by the end of 2019.

In accordance with Basel III, The Liquidity Coverage ratio aims to ensure that a bank has sufficient unencumbered high-quality liquid assets to meet its liquidity needs in a 30-calendar-day liquidity stress scenario. HQLA consist of cash or assets that can be converted into cash at little or no loss of value, in where the banks Liquid coverage ratio amounted at 121.05% as at the end of the 2019 well higher than the statutory minimum of 100%. The Bank was strong supported accessibility of stable funding as per the definitions prescribed by the CBSL and net Stable Funding ratio (NSFR) stood at 137% as at 31 December 2019 against the minimum requirement of 100%.

Stewardship

*Our leadership and commitment to sound
corporate governance.*



Chairman's Review

Total Asset growth of
11.07%.

It gives me pleasure to present the Annual Report and Audited Financial Statements of the State Mortgage and Investment Bank (SMIB) for the financial year ended 31st December 2019. The year under consideration was one of the most challenging in recent history, but notwithstanding this, the Bank succeeded in delivering a resounding financial performance despite the high pressure environment for both the banking sector and SMIB in the adverse economic climate of the country and the slow growth in financial markets. However, despite these odds, SMIB delivered a notable financial performance due to the visionary leadership of the Board of Directors and the robust systems and processes underlying the Bank's operations.

Bank Performance

Undeterred by external pressures that prevailed throughout the year under review, SMIB posted a profit after tax (PAT) of Rs.419.07Mn as opposed to Rs.244.47Mn in the preceding year, marking a growth of 71.42%. Operating profit for the year 2019 increased by 11.51% to record Rs.815.90Mn. The Bank persevered with its strategy from the previous year of monitoring credit portfolio and quality of liquid assets to record an asset base of Rs.47,311.43Mn reflecting 11.07% YoY growth.

SMIB's human capital continues to drive profitability and upholds the bank's sustainable operations. In turn, the Bank continues to invest in the training, development and

well-being of employee, borne out by exceptional efforts to maintain strong fundamentals.

A look at the volatility in the wider operating environment will provide the sense of the odds against which SMIB functioned during the year under review.

Macro-Economic Backdrop

The Sri Lankan economy grew at a subdued pace in 2019, recording a weaker GDP growth of 2.6% as compared to 3.2% in 2018. The financial year under review witnessed numerous challenges, the chief one being the devastating Easter Sunday attacks in April 2019 which moderated growth in the first half of the year under review, subsequently followed by the presidential election in second half of the year, after which an element of stability was restored.

Meanwhile, the unemployment rate increased slightly during the first half of 2019 in line with the overall subdued economic growth while inflation continued to remain within a reasonable range. Weak economic growth led to a drop in business confidence and disposable incomes, giving rise to a 'wait and approach', which not only the Bank's Lending but also recoveries. The Central Bank of Sri Lanka played a prominent role during the year to curtail market volatility and adopted an accommodative monetary policy stance through the year under review to counter sluggish economic growth, continued slowdown in monetary and credit expansion, and global monetary policy easing.

Sector Performance

Financial institutions continued to display resilience amidst challenging market conditions. Responding to market stresses, the banking sector



“Undeterred by external pressures that prevailed throughout the year under review, SMIB posted a profit after tax (PAT) of Rs.419.07Mn as opposed to Rs.244.47Mn in the preceding year, marking a growth of 71.42%. Operating profit for the year 2019 increased by 11.51% to record Rs.815.90Mn.”

credit growth decelerated and non-performing advances increased. As a result, in 2019 the profitability of the banking sector deteriorated, resulting from increased loan loss provision charges, higher operating expenses and taxes. Deterioration in asset quality was reflected by an increase in Non-Performing Loans (NPLs) resulting from adverse business environment due to unfavorable weather conditions, political uncertainty and the Easter Sunday attack in April 2019.

The challenging business environment due to above factors led to a lower demand for credit resulting in a lower credit growth which contributed to the decline in assets growth. Growth in loans decreased significantly from 19.6% in 2018 to 5.6% during the year 2019. However, the banking sector maintained capital and liquidity well above the regulatory minimum requirements. The eased monetary policy stance enhanced liquidity levels and improved the yield of asset portfolios of banks.

Moreover, credit risk remained high during the year under review, as delinquency levels of loans and advances rose to register a Non-Performing Loan (NPL) ratio of almost 5% by end 2019 as compared to 3.4% in 2018. Profit after tax of the banking industry was Rs. 111.7 Bn during 2019 and contracted by 11% compared to the previous year. Despite the challenging macro environment, the banking sector remained resilient, supported by healthy Capital Adequacy Ratios (CAR), well above the regulatory minimum requirement.

Mitigating Risk with Evolving Strategies

SMIB's robust risk management framework supports sustainable growth while safeguarding risk across

the enterprise. The Board Integrated Risk Management Committee (BIRMC), Executive Integrated Risk Management Committee (EIRMC) and Business Continuity Steering Committee (BCP) are adequately focused on fulfilling their oversight.

Enhancing the risk process at SMIB further, a loan review mechanism has been introduced to re-assess risky credit and identify early warning signals. The Income Source Verification Model (ISVM) was also developed to mitigate the credit risk of the bank.

The existence of operational risk has led to the creation of a risk matrix to assess customers and to categorize them into low, medium and high-risk categories at the time of entering the initial transaction. Risk matrix version 2 has also been introduced with many customer due diligence measures. Furthermore, a Risk Control Self-Assessment policy was deployed to all departments.

Conducting comprehensive Risk Control Self-Assessments in order to identify operational risk across the bank is vital to underscore the Bank's commitment to showcase stringent risk controls. The Risk management team has gone a step further to develop a format for reporting operational risk events/incidents reporting with loss events reporting guidelines and quarterly.

Challenges to Profitability

Competition in a low-growth segment is one of the major challenges that will impact the industry. Banks will be constantly challenged to customize their services and products to gain an edge over competition and to carve out greater market share, business volumes and profitability.

The escalating need for additional capital only serves to heighten the competition further. Higher taxes and deteriorating credit quality are other concerns of bankers. The above factors coupled with the increasing cost of cyber security and regulatory compliance, especially surrounding anti money laundering regulations will place significant pressure on the profitability ratios of banks. Higher cost of funds is another obstacle most banks face when it comes to raising debt capital. In this challenging environment, size and scale would play a significant role, as smaller banks might find themselves unable to bear the pressures.

Economic Outlook

At SMIB, we are positioned comfortably, backed by a strong balance sheet and having delivered a sound financial performance despite tough industry and economic conditions. As a state-owned entity, we take pride in the direction the country is being steered in. The future economic strategies of the incumbent government led by His Excellency President Gotabaya Rajapaksa encapsulates ambitious plans to increase annual GDP growth rate to 6.5% and GDP per capita to USD 6,500 by 2025. Other goals such as keeping unemployment and inflation below 5% are promising. A single digit loan interest rate espoused in the vision statement also bodes well for the nation. The government is already prioritizing business-friendly policies such that businesses can prepare to take full advantage to build a thriving economy.

Strategies for a Secure Future

Towards realizing one of SMIB's key ambitions, we are working towards fulfilling the minimum regulatory capital of Rs.7.5Bn before end of 31st December 2022 and to increase profit

Chairman's Review Contd...

“Towards realizing one of SMIB's key ambitions, we are working towards fulfilling the minimum regulatory capital of Rs.7.5Bn before end of 31st December 2022 and to increase profit to maintain 5% increase each year to meet ROE of 10%.”

to maintain 5% increase each year to meet ROE of 10%. Obtaining low cost funds from loan facilities and refinance scheme to cover 1% of new funding requirements by 2020 will be a key endeavor and this will increase by 2% thereafter in each year. The Bank is also aiming to reduce cost to income ratio from 51% to 50% by 2020 and by 3% thereafter in each year. These are clear-cut, doable goals and we have full confidence of achieving them.

In order to strengthen SMIB's balance sheet further, we are seeking long term funds to reduce the maturity mismatch and concentration risk on short term bulk deposit. The Bank's research and development functions are also being strengthened and supported by advanced technology platforms. The entire branch network will be integrated with a new core banking solutions in 2020 as the first step to deploying the Bank's ATM network across all its branches in 2020. SMIB is also working towards fulfilling its vision of providing an Internet Banking facility to customers by 2022.

Digitalization of our systems and processes is preparing SMIB to match emerging trends in the industry and to create the right platform for growth, while focusing on further diversification of its loan portfolio.

Acknowledgements

I take this opportunity to thank colleagues of the Board for their support and counsel. The General Manager, Senior Management and staff of the SMIB have worked tirelessly to implement our common vision for SMIB. I would like to express my gratitude to the Honorable President of Sri Lanka, His Excellency Gotabaya Rajapaksa; the Honourable Prime Minister

and Minister of Finance, Mahinda Rajapaksa; Deputy Minister; State Minister of Development Banking and Loan Schemes; Secretary to the Treasury; Officials of Central Bank; Departments of Attorney General and Auditor General; and heads of other regulatory bodies for their guidance and support throughout this financial year.



Dr. Udayasri Kariyawasam
Chairman

General Manager/ CEO's Review

Growth of Profit after Tax

71.42%

The financial year 2019 was a challenging year for the State Mortgage and Investment Bank (SMIB). The devastating Easter Sunday bomb attacks had a significant impact on the economy; with the tourism, construction and other sectors affected. The concerning security situation in the aftermath of the attacks created business uncertainty which affected overall investment sentiments and business activity. However, changes in the last quarter of 2019 introduced favorable changes in fiscal and monetary policies generating optimism which stimulated economic activity of the country.

In the backdrop of this challenging business landscape SMIB demonstrated resilience performing well amidst the externalities. This proved that SMIB is built on a strong foundation of fundamentals which can protect the Bank against business externalities.

Resilient Financial Performance

SMIB sustained commendable performance levels in the financial year 2019 amidst the changing dynamics in the operating context. The Bank was successful in enhancing its Interest Income by 8.27% to Rs.5.9 billion from Rs.5.5 billion in the year 2018. The increase in earnings was mainly driven by increased business volumes reflected through increased lending activity which was spurred by credit demand for housing loans, personal loans and other loans. The bank adopted a conscious

approach to diversify its lending mix across a multitude of sectors such as agriculture, SME, Micro, housing and tourism to have in place a well-diversified lending portfolio.

The bank's net profit after tax increased to Rs.419 million which represents a 71.42% growth compared to 2018. This was achieved primarily through the higher income levels generated from the growth of the lending portfolio. Further investing strategies for excess liquidity with placements from banks also boosted revenue levels. Interest income increased due to the increment of Loan Portfolio and other interest earning assets such as financial instruments owned by the bank. At an overall level the Nation Building Tax (NBT) and Debt Repayment Levy (DRL) impacted net operating profit before tax.

Loans and advances showed a progressive growth and which stood Rs.35.89 billion at the end of 2019. Resultantly the total assets of the Bank increased to Rs.47.31 billion in the year 2019 which marks an 11.07% increase. This reflects the success of the Bank's robust business expansion strategies which helped to improve its revenue stream from core business activities. Revenue generated through the increase of the interest-bearing loan portfolio and financial investments is reflected in the increase in the total asset base.

The increase in lending interest rates drove up interest expenses on interest bearing liabilities mainly consisting of long-term borrowings and deposits. This substantial interest expense increase which would have had a direct impact on the interest margin levels was offset and managed to a greater extent by the substantial increase in business volumes during the year. Hence, SMIB was able



“**Loans and advances showed a progressive growth and which stood Rs.35.89 billion at the end of 2019. Resultantly the total assets of the Bank increased to Rs.47.31 billion in the year 2019 which marks an 11.07% increase.**”

General Manager/ CEO's Review Contd...

to maintain its interest margin at 4.52% despite the increased cost of borrowings.

During the year under review, SMIB's deposit base increased significantly mainly driven by an increase in its savings and fixed deposit portfolios by 7.01% and 14.15% respectively. This demonstrates the trust and loyalty the customers have placed on SMIB. The Bank actively pursued client acquisition strategies for new deposits while ensuring retention levels for existing deposits. Priority was placed on utilizing these funds to drive new loan disbursements which supported the development of Economic activities.

During the year several processes were introduced with the objective of streamlining and enhancing decision making at the credit approval stage. Some of these initiatives such as income source verification, risk rating model, Pre-disbursement and Monitoring functions strengthened the credit evaluation process and will help to efficiently mitigate new disbursements moving into Non-Performing Advances (NPA) category. This will ensure that our growth is compensated by returns. We are confident that the positive impacts of these measures introduced will be apparent in the future years as well.

Financial Stability

The Return on Equity (ROE) of SMIB was maintained at a satisfactory level of 7.73%. The Bank complied and exceeded the Central Bank's Net stable funding ratio maintaining the ratio level at 137% well above the stipulated ratio of 100%. SMIB is maintaining healthy liquidity levels and Liquidity Coverage Ratio of the SMIB was 121.05% at the end of 2019, and which was stood as 83.91% by the end of 2018. The statutory

liquidity ratio was maintained at a very satisfactory level of 25.09% by the end of the year 2019. We are certainly proud to have maintained our statutory liquidity and capital adequacy ratios well above the stipulated levels required by the Central Bank of Sri Lanka.

Contribution to the Nation

In the aftermath of the Easter attack Sri Lanka's economic growth levels were impacted significantly. Despite this adverse macro – economic conditions the Bank contributed to the national economy through payment of statutory levies such as the Nation Building Tax, Debt Repayment Levy and Value added tax. Banks overall contributions to the government during the year were Rs.397 million.

Transforming SMIB

As SMIB gears itself to meet the business requirements of a fast-changing world we as a Licensed Specialized Bank (LSB) are committed to create value to our stakeholders; the customer, the community and the shareholders.

As we move ahead transforming ourselves as a more customer-centric, dynamic bank, we have set in place a well- defined strategy. Priority has been placed to enhance and upgrade the service quality parameters of our bank staff in all aspects ranging from the physical and tangible aspects along with other upgraded service levels by being more empathetic and reliable, We are also mindful of upgrading the bank's service's to appeal to the millennial generation of customers who seek and value IT platforms for their banking transactions.

Accordingly, we envisage introducing five service dimensions which will form the platform to elevate our

customer service proposition. This will enable us to move forward as the nations' premier housing bank. These five dimensions are as follows:

Reliability

We recognize reliability as a key customer service parameter. Being reliable and consistent at all times is key service factor which directly helps to win, build trust and loyalty among our valued customers.

Assurance

Assurance is the second dimension ensures that we hope to develop. SMIB is recognized as a bank that is trusted by Sri Lankans as the nations' housing bank and the one stop place for all housing needs. Developing assurance and trust in this key service denominator will enable us to develop our expertise in the housing finance sector of the country.

Tangibles

The tangible – physical element of our bank has a very strong impact on developing our brand and establishing a strong brand affinity connection with our customers. In a competitive business landscape where, financial institutions have elevated themselves considerably we have recognized the need to create an environment which is in line with the evolving needs of our customers.

Empathy

Empathy and empathetic communication with customers by listening and attending to customer needs is of paramount importance in enhancing customer experience. We recognize that to be more empathetic we must build the customer service competencies of our staff.

Responsiveness

Responsiveness is represented by the responding fast to customer needs by being flexible and delivering fast service levels.

Our SMIB Team

SMIB's team consists of employees 378 employees with 43% of our staff being employed for more than 10 years with the Bank. 42% of our employees have been with SMIB for period of 5-9 years whereas 15% has been employed for up to 4 years.

We recognize our employees as vital element of our value creation process. We have redefined our Human Resource strategy to be in line with the emerging trends in the socio-economic landscape. With the increasing trend of millennials joining the Bank it imperative that the HR strategy and policies of the bank is in line with the aspirations of the millennial work force. As such we are positioning ourselves to cater to this emerging work force by using social media platforms for communication and introducing other elements to our HR strategy.

During the year we focused on upgrading the skills and technical competencies of our team and invested significant amount on employee development activities increasing the total number of training hours per employee to 1988 hours. Further, SMIB focused on upskilling the technical knowledge levels which resulted in 148 employees attending knowledge and skill development trainings. We also placed emphasis on enhancing the motivation and attitudes of our employees to enhance the corporate culture which is an ongoing exercise with 95 staff members attending relevant motivational trainings.

Risk Mitigation

Credit and liquidity risks are the key risks that faced by the Bank. In order to mitigate and control risk exposure the Bank has introduced a risk and control framework encompassing financial, credit, operational, compliance and legal reporting systems, internal control, management review processes and other mechanisms. During the year we strengthened our credit processes by introducing an income source verification model. Setting up of the pre-disbursement and monitoring unit for credit proposals also ensures that credit quality is maintained. A sophisticated risk rating model was introduced further strengthening the credit quality and lowering impairment provisions. We believe that these key risk mitigation strategies will help SMIB navigate its way by balancing the portfolio growth with risk return dynamics.

Outlook and Investment in Technology

The Bank has recognized the importance of harnessing IT as a source of competitive advantage. A core banking system will be implemented during the year 2021. This system will ensure connectivity between branches; facilitate the ATM network and internet banking facilities which will be rolled out in stages over the next two years. We believe that digitalization and automation of our processes will create an efficient platform providing convenience and faster service levels to our customers.

Acknowledgements

I wish to extend my appreciation to the Chairman and the Board of Directors for their continuous guidance and support extended. I also wish to thank the senior management and the team of SMIB for their

dedication and commitment. I express my gratitude to the Central Bank of Sri Lanka, Line Ministry and other valued partners of SMIB for their continued support and guidance. Further, I extend my gratitude to our loyal customers who have over the years placed their trust in the SMIB for their housing financing needs.



W.M. Dayasinghe
General Manager/ CEO

Board of Directors

1. Mr. Niroshana Perera

Chairman

Mr. Niroshana Perera, Attorney-at-Law was appointed as the Chairman of SMIB on 26th July 2018 and served up to 3rd December 2019.

He started his legal career in the chambers of former President of the Bar Association of Sri Lanka Mr. Ananda Wijesekara President's Counsel in 1993. He travels extensively appearing mainly in Magistrates' Courts and High Courts in intellectual property, bribery and corruption, debt recovery, defamation, criminal and labour related matters for over a period of 26 years.

He is a much respected delegate of the Bar Association of Sri Lanka and was a Committee member of the Colombo Law Society for a period of five years.

Mr. Niroshana Perera was the Chairman of the Industrial Technology Institute and was a Non-executive Director at Merchant Bank of Sri Lanka & Finance PLC from 2015 to 2018. Further, he was a Director at the Sri Lanka Foreign Employment Agency from 2018 to 2019.

2. Mrs. K.D.R. Olga

Director

Mrs. K.D. R. Olga who is the Director General of State Accounts of Ministry of Finance was appointed as a Director to the Board of Directors of SMIB on 02nd July 2018 and served up to 3rd December 2019.

She holds a Master's Degree in Financial Economics from the University of Colombo and successfully completed Bsc. Degree of Business Administration (Special) from the University of Sri Jayawardenapura.

Being qualified at the Chartered Licentiate Examination in 1987 held by ICASL, she has served more than 29 years as an Accountant at Sri Lanka Accountants service since 1990 and has multi disciplines in government sector such as Public Financial Management Auditing, Accounting and Public Procurement.

3. Mr. Bernard Wasantha

Director

The Secretary of the Ministry of Housing and Construction and Cultural Affairs Mr. Bernard Wasantha was appointed as a Director to the Board of Directors of SMIB on 11th March 2019 and served up to 3rd December 2019.

He has served more than 28 years in Sri Lanka Administrative Service (SLAS) from 1990 up to now. He holds a Bachelor of Arts (Economics) Degree from the University of Colombo and a Master of Arts (Sociology) from the University of Kelaniya.

4. Mr. Sheanath M. de Soysa

Director

Mr. Sheanath M. de Soysa was appointed as a Director to the Board of Directors of SMIB on 30th January 2019 and served up to 3rd December 2019.

He holds a Masters in International Management from American Graduate School of International Management (Thunderbird), Phoenix, Arizona and a Bachelor of Science Degree in Business Management (Finance from Northeast Missouri State University, now known as Truman State University.

Mr. Sheanath M. de Soysa has over 20 years of Professional Experience in the investment/Corporate Banking and Finance Leasing Sector in the USA and Sri Lanka which includes over 10 in

the Banking sector. He hold the post of Assistant General Manager, Deputy General Manager and Director in the Seylan Merchant Bank throughout the period from 1997 to 2007. Further he hold the post of Director/ General Manager in the Seylan Merchant Leasing PLC from 2000 to 2007.

5. Mr. Dilhan Jayasinghe

Director

Mr. Dilhan Jayasinghe was appointed as a Director to the Board of Directors of SMIB on 01st February 2019 and served up to 3rd December 2019.

He holds a Master of Business Administration at Cardiff Metropolitan University, United Kingdom. He was the Director of The Review Publications, SN Jayasinghe Duty Free and Bogamuwa D.C. Mills since 2011.

6. Mr. Vidura Manchanayaka

Director

Mr. Vidura Manchanayaka, Attorney-at-Law was appointed as a Director to the Board of Directors of SMIB on 11th March 2019 and served up to 3rd December 2019.

He started his legal career in the year 1992 and he has over 28 years' experience in the Legal profession. He was attached to the Attorney General's Department from 1992 – 1994 and served as a Director of the Sri Lanka Cashew Corporation from 2015 to 2018.

Corporate and Senior Management

1. Mr. W.M. Dayasinghe

General Manager / CEO

Mr. W.M. Dayasinghe present General Manager / CEO of the bank is having vast experience in the field of Auditing, Finance, Corporate banking Treasury management and overall branch operation activities. He is a fellow member of the Institute of Chartered Accountants of Sri Lanka and, the member of Association of Accounting Technicians of Sri Lanka. He holds Bachelor of Commerce Special Degree of University of Colombo. He has successfully completed the Diploma in Treasury Investment and Risk Management and Information System Security Control and Audit (DISSCA).

Mr. W.M. Dayasinghe joined the Bank on 11th March 2003 and held several Senior Managerial positions such as Internal Auditor, Chief Manager - Finance, Treasury and Branch Operations and Assistant General Manager - Finance.

He started his career as an Accountant in 1984. Since then he has provided professional services to many reputed organizations such as Chartered Accountancy firms, Industrial Development Board, Auditor General Department and Grayline Group of Companies. He has been performing as the General Manager / CEO of the Bank for more than 15 years.

2. Mr. A.D.N. Dharmarathne

Deputy General Manager (Credit)

Mr. A.D.N. Dharmarathne is a holder of Master of Business Administration in Banking & Finance, Bachelor of Science in Estate Management and Valuation Degree, Postgraduate Executive Diploma in Bank Management - IBSL, Postgraduate Diploma in Business Statistics - University of Sri Jayewardenepura,

Higher National Diploma in Commerce and he is a Member of Royal Institution of Chartered Surveyors (England), Fellow Member of Institute of Valuers of Sri Lanka, Member of Association of Professional Bankers (APB) and Member of Associate of Accounting Technicians of Sri Lanka (MAAT).

He started his career as an Assistant Filed Officer in 1983. Since then he worked in United Nations and Valuation Department.

Mr. A.D.N. Dharmarathne joined the bank on 04th November 1986, as a Valuation Inspector. Throughout his career at State Mortgage & Investment Bank he has held positions such as Valuation Inspector, Senior Valuation Inspector, and Assistant Valuation Officer / Assistant Manager - (Valuation), Deputy Manager (Valuation), Manager (Valuation), Chief Manager (Valuation) and Assistant General Manager (Valuation). He was retired on 15th October 2019 and at the time of his retirement he held the post of Deputy General Manager (Credit).

3. Mr. T.M.J. Wickramasekara

Assistant General Manager (Credit - EPF/Estate/SME & Micro)

Mr. T.M.J. Wickramasekara is a holder of Post Graduate Diploma in Business & Finance Administration, Degree of Bachelor of Commerce (Special) and he is qualified in Professional Part ii exam in Institute of Chartered Accountants of Sri Lanka. He started his career as an Audit Assistant in 1983.

Mr. T.M.J. Wickramasekara joined the bank on 01st August 1986 as a Management Trainee. Throughout his career at State Mortgage & Investment Bank he has held positions such as

Credit Officer (Gr.II), Senior Credit Officer/Chief Manager (Credit), and Assistant General Manager in Loan Administration, EPF - Credit, Special Recoveries and the Credit Division.

4. Mr. K.L.N.A. Perera

Assistant General Manager (Finance)

Mr. K.L.N.A. Perera is a holder of MBA in Finance at University of Colombo, Degree of Bachelor in Commerce (Special), Higher National Diploma in Accountancy, Diploma in Banking Integrated Risk Management, and he is a Fellow member of Institute of Chartered Accountants of Sri Lanka (FCA). He started his career as Audit Examiner (II) in 1995.

Mr. K.L.N.A. Perera joined the bank on 02nd September 2010 as the Internal Auditor. Throughout his career at State Mortgage & Investment Bank he has held the position of Chief Internal Auditor and presently he is holding the post of Assistant General Manager (Finance).

Corporate and Senior Management Contd...

5. Mrs. N.P.K. Lokuge

Assistant General Manager (Legal)

Mrs. N.P.K. Lokuge joined the State Mortgage and Investment Bank in October 1995. She has over 32 years' experience in Legal profession and over 24 years' experience in banking field. During her period of service in SMIB, she has held responsible positions in addition to the main stream in the capacity of Assistant General Manager (Legal).

She graduated from the University of Colombo and holds Bachelor of Laws degree. She is an Attorney – at - Law and was called to the Bar in 1988. She is a Company Secretary and a Commissioner for Oaths. Further to that she has successfully completed the Banking Studies at IBSL.

In addition to the main stream in the capacity of Assistant General Manager (Legal) she is presently holding the post of Secretary to the Board of SMIB.

During her banking carrier, she has also followed various international exposure programmes regarding legal systems of Asian Countries attending international conferences held in various countries.

Her experience covers the areas of Banking Law, Corporate Law, Commercial Law and Labour Law.

6. Mr. B.M.D.P.B. Basnayake

Assistant General Manager (IT)

Mr. B.M.D.P.B. Basnayaka is a holder of Master of Science in Management & Information Technology, Degree in Management Information Systems and he is a Certified Member of British Computer Society (BCS). He started his career as a Computer Trainee Programmer in 1997. Before joining SMIB he had been working at Commercial Bank from 2002 to 2017.

Mr. B.M.D.P.B. Basnayaka joined the bank on 17th October 2017 as the Assistant General Manager (IT).

7. Mr. K.K.K.S. Kumara

Assistant General Manager (Recoveries)

Mr. K.K.K.S. Kumara is a holder of Bachelor of Commerce (Special) Degree at University of Sri Jayawardenepura, Post Graduate Executive Diploma In Bank Management at Institute of Bankers of Sri Lanka, and Advance certificate of Banking & Finance. He started his career as a Management Trainee / Assistant Manager in 2001. He worked at Asian Finance Limited, Lankaputhra Development Bank Limited, National Development Bank and Sri Lanka Savings Bank Limited from 2001 to 2019.

Mr. K.K.K.S. Kumara joined the bank on 22nd May 2020 as the Assistant General Manager (Recoveries).

8. Mrs. A.S.K. Amarasinghe

Assistant General Manager (Human Resources & Logistics)

Ms. A.S.K. Amarasinghe is a holder of Master in Business Administration at Australian Institute of Business, Diploma in Psychology, and she has Professional Qualification in Human Resource Management (PQHRM). She is an Associate Member of Chartered Institute of Personnel Management Sri Lanka (CIPM –SL). She has started her career from Sri Lanka Army Volunteer Force as Commissioned Officer in 1999. She worked at WPA World Class Service (PVT) LTD, Ceylon Leather Products PLC and George Sourcing Services UK LTD.

Ms. A.S.K. Amarasinghe joined the bank on 14th October 2019 as the Assistant General Manager (Human Resources and Logistics).

9. Mr. L.W. Samarawickrama

Acting Assistant General Manager (Credit)

Mr. L.W. Samarawickrama is a holder of Degree in Bachelor of Science Estate Management & Valuation (Special) at University of Sri Jayawardenepura and Advance Certificate in Banking and Finance (ACBF). He is an Associate Member of Institute of Valuers of Sri Lanka (AIV). He started his career as a Filed Investigator in 1993. Since then he worked in National Building Research Organization and Valuation Department.

Mr. L.W. Samarawickrama joined the bank on 16th February 1996 as a Valuation Inspector. Throughout his career at State Mortgage & Investment Bank he has held positions such as Senior Valuation Officer, Assistant Manager (Credit), Branch Manager, Chief Manager (Credit). While holding the post of Chief Manager (Credit), presently he is acting as the Assistant General Manager (Credit).

10. Mr. I.K. Gamini

Chief Manager (Credit)

Mr. I.K. Gamini is a holder of Degree of Honours Bachelor of Arts and Certificate in Banking and Finance. He started his career as an Assistant Executive Officer in 1992. Since then he worked in Plan International – Sri Lanka, Housing Development Finance Corporation of Sri Lanka, Urban Development and Low Income Housing Project in Asian Development Bank.

Mr. I.K. Gamini joined the bank on 15th March 1999 as a Credit Officer (Gr.II)/Deputy Manager (Credit). Presently he is holding the post of Chief Manager (Credit).

11. Mr. D.M.R. Dissanayaka**Chief Manager (EPF/Estate/SME & Micro)**

Mr. D.M.R. Dissanayaka is a holder of Master of Arts at University of Kelaniya, Post Graduate Diploma in Buddhist Studies, Degree of (Hon.) Bachelor of Science Estate Management & Valuation, Stafford Diploma in Civil Engineering, Diploma in Computer Programming, Advance Certificate in Banking & Finance (ACBF), Diploma in Mass Media and Diploma in Banking & Finance. He is an Associate Member of Institute of Valuers of Sri Lanka (AIV) and Associate Member of Institute of Bankers of Sri Lanka (AIB). He started his career in 1994 at Government Valuation Department.

Mr. D.M.R. Dissanayaka joined the bank on 16th February 1996 as a Valuation Inspector. Throughout his career at State Mortgage & Investment Bank he has held positions such as Assistant Manager (Credit), Branch Manager, Chief Manager (Credit), Chief Manager (Branch Operations), Act. Assistant General Manager (Human Resources & Logistics). He is presently holding the post of Chief Manager (EPF/Estate/SME/Micro).

12. Mr. S. Wickramasinghe**Chief Manager (Credit)**

Mr. S. Wickramasinghe is a holder of Degree of Bachelor of Science Estate Management & Valuation (Special) at University of Sri Jayewardenepura, and he is an Associate Member of Institute of Valuers of Sri Lanka (AIV). He started his career as a Field Investigator in 1993.

Mr. S. Wickramasinghe joined the bank on 16th February 1996 as a Valuation Inspector. Throughout his career at State Mortgage & Investment Bank he has held positions

such as Senior Valuation Inspector, Assistant Manager (Credit), Branch Manager, Act. Chief Manager (Branch Operations), Chief Manager (Regional Branch – Rathnapura) and presently he is holding the post of Chief Manager (Credit).

13. Mrs. W.K. Perera**Chief Manager (Legal)**

Mrs. W.K. Perera is a holder of Bachelor of Law Degree at University of Colombo. She is an Attorney – at – Law, and Company Secretary.

Mrs. W.K. Perera joined the bank on 15th March 2000 as a Law Officer (Gr. II)/ Deputy Manager (Legal). Presently she is holding the post of Chief Manager (Legal).

14. Mr. D.B.P. Willarachchi**Internal Auditor**

Mr. D.B.P. Willarachchi is a holder of Master of Business Studies at University of Colombo, Post Graduate Diploma in Business and Finance ICASL, Special Degree in Commerce (B.Com), Certified Business Accountant (CBA) of Institute of Chartered Accountants of Sri Lanka, Member of Institute of Internal Auditors (IIA) and he is a Member of Association of Accounting Technicians of Sri Lanka.

He started his career as Audit Senior in 1995. Since then he worked in Hulugalla Samarasinghe & Company, Pramuka Savings and Development Bank Limited, Tea Trends Exports (Pvt) Ltd, Ministry of Agriculture, Irrigation and Mahaweli Development, Sri Lanka Institute of Advance Technological Education (SLIATE) and National Lottery Board.

Mr. D.B.P. Willarachchi joined the bank on 01st January 2015 as the Internal Auditor.

15. Mrs. W.G.S.S.K.**Abeywickrama****Chief Manager (Compliance)**

Mrs. W.G.S.S.K. Abeywickrama is an Attorney at Law. She started her career in 1988. Since then she worked in Samararatna Associates (Law firm), Housing Development Finance Corporation of Sri Lanka (HDFC), and Seylan Merchant Bank Limited.

Mrs. W.G.S.S.K. Abeywickrama joined the bank on 27th March 2000 as a Law officer (Gr.II)/Deputy Manager (Legal). Throughout her career at State Mortgage & Investment Bank she has held the positions of Manager (Legal) and Chief Manager (Legal). Presently she is holding the post of Chief Manager (Compliance).

16. Mr. R.M.U.D. Bandara**Chief Manager (Human Resources & Logistics)**

Mr. R.M.U.D. Bandara is a holder of Master of Human Resource Management Degree at University of Kelaniya, Post Graduate Diploma in Human Resource Management, Bachelor of Science Business Administration (Special) Degree at University of Sri Jayewardenepura, and National Diploma in Human Resource Management (NIBM). He is an Associate Member of Chartered Institute of Personnel Management Sri Lanka (CIPM).

He started his career as an Assistant Manager in 1996. Since then he worked in Sarvodaya Economic Enterprise Development Services (Guarantee) Ltd, Social Security Board, Coconut Development Authority and State Printing Corporation.

Mr. R.M.U.D. Bandara joined the Bank on 12th November 2018 as the Chief Manager (Human Resource and Logistics).

Corporate and Senior Management Contd...

17. Mr. S.A.K.A.K. Sooriyaarachchi

Chief Manager (Risk Management)

Mr. S.A.K.A.K. Sooriyaarachchi is a holder of Master in Art in Economics at University of Colombo, Post Graduate Diploma in Applied Science, Degree of Bachelor of Arts (Special) at University of Peradeniya and ACCA – UK Professional Stage.

He started his career as a Graduate Trainee. Since then he worked in State Bank in India – Colombo, Seylan Bank, RR Donnelly (USA based fortune 500 entity) and Sri Lanka Savings Bank.

Mr. S.A.K.A.K. Sooriyaarachchi joined the Bank on 12th November 2018 as the Chief Manager (Risk Management).

Corporate Governance

Corporate governance highlights the important principles of oversight and control over the executive management's performance and strategic directions; and their accountability to the shareholders.

As a Licensed Specialized Bank the State Mortgage and Investment Bank giving its utmost consideration to the fact that the importance of good corporate governance which provides a basis for its future development and corporate performance.

The Board of Directors of the State Mortgage and Investment Bank, which is the highest decision making authority has overall responsibility for the operations and the financial soundness of the Bank and liable to ensure that the interests of depositors, creditors, employees, and other stakeholders are met.

The Board of Directors of the Bank has an active combination of professionals with practical experience in banking, finance, economics, business management, human resource management, law, marketing, etc. They have the necessary skills and experiences needed to arrive independent, impartial and direct decisions regarding issues of strategy, performance and resources. The Board continued to strengthen its oversight responsibilities on the affairs of the Bank providing the leadership to put the Institution's strategic aims into effect, supervising the management of the business and reporting shareholders on their stewardship.

The Banks' governing principles and structure, strengthen effective decision making, which encourages

greater transparency and endorses accountability across all aspects of the business. The Board ensures that the Bank is managed prudently and within the framework of laws and regulations of the country and governing authorities and the internal policies of the Bank.

The Bank's position and prospects have been discussed in detail in Chairmen's review/ Message and General Manager's/CEO's Review.

The State Mortgage and Investment Bank is built on basic, however very important founding qualities and attributes such as accountability, honesty, fairness, morals and ethics, legal/ regulatory compliance, transparency & disclosure and best proficiencies since it is fundamentally about improving the business of the Bank in the ethical way.

Accountability

Since one of the keystones to the success of an institution is developing a culture of accountability, the Bank having a better understanding of the said fact has developed a culture of accepting responsibility for its action.

Having understood that the concept of accountability is one of the cornerstones of good governance, the Board of Directors of the Bank, reviews and approves the annual and interim financial statements of the Bank on the recommendation of the Audit Committee and the information on financial statements is being reported to the Bank's stakeholders and the general public in a transparent and diligent manner.

The Financial Statements are audited by the Auditor General's Department and the Bank publishes quarterly and annual Financial Statements in the newspapers and this increases the transparency and reliability of the Bank's policies and processes in discharging its accountability.

The Bank has complied with the requirements imposed by all regulatory authorities concerning matters relevant to the Bank's business.

Fairness

Being the Housing Bank to the Nation, the bank treats its all interested parties in a way that is right and reasonable. The Bank makes good

Corporate Governance Contd...

decisions that serve the needs of the business without harming anyone such as customers, employees. Shareholders, suppliers and the community at large.

The Bank makes things worth for all customers. When providing credit facilities, the bank evaluates its customers' repayment capacity that is the affordability of monthly payments. The bank takes legal action for defaulted customers only as the last resort and has always been with the customers whenever they face unexpected difficulties and thereby upheld the vision and mission of the Bank in being the housing Bank to the nation as a very competitive Banking industry.

Transparency and disclosure

Transparency and disclosure (T&D) are essential elements of a robust corporate governance framework as they provide the base for informed decision making by shareholders, stakeholders and potential investors in relation to capital allocation, corporate transactions and financial performance monitoring. It has generally been agreed that the main failure leading to the financial crisis stemmed directly from the lack of financial disclosure and inadequate governance practices.

Transparency is one of the key steps to corporate governance and ensures that management will not engage in improper or unlawful behaviour since their conduct can be and will be scrutinized. To achieve transparency, the Bank strongly believes that it should adopt accurate accounting methods, make full and prompt disclosure of company information and make disclosure of conflict of interests of the directors or controlling shareholders, etc. Accordingly, the bank ensures that it has to be more transparent in its activities discloses through its

annual report, the capital adequacy, key performance indicators, business concentrations, corporate governance statements, and financial statements.

Further, the Bank publishes its quarterly and Annual Financial Reports prepared in accordance with Basel III regulations and SLFRS standards, which are clear and easy to understand. This ensures that the public interest in the Bank's affairs is secured.

Adhering to the fact that the bank should make its disclosures on key points, concerning its risk exposures and risk management strategies without breaching necessary confidentiality, all material developments that arise between regular reports are being disclosed to the relevant authorities and stakeholders as required by law without undue delay.

During the year 2019, there weren't any related party transactions reported in the bank.

Board of Directors

The Board of Directors of SMIB has been appointed by the Minister of the Ministry of Public Enterprises and Kandy City Development as stipulated in the State Mortgage and Investment Bank Law No. 13 of 1975 as amended, and it consists of nine fit and proper independent and non-executive directors having knowledge in diverse areas. Three of the directors out of the said nine members shall be the representatives of the Ministry of the Minister in charge of the subject of Agriculture, the Ministry of the Minister in charge of the subject of Housing and the Ministry of the Minister in charge of the subject of Livestock Development since the purpose of the Bank is to assist the general public in the development of agricultural, industrial and housing, by providing financial and other assistance. The

composition of the Board ensures that there is a sufficient balance of power and continuation of contribution guides in the decision-making process of the board.

The Board of Directors of SMIB supervises and undertakes overall responsibilities and accountability of the Bank by setting high level strategic directions and has delegated the power of implementation of strategies to the General Manager / CEO who exercises executive authority through the corporate management team which he heads and to which he provides leadership and direction. The Bank has an effective leadership structure that allows the board to work collaboratively as a team.

The Board of directors, relying upon their judgment, experience, and expertise, serves as a sounding board and a source of guidance to Corporate Management to ensure the efficient use of resources, effective internal control procedures and a proactive risk management mechanism in line with the Bank's strategic priorities.

The Chairman and the Board of Directors with their strong commitment and farsighted guidance, manage the bank ahead.

The Board of Directors meets at least once a month and in the year 2019, 14 meetings have been held.

The General Manager is invited to all Board meetings. Any other executives whose presence may be required are being called to the Board Room to detail the Board on matters including the progress in implementation of the strategic goals, financial, social and environmental performance, changes and challenges presented by the operating environment, recommended policy frameworks and executive governance structures.

The Board periodically reviews, assesses, and approves Corporate Plan, Action Plan setting out the Bank's mission, vision, business objectives and strategy considering the business opportunities and the main risks to which the Bank is exposed.

The Board proposes such amendments to the strategic plan as it deems appropriate before approving it. The Management implements the strategy as approved and submits progress reports to the Board.

Composition of the Board:

Name of the Director	Date of Appointment	Date of Retirement or ceased to be a Director	Category of Director
Mr. Niroshana Perera (Chairman)	12.07.2018 Reappointed on 01.02.2019	30.11.2018 03.12.2019	Independent non-executive director
Mrs. K.D.R. Olga	02.07.2018 Reappointed on 21.02.2019 Reappointed on 14.05.2019	30.11.2018 04.04.2019 03.12.2019	Independent non-executive director (Treasury Representative)
Mr. Bernard Wasantha	11.03.2019	03.12.2019	Independent non-executive director (Representative of the Housing Ministry)
Mr. Sheanath De Soysa	30.01.2019	03.12.2019	Independent non-executive director
Mr. Dilhan Jayasinghe	01.02.2019	03.12.2019	Independent non-executive director
Mr. Vidura Manchanayake	11.03.2019	03.12.2019	Independent non-executive director

Directors' attendance at Meetings in the Year 2019 is being given in the Director's Report of this annual report.

Functions of the General Manager/CEO

The General Manager / Chief Executive Officer is the highest-ranking individual in the Bank. The Board appoints the General Manager/CEO of the Bank. The managerial and operational activities of the bank have been delegated to the General Manager who heads the Corporate Management Team as well as all the Management Committees of the Bank.

The General Manager functions as the apex executive-in-charge of the day-to-day management of the bank's operations and business. He is responsible for the overall success of the Bank for making top-level managerial decisions. The General Manager / Chief Executive Officer reports directly to, and is accountable to, the board of directors for the performance of the Bank. In addition to the overall success of the Bank, the General Manager/CEO is responsible for leading the development and execution of long-term strategies, intending to increase shareholder value.

The General Manager attends and takes part in every meeting of the Board, unless the Board otherwise directs, but has no right to vote thereat.

Since it is a very responsible position and requires years of experience in various sectors and levels of the banking industry, the General Manager /CEO of the Bank has in depth knowledge about the operations taking place at all levels in the bank. Being the head of operations of the bank he strictly adhered to the duties vest on him to oversee all aspects of management of the Bank.

The authority and responsibilities of the Chairman and the Chief Executive Officer are separate as per the CBSL Directions.

Board Sub Committees

The Bank has established four (4) Board sub committees which shall directly report to the Board. Board sub committees normally function independently from each other and are provided with sufficient authority, resources, and assigned responsibilities in assisting the entire board.

These subcommittees are as follows;

- Board Audit Committee (BAC)
- Board Human Resources and Remuneration Committee (BHRRC)
- Board Nomination Committee (BNC)
- Board Integrated Risk Management Committee (BIRMC).

Scopes of these Board sub committees detailed in the subcommittee reports which mentioned in this annual report. These Committees are chaired by non- executive directors who have expertise and proficiency in the relevant field.

Corporate Governance Contd...

The Board Audit Committee (BAC) provides oversight of the financial reporting process, the audit process, the Bank's system of internal controls and compliance with laws and regulations. It can expect to review significant accounting and reporting issues and recent professional and regulatory pronouncements to understand the potential impact on financial statements. An understanding of how management develops internal interim financial information is necessary to assess whether reports are complete and accurate.

The Board Human Resources and Remuneration Committee (BHRR) sets goals and targets for the Directors, General Manager/CEO and the Key Management Personnel and evaluates the performance of same against the set targets and goals periodically and determines the basis for revising remuneration, benefits and other payments of performance-based incentives. Developing and reviewing HR development strategies on behalf of the Bank and maintaining a consultative role with the other Board Subcommittees and operational committees on all human resource issues, including matters relating to all staff, are among the primary responsibilities vested in the BHRR.

The Board Nomination Committee (BNC) is responsible for implementing a procedure to select/ appoint General Manager/CEO and Key Management Personnel, setting out criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of General Manager/CEO and the Key Management Positions. Accordingly, the committee acts as part of the Bank's corporate governance. The committee will evaluate the board of directors of its respective firm and examine the skills and characteristics needed in board candidates.

Board Integrated Risk Management Committee (BIRMC) assesses all risks, i.e. credit, market, liquidity, operational, and strategic to the Bank through appropriate risk indicators and management information. The committee shall review the adequacy and effectiveness of all management level committees such as the credit committee and the asset-liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee. The committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee based on the bank's policies and regulatory and supervisory requirements.

The Board Audit Committee (BAC) and Board Integrated Risk Management Committee (BIRMC) assist the Board to review and make decisions on the adequacy and integrity of internal controls, review of financial information and their integrity, principal risk elements of the industry and precise risk factors and Corporate Governance of the Bank. The Board has also retained the critical areas of operations under its purview without delegating to the operational level as per Corporate Governance practices.

The State Mortgage and Investment Bank's better risk management indicates that the bank operates at lower relative risk and lower conflict of interests between parties. These advantages of implementing better risk management lead to improve performance of the bank.

Management Committees

Adhering to the Basel Guidelines the board should not participate in day-to-day management but should receive information which sufficient to judge management. The Board of Directors

in managing affairs of the bank has delegated business operations to certain specialized committees comprising of key management personnel led by the Chief Executive Officer/ General Manager. These committees have been established to assist the board in its oversight function. These committees should submit the minutes to the Board of Directors enabling the board to guide and oversee that the key management personnel are carrying out the day to day activities of the bank in a safe and sound manner.

In this context, the Board of Directors has appointed the following Management Committees in addition to Board sub committees.

- Executive Credit Committee (ECC)
- Asset/Liability Management Committee (ALCO)
- Marketing Committee (MC)
- Product Development Committee (PDC)
- Recovery Committee (RC)
- Executive Integrated Risk Management Committee (EIRMC)

Under the direction and oversight of the board, senior management should carry out and manage the bank's activities in a manner consistent with the business strategy, risk appetite, remuneration and other policies approved by the board and accordingly the Members of the aforesaid management Committees have the necessary experience, competencies and integrity to manage the businesses and people under their supervision and they receive access to regular training to maintain and enhance their competencies and stay up to date on developments relevant to their areas of responsibility. Branch Managers participate in progress review meetings once a month, along with senior management.



ජාතික විගණන කාර්යාලය

தேசிய கணக்காய்வு அலுவலகம்

NATIONAL AUDIT OFFICE



මගේ අංකය
எனது இல
My No.

BAF/G/SMIB/CG/2019/3

ඔබේ අංකය
உமது இல
Your No.

දිනය
திகதி
Date

30 September 2020

**The Chairman,
State Mortgage and Investment Bank**

Auditor General's Report of Factual Findings of State Mortgage and Investment Bank on the compliance requirement of the Corporate Governance Directive issued by the Central Bank of Sri Lanka -31 December 2019

I have performed the procedures enumerated in Annexure-1 to this report, with respect to the Governance Report of the Board of Directors prepared and presented to meet the compliance requirement of the Corporate Governance Directive issued by the Central Bank of Sri Lanka (CBSL). My engagement was undertaken in accordance with the principles set out in Sri Lanka Standards on Related Services 4400 (SLSRS 4400) applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you to meet the compliance requirement of the Corporate Governance Directive.

I report my findings in the attached Annexure-1 to this report.

Because the above procedures do not constitute an audit or review made in accordance with Sri Lanka Auditing Standards or Sri Lanka Standards on Review Engagements, I do not express any assurance on the compliance with the Corporate Governance Directives issued by CBSL.

Had I performed additional procedures or had I performed an audit or review of the Governance Report in accordance with Sri Lanka Auditing Standards or Sri Lanka Standards on Review Engagements, other matters might have come to my attention that would have been reported to you.

My report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties.

This report relates only to the items specified above and does not extend to any Financial Statements of State Mortgage and Investment Bank, taken as a whole.

W.P.C. Wickramaratne
Auditor General



Corporate Governance Contd...

Questionnaire for the compliance officers of the bank.

NOTE : The below mentioned numbering is used to coincide with the section 3 of the Banking Act Direction No 11 of 2007 issued by the Central Bank of Sri Lanka , the sections 1 and 2 are not applicable for this document.

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(1)	The responsibilities of the board					
3(1)(i)	Procedures to be carried out to ensure the board have strengthened the safety and soundness of the bank.	Complied				
	a Check the board approval of the bank's strategic objectives and corporate values.	Complied			Corporate Plan for the period 2019-2023 and Action Plan for 2019 was approved by the board under the board paper No.19/04/28 at the meeting held on 30.04.2019	Complied Checked the Corporate Plan for the period 2019-2023 and Action Plan for 2019 and the board paper No.19/04/28 at the meeting held on 30.04.2019
	Check whether the bank has communicated the bank's strategic objectives and corporate values throughout the bank.	Complied			Strategic objectives and corporate values are communicated through heads of departments at each division at the Senior Management Meetings and Branch Managers Meetings held during the year 2019.	Complied Checked the minutes of Branch Manager meeting held on 23/08/2019
	b Check the board approval of the overall business strategy of the bank.	Complied			Overall business strategy (Cooperate vision, mission and the objectives) included in the corporate plan and it was approved by the Board at the meetings held on 30.04.2019.	Complied Checked board approval for the corporate plan in the board paper No.19/04/28 at the meeting held on 30.04.2019
	Check that the overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented.	Complied			The bank has documented the overall business strategy including the overall risk policy, risk management procedures and mechanisms	Complied Refer page 34 to 37 of the corporate plan

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
	Check that the overall business strategy contains measurable goals, for at least the next three years	Complied			The measurable goals to 2019-2023 are included in the corporate plan.	Complied Refer page 36 to 54 of the corporate plan
c	Check that the appropriate systems to manage the risks identified by the board are prudent and are properly implemented	Complied			<p>The Board Integrated Risk Management Committee is addressing the risk identified periodically.</p> <p>Therefore, board reviews Risk Assessment Report of the BIRMC meetings and ensure that the bank has appropriate systems to manage the risks.</p> <p>Further board has given approval for the BIRMC TOR, Board Integrated Risk Management Framework, Risk and Self-Assessment Process, Operational Risk Management System and for Stress Testing Policy. BOD reviews KRIs and Stress testing results submitted to the board on quarterly basis</p>	Complied Refer BIRMC meeting held on 13/11/2019 and BIRMC TOR is approved on Board minute no.18.09.132.04.07

Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
	d Check that the board has approved and implemented a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	Complied			<p>The customer charter is used for the purpose of effective communication between customers and the bank. (copy is attached) Further, Government has 100% ownership of the bank and all directors are appointed by the Ministry of Finance. Therefore, effective communication between government/ shareholders depositors, creditors, borrowers and the bank is maintained. Quarterly financial statements are published in newspapers.</p> <p>The Policy of Communication has been approved by the board in Dec 2015 (Minute No.15.11.155.01 in the board paper No. 15/11/08).BOD appointed in 2020 would look into this subject again and make suitable changes</p>	<p>Complied</p> <p>Checked customer charter of the bank.</p> <p>It is approved by the board in Dec 2015 (Minute No.15.11.155.01 in the board paper No. 15/11/08</p>

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
e	Check that the board has reviewed the adequacy and the integrity of the bank's internal control systems and management information systems;	Complied			<p>The adequacy and integrity of the internal controls and management information system had been reviewed by the Board Audit Committee, the board reviewed the minutes of respective Board audit committee and BIRMC</p> <p>Board Minute No. 19.12.171.01-Board Paper No.19/12/23- Risk Assessment Report of the BIRMC Meeting held on 27.08.2019</p> <p>Board Minute No. 19.14.213.01-Board Paper No.19/14/26 - Risk Assessment Report of the BIRMC Meeting held on 21.10.2019</p> <p>Procurement of core banking system has already commenced. This will address most of the issues in future.</p>	<p>Complied</p> <p>Observed Board Minute No. 19.12.171.01-Board Paper No.19/12/23</p> <p>Board Minute No. 19.14.213.01-Board Paper No.19/14/26</p>

Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
f	Check that the board has identified and designated key management personnel, as defined in the Sri Lanka Accounting Standards, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;	Complied			<p>The board has identified and designated KMP's as defined by LKAS 24.</p> <p>Observed the 15.11.149.26 (Board Paper No.15/10/57) of the board meeting held on 11/12/2015.</p> <p>Also taken initiatives to recruit senior management personnel such as DGMs and AGMs</p>	<p>Complied</p> <p>Observed the 15.11.149.26 (Board Paper No.15/10/57) of the board meeting held on 11/12/2015.</p>
g	Check that the board has exercised appropriate oversight of the affairs of the bank by key management personnel, that is consistent with board policy;	Complied			<p>The board has exercised appropriate oversight of the affairs of the bank by key management personnel.</p> <p>Chairman conducts regular management meetings</p>	<p>Complied</p> <p>Observed the minutes of the management committee meeting held on 27.02.2019 to confirmed the chairman's attendance</p>
h	Check that the board has defined the areas of authority and key responsibilities for the board directors themselves and for the key management personnel	Complied			<p>Director's powers and authority defined in SMIB Law No.13 of 1975 under the Section 07.</p> <p>Each Director has been appointed in one or more Board Committee. Directors were allocated to sub committees by the Board of Directors and charter/ TOR of each committee defines responsibilities. KMPs authorities and responsibilities are listed in Job Descriptions</p>	<p>Complied</p> <p>Checked Charters of BAC, and TOR of BIRMC, BHRRC and BNC</p>

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
i	Check that the board has periodically assessed the effectiveness of the board directors' own governance practices, including: (i) the selection, nomination and election of directors and key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary.	Complied			<p>Selections, nominations and election of the board of directors are done by the minister according to the SMIB Law No.13 of 1975. Directors confirmed in their self-evaluation forms that the board has undertaken an annual evaluation of its own governance practices. Board has taken a decision to audit the implementation of Board decisions.</p> <p>The effectiveness of the BODs is assessed through a questionnaire.</p>	<p>Complied</p> <p>Observed the covering letter sent by the BOD secretary to the central bank of Sri Lanka and it's received seal.</p>
j	Check that the board has a succession plan for key management personnel	Complied			<p>Succession plan for key management personnel for the year 2017 is available.</p> <p>17.04.52.04 (Board Paper No.17.04.21) in the minutes of the board meeting held on 28/04/2017.</p> <p>BOD has taken steps to revise the cadre, SOR and SOP. Further a programme is being implemented to groom the future leaders for the bank</p>	<p>Complied</p> <p>Checked Succession plan for key management personnel for the year 2017 and it was approved by the BOD in the meeting held on 28/04/2017. (Board Paper No.17.04.21)</p> <p>Checked revise the cadre, SOR and SOP.</p>

Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
k	Check that the board has scheduled regular meetings with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives	Complied			<p>In each Board meeting the General Manager being attended and through that the board has established communication lines and monitor progress towards corporate objectives.</p> <p>Further, the board has directed to hold management committee meeting and senior management meeting to ensure that management is working towards corporate objectives.</p>	<p>Complied</p> <p>Checked the Board meeting minutes and confirmed the General Manager's attendance in the year 2019</p>
l	Check that the board has taken measures and processes in place to understand the regulatory environment and that the bank maintains a relationship with regulators	Complied			<p>Compliance Officer has been appointed to maintain regular contact relationship with regulators based upon clear and timely communication and a mutual understanding of the regulators objectives.</p> <p>Compliance division reports to the Board on regularly and to the BIRMC Quarterly basis and respective Boards review the progress.</p> <p>The board audit committee assists the bank in this regard as per the charter of audit committee Terms of References.</p>	<p>Complied</p> <p>Checked reports sent by the compliance division to the Board on regularly and to the BIRMC Quarterly basis</p>

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
	m Check that the board has a process in place for hiring and oversight of external auditors			N/A	Auditor General has been appointed as per the provision contained in the State Mortgage and Investment Bank Law No.13 of 1975. As per such provisions Auditor General is the external auditor. Chairman has requested a meeting with the Auditor General's staff	N/A Auditor General has been appointed as per the provision contained in the State Mortgage and Investment Bank Law No.13 of 1975.
3(1)(ii)	Check that the board has appointed the chairman and the Chief Executive Officer (CEO). Check that the functions and responsibilities of the chairman and the CEO are in line with Direction 3(5) of these Directions	Complied			According to the SMIB Law No.13 of 1975, The chairman has been appointed by relevant Line Ministry. The General Manager/CEO has been appointed by the board. Checked and ensured the functions and responsibilities of the chairman and the CEO which are in line with the above said directions	Complied Refer Para no 14 (1) SMIB Law no 13 of 1975
3(1)(iii)	Check that the board has met regularly and held board meetings at least twelve times a year at approximately monthly intervals.	Complied			The board has met 14 times during the year 2019 at approximately monthly intervals. Board minutes register and directors' attendance register are available. A Board Meeting calendar is prepared for 2020.	Complied Checked attendance register and BOD has met 14 times in 2019

Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(1)(iv)	Check that the board has a procedure in place to enable all directors to include matters and proposals in the agenda for regular board meetings where such matters and proposals relate to the promotion of business and the management of risks of the bank	Complied			<p>The agenda prepared under the authority of the board secretary and it is Checked by the CEO/ GM.</p> <p>The notice of the meeting and agenda for the meeting circulated to all directors at least 7 days prior to the meeting to provide reasonable time to study and make any proposals.</p> <p>Accordingly matters and proposals related to the promotion of business and the management of risks of the bank is discussed by the board of directors.</p>	<p>Complied</p> <p>Observed the copy of mails and agenda send by the board secretary and it was at 7 days prior to the meeting.</p>
3(1)(v)	Check that the board has given notice of at least 7 days for a regular board meeting to provide all directors an opportunity to attend. And for all other board meetings, notice has been given.	Complied			Prepared agenda was sent to each directors of the board which is signed and approved by the secretary by post or by hand at least 7 days prior to the meeting.	<p>Complied</p> <p>Checked the copy of the mails send by the board secretary.</p>
3(1)(vi)	Check that the board has taken required action on directors who have not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held. Participation at the directors' meetings through an alternate director, however, to be acceptable as attendance.	Complied			<p>The directors have attended the meetings as required and hence, no such requirement has been arisen.</p> <p>Directors' Attendance Register and Board Minutes register are available.</p>	<p>Complied</p> <p>Checked BOD attendance of the year 2019</p>

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(1)(vii)	Check that the board has appointed a company secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and whose primary responsibilities shall be to handle the secretariat services to the board and shareholder meetings and carry out other functions specified in the statutes and other regulations.	Complied			<p>The board has appointed the secretary to the board in accordance with the section 43 of the Banking Act No. 30 of 1988 and the Companies Act No 7 of 2007.</p> <p>Secretary to the board is responsible for handling the secretariat services to the board meetings and carry out other functions specified in the statutes and other regulations</p>	<p>Complied</p> <p>Board secretary is an attorney at law which complies section 43 of the Banking Act No. 30 of 1988 and the Companies Act No 7 of 2007 and we observed the certificate of the attorney at law.</p>
3(1)(viii)	Check the process to enable all directors to have access to advice and services of the company secretary.	Complied			All directors have access to advice and obtain the service of the Board Secretary.	<p>Complied</p> <p>As per the board secretary's statements "all directors have access to advice and obtain the service of the Board Secretary"</p>
3(1)(ix)	Check that the company secretary maintains the minutes of board meetings and there is a process for the directors to inspect such minutes.	Complied			<p>All the minutes of the board meetings are filed sequentially and kept under the Board Secretaries authority. At any time, any director shall have access to any information regarding the board meetings.</p> <p>Board meetings' minutes are available. The Board has already taken a decision to set up a separate division for Board Secretary.</p>	<p>Complied.</p> <p>It was observed that the all minutes of the board meetings are filed sequentially and kept under the board. As per secretary's statement at any time any director has access to any information regarding the board meetings.</p>

Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(1)(x)	<p>Check that the minutes of a board meeting contain or refer to the following:</p> <p>(a) a summary of data and information used by the board in its deliberations</p> <p>(b) the matters considered by the board</p> <p>(c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the board was carrying out its duties with due care and prudence;</p> <p>(d) the matters which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations;</p> <p>(e) the understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted; and</p> <p>(g) the decisions and board resolutions.</p>	Complied			<p>Checked the board minutes and ensured that minutes are recorded in sufficient detail includes all the facts referred above.</p> <p>Generally, followings are included in the contents of the board minutes.</p> <p>i) Confirmation minutes of the previous meeting</p> <p>ii) Matters arising out of the minutes of the previous meetings.</p> <p>iii) Differed from the previous meeting</p> <p>iv) Recovery matters</p> <p>v) Financial matters</p> <p>vi) Marketing and publication matters</p> <p>vii) Administration and personal matters.</p> <p>viii) Credit matters</p> <p>ix) Risk Matters</p> <p>x) Legal Matters and,</p> <p>xi) Any Other Matters.</p>	<p>Complied</p> <p>Checked the board minutes of the 14th Meeting for the year 2019 and ensured that minutes are recorded in sufficient details.</p>

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(1)(xi)	Check that there are procedures agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the bank's expense.	Complied			<p>Board approval is obtained enabling directors to seek independent professional advice whenever necessary while carrying out duties and making decisions, at the bank's expense.</p> <p>Generally, for this, bank follows Government approved tender procedures</p>	<p>Complied</p> <p>Observed minute of the 10th Meeting held on 09.08.2019 and given the board approvals for the Tax consultancy</p>
3(1)(xii)	Check that there is a procedure to determine, report, resolve and to take appropriate action relating to directors avoid conflicts of interests, or the appearance of conflicts of interest.	Complied			<p>Related Party Transaction Policy is approved by the Board.</p> <p>(Board Paper No 16/08/35)</p> <p>Board minute no 16.08.95.02 held on 26.08.2016</p> <p>According to the section 28 of the SMIB Law No.1975, no loan shall be granted by the bank to any director</p>	<p>Complied</p> <p>Related Party Transaction Policy was approved by the Board Paper No 16/08/35 & Board minute No 16.08.95.02 held on 16.08.2016</p> <p>According to the section 28 of the SMIB law No 13 of 1975, no loan shall be granted by the bank to any director</p> <p>Obtained a confirmation from the IT Department by mentioning no loans were granted to the board of directors.</p>
	Check that a director has abstained from voting on any board resolution in relation to which he/she or any of his/her close relation or a concern in which a director has substantial interest, is interested.	Complied			No such situation taken place in year 2019.	Complied

Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
	Check that has he/she been counted in the quorum for the relevant agenda item at the board meeting			N/A	Such a matter has not arisen during the year 2019 and therefore this section is not applicable	N/A
3(1)(xiii)	Check that the board has a formal schedule of matters specifically reserved to it for decision to identify the direction and control of the bank is firmly under its authority.	Complied			The board has a formal schedule of matters, the board maintain schedule of matters specifically reserved to it for decision to identify the direction and control of the bank is firmly under its authority. Observed Board Paper No.16/10/40 in the minutes of 16.10.122.02	Complied Observed the board paper No.16.10.40 & minute No. 16.10.122.02 dated 24th October 2016
3(1)(xiv)	Check that the board has forthwith informed the Director of Bank Supervision of the situation of the bank prior to taking any decision or action, if it considers that the procedures to identify when the bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors			N/A	Such situation has not occurred.	N/A
3(1)(xv)	Check that the board has the bank capitalized at levels as required by the Monetary board.	Complied			capital adequacy (Tier 1) as 21.% and Total capital ratio 21.7 as at 31.12.2019 (Tier11) and bank has complied with minimum regulatory capital of Rs. 5 Bn as at 31.12.2019.	Complied. As per the Financial Information network (Fin Net) in the Central Bank of Sri Lanka, The required capital adequacy ratio as per the CBSL IS 21% (Tier 1) and 21.7 (Tier 11)

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(1)(xvi)	Check that the board publishes, in the bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.	Complied			The board has published annual corporate governance report setting out the compliance with direction 3 of these directions in the annual report	Complied There was a corporate governance report published as per the bank annual report 2018
3(1)(xvii)	Check that the board adopts a scheme of self-assessment to be undertaken by each director annually, and maintains records of such assessments.	Complied			Self- assessment/ evaluation process has been carried out by the board of directors for the year 2019	Complied Board secretary has obtained the evaluation forms from all the directors.
3(2)	The board's Composition					
3(2)(i)	Check that the board comprise of not less than 7 and not more than 13 directors.	Complied			According to the section 7 of SMIB Act Board of Directors consisting of nine fit and proper persons appointed by the Minister.	Not complied. The board consists of 06 directors as at 31st December 2019
a	Check that the total period of service of a director other than a director who holds the position of CEO, does not exceed nine years	Complied			No director has exceeded 9 years of service in the capacity of director.	Complied observed that no directors have exceeded 9 years of service
b	In the event of any director serving more than 9 years, check that the transitional provisions have been applied with			N/A	No director has exceeded 9 years of service in the capacity of director.	N/A Refer composition of the board published in the annual report 2019

Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(2)(iii)	Check that the number of executive directors, including the CEO does not exceed one-third of the number of directors of the board.	Complied			In accordance with the provisions of the SMIB Law No.13 of 1975 the board consists of nine directors and appointed by the Line Ministry and all are non-executive directors	Complied According to SMIB Law No.13 of 1975 and the amendment act SMIB no 29 of 1984 the board consists of nine directors and appointed by the Line Ministry and all are non-executive directors
3(2)(iv)	Check that the board has at least three independent non-executive directors or one third of the total number of directors, whichever is higher. Check if non-executive directors can be considered independent if he/she:	Complied			All the Directors are appointed by the Minister, and all are independent and non-executive directors	Complied According to the SMIB Law No.13 of 1975 all the Directors are appointed by the Minister, and all are independent and non- executive directors
a	Holds a direct and indirect shareholding of more than 1 per cent of the bank;			N/A	There's no such situation has arisen as the bank fully owned by the Government	N/A
b	currently has or had during the period of two years immediately preceding his/her appointment as director, any business transactions with the bank as described in Direction 3(7) hereof, exceeding 10 per cent of the regulatory capital of the bank.			N/A	According to note 27 of the Financial Statement 2017 no such transaction occurred.	N/A
c	has been employed by the bank during the two-year period immediately preceding the appointment as director.			N/A	There are no such non-executive directors who were employed by the bank.	N/A Observed the covering letter sent by the Board Secretary to the central bank of Sri Lanka and it's received seal.

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
	d has had a close relation; who is a director, CEO, a member of key management personnel, a material shareholder of the bank or another bank. (For this purpose, a "close relation" means the spouse or a financially dependent child)			N/A	There is no such non-executive director has had a close relation according to the self-declaration made by the directors according to the section 42 of the banking act and declaration made by KMP	N/A Observed the covering letter sent by the Board Secretary to the central bank of Sri Lanka and it's received seal.
	e represents a specific stakeholder of the bank			N/A	The bank is fully owned by the government.	N/A The bank is fully owned by the government
	f is an employee or a director or a material shareholder in a company or business organization					
	I. Which currently has a transaction with the bank as defined in Direction 3(7) of these Directions, exceeding 10 per cent of the regulatory capital of the bank, or			N/A	There was no transaction in which a Director is directly or indirectly interested in for the year ended 2019.	N/A
	II. in which any of the other directors of the bank are employed or are directors or are material shareholders; or			N/A	No incident was arisen in this regard.	N/A
	III. in which any of the other directors of the bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10 per cent of regulatory capital in the bank			N/A	No incident was arisen in this regard	N/A

Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(2)(v)	In the event an alternate director was appointed to represent an independent director, Check the person so appointed meet the criteria that applies to the independent director			N/A	No alternative directors were appointed during the year	N/A Refer composition of the board published in the annual report 2019
3(2)(vi)	Check that the bank has a process for appointing independent directors.	Complied			Directors are appointed by the Minister according to the section 7 of SMIB Law No.13 of 1975	Complied According to the the section 7 of SMIB Law No.13 of 1975, Directors are appointed by the Minister.
3(2)(vii)	Check that the stipulated quorum of the bank includes more than 50% of the directors and out of this quorum more than 50% should include non-executive directors.	Complied			All directors are non – executive Directors.	Complied Refer page 28 in the annual report of 2018
3(2)(viii)	Check that the bank discloses 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			The bank has disclosed the composition of the board, including the names of the chairman and directors. It had disclosed directors' category as independent non-executive directors of the annual report.	Complied Refer page 28 in the annual report of 2018
3(2)(ix)	Check the procedure for the appointment of new directors to the board.	Complied			The appointment of directors is done by the Minister in accordance with the SMIB Act No.13 of 1975.	Complied According to the section 7 of SMIB Law No.13 of 1975, Directors are appointed by the Minister.
3(2)(x)	Check that all directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after their appointment.			N/A	The directors are appointed by the Minister in accordance with the SMIB Law No.13 of 1975	N/A The directors are appointed by the Minister in accordance with the SMIB Law No.13 of 1975

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(2)(xi)	Check if a director resigns or is removed from office, the board: announce the director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the bank, if any; and issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders	Complied		N/A	The removal of the directors is done by the minister of relevant Line Ministry in accordance with the SMIB Law No.13 of 1975 The removal of the directors is done by the minister of relevant Line Ministry in accordance with the SMIB Law No.13 of 1975.	Complied The removal of the directors is done by the minister of relevant Line Ministry in accordance with the SMIB Law No.13 of 1975
3(2)(xii)	Check if there is a process to identify whether a director or an employee of a bank is appointed, elected or nominated as a director of another bank.	Complied			As per section 76H read with section 42 of the Banking Act, DBS has accepted the assessment of fitness and propriety of the directors of SMIB. Code of conduct is in place for employees of SMIB	Complied Observed the covering letter sent by the Board Secretary to the central bank of Sri Lanka and it's received seal.
3(3)	Criteria to assess the fitness and propriety of directors					
3(3)(i)	Check that the age of a person who serves as director does not exceed 70 years.	Complied			Checked and ensured through the declarations that all other directors are below the age of 70.	Complied Observed the covering letter sent by the Board secretary to the central bank of Sri Lanka and it's received seal.
a	Check that the transitional provisions have been complied with.			N/A	Since no directors exceed age of 70 years, this section does not apply.	N/A

Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(3)(ii)	Check if a person holds office as a director of more than 20 companies/entities/ institutions inclusive of subsidiaries or associate companies of the bank.	Complied			No director holds office as a director of more than 20 companies/entities/ institutions. No director holds such directorships	Complied Observed the covering letter sent by the Board Secretary to the central bank of Sri Lanka and It's received seal.
3(4)	Management functions delegated by the board					
3(4)(i)	Check that the delegation arrangements have been approved by the board.	Complied			Power delegation by the BOD to the General Manager to manage the business is done according to the SMIB Law -section 20, 21. Further - more the board appointed sub committees and delegate powers accordingly.	Complied Checked SMIB Law -section 20, 21 and the board appointed sub committees and delegate powers accordingly.
3(4)(ii)	Check that the board has taken responsibility for the matters in 3 (1) (i) even in the instances such actions are delegated	Complied			The board limits delegation of any function to board committees, CEO or key management personnel to an extent that will not reduce the ability of the board to discharge its function.	Complied Checked the sub-committee charters or TOR
3(4)(iii)	Check that the board review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the bank	Complied			The board reviews the delegation processes in place on a periodic basis to ensure that they remain relevant to the requirement of the bank	Complied There was no such kind of requirement in 2019.

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(5)	The Chairman and CEO					
3(5)(i)	Check that the roles of chairman and CEO is separate and not performed by the same individual	Complied			The role of the chairman and CEO are separate and not performed by the same individual.	Complied Two persons are performed as Chairman and CEO
3(5)(ii)	Check that the chairman is a non-executive director.	Complied			Chairman is a non – executive director and he is appointed by the relevant Line Ministry, Under the SMIB Law, No.13 of 1975.	Complied Confirmed from the schedule given by the board secretary
	In the case where the chairman is not an independent director, check that the board designate an independent director as the senior director with suitably documented terms of reference.			N/A	The chairman is an independent director.	N/A Confirmed from the schedule given by the board secretary
	Check that the designation of the senior director be disclosed in the bank's Annual Report			N/A	SMIB Law No. 13 of 1975 does not provide provisions to appoint senior director position.	N/A
3(5)(iii)	Check that the board has a process to identify and disclose in its corporate governance report, which shall be a part of its Annual Report, any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the chairman and the CEO and board members and the nature of any relationships including among members of the board.	Complied			This has been disclosed in the self-declaration made by the directors in accordance with the term of section 42 of the Banking Act.	Complied Observed the covering letter sent by the Board Secretary to the Central Bank of Sri Lanka and It's received seal.

Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(5)(iv)	<p>Check that the board has a self-evaluation process where the chairman:</p> <p>(a) provides leadership to the board;</p> <p>(b) ensures that the board works effectively and discharges its responsibilities; and</p> <p>(c) ensures that all key and appropriate issues are discussed by the board in a timely manner.</p>	Complied			Self-evaluation process has been carried out by the board.	<p>Complied</p> <p>Observed the covering letter sent by the Board Secretary to the Central Bank of Sri Lanka and It's received seal.</p>
3(5)(v)	<p>Check that a formal agenda is circulated by the company</p> <p>Secretary approved by the chairman.</p>	Complied			The agenda was circulated to each and every director by the board secretary with the approval of the chairman.	<p>Complied</p> <p>Checked the agenda dated on 5th November 2019.</p>
3(5)(vi)	Check that the chairman ensures, through timely submission that all directors are properly briefed on issues arising at board meetings	Complied			The directors are properly briefed on issues arising at the board meetings in advance and Board papers are submitted to the Directors prepare early.	<p>Complied</p> <p>We observed the Copy of Mail sent by the board secretary to the board of directors</p>
3(5)(vii)	Check that the board has a self-evaluation process that encourages all directors to make a full and active contribution to the board's affairs and the chairman taking the lead to act in the best interest of the bank.	Complied			Self-evaluation process has been carried out to assess the contribution of the Non-executive Directors by the board in 2019	<p>Complied</p> <p>Observed the covering letter sent by the Board Secretary to the Central Bank of Sri Lanka and It's received seal.</p>

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(5)(viii)	Check that the board has a self-evaluation process that assesses the contribution of non-executive directors.	Complied			Self-evaluation process has been carried out by the board in 2019 and it assesses the contribution of non-executive directors. Observed the self-evaluation forms	Complied Observed the covering letter sent by the Board Secretary to the central bank of Sri Lanka and It's received seal.
3(5)(ix)	Check that the chairman engages in activities involving direct supervision of key management personnel or any other executive duties whatsoever.			N/A	The chairman does not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	N/A According to SMIB Law section 20 of the No.13 of 1975, Chairman had not engaged in activities involving direct supervision of KMP.
3(5)(x)	Check that there is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the board.			N/A	Government has the 100% ownership of the bank and all directors are appointed by the relevant Line Ministry. The Treasury representative is a permanent member of the board.	N/A Government has the 100% ownership of the bank. Directors are appointed by the Ministry of Finance Economy and Policy Development. And confirmed that the Treasury representative is a permanent member of the board.
3(5)(xi)	Check that the CEO functions as the apex executive-in-charge of the day-to-day management of the bank's operations and business.	Complied			As per the organization chart the CEO/ GM function as apex executive in charge of day to day management of the bank operations and business	Complied Observed the organization chart of the bank.

Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(6)	Board appointed committees					
3(6)(i)	Check that the bank has established at least four board committees as set out in Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions.	Complied			Bank has established following board sub committees; <ul style="list-style-type: none"> Board Audit Committee (BAC) Board Human Resources, and Remuneration Committee (BHRC) Board Nomination Committee (BNC) Board Integrated Risk Management Committee (BIRMC) 	Complied Observed the Board Paper No.19.03.42.01 – Appointment of Directors to the Board sub Committees such as BAC BHRC, BNC,BIRMC
	Check that each board committee report is addressed directly to the board.	Complied			Each board subcommittee reports/minutes are directly addressed to the board. Observed the board papers and minutes.	Complied Observed the minutes of the sub committees Ex BAC,BIRMC
	Check that the board presents in its annual report, a report on each committee on its duties, roles and performance.	Complied			The bank has disclosed details of BIRMC Board, Nomination Committee BAC in the annual report.	Complied Observed BIRMC,BHRC ,BNC and BAC reports in the annual report 2018.
3(6)(ii)	Audit Committee:					
	a Check that the chairman of the committee is an independent non-executive director and possesses qualifications and related experience.	Complied			The chairman of BAC was an independent non-executive director and has necessary qualifications and experience. Chairman of BAC in 2020 is a Chartered Accountant.	Complied Observed the appointment letter of the Chairman in the BAC

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
	b Check that all members of the committee are non-executive directors.	Complied			Board Audit committee consists of 3 members and one alternative member and all the members are independent non-executive directors.	Complied Observed the Board Paper No.20.01.03 for the appointment of Directors to the Board sub Committees.
	c Check that the committee has made recommendations on matters in connection with					
	(i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes			N/A	The External Auditor is the Auditor General who has been appointed in accordance with the Finance Act and SMIB Law No 13 of 1975	N/A The External Auditor is the Auditor General who has been appointed in accordance with the Finance Act and SMIB Law No 13 of 1975
	(ii) the implementation of the Central Bank guidelines issued to auditors from time to time			N/A		
	(iii) the application of the relevant accounting standards; and	Complied			Board Audit Committee meeting on 23.05.2019 mentions that Financial statements have been prepared in accordance with the relevant accounting standards as necessary.	Complied Observed the minute of the Board Audit Committee meeting held on 23/05/2019

Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
	(iv) the service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the Previous term.			N/A	The external auditor is Auditor General who has been appointed in accordance with the Finance Act and the SMIB Law No.13 of 1975.	N/A Auditor General who has been appointed according to Finance Act and the SMIB Law No.13 of 1975.
d	Check that the committee has obtained representations from the external auditors on their independence, and that the audit is carried out in accordance with SLAUS.			N/A	Not relevant. According to the SMIB Law No.13 of 1975, Auditor General is the external Auditor of the SMIB.	N/A Auditor General who has been appointed according to Finance Act and the SMIB Law No.13 of 1975.
e	Check that the committee has implemented a policy on the engagement of an external auditor to provide non-audit services in accordance with relevant regulations.			N/A	Not relevant. According to the SMIB Law No.13 of 1975, Auditor General is the external Auditor of the SMIB.	N/A Auditor General who has been appointed according to Finance Act and the SMIB Law No.13 of 1975.
f	Check that the committee has discussed and finalized, the nature and scope of the audit, with the external auditors in accordance with SLAUS before the audit commences.			N/A	The Audit committee has discussed the nature and scope of the audit with the external auditor. Audit Report States that the audit was conducted in accordance with SLAUS	Auditor General is conducted the annual audit based on the audit plan and Auditor General's representative is in presence at the Audit Committee meetings (BAC).

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
	<p>g d) Check that the committee has a process to 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 prepared for disclosure, and a process in place to receive from the CFO the following;</p> <p>(i) major judgmental areas;</p> <p>(ii) any changes in accounting policies and practices;</p> <p>(iii) the going concern assumption; and</p> <p>(iv) the compliance with relevant accounting standards and other legal requirements, and;</p> <p>(v) in respect of the annual financial statements the significant adjustments arising from the audit.</p>	Complied			<p>The board audit committee has reviewed the financial information of the bank through following audit committee meetings.</p> <p>Meeting Date 23/05/2019</p> <p>Meeting Date- 24/06/2019</p> <p>Meeting Date- 03/07/2019</p> <p>Meeting Date - 26/08/2019</p> <p>Meeting Date- 14/11/2019</p>	<p>Complied</p> <p>Observed BAC minutes as follows</p> <p>Meeting Date23/05/2019</p> <p>Meeting Date24/06/2019</p> <p>Meeting Date03/07/2019</p> <p>Meeting Date26/08/2019</p> <p>Meeting Date14/11/2019</p>

Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
	h Check that the committee has met the external auditors relating to any issue in the absence of the executive management with relation to the audit			N/A	Board audit committee has not met the external auditor because there are no such matters arisen during the year.	N/A Refer BAC meeting minutes of the 2019
	i Check that the committee has reviewed the external auditor's management letter and the management's response thereto.	Complied			The BAC reviewed the Auditor General's Report for the year 2018 issued under Section 12 of the National Audit Act, No.19 of 2018 and the management response thereto, instead of the management letter at the meeting held on 03.07.2019. The Management Letter had been issued by the AG's Department on 26.11.2019. Therefore, it will be discussed at the coming BAC.	Complied BAC reviewed the report for the year 2018 issued under Section 12 of the National Audit Act, No.19 of 2018 due to non availability of the Management letter of 2018.
	j Check that the committee shall take the following steps with regard to the internal audit function of the bank:					
	l. Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;	Complied			Internal Audit Plan – 2019 was approved by BAC Paper No.18/04/05 (11/12/2018)	Complied Internal audit plan was approved by BAC Paper No.18/04/05.

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
	II. Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department	Complied			Audit committee has reviewed the internal audit plan quarterly and the results of the internal audit process and taken the appropriate actions where those were necessary.	Complied Observed the BAC paper number19/01/04 dated 21/05/2019.
	III. Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department	Complied			On performance matters, BAC chairman evaluates the internal auditor. Assessment of the performance of senior staff members of the internal audit division are assessed by the internal auditor	Complied Observed the Annual increment form of the Internal Auditor which was evaluated by the BAC chairman and Annual increment forms of the staff members of the internal audit division which were assessed by the Internal Auditor.
	IV. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function.	Complied			Either any appointment or resignations have not been occurred during the year 2019.	Complied Confirmed through HR Confirmation

Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
	V Check that the committee is appraised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;	Complied			No appointments or resignations occurred during the year.	Complied Confirmed through HR Confirmation
	VI. Check that the internal audit function is independent of the activities it audits	Complied			The Charter of Board Audit Committee mentioned, BAC ensures that internal audit functions carried out independently of audits. Internal audit function is independent of the activities it audits.	Complied Observed the Charter of Internal Audit division and BAC and it was reviewed on 24.06.2019 by BAC refer paper No.19/01/06.
	k Check the minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto	Complied			Minutes of the committee has reviewed major findings and Management responses thereto during the period under review.	Complied Observed BAC minutes as follows Meeting Date23/05/2019 Meeting Date24/06/2019 Meeting Date03/07/2019 Meeting Date26/08/2019 Meeting Date14/11/2019

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
	l Check whether the committee has had at least two meetings with the external auditors without the executive directors being present	Complied			A representative of AG is present at all BAC meetings. The BAC members do not include any executive directors	Complied A representative of AG is present at all BAC meetings in 2019
	<p>m Check the terms of reference of the committee to ensure that there is</p> <ul style="list-style-type: none"> I. explicit authority to investigate into any matter within its terms of reference; II. the resources which it needs to do so III. full access to information; and IV. authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary 	Complied			<p>Terms of References the board audit committee includes required terms.</p> <p>Checked and ensured that as per the BAC Charter the Committee has been empowered to investigate any matter, access to information, authority to obtain professional advice, resources to carry out its functions etc.</p>	Complied Observed through the Terms of Reference included in the Charter of Board Audit Committee.

Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
n	Check that the committee has met, at least four times and maintained minutes	Complied			<p>The committee has met five times for the year of 2019 and maintained minutes of those meetings.</p> <p>Audit committee attendance register and minutes are available.</p>	<p>Complied</p> <p>Observed BAC minutes and attendance as follows</p> <p>Meeting Date23/05/2019</p> <p>Meeting Date24/06/2019</p> <p>Meeting Date03/07/2019</p> <p>Meeting Date26/08/2019</p> <p>Meeting Date14/11/2019</p>
o	<p>Check that the board has disclosed in the annual report</p> <p>I. details of the activities of the audit committee</p> <p>II. the number of audit committee meetings held in the year; and</p> <p>III. details of attendance of each individual director at such meetings</p>	Complied			<p>The annual report contains a board audit committee report and it includes the required details.</p>	<p>Complied</p> <p>Refer Page no 80-81 in the annual report 2018</p>
p	Check that the secretary of the committee is the company secretary or the head of the internal audit function.	Complied			<p>The Secretary of the committee is the secretary to the Board of Directors.</p>	<p>Complied</p> <p>Observed the Charter of the BAC</p>

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
	<p>q Check that the “whistle blower” policy covers the process of dealing with;</p> <p>I. The improprieties in financial reporting, internal control or other matters.</p> <p>II. In relation to (i) the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters, and</p> <p>III. Appropriate follow-up action.</p>	Complied			<p>The Whistle Blower policy has been introduced and reviewed by the BAC dated 24.06.2019</p> <p>A new policy will be introduced after obtaining the approval from the BOD.</p>	<p>Complied</p> <p>Observed the Whistle blower policy of the bank.</p>
3(6)(iii)	Does the following rules apply in relation to the Human Resources and Remuneration Committee					
	<p>a Check that the committee has implemented a policy to determine the remuneration (salaries, allowances and other financial payments) relating to directors, CEO and key management personnel of the bank by review of the “Terms of reference” and minutes.</p>	Complied			<p>Presently remunerations are decided as follows.</p> <p>Circular of the Public Enterprises No. PED 3/2015-Directors and Chairman and Pub. Ent. Circular No. PED01/2020</p> <p>The remuneration of the KMPs is decided in par with the collective agreement considering salary increment of three main government banks and approved by the BOD of the bank.</p>	<p>Complied</p> <p>Checked through Circular of the Public Enterprises No. PED 3/2015 and Pub. Ent. Circular No. PED01/2020.</p>

Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
	b Check that the goals and targets for the directors, CEO and the key management personnel are documented.	Complied			Goals and target for the directors, CEO /GM and for the key management personnel are documented in the Revised Corporate Plan and Action Plan for the period of 2019 – 2023 and Action Plan 2019.	Complied Checked through the Corporate Plan for 2019 – 2023 and Action Plan for 2019 refer page 25 – 52
	c Check that the committee has considered evaluations of 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			The Board of directors evaluate the performance of the CEO and key management personnel quarterly and remunerations of the CEO and key management personnel are decided as per collective Agreement	Complied Observed the Performance evaluation sheets of the CEO and KMPs quarterly
	d Check that the “Terms of reference” provides that the CEO is not present at meetings of the committee, when matters relating to the CEO are being discussed by reviewing the minutes.	Complied			Terms of Reference of Human Resources and Remuneration Committee stated that CEO is not present at the meeting when matters relate to him are being discussed.	Complied Observed the invitation of the BHRRC 18 October 2019
3(6)(iv)	Does the following rules apply in relation to the Nomination Committee:					

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
	a Check that the committee has implemented a procedure to select/appoint new directors, CEO and key management personnel.	Complied			The directors are appointed by the Ministry as per provisions in the SMIB Law No13 of 1975. KMPs are selected as per the Scheme of Recruitment	Complied The directors are being appointed by the Ministry as per provisions in the SMIB Law No13 of 1975.CEO is appointed by the board. KMP are selected as per the scheme of recruitment (SOR).
	b Check that the committee has considered and recommended (or not recommended) the re-election of current directors.	Complied			The BNC is comprised of BODs and they are appointed by the BOD at the Board meeting. Election or reelection of members to the BNC is done by the BODs.	Complied Refer BNC TOR of the bank.
	c Check that the committee has 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, by review of job descriptions	Complied			SOR contains the qualifications and experience required for appointment of CEO and KMPs. A revision of SORs and SOPs are being conducted	Complied SOR contains the qualifications and experience required for appointment of CEO and KMPs.

Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
	d Check that the committee has obtained from the directors, CEO and key management personnel signed declarations that they 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			All completed declarations of directors have been obtained by Board secretary and forwarded to CBSL with the approval of the Nomination Committee. Completed declaration of CEO and Key Management Personnel have been obtained by HR division and forwarded to CBSL	Complied Observed the copy of the letter of declaration of the directors forwarded to the CBSL by Board secretary and Copy of the completed declaration of CEO and Key Management Personnel have been obtained by HR division and forwarded to CBSL
	e Check that the committee has considered a formal succession plan for the retiring directors and key management personnel.	Complied			Succession plan for KMPs is being processed and to be submitted to BNC. Directors' appointment is done by the Ministry.	Complied Directors are appointed by the Minister. Formal succession plan of KMPs had been considered by the committee in the 1st quarter of 2017 and for next five years.
	f Check that the Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.	Complied			All the directors (including chairman) are independent non-executive directors who are appointed by the Minister. The CEO presented meetings by invitation. The Board of Directors have appointed members to Board Nomination Committee.	Complied All the directors including chairman are independent non-executive directors who are appointed by the minister. The board of directors have appointed members to board nomination committee.
3(6)(v)	Does the following rules apply in relation to the Integrated Risk Management Committee (IRMC):					

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
a	The committee shall consist of at least three non- executive directors, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.	Complied			BIRMC consist from three Non – Executive Directors, one alternative member CEO /GM, CM-Risk Management, BIRMC – secretary.	Complied Checked through the Board Paper No.20.01.03 – Appointment of Directors to the Board sub Committees
b	Check that the committee has a process to 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. In the case of subsidiary companies and associate companies, risk management shall be done, both on a bank basis and group basis	Complied			Risk management Division (RMD) asses the credit market operational risk, strategic risk, liquidity risk adequately and submit reports to the committee on quarterly basis, In addition, RMD uses RCSA mechanism to let the risk owners identify their own risk.	Complied Checked the BIRMC meeting minute on 14th May 2019, 27th Aug 2019, 21st Oct 2019, 13th Nov 2019

Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
c	Check that the committee has reviewed specific quantitative and qualitative risk limits for all management level committees such as the credit committee and the asset-liability committees, and report any risk indicators periodically	Complied			BIRMC had discussed in the committee meeting regarding the quantitative and qualitative risk of credit, liquidity, operational, strategic and compliance. KRIs depict the relevant risk limits and responsible parties/officers/committees. It is required to report the quarterly KRIs by the risk owners themselves with proposed corrective actions.	Complied Checked through the BIRMC paper no.19/BR/03/01
d	Check that the committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits	Complied			Committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits. In the summary paper of KRIs submitted to the BIRMC (covering behavior of the KRIs for last six quarters), the committee has given special attention for the risk indicators which have gone beyond the prudential limits and has given due directions.	Complied Checked through the BIRMC paper no.19/BR/03/01, BIRMC paper no.19/BR/01/01
e	Check how many times the committee has met at least quarterly	Complied			BIRMC has met four times during the year 2019.	Complied Checked the BIRMC meeting minute on 14th May 2019, 27th Aug 2019, 21st Oct 2019, 13th Nov 2019

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
f	Check that the committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify Specific risks.	Complied			<p>All disciplinary actions are governed by the SMIB rules in disciplinary management and committee is informed the events where such actions need to be initiated.</p> <p>As the committee meets on quarterly basis such events are initially informed to GM (the Disciplinary authority) and disciplinary actions are initiated.</p>	<p>Complied</p> <p>Checked the manual of Disciplinary Rules of the bank and confirmed through the schedule given by the HR division mentioning that present situation of the disciplinary actions against the loan fraud in the bank.</p>
g	Check that the committee submits a risk assessment report within a week of each meeting to the board seeking the board's views, concurrence and/or specific directions	Complied			The committee submitted the risk assessment report to the next immediate board meeting	<p>Complied</p> <p>Checked by the Risk Assessment Reports during the year 2019.</p>
h	Check that the committee has 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 and that there is a dedicated compliance officer selected from key management personnel to carry out the compliance function a report to the committee periodically.	Complied			The board has appointed Chief Manager Compliance for the compliance function. The Chief Manager compliance reports the compliance function regularly to the board and quarterly to the BIRMC.	<p>Complied</p> <p>Observed Appointment letter and duty list of compliance officer and Observed that Chief Manager -Compliance reports to the board regularly and reports to the BIRMC quarterly</p>

Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(7)	Related party transactions					
3(7)(i)	<p>Check that there is an established and documented process by the board to avoid any conflicts of interest that may arise from any transaction of the bank with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction:</p> <p>a. Any of the bank's subsidiary companies;</p> <p>b. Any of the bank's associate companies;</p> <p>c. Any of the directors of the bank;</p> <p>d. Any of the bank's key management personnel;</p> <p>e. A close relation of any of the bank's directors or key management personnel;</p> <p>f. A shareholder owning a material interest in the bank;</p> <p>g. A concern in which any of the bank's directors or a close relation of any of the bank's directors or any of its material shareholders has a substantial interest.</p>	Complied			<p>An established process is available to identify related parties prior carrying out transactions to avoid conflict of interest, Related Party Transaction Policy is approved by the Board.</p> <p>Board Paper No 16/08/35</p> <p>Board minute no 16.08.95.02 dated 16/08/2016.</p>	<p>Complied</p> <p>Observed the related party policy and approval Board Paper No 16/08/35 Board minute no 16.08.95.02 dated 16/08/2016</p>

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(7)(ii)	<p>Check that there is process to identify and report the following types of transactions been identified as a transaction with the related parties that is covered by this direction</p> <p>The grant of any type of accommodation as defined in the Monetary board' Directions on maximum amount of accommodation.</p>	Complied			<p>Related Party Transaction Policy has been approved by the Board.</p> <p>Board Paper No 16/08/35</p> <p>Board minute no 16.08.95.02 dated 16/08/2016. This will be revised by the BOD in 2020.</p>	<p>Complied</p> <p>Related Party Transaction Policy has been approved by the Board. Board Paper No 16/08/35 Board minute no 16.08.95.02 dated 16/08/2016.</p>
	a The grant of any type of accommodation as defined in the Monetary board' Directions on maximum amount of accommodation.				According to the section 28 of the SMIB Law No.1975, no loan shall be granted by the bank to any of a director or employee or to any company or firm in which a director or employee has a substantial interest.	<p>Complied</p> <p>Obtained a confirmation from the IT department of the bank.</p>
	b The creation of any liabilities of the bank in the form of deposits, borrowings and investments.					
	c The provision of any services of a financial or non- financial nature provided to the bank or received from the bank.					
	d The creation or maintenance of reporting lines and information flows between the bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.					

Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(7)(iii)	Does the board have a process to 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 favorable treatment" than that accorded to other constituents of the bank carrying on the same business	Complied			Related Party Transaction Policy is approved by the Board. (Board Paper No 16/08/35) Board minute no 16.08.95.02 held on 26.08.2016	<p>Complied</p> <p>Related Party Transaction Policy is approved by the Board.</p> <p>(Board Paper No 16/08/35) Board minute no 16.08.95.02 held on 26.08.2016</p>
a	<p>Granting of "total net accommodation" to related parties, exceeding a prudent percentage of the bank's regulatory capital, as determined by the board. For purposes of this sub-direction:</p> <p>"Accommodation" shall mean accommodation as defined in the Banking Act Directions, No.7 of 2007 on Maximum Amount of Accommodation.</p> <p>The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the bank's share capital and debt instruments with a maturity of 5 years or more.</p>				No facilities have been granted to the Directors, employee housing loan facilities obtain by the KMPs are within allowed accommodation limits.	<p>Complied</p> <p>Obtained a confirmation from the IT department of the bank.</p>

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
	<p>b Charging of a lower rate of interest than the bank's best lending rate or paying more than the bank's deposit rate for a comparable transaction with an unrelated comparable counterparty</p>					
	<p>c Providing of preferential treatment, such as favorable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;</p>					
	<p>d Providing services to or receiving services from related-party without an evaluation procedure;</p>					
	<p>e Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.</p>					

Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(7)(iv)	Check that the bank has a process for granting accommodation to any of its directors and key management personnel, and that 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 favor of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary board as well			N/A	No such incident was reported.	N/A
3(7)(v)	a Check that the bank has a process, where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a director of the bank, that steps have been taken by the bank to obtain the necessary security as may be approved for that purpose by the Monetary board, within one year from the date of appointment of the person as a director.			N/A	No such incident was reported.	N/A

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
	b Check where such security is not provided by the period as provided in Direction 3(7)(v)(a) above, has the Check where such security is not provided by the period as provided in Direction 3(7)(v) (a) above, has the bank taken steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such director, whichever is earlier bank taken steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such director, whichever is earlier.			N/A	No such incident was reported.	N/A

Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
	<p>c Check that there is a process to identify any director who fails to comply with the above sub-directions be deemed to have vacated the office of director and has</p> <p>the bank disclose such fact to the public</p>			N/A	No such incident was reported.	N/A
	<p>d Check the process in place to ensure clause 3 (7) (v) (c) does not apply to any director who at the time of the grant of the ac</p> <p>Check the Nprocess in place to ensure clause 3 (7) (v) (c) does not apply to any director who at the time of the grant of the accommodation was an employee of the bank and the accommodation was granted under a</p> <p>scheme applicable to all employees of such bank accommodation was a employee of the bank and the accommodation was granted under a scheme applicable to all employees of such bank</p>			N/A	No such incident was reported.	N/A

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(7)(vi)	<p>Check that there is a process in place to identify when the bank grants any accommodation or "more favorable 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 other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary board in respect of accommodation granted as per Direction 3(7)(v) above</p>			N/A	No such incident was reported.	N/A
3(7)(vii)	<p>Check that there is a process to obtain prior approval from the Monetary board for any accommodation granted by a bank under Direction 3(7)(v) and 3(7)(vi) above, nor any part of such accommodation, nor any interest due thereon been remitted without the prior approval of the Monetary board and any remission without such approval is void and has no effect</p>			N/A	No such incident was reported.	N/A

Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(8)	Disclosures					
3(8)(i)	Check that the board has disclosed					
	a a) Annual audited financial statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied			Annual audited financial statements are prepared in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards. Further, those statements were published in the following newspapers. 1. Daily News 2. Lankadeepa 3. Thinakural 4. Daily Mirror	Complied Observed copy of the following newspapers 1. Daily News 2. Lankadeepa 3. Thinakural 4. Daily Mirror
	b Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English	Complied			Observed that the quarterly financial statements are also published as above as per the requirements of CBSL	Complied Observed copy of the following newspapers 1. Daily News 2. Lankadeepa 3. Thinakural 4. Daily Mirror
3(8)(ii)	Check that the board has made the following minimum disclosures in the Annual Report:					

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
a	The 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			These details are disclosed in the "Directors' Responsibility, for the Financial Reporting"	Complied Checked through the point 1.3 under the corporate information include in the Financial statements 2019.
b	The 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			Director's statement on Bank's internal control over Financial Reporting systems was included in the annual report.	Complied Checked through the report named Director's statement on internal control over Financial Reporting include in the Annual report 2018.
c	Check that the board has obtained the external auditor's report on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii) (b) above	Complied			Auditor General's report on Bank's Internal Control over Financial Reporting is included in the annual Report	Complied Checked through the report named Auditor General's Report on Bank's internal control include in the Annual report 2018.

Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
d	Details of directors, including names, qualifications, age, experience fulfilling the requirements of the guideline fitness and propriety, transactions with the bank and the total of fees/remuneration paid by the bank	Complied			Directors' profile has been disclosed in the annual report. Directors' remuneration disclosed in the annual report.	Complied Checked through the details of directors included in then the Annual report 2018. Directors' remuneration disclosed in the annual report.
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			No accommodation provided to related parties.	Complied Confirmed from the secretary of the board of directors
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, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the bank.	Complied			Transaction with KMPs are disclosed in the annual report.	Complied Transaction with KMPs are disclosed in the annual report 2018

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
	g Check that the board has obtained the external auditor's report on the compliance with Corporate Governance Directions	Complied			Auditor General report on a compliance with corporate governance directions is included in the annual report	Complied Checked through the Auditor General report on a compliance with corporate governance directions is included in the annual report.
	h A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances.	Complied			There is no separate report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance in the annual reports. However, directors' report includes the statement of compliance with applicable laws and regulations.	Complied
	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, if so directed by the Monetary board to be disclosed to the public, together with the measures taken by the bank to address such concerns	Complied			Director of Bank Supervision has not sent any reports highlighting the non-compliances during the year 2019.	Complied. According to the Compliance officer Director of Bank Supervision has not sent any reports highlighting the non-compliances during the year 2019.

Board Committee Reports

Strengthening our commitment to governance.



Report of the Board Audit Committee

Chairman's Overview 2019

The Board Audit Committee comprises three Non-Executive Directors, who conduct Committee proceeding in accordance with the stipulated in 3 (6) (ii) under the Direction No. 12 of 2007 on Corporate Governance for Licensed Banks, Board-approved Audit Charter and connected Board decisions.

The objective of the Board Audit Committee (BAC) is to ensure the transparency of the corporate governance practices in the Bank. Board Audit Committee has perceived another year, with its agenda shaped by both internal and external factors followed by board approved TOR to assure the independent objective review of the financial, administration and operational activities of the bank and also comply with the guidance given in the Central Bank.

The Composition of the Committee

The Board Audit Committee (BAC) consisted of following members during the year 2019 and in the meeting on the invitation.

Attendance

	Member	Status of BAC	Committee Member		Attendance of Meeting During the Year 2019
			Since	To	
1	Mrs. K.D.R. Olga	Chairman (NED)	2018 September	2019 November	05
2	Mr. Vidura Manchanavake	Member (NED)	2019 May	2019 November	04
3	Mr. Dilhan Jayasinghe	Member (NED)	2019 May	2019 November	02
4	Mr. Sheanath De Soysa	Alternate Member (NED)	2019 May	2019 November	01

All members of the committee are independent non-executive directors and they are literate financial management and each having experiences in Accounting and Finance, Auditing and Administration fields. Profiles of the members are given of this Annual Report. The Board Secretary functions as the Secretary to the Board Audit Committee as per the Board Audit Committee Charter.

Internal Audit and Board Audit Charter

The Audit Charters are used in order to assist the internal audit and board audit to discharge its duties effectively and independently. The Charters include the scope, functions, responsibilities, authorities, reporting procedure, independence and objectivity of the internal audit.

The Committee functioned within the terms of reference stipulated in the Board Audit Committee Charter. In term of the Charter, the scope of the Committee was to assist the Board of Directors in fulfilling its oversight responsibilities for:

- The integrity of the Banks' Financial Statements;
- The effectiveness of the Bank's risk management function;
- The performance of the Bank's external audit function; and
- The performance of the Bank's internal audit function.

Reporting

The Committee is directly reporting to the Board of Directors about its activities along with the minutes of the meetings. BAC provides Open Avenue of communication between internal audit, external audit and the Board of Directors. The Committee is of view that Terms of Reference (TOR) of the Committee have complied within all material aspects.

Task & Responsibility of the Committee

Purpose of the BAC is to assist the Board of Directors to carry out the financial, administration and operational affairs of the Bank. Scope of the Board Audit Committee includes,

- Monitor the integrity compliance with the LI(AS) of financial reporting of the bank.
- Review the soundness of the operational and financial control system.
- Monitor and review of the scope and performance appraisal of the internal audit.
- Review the adequacy of internal arrangements and control system to avoid/ minimize risks faced by the bank.

Report of the Board Audit Committee Contd...

- Monitor and review the compliance with all regulatory respect.
- Liaison with external auditors in respect of their audit scope and reports.
- The committee ensures that the Board is aware of all matters which significantly impact on financial status and affairs of the business.

Meetings

The committee met on Five (05) occasions during the year 2019. The Superintendent of the Government Audit as the representative of the Auditor General attended the BAC meetings by invitation. A brief overview of the matters taken up at the meetings are listed below,

Board Audit Committee Activities during the year 2019

The Committee attended to the following actions:

01. Approved and reviewed the risk-based internal audit plan quarterly for implementation of the year 2019 by the BAC.
02. Reviewed progress of replying Auditor General's Queries for the year 2018.
03. Committee reviewed the progress of achievement in budgetary targets of the branches quarterly, the committee has made special attention for the achievement of the anticipated targets and records & registers maintain by the Branches.

04. Reviewed the Financial Statements of the Bank for the year ended 31 December 2018 and quarters ended 31st March, 30th June, 30th September 2019 recommended submitting the same to the Board of Directors.

05. The quarterly review has been performed by the committee to ensure that the financial and operational activities of the bank are conducted in line with all regulatory requirements.

06. Quarterly reviewed the performance of the Internal Audit Division.

07. Reviewed the Performance Appraisal of Senior Staff members of the Internal Audit Division.

08. Reviewed and actions taken by the BAC regarding the Internal Audit Findings.

09. In response to the recommendation made by the committee, the board of directors has approved the Internal Audit Manual prepared by the Internal Audit Division.

10. The committee has monitored and reviewed the management responses for the internal audit reports on financial, administration and operational activities of the bank. Committee also reviewed the effectiveness of the performance of internal audit division and monitors the adequacy of the internal audit assignments were carried out in line with the approved audit plan.

External Audit Reports

By statute, the Auditor General is the External Auditor of the Bank. The External Auditor was invited to discuss the findings of the External Auditor during the Committee meetings. The committee ensured the provision of all information and documents required by the External Auditor for the purpose of the audit. The committee has reviewed the external audit concerns disclosed in the final audit reports and reviewed the adequacy of the corrective actions taken by the management to address the concerns of the external auditors.

The System of Internal Controls

On behalf of the Board of directors, the committee has reviewed the effectiveness of the IT and internal control system relating to the financial and operational activities of the bank in line with the internal control system defined in the manual of the internal control system.



K.D.R. Olga

Chairman - Board Audit Committee/NED

Board Nomination Committee Report

Composition of the Committee

The Board appointed Nomination Committee comprised of four Directors including one alternative Director. Amongst the personnel heading the Committee, it could be seen that all are Independent Non - Executive Directors. Appointments to the Committee are made by the Board and shall be for a period of up to three years.

The members of the Board Nomination Committee (BNC), as at the end of the year 2019.

Mrs. K.D.R. Olga - *Chairperson*

Mr. Vidura Manchanayake - *Member*

Mr. Dilhan Jayasinghe - *Member*

Mr. Sheanath de Soysa - *Alternative Member*

Meetings

It is required to the Committee to meet at least twice a year and meetings can be convened at any time where it is necessary. The quorum is two members both of whom must be independent Non-Executive Directors present throughout the meeting in person. General Manager/CEO, AGM (HR & L) AGM (Finance) AGM (Risk Management) attended Meetings as invitees on the direction of the Chairman of the Committee.

Proceedings of the Committee meetings are regularly reported to the Board of Directors for their information. With respect of the Bank, One Committee meeting was held in the year 2019.

Attendance of the Committee members at the meetings

Name of the Director	Status in BNC	Number of meetings eligible to attend	Number of Meetings attended
Mrs. K.D.R. Olga	Chairperson	01	01
Mr. Vidura Manchanayake	Member	01	01
Mr. Dilhan Jayasinghe	Member	01	-
Mr. Sheanath de Soysa	Alternative member	01	01

Secretary

Secretary to the Board functions as the Secretary to the Board Nomination Committee (BNC).

Role, Responsibility and duties

Being a committee that acts as part of an organization's corporate governance, the Board Nomination Committee will review and make recommendations (or not recommend) regarding the re-election of current Board Directors, succession planning for Key Management Personnel, and evaluation of Board Directors, CEO and Key Management Personnel regarding their fitness and propriety to hold office as specified in the criteria given in Direction 3(3) made under the Banking Act, etc., setting the criteria required for eligibility to be considered for appointment or promotion to the post of CEO and key management positions.

Exercising the functions vested upon it, the Board Nomination Committee involve in,

- Implementing a procedure to select/appoint CEO and Key management Personnel,
- Evaluating the fitness and propriety of Directors, their own governance practices
- Evaluating the fitness and propriety of CEO and Key Management Personnel.

Further to that the Committee shall consider and recommend from time to time, the requirements of additional/ new expertise to the bank, by working together to form the best process for recruiting and nominating candidates.



K.D.R. Olga

Chairperson of the Committee

Board Human Resources and Remuneration Committee Report

Composition and Quorum during the Year 2019

The Board Human Resources and Remuneration Committee (BHRRC) comprised of four directors including one alternative member who have been appointed by the Board of Directors of the State Mortgage and Investment Bank. The quorum of the Committee is three members.

BHRRC comprised of following Independent Non- Executive Directors as at the end of the year 2019.

Members in the year 2019

Mr. Bernard Wasantha - *Chairman*

Mr. Vidura Manchanayake - *Member*

Mr. S. De Soysa - *Member*

Mr. Dilhan Jayasinghe - *Alternative Member*

Scope of the Committee

The committee shall guide and advise in developing and implementing HR policies, strategies and plans, resolve HR related issues and determine the remuneration policy (salaries, allowances and other financial payments) relating to Directors, Chief Executive Officer (CEO) and key Management Personnel of the Bank

The committee shall set goals and targets for the Directors, CEO and the Key Management Personnel 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.

Main Duties of the Committee

The main duties of bank's Human Resources & Remuneration Committee includes following.

- Monitor evaluates, and makes decisions on behalf of the Board with respect to policies and strategic matters related to the Bank's human resources and personnel issues.
- Maintain a consultative role with the other Board sub-committees and Operational committees on all human resources issues as appropriate
- Issue instructions on the recommendations approved by the Board with regard to the compensation of the staff.
- Review and recommend policies on matters of compensation such as extension of service, salaries, overtime payments, and working conditions such as working hours, attendance, and leave etc to the Board.
- Assess periodically the framework of governing staff benefit plans, with reference to current market trends and report to the Board.
- Review and recommend the framework for expenditures of such sums as may be required to establish funds for the payment of gratuities, retirement allowances, pensions, life insurance or other insurance including medical benefit scheme for the benefit of employees.
- Provide general oversight of policies and processes that ensure the Bank's compliance with occupation and environmental health and safety legislation, relevant regulations, standards and codes of practice after receiving periodic reports from the Head of HR and Logistic on health and safety related issues.
- Review and recommend scheme for the negotiation of collective agreements and related matters to the Board.
- Review organizational structure and human resource requirement and re-define key functions and processes to be established clear divisional responsibility
- Review and recommend plans for recruitment in order to change overall staffing levels that will include cadre review for creating new positions, suppressing existing positions, changing designation etc.
- Review overall staff performance and report the level of performance of the CEO and the Key Management Personnel, and performance impediment (if any) to the Board.
- Review the opportunities that have been provided through the process of succession planning during the period under review and report the Board who are the key personal potential for critical jobs in the Bank.
- Develop human resources and organizational development strategies including staff training and skill developments programs in line with the business strategy of the Bank.
- Assess human resources requirements and the competence that are required to operate Bank business model and recommend to the Board on hiring new competence

- Exercise as an appeal board to an employee, if any aggrieved staff member referred to his/her case to the committee for fair and reasonable resolution.
- Undertake periodic review and surveys in order to assess human resource management practices and profiles for the improvement of HR perspective of the Bank
- Carry out the work as per the guidelines issued by the Central Bank of Sri Lanka time to time under the purview of human resource and remuneration and ensure regulatory requirements are fulfilled

Meetings of Committee

The Human Resources and Remuneration committee shall meet at least quarterly and meetings can be convened at any time where it is necessary. Three BHRRC meetings were held during the year 2019.

Attendance of the Committee Members at the Meetings

Name of the Director	Status in BHRRC	Number of Meetings eligible to attend	Number of Meetings attended
Mr. Bernard Wasantha	Chairman	2	0
Mr. Vidura Manchanayake	Member	2	2
Mr. S. De Soysa	Member	2	1
Mr. Dilhan Jayasinghe	Alternative Member	2	1

General Manager/ CEO is present at all meetings except when matters relating to General Manager/ CEO are discussed. The Assistant General Manager (Human Resources & Logistics) and other members of the staff are invited to attend the meetings when the Committee requires their presence. The Secretary, State Mortgage and Investment Bank / Secretary to the Board functions as Secretary to the Committee.



Bernard Wasantha
Chairman of the Committee



Vidura Manchanayake
Member of the Committee



S. De Soysa
Member of the Committee

Board Integrated Risk Management Committee

Composition of the Board Integrated Risk Management Committee-2019

The Board Integrated Risk Management Committee comprised of four Non-Executive Directors, including one alternative member, the General Manager/CEO of the bank, the Head of Risk Management and the Secretary to the committee. Four BIRMC meetings were conducted for the year of 2019.

The committee composition is as follows.

Mr. Sheanath De Soysa - Non-Executive Director - The Chairman to the Committee

Mr. Bernard Wasantha - Non-Executive Director

Mr. Dilshan Jayasinghe - Non-Executive Director

Mr. Vidura Manchanayake - Non-Executive Director (Alternative member)

Mr. W.M. Dayasinghe - General Manager/Chief Executive Officer

Mr. S.A.K.A.K. Sooriyaarachchi - Chief Manager-Risk Management Division

Ms. Nishani Lokuge - Assistant General Manager- Legal / The Secretary to the Committee

Charter of the BIRMC

The BIRMC was established by the Board of Directors of the bank, in compliance with the section 3(6) (v) of the Direction No.12 of 2007 issued by the Monetary Board of Central Bank of Sri Lanka, on 'Corporate Governance for Licensed Specialized Banks in Sri Lanka'.

The Charter of the BIRMC was approved by the Board of Directors at the meeting which was held on 27.03.2012 and reviewed periodically. Approved charter

stipulates its authority, structure and responsibilities.

As per the charter, key responsibilities of the BIRMC are as follows.

1. Review bank's risk appetite.
2. Review and approve the bank's key risk policies on establishment of risk limits and receive reports on bank's adherence to significant limits.
3. Receive reports from, review with, and provide feedback to, Management on the categories of risk the bank faces, including credit, market, liquidity and operational risk, the exposures in each category, significant concentrations within those risk categories, the Metrix used to monitor the exposures and Management's views on the acceptable and appropriate levels of those risk exposures.
4. Review bank's credit, market, liquidity and operational risk management frameworks, including significant policies, processes and systems that management uses to manage risk exposures, as well as risk measurement methodologies and approaches to stress testing.
5. Assess all risk types, including but not limited to Credit, Market, Liquidity, Operational and Strategic/Reputational risks to the bank through appropriate risk indicators and management information.
6. Ensure risk decisions are taken in accordance with established delegated authorities and corrective actions are taken to mitigate risk taken beyond the risk tolerance set by the committee, on the basis of bank's policies and regulatory and supervisory requirements.
7. Evaluate the adequacy of risk management function, and the qualifications and background of selected risk officers.
8. Review the independence and authority of the risk management function.
9. Review bank's Risk Capital Framework (credit, market, liquidity and operational risks), including significant inputs and assumptions.
10. Review bank's balance sheet, balance sheet structure, capital, funding, interest rate and liquidity management framework, including significant policies, processes, and systems that management uses to manage exposures.
11. Review reports from management concerning bank's liquidity, deposit raising, and funding activities.
12. Review reports from management concerning bank's regulatory capital level and capital structure.
13. Review bank's capital assessment framework, including its capital goals.
14. Receive information from the Head of Risk Management, the Compliance Officer, the Internal Auditor, the Head of Finance, The Treasurer, others in management, independent auditors, regulators and outside experts as appropriate regarding matters related to risk management and risk management function.

15. Review the terms of reference of all Management Committees dealing with specific risks or some aspects of risk, such as the Executive Integrated Risk Management Committee, the Recovery Committee, the Executive Credit Committee and the Assets and Liabilities Committee.
 16. Monitor the actions initiated by senior management to test the effectiveness of the measures taken by the respective committees referred to above.
 17. Review the annual work plan, related strategies, policies and framework of the above committees, to ensure that the committees have a good understanding of their mandate and adequate mechanism to identify, measure, avoid, mitigate, transfer or manage the risks within the qualitative and quantitative parameters set by the BIRMC.
 18. Maintain continues dialogue with the Management Committees directly or indirectly dealing with specific risks, so that the BIRMC is immediately informed of any hindrance, obstacle, discouragement or constraint in the performance of their functions and / or the implementation of their decisions.
 19. Review the risk indicators designed to monitor the level of specific risks at any given time, with a view of determining the adequacy of such indicators to serve the intended risk management objectives.
 20. Review the actual results computed monthly against each risk indicator and take prompt corrective action(s) to mitigate the effects of specific risks, in case such risks are exceeding the prudent thresholds defined by the Board of Directors.
 21. Review and approve the parameters and limits set by the management against various categories of risk and ascertain whether they are in accordance with the relevant laws and regulations as well as the desired policy levels stipulated by the Board of Directors.
 22. Taking appropriate actions against the officers responsible for failure to identify specific risks/comply with internal controls/directions and take prompt corrective actions and disciplinary procedures as recommended by the committee.
 23. Review the effectiveness of the compliance function, to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies in all areas of business operations
 24. Review the Business Continuity and Disaster Recovery Plan annually.
 25. Review and approve bank's Internal Capital Adequacy Assessment Process.
 26. Review capital contributions that require notification to the Board pursuant to bank's Major Expenditure Program
 27. In the event of a significant stress event, gather information concerning the potential impact of a crisis on the businesses and review the recovery options to be pursued by Management.
 28. In consultation with the Audit Committee, review and discuss with Management, at least annually:
 29. Perform other activities related to the BIRMC charter as requested by the Board.
- As per the charter, other responsibilities of the BIRMC are as follows.
1. The Committee communicates and share information with the Board Audit Committee (BAC) as necessary and appropriate to permit the Audit Committee to carry out its statutory, regulatory and other responsibilities.
 2. The Committee receives copies of regulatory examination reports pertaining to matters that are within the purview of the Committee and Management's responses thereto.

Board Integrated Risk Management Committee Contd...

The BIRMC meetings

The BIRMC meets on quarterly basis and the attendance of the members of the BIRMC is as follows.

Name of the Director	No of Meetings Attended/ (No of Meetings to be attended)
Mr. Sheanath De Soysa (The Chairman to the committee)	4/4
Mr. Bernard Wasantha	0/4
Mr. Dilshan Jayasinghe	2/4
Mr. Vidura Manchanayake (Alternative member to the committee)	2/4

During the year, BIRMC worked very closely with the senior management personnel handling business operations and managing risks, in fulfilling the responsibilities assigned to the committee.

Reporting

Processes proposed and discussed at the BIRMC meetings were reported to the Board seeking Board's views, concurrences and specific directions and approval with the recommendation of the BIRMC. Recommendations made by the BIRMC during the year under review were discussed at Board Level and approved by the Board. Minutes of the BIRMC was presented to the Board for the information of the Board and discussed in detail when necessary.



Sheanath De Soysa

The Chairman-Board Integrated Risk Management Committee

Management Discussion & Analysis

SMB is well positioned to capitalize on emerging business opportunities to achieve its growth potential.



Integrated Risk Management

Risk Culture and Vision

SMIB firmly believes that the robust risk management framework is vital to support the sustainable growth strategy of the bank in its journey toward prosperity while managing the risk across the products, services, transactions and across the whole bank.

The fast-changing financial environment exposes the bank to various types of risk. Generally, financial risk in a banking organization is the possibility that the outcome of an action or event could bring up adverse impacts. Such outcomes could either result in a direct loss of earnings / capital or may result in imposition of constraints on bank's ability to meet its business objectives.

The bank's risk profiling and management focuses on the key risk categories of credit risk, market risk, liquidity risk, operational risk, legal risk and strategic risk.

The articulated set of limits explains the risk appetite of the bank for all material and relevant risk categories and risk capital position.

The bank's evolving risk management function involves identification, measurement, monitoring and controlling risks in the above stated areas to ensure that the bank's risk exposure is within the limits established by Board of Directors (BOD) and the risk-taking decisions are in line with bank's business strategy and objectives. The bank is creating the culture that the employees who take or manage risks clearly understand it and the risk-taking decisions are explicit and clear. The bank has maintained a sufficient capital as a buffer to take risk and the expected payoffs compensate for the risks taken.

Integrated Risk Management Framework

An organization - wide risk management framework facilitates oversight of and accountability for risks at all levels of the organization and across all risk types. Key elements of the Integrated Risk Management Framework are as follows.

- Risk Governance and Management Structure
- Risk Appetite Statement
- Risk Management Methodology
- A culture of Risk Awareness

Integrated risk management process of the bank is consisted of interrelated elements of risk management, risk governance, internal controls, risk appetite, risk management tools and risk-based culture.

Those elements are interlinked and interrelated that are emphasizing having an integrated risk management-based culture for the bank.

Risk management is a central part of the strategic management of any organization. It is the process whereby organizations methodically address the risks attached to their activities. A successful risk management initiative should be proportionate to the level of risk in the organization, aligned with other corporate activities, comprehensive in its scope, embedded into routine activities and dynamic by being responsive to changing circumstances. The focus of risk management is the assessment of significant risks and the implementation of suitable risk responses. The objective is to achieve maximum sustainable value from all the activities of the organization. Risk management enhances the



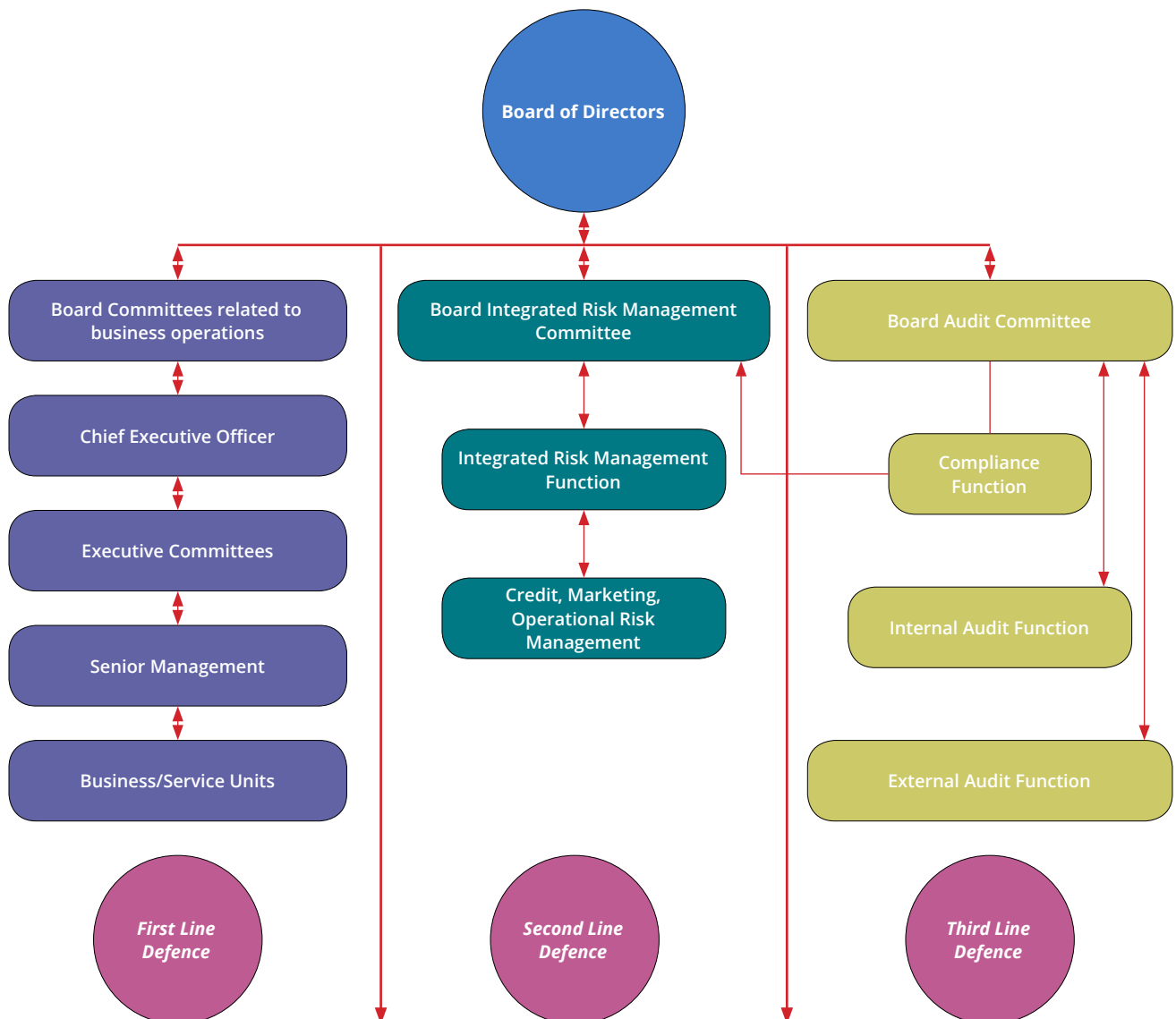
understanding of the potential upside and downside of the factors that can affect an organization. It increases the probability of success and reduces both the probability of failure and the level of uncertainty associated with achieving the objectives of the organization.

- **Risk Governance and Management Structure of the bank**

Risk management structure of SMIB

includes three segments comprising of business operation, integrated risk management and audit/compliance. These three lines of defense operate under the guidelines issued by Board of Directors defending bank against unacceptable risk exposures. Key functionality of the mechanism is board and the senior management oversight policies and procedures defined on the risk management, risk measurement and monitor controls and the independent audit carried out by the third line of defense.

SMIB has defined risk management policies and procedures with respect to the credit, market and operational risks faced by the bank. The policies and the systems are reviewed periodically to ensure the compliance. Bank's organizational structure clearly defines roles and responsibilities of individuals involved in risk taking and managing activities. Efforts are being taken to internalize the risk management concepts within the bank through capacity building and review mechanisms.



Integrated Risk Management Contd...

Since interaction of various risks could result in diminution or increase in risk, the risk management process of the bank recognizes and reflects risk interactions in all business activities as appropriate. Integrated risk management function of the bank has the following structure in place to look at risk interrelationships across the organization.

Role of the Board and Board Sub Committees

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

The Board has appointed Integrated Risk Management Committee to assist the Board in fulfilling the oversight of the risk management framework of the bank, including significant policies and practices used in managing credit, market, operational and certain other risks.

The Board Audit Committee ensures that operational controls are in place and that operations are carried out as per the relevant policies, procedures and guidelines.

In particular, it carries out credit audits in line with the prevailing operational controls.

Apart from the Board committees, management committees are responsible for focused oversight on designing, implementing and maintaining an effective risk framework and culture in various risk areas. Line business managers are responsible for managing risks in the areas for which they are responsible.

Evolving Risk Management Function of SMIB

- Integrated Risk Management Division (IRMD) of the bank was established in 2012.
- Board Integrated Risk Management Committee (BIRMC), Executive Integrated Risk Management Committee (EIRMC) and Business Continuity Steering Committee (BCP) were formed and terms of references applicable to each committee were finalized.
- Risk Policy, Board Integrated Risk Management Committee, Stress Testing Policy, Risk Control Self-Assessment (RCSA) policy, Loan Review Mechanism Policy were introduced covering all Credit, Market, Operational, Liquidity, interest rate risk, Product risk, strategic risk, compliance risk.
- Board Integrated Risk Management Framework has been developed as a document including all the risk-based practices and risk appetite statement of the bank. (Risk appetite and internal tolerance limits are amended in 2019 with the Board approval).

Credit Risk Management

- Credit risk of exposures above a specific threshold are independently reviewed by IRMD prior to approval.
- A risk rating models were developed internally to categorize the facility based on the risk profile of the customer and to categorize the facilities based on their risk gravity (undoubted, Low Risk, Moderate Risk, Acceptable/monitor, Marginal, High risk, Unacceptable –Reject) (Risk Rating version 4.1 for mortgage loans,

Risk Rating version 3 for personal loans, Risk Rating version 1 for EPF loans and Risk rating version 1 for SME personal loans are now used)

- Loan review mechanism is being carried out to re-assess problem credit and identify early warning signals.
- Income Source Verification Model (ISVM) was developed to mitigate the credit risk of the bank.
- Key Risk Indicators with tolerance limits and Board trigger limits, Memorandum items and other key ratios are tested, calculated and assessed periodically (Monthly or quarterly) and reported to the BIRMC.
- As per the Banking Act Direction No 7 of 2011; Integrate Risk Management Framework for Licensed Banks, under sub section 2.5; Portfolio Management, it is required to analyze and measure the portfolio quality of the bank. Accordingly, RMD quarterly assesses the following key elements.
- **Stipulate quantitative ceilings on aggregate exposure in specified rating categories.**

The quantitative ceilings for personal and mortgage risk categories have been approved by the board as per the board minute 16.12.147.12 issued for the Board Paper No: 16/12/47- "Portfolio Management under Credit Risk Management"

Accordingly, quarterly reviewing is done by RMD and reported to the BIRMC with key observations and suggestions for the improvement of RMD for reviewing, recommendations and approval of the members of the BIRMC.

- **Analysis of the Loan portfolio composition**

According to that RMD quarterly presents the product wise (EPF loans, Mortgage loans and Personal Loans) portfolio composition of each branch indicating the compliance or noncompliance with board approved internal tolerance limits to the BIRMC for reviewing, suggestions and recommendations of the BIRMC.

- **Loan Portfolio and NPL growth Analysis**

The bank's overall portfolio, product wise contribution to the portfolio growth, negative Contributors to the total portfolio growth, highest contributors to the personal loan growth and NPL Growth are quarterly reviewed by RMD and presented to the BIRMC with recommendations for reviewing and suggestions of the BIRMC.

- **Default rate calculation**

The default rate is the percentage of all outstanding loans which are classified as NPA after lapses of repayment of installments for a certain period of time. Default rates are an important statistical measure used by lenders to determine their exposure to risk. The industry norm for the maximum tolerance limit of the default rate is 2 %.

- **Key Strategic Performance**

The RMD quarterly reviews the loan product wise performance against the budgeted targets for that period and presents to the BIRMC reviewing and recommendations of the committee.

Liquidity Risk Management

- Stress Testing has been developed to assess and monitor credit, capital and liquidity position of the bank under different scenarios.

- Key Risk Indicators with tolerance limits and Board trigger limits, Memorandum items and other key ratios are tested, calculated and assessed periodically (Monthly or quarterly) and reported to the BIRMC.

Operational Risk Management

- Risk Matrix has been introduced to assess the customers and to categorize them into low, medium and high-risk categories at the time of entering into the initial transaction (Risk matrix version 2 is introduced with many CDD measures)
- Risk Control Self-Assessment policy has been introduced to departments. Direction D -2.2 of Banking Act Direction no 7 of 2011- Integrated Risk Management Framework for License Specialized Banks, highlights the necessity for implementing an effective risk measurement technique to assess operational risks faced by the bank. Conducting comprehensive Risk Control Self-Assessment in order to identify the operational risk across the bank is vital under the said direction.
- Operational Risk Loss Events and Incidents identification mechanism The RMD has developed a format for reporting operational risk events/incidents reporting with loss events reporting guidelines and quarterly this is sent to the all HODs and information are reported to the CBSL in the format prescribed by them.
- Business Continuity Plan (BCP)

- **Comprehensive BCP report prepared by RMD**

The BCP report has been prepared including all relevant guidelines, instructions and procedures to be followed at a disaster with minimum loss. It has been comprised with BCP teams and responsibilities of them, Recovery Time objectives, Backup sites of HO and branches, Business Impact Analysis and Recovery activities and tasks to be followed up majorly.

- **Disaster Recovery Drill (DRD)**

The RMD with the coordination of the BCP Coordinator (AGM-HR & L) organizes a DRD annually. The path to DRD with relevant instructions with collaboration of the other supporting departments, (IT, Logistics, HR and Branch Operations), Format for test results reporting are provided by the Head of Risk management division as the secretary to the BCP steering committee.

- **Fire Drill**

This is a very effective pre preparation tool for disaster recovery objective with minimum harm. The RMD takes necessary steps to organize this session with the coordination of BCP coordinator and with the consultation of Fire Brigade officer.

- **Conducting BCP Steering Committee**

As the secretary to the committee Head of RMD organizes the BCP steering committee meeting with the instructions of the GM/CEO and reports all relevant matters to the committee for instructions, recommendations and specific directions.

Integrated Risk Management Contd...

Market Risk Management

• Assets and Liability Mix

As per the Banking Act Direction No. 07 of 2011 Integrated Risk Management Framework for Licensed Banks, Assets Liability Management Committee (ALCO) is a mandatory organizational setup for market risk management.

Accordingly, RMD has developed a model called "assets and liability mix" as a tool of assets and liability management for ALCO reporting purpose in quarterly. This model addresses mainly the interest rate risk that may be raised in the market and liquidity gap that may be occurred due to imbalance between rate sensitive assets and rate sensitive liabilities.

Liquidity Risk Management

• Stress Testing and Scenario Analysis

Stress testing has become an integral part of a bank's risk management system and is used to evaluate its potential vulnerability to certain unlikely but plausible events or movements in financial variables. The vulnerability is usually measured with reference to the bank's profitability, liquidity and/or capital adequacy.

Internal Capital Adequacy Process (ICAAP)

The ICCAP report is prepared and submitted to the CBSL according to the section 4.2 and 4.3 of Banking Act Directions No. 01 of 2016 Capital Requirements under Basel III (PILLAR II Supervisory Review Process (SRP)) for Licensed Commercial Banks (LCB) and Licensed Specialized Banks (LSB).

ICAAP shall, therefore, address the following risks.

- a) Risks captured under Pillar 1: credit, market and operational risks;
- b) Risks not fully captured under Pillar 1; concentration risk (credit risk), interest rate/rate of return risk in the banking book (market risk) and
- c) Risk types not covered by Pillar 1: risks which are not specifically addressed under Pillar 1, which includes liquidity risk, concentration risk, reputational risk, compliance risk, strategic and business risk, residual risk and Off-balance sheet exposures and securitization risk.

ICAAP development process consists of several quantitative mechanisms such as stress testing and scenario analysis for different risk categories. Risk assessment models and scenario analysis were internally developed by RMD to assess the pillar two risk of the bank exposures.

Impact to the capital and risk weighted assets were calculated and hence the variation in CAR in every scenario is assessed.

Regulatory Capital comprising of the minimum capital required in accordance with capital adequacy guidelines. Currently it is equated to the capital definition under the CBSL Guidelines for Pillar I.

Internal Capital, including Pillar-II capital, constitutes the capital required to remain solvent with the current level of risks.

• Risk Appetite

Risk Appetite of the bank defines bank's willingness to assume aggregate quantum of risk in different areas of the business in achieving its strategic goals. Regulatory

requirements, Strategic goals, Capital Adequacy and other prudential factors have been considered by the board in drawing up the risk appetite statement.

Overall responsibility of risk management of the bank rests with the Board of Directors. The board has set qualitative and quantitative measures in order to express the risk appetite and the tolerance limits. It is the duty of senior management to transform strategic direction set by board in the shape of policies and procedures and to institute an effective hierarchy to execute and implement those policies.

Senior management of the bank has to ensure that these policies are properly communicated down the line and embedded in the culture of organization. Risk tolerances relating to quantifiable risks are generally communicated as limits or sub-limits to those who accept risks on behalf of the bank. Qualitative risk measures are communicated as guidelines and inferred from management business decisions.

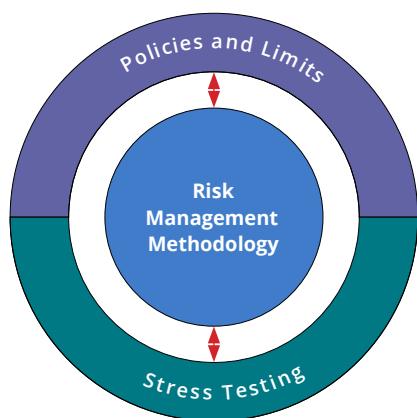
The bank's risk appetite is monitored and controlled by the risk management function and reported regularly to Board of Directors, corporate management and relevant committees.

To keep these policies in line with significant changes in internal and external environment, Board of Directors periodically review these policies and make appropriate changes as and when deemed necessary. These risk appetite limits are monitored monthly and quarterly and risk appetite limits are reviewed at least annually in line with risk management capacities, business opportunities, business strategy of the bank and regulatory specifications.

Risk appetite statements has been included in the Board Integrated Risk Management Framework of the bank.

• Risk Management Methodology

Risk management methodology facilitate identification, measurement, evaluation, monitoring and management of risk. Risk Management tools consist of policies, limits and stress testing. Risk measurement, monitoring and reporting is the responsibility of the risk management function. Regular and ad-hoc reports are provided for reviewing to the management committees and the Board in taking strategic decisions.



The provided reports which contain information on aggregate measures of risk across products and portfolios are compared with agreed policy limits providing a clear picture of the amounts, types and sensitivities of the risks identified.

Integrated Risk Management Framework of the bank which is formulated based on Basel II, III and other regulatory frameworks laid out by the CBSL, clearly defines the objectives, processes and roles in managing risk.

Stress Testing is done at individual risk levels and entity level to estimate the potential impact on earnings, capital and liquidity that can be occurred due to changes in different market conditions and other risk factors in order to take decisions regarding credit risk appetite, market risk limits, capital and funding requirements.

Capital Adequacy Management

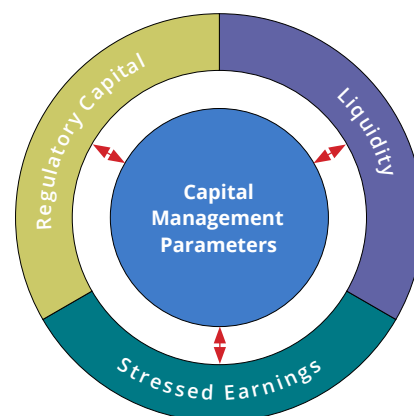
The objectives of the Internal Capital Adequacy Assessment Process- ICAAP are,

1. Establishment of the SMIB risk profile
2. Consistently assess risks of the Bank
3. Attribute capital to cover the economic effects of risk-taking activities of the Bank
4. Early identification of internal and external factors that could adversely affect the Bank's performance
5. Support decision-making at various levels within the Bank.

According to review done of ICAAP report SMIB is taking initiations for required actions at Management and Board level to strengthen the bank's risk governance process by addressing the identified issues through appropriate actions.

Tier I capital ratio of SMIB is 22.49% and total capital ratio is 23.22% as at 31.12.2019. These ratios are well above the industry average and indicate a stronger capacity for risk absorption.

Capital Management Parameters are shown in the following diagrams.



Managing Key Risks

Credit Risk

Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Loans and advances granted to counterparties under various product creates main source of the credit risk of SMIB.

Risk management function of the bank is focused on setting acceptable credit standards for borrowers and counterparties, sound portfolio risk management and continuous attention to changes in economic or other circumstances that can lead to a deterioration in the credit standing of a bank's counterparties.

The bank has developed a credit policy and a credit manual which defines the principles encompassing client selection, due diligence, risk tolerance, review and recovery procedures, portfolio monitoring and management according to the board approved risk appetite levels. These documents guide to identify, measure, monitor and control credit risk through establishing an appropriate

Integrated Risk Management Contd...

credit risk environment, operating under a sound credit-granting process, maintaining an appropriate credit administration, measurement and monitoring process, and ensuring adequate controls over credit risk.

The credit policy and the manual is reviewed annually and approved by the Board of Directors ensuring consistency with the bank's risk appetite and the business strategy.

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

Credit Risk Management

SMIB focuses on following module when managing credit risk.

Initial screening of the borrower and the credit appraisal is done by the risk owners according to the consistent standards guided by the credit manual. Credit appraisal will ensure the borrower's capacity to meet its obligations on a timely manner. Credit officers are educated to maintain the consistency on the credit appraisal process complying with the risk appetite set by the Board of Directors. Credit risk is mitigated by obtaining collateral and guarantees as security and the accepted criteria is set by the policy. Periodic valuation and assessment of realizable value of collateral is carried out as per the regulatory requirement and when required, especially as a part of the recovery action.

Income Source Verification Model (ISVM) is used as a basic guideline to evaluate the trustworthiness of the income source of the non-government applicants.

Internal risk rating module has been developed by the Risk Management Department of the bank. The rating

model will be applied to rate the clients based on various evaluation criteria. The rating model will be used to assist the risk assessment, credit decision process as well as a tool to be used for risk-based pricing.

Independent evaluation of the risk profile of the customers are being carried out by the risk officers and evaluate the risk rating given to the client by the risk owners.

Clear guidelines have been established in the bank for the loan approval structure and the authority has been delegated to different levels in the approval process. No single person can originate and approve the granting of credit. Credit facilities beyond a set threshold will be independently evaluated by the risk officers attached to the risk management division and the comments will be followed when approving such facilities.

Pre-Disbursement unit play vital part of the loan granting process of the bank. Pre disbursement functions specify clearly the terms and conditions on the basis of which the advance is given. These terms and conditions are mutually accepted by both the bank and the borrower. They cover the amount of the loan or the maximum limit of the advance, the nature of the advance, the period up to which it is valid, the rate of interest to be charged. They also contain the period of repayment which depends on the purpose of the loan/advance and the size of the loan. For the valuation of securities, the bank consult both internal & external valuation professionals particularly for mortgage securities (land, building, etc.), due to the legal side of securities, SMIB are handling with care all the documents relating to them. Pre-Disbursement unit checks if all the necessary formalities are well filled in and that

the borrowers are liable by their true signatures. Pre-Disbursement unit able to avoid risk of loss of the Bank's rights because of their negligence to check carefully all the clauses and all legal instructions they contain. After changing or establishing credit covenants, conditions & completion of security documentations & Pre-Disbursement unit pass to the disbursement of the amount of the Permissible Bank Financing

Loan review mechanism carried out by the risk management department of the bank ensures early identification of problem loans to safeguard the bank against possible losses. Credit risk indicators set at the bank level is monitored at frequent intervals to identify early warning signals and to take precautionary actions.

Recovery responsibility of problem loans and non performing advances are managed by the credit departments and the recovery department. Credit officers will follow up the recovery of advances in the initial stages and will be transferred to the recovery department when the loan becomes non-performing. This unit carries out the recovery process until recovery matters are finalized while monitoring the value of the collateral. Recovery Department liaise with credit risk management to ensure effective follow-up and improve the process through past experience. Unrecovered advances will be transferred to the legal division to initiate legal action as the last option.

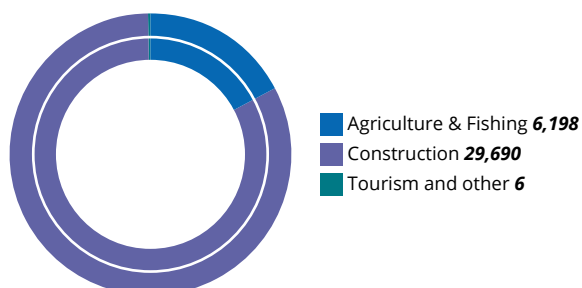
Credit Concentration Risk

This is the risk of incurring loss due to the excessive exposure on a counterparty or a counterparty segment. The bank credit concentration measured by HHI index is 3452. The Herfindahl-Hirschman

Index (HHI) is a commonly accepted measure of portfolio concentration. A portfolio with an HHI of less than 1,500 is considered to be a highly diversified, an HHI of 1,500 to 2,500 to be a moderately concentrated portfolio, and an HHI of 2,500 or greater to be a highly concentrated portfolio. Hence SMIB are currently focused on the strategies of diversifying its portfolio like expanding to SME sector to minimize the concentration risk. The bank is measuring concentration risk as per the board approved limits under sector wise exposure, product exposure and geographical exposure.

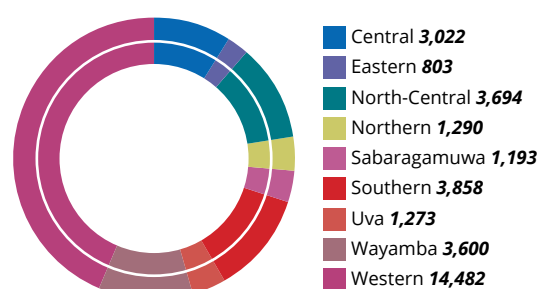
Sector wise Exposure as at 31.12.2019

Sector	Amount Rs. Mn
Agriculture & Fishing	6,198
Construction	29,690
Tourism and other	6



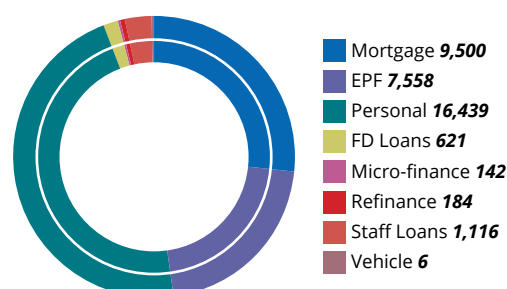
Geographical Concentration as at 31.12.2019

Province	Amount Rs. Mn
Central	3,022
Eastern	803
North-Central	3,694
Northern	1,290
Sabaragamuwa	1,193
Southern	3,858
Uva	1,273
Wayamba	3,600
Western	14,482



Product Concentration as at 31.12.2019

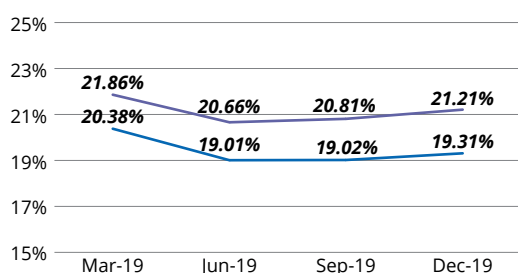
Product	Amount Rs. Mn
Mortgage	9,500
EPF	7,558
Personal	16,439
FD Loans	621
Micro-finance	142
Refinance	184
Staff Loans	1,116
Vehicle	6



Integrated Risk Management Contd...

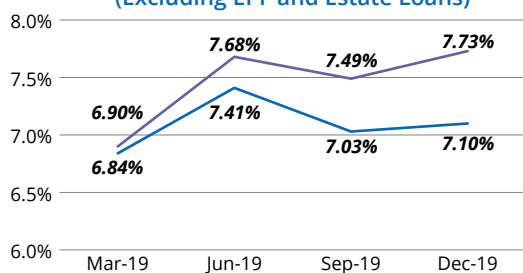
Movement of Gross & Net Non - Performing Advances Ratios during the year 2019 (Including EPF and Estate Loans)

Movement of Gross & Net Non- Performing Advances Ratio during the year 2019



Movement of Gross & Net Non - Performing Advances Ratios during the year 2019 (Excluding EPF and Estate Loans)

Movement of Gross & Net Non- Performing Advances Ratio during the year 2019 (Excluding EPF and Estate Loans)



High Non-Performing Advance (NPA) ratio is due to the NPA position of EPF Loans 66.97% as at 31/12/2019 which is being recovered annually from EPF balances of customers held in Central Bank of Sri Lanka.

Market Risk

It is the risk that the value of on and off-balance sheet positions will be adversely affected by movements in market rates or prices.

For the bank, market risk largely means interest rate and liquidity risk. Bank pays significant additional attention to potential impacts from the volatility of financial markets in general and the housing finance market in particular.

Asset and Liability Management Committee (ALCO) is responsible for supervision and management of the market risk and the liquidity risk management function of the bank.

ALCO of SMIB is responsible to monitor the structure / composition of bank's assets and liabilities and decide about product pricing for deposits and advances. The committee decides on required maturity profile and mix of incremental assets and liabilities.

Articulate interest rate view of the bank and decide on the future business strategy, review and articulate funding policy are some of the functions done by the committee at present. SMIB has board approved Assets and Liability Management Policy and contingency funding plan in place to deal with liquidity issues.

Interest Rate Risk

Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustment within a specified period. The bank's lending, funding and investment activities give rise to interest rate risk.

This is a major component of market risk for the bank, since its primary source of funding is through deposits. These tend to be short to medium-term in nature, whereas the bank's main business, housing finance, generally involves long-term lending. The bank operates in a predominantly fixed-rate lending environment while the majority of its liabilities are subject to frequent re-pricing. Increased interest cost during the year has significantly affected the margin and the bank is considering strategies to address this mismatch. Several new assets and liability products were introduced during the year to match the mismatches and to be aligned with customer needs and market conditions.

The Bank has adopted the Modified Duration Gap approach for analyzing the changes in Economic Value of Equity, which requires the mapping of assets and liabilities into different time buckets based on their residual maturity. This approach analyses the dynamic behavior of economic value of equity with response to varying interest rate scenarios. Broadly, the EVE is defined as the difference between the economic value of assets and economic value of liabilities in response to a change in the interest rate. The linkage between the two is established via modified duration of rate sensitive assets and liabilities. The results of Interest Rate Risk in the Banking Book -IRRIBB are given the Interest Rate Risk - Output table given here.

More generally, the ALCO manages the potential impact of market rate volatility and yield curve changes to minimize any negative impact on net interest income.

Interest Rate Risk - Modified Duration in Years							
Average Duration of the Bucket - Days	15	60	135	270	730	1460	1825
Bank Balances and Placements	0.03706	0.14711		0.65094			
Treasury Bills and Bonds	0.03865	0.15592	0.34887	0.67083		3.16934	3.73386
Loans & Advances	0.03968	0.16025	0.35292	0.68886	1.71942	3.01391	3.50510
Interest Bearing Assets	0.03731	0.15135	0.35109	0.66537	1.71942	3.01811	3.50531
Deposits	0.03968	0.16025	0.35492	0.69465	1.76452	3.15814	3.70196
Borrowings	0.03865	0.15592	0.34887	0.66692	1.72773	3.08961	3.61938
Interest Bearing Liabilities	0.03956	0.15990	0.35457	0.69308	1.74773	3.14447	3.69498

Total Eligible Capital	5,425
Leverage (RSA / Total Eligible Capital)	6.94
Modified Duration (Assets) (DA)	1.98
Modified Duration(Liabilities) (DL)	0.92
Weight (RSL / RSA)	1.09
Modified Duration Gap (Balance Sheet), Years (DGAP)	0.97
Modified Duration of Equity	6.74
Rate Shock	0.02
For a 200 bp	
Rate shock the drop in equity value	(0.13)
Change in EVE	(730.75)
EVE Change Threshold	10%
IRRBB Capital Charge	188.27

Liquidity Risk

Liquidity risk is the potential for loss to an institution arising from either its inability to meet its obligations or to fund increases in assets as they fall due without incurring unacceptable cost or losses. Liquidity risk cannot be seen in isolation, because it is often triggered by consequence of other financial risks such as credit risk and market risk.

Liquidity management is of vital importance to SMIB due to the nature of its assets and liabilities profile. Through identified ratios bank monitors the composition of assets and liabilities, diversification and stability of liabilities while more focusing on improving the quality of credit portfolio.

The Bank also won depositor confidence through the fair and competitive deposit rates it offered and the accessibility to retail deposits has increased through increased branch network. Hence reliance on wholesale deposits has reduced. Lack of long-term borrowing instruments at affordable costs results in maturity mismatch in the asset book and the bank is researching on introducing innovative products to reduce the maturity mismatch.

The bank monitors a number of liquidity ratios as per the CBSL risk direction which are discussed at ALCO and Board Integrated Risk Management Committee.

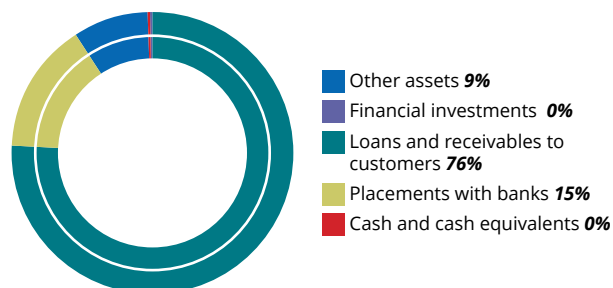
Liquidity Related Ratios

The bank monitors its own liquidity movements through regular cash flow forecasts, liquidity ratio and maturity gap analysis. The bank also analyses the contingency funding plan and the market accessibility.

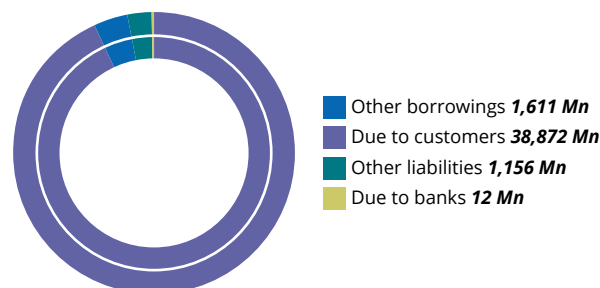
Liquidity Ratios	Current position as at 31.12.2019
Investment/Deposits	18%
Loans/Deposits	92%
Loans/Assets	76%
Loans/Capital	634%
Net Borrowed Funds/Capital	28%
Reliance on Institutional Deposits	28%
Liquid Assets/Total Assets	15%
Available Line of Credit Rs. Bn	2.8

Integrated Risk Management Contd...

Assets Mix



Liability Mix



Maturity Mismatch Analysis as at 31/12/2019 (Rs. Mn) (Static Basis)

Rs. Mn	less than 7 Days	7-30 Days	1-3 Months	3-6 Months	6-12 Months	1-3 years	3-5 years	Over 5 years	Total
Total Assets	1,242	3,586	2,101	1,656	5,505	7,295	6,038	18,367	45,790
Total Liabilities	1,955	3,284	5,907	6,722	14,231	3,697	2,688	7,307	45,790
Gap	(713)	303	(3,806)	(5,066)	(8,726)	3,598	3,350	11,060	

Maturity Mismatch Analysis as at 31/12/2019 (Rs. Mn) (Under Behavioral assumptions)

Rs. Mn	less than 7 Days	7-30 Days	1-3 Months	3-6 Months	6-12 Months	1-3 years	3-5 years	Over 5 years	Total
Total Assets	1,122	3,438	1,856	1,216	5,583	5,650	4,732	35,586	59,183
Total Liabilities	223	1,203	2,073	2,364	9,547	12,803	6,751	14,619	
Gap	899	2,235	(218)	(1,149)	(3,964)	(7,152)	(2,019)	20,967	59,183

The ALCO, as the bank's primary arbiter of lending and deposit rates, increased the frequency of its formerly meeting schedule in order to deal more expediently with the volatile market conditions.

The bank comfortably meets the regulatory requirements relating to liquidity.

Stress testing is being carried out at frequent intervals to measure the resilience of its portfolio to liquidity variation and expected adverse scenarios.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. Operational risk is associated with human error, system failures and inadequate procedures and controls.

The bank mitigates operational risk by improving policies, technology infrastructure and streamlining procedures and controls. SMIB has a comprehensive operational risk management policy in place which covers risk identification, assessment, implementation of controls, monitoring and reporting mechanism. Main operations are separately guided by the board approved manuals like Credit and Operations Manuals.

The bank is involved in a continuing process of systems development and improvement. This subsumes the improvement of controls through IT system, preventive maintenance, skill development of employees, timely introduction and application of procedures and policies and use of risk transfer measures. Reviews of operations and activities are undertaken at regular meetings.

Employees are trained in order to acquaint them with the correct operational procedures pertinent to their functions, emphasizing their responsibility to comply at all times with these procedures.

Operational risk events are reported to risk management department by appointed officers in each functional unit. Audit findings, reconciliation process, and branch visits, sample base reviews carried out by operational risk management function of the bank also feed information to risk identification process.

A loss tracking database has been designed where the loss incidents will be collected and analyzed based on business function. These information will be analyzed to propose preventive measures on the lessons learnt.

Immediate procedural steps are taken to prevent any repetition when a shortcoming in the processes is detected. Actions are taken to improve transparency in business activities, controls and policies, ensuring smooth and sound operations. Both external and internal auditors monitor the degree of the compliance of operational activities with the appropriate policies of the bank.

The bank has initiated actions on investing on upgrading the information system and the management information system to strengthen the internal control system, provide efficient service and facilitate accurate decision making.

The bank is committed to aggressively penetrate market share in alternative delivery channels and making necessary investment in people, structure and system to ensure competitive advantage.

Further as an operational risk mitigation aspect SMIB continuously conducts its Business Continuity Plan effectively to recover from an unexpected disaster as soon as possible with minimum loss. According to that following major actions were done.

- Reviewing the Business Continuity Plan of SMIB – Version 03 and establishing the Terms of Reference (TOR) of BCP steering committee
- Appointment of the BCP Committees
- Appointing fire warden at each level of the head office building.
- Expedite the process of purchasing of document management system and provide other IT related assessments.
- Arranging suitable permanent BCP recovery site to the Head Office
- Installing a Fire alarm at the Head office building
- Conducting a Disaster Recovery Drill at Head Office and main eleven branches and reporting the feedback to the BCP steering Committee and BIRMC.
- Conducting a Fire drill to the Head office with the assistance of the Fire consultant and awareness program on the BCP at Fire to the Head office and branches’ staff.

The conclusion of the Audit Review on the BCP disaster recovery drill is as follows.

Control Objective	Assurance			
	Full	Significant	Limited	None
01. Whether complete and relevant BCPDRD plan(s) is in place.			√	
02. How the BCPDRD plan is invoked and how technical recovery teams are coordinated after the invocation of the plan(s)			√	
03. Whether the inclusion of end-to-end recovery processes and the identification of interfaces between dependent and feeder system are understood within the BCPDRD Plan(s).		√		
04. What testing is performed to validate BCPDRD, how the outcomes are reported and corrective actions implemented.		√		
05. The approach for data backup.		√		

According to that audit findings have been categorized identified issues under different priorities as High, Medium, Low based on risk arising and consequences of absent of necessary actions. Steps has been initiated to implement the recommendations given by Internal Audit Department.

A comprehensive BCP action plan is being developed considering all branches/ Head Office units to implement the BCP in the Bank more effectively. As a whole BCP is in full of process within the Bank.

Integrated Risk Management Contd...

Legal Risk

Legal risk arises from unenforceable transactions in a court of law or the failure to successfully defend legal action instituted against the bank. Bank's existing legal team takes necessary precautions in such events and takes immediate action to address and mitigate these risks. If required the bank will obtain external legal advice to overcome the legal risk to be faced by the bank.

Strategic Risk Management

Strategic risk is the possibility of current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.

Board of directors and the General Manager together with the corporate management conducts the strategic plan and is communicated down the line for proper implementation. All strategic decisions taken by the Board and the corporate management are given due consideration to regulatory requirement, applicable laws and regulations, corporate governance requirements, ethics and industry best practices to improve the standards of decisions and to mitigate risk.

Compliance Risk

This is the loss that the bank may suffer due to non-compliance with the applicable laws, regulations, and codes of conduct and standards of good practices. SMIB has initiated the compliance function within the bank and a compliance manual has been approved by the board of directors. The compliance function works closely with business and operational units to ensure the consistent management of compliance risk.

• A culture of Risk Awareness

Senior management of the bank has to ensure that the policies incorporated in Integrated Risk Management Framework are properly communicated down the line and embedded in the culture of organization.

Risk tolerances relating to quantifiable risks are generally communicated as limits or sub-limits to those who accept risks on behalf of the bank. Qualitative risk measures are communicated as guidelines and inferred from management business decisions.

Business line managers have to ensure that risk taking remains within limits set by senior management/ BOD. Any material exception to the risk management policies and tolerances should be reported to the senior management/ BOD that in turn must trigger appropriate corrective measures. These exceptions also serve as an input to judge the appropriateness of systems and procedures relating to risk management.

The bank aims to create a culture of risk awareness that the employees who take or manage risks clearly understand it and involve in taking decisions managing risks within the given Integrated Risk Management Framework.

Human Resource Management



Employees are the major contributors to profits and worth of the organization. The employees might appear under “asset” in the balance sheet or books of accounts of an organization, however, they are the most valuable assets that cannot be given any monetary value as such.

It is our employees who translate our vision into tangible outcomes that add value to all our customers. Therefore, we ensure that we provide them with an inclusive and inspiring workplace to excel in, whilst our investments are focused on enhancing the knowledge, skills, and capabilities of our employees through training and development activities and employee engagement activities, creating a workplace where people can develop and shine. We at SMIB constantly focus on attracting, nurturing and retaining the best talent to drive the growth of the company.

Staff Strength

The total number of staff for the year accounted as 378 which was comparatively small but they have contributed to the bank performance at greater extent. During the year, 02 staff members left the bank of which 12 retired from the bank and 1 staff member left the bank on other grounds. We recruited 04 new staff members to the Bank during the year. Filling vacancies were carried out as per our recruitment policy both internal and external.

Staff Variance

Management Level	Variance		
	Retired	Resigned/ Other	Externally Recruited
Corporate Management	1		
Senior Management			2
Executive	2		1
Non Executives	9	3	1
Total	12	3	4

Staff Strength by Tier Wise

Management Level	No: of Employees as at 31.12.2019
Corporate Management	9
Senior Management	9
Executive	103
Non Executives	257
Total	378

Human Resource Management Contd...

Gender Profile

As an equal employee opportunity provider SMI bank provided employment for both males & females in an equal manner. Gender profile of the SMI bank accounted as 49% male and 51% female in the year of 2019.

Employee Age Profile

Bank and capitalizes most experienced and senior staff. 47% of the staff is above 40 years.

Age category	No: of Employees as at 31.12.2019	Percentage
50 or Above	88	23
40 - 49	90	24
30 - 39	108	29
29 or below	92	24
Total	378	100

Talent Management

Managing our talent pool is an utmost priority, as it enables us to deliver the best to all our customers. We ensure that the best resources are acquired and retained in the bank whilst investing in our dynamic team to develop their potential to become future leaders, enabling the Company to realize its full potential.

Talent Attraction and Acquisition

New talent acquisition is addressed through the bank's recruitment procedure, which is designed to select the candidate best suited for our business needs. The talents with the necessary skills, knowledge, capabilities and more important behaviors that fit and nurture our culture are given priority. While immediate consideration is given to internal talent, whenever vacancies occur, specialized skills are brought in at required levels if the internal talent is not available.

Training and Development

Training and Development by way of enhancing knowledge, competencies, skills, attitudes, and performance of an employee is a key tool, with which SMIB achieves growth. Our employees are offered training and development opportunities to enhance their skills and knowledge whilst fortifying their personal brand. Bank endeavors to train and develop employees of all levels in different functions to enable them to perform their duties better and prepare

them for future responsibilities.

During 2019, SMIB invested Rs.1,872,684.25 in training and development initiatives and offered a total of 1988 training hours for employees. Internal and external training the year under review witnessed our employees going through 05 internal training programs and 45 external training programs. The Bank provides employees with external training opportunities to expose them to both local and international industry innovations and developments.

Below table summarizes the employee participation in different categories of training granted during 2019.

Key Area	Number of Participants
Knowledge and Skill Development Training	148
Attitude Development Training / Motivational Training	95
Technical Competency and IT Training	58
Overseas Training	3
Seminars, Workshops, Membership Fees, Quiz Competitions	33

Employee Service

Service category (Years)	No: of Employees as at 31.12.2019	Percentage
0-4	56	15
5-9	158	42
10-14	51	13
15-19	25	7
Above 20	88	23
Total	378	100

43% of the employees have been working more than 10 years in the bank and contribute their service to bank development. Not only the providing financial benefits but also non-financial benefits to the staff increased their job satisfaction.

The way towards where we are today wasn't so easy. But bank achieved everything it has achieved through the untiring and committed efforts of its employees.

Future matters

We will continue to strengthen our cadre by improving our Human Resource Best Practices in the coming year. A thorough analysis of training and development needs are in the pipeline and through this new analysis, we wish to create a more comprehensive and all inclusive training plan covering technical as well as soft skill aspects of employees.

The year ahead will also focus on the enhancement and strengthening of the succession planning process through the focus given to key individuals in developing their skills and knowledge to reach the desired level. In summary, we will strive to create a better workplace and more satisfied employees.

Corporate Social Responsibility



CSR is about how companies manage their business process to produce an overall positive impact on society. Bank recognizes the importance of good corporate governance and corporate social responsibility in promoting and strengthening the trust of its shareholders and other stakeholders.

The CSR policy shall be guided by the bank's corporate vision and the aspiration to be the bank of choice for customers, shareholders, employees and community.

In present, people are highly concern about their living standard. So bank anticipate increase stand of living of people through achieving organizational goals. As well as it become an essential part of business.

Sri lanka is now focusing on long term strategic and structural development challenges as it strives to transition to an upper income country.

The bank will support programs and activities in the following areas.

1. To enhance standard of living through satisfying people's expectations of their housing dreams.
2. To create meaningful socio-economic impact in the lives of vulnerable and underprivileged sections of the society that include amount others, differently-abled, street children and vulerable children, economically weaker sections and victims of natural and other disasters including war and acts of terrorism.

3. To enhance sustainable live hood through interventions in the areas of natural resource management, agriculture development, rural development, traditional art and handicrafts, micro- enterprises.
4. To promote education, including special education and employment enhancing vocation skills especially among children, women, elderly and the differently-abled and live hood enhancement projects. This would also include initiatives to promote financial literacy, consumer education and awareness, and capacity and skill building in various sectors of the economy in alignment with the various Government initiatives.
5. To promote environmental sustainability, ecological balance and conservation of natural resources.

SMIB has been always extending their fullest support to students by conducting workshops for grade 5 scholarship examinations. The bank is also organizing financial literacy programs to enhance financial literacy among the people of Sri Lanka.

Over the years we have successfully contributed to uplifting areas such as environment, healthcare, education, and culture aid during the conflict and many more. Investments amounting to millions have been made thus far and will continue to be made for the overall development of Sri Lanka.

Our Products and Services



State Mortgage and Investment Bank is the first state bank in Sri Lanka. Therefore, it is essential to maintain the reputation, prestige and the continuous trust of the public. As a leader in the financial sector SMIB should be cherished and nurtured the banking industry by par excellence. Depositor, creditors and all the other government and non-government parties/ all the stakeholders of SMIB including dep should be won over.

As per the State Mortgage and Investment Bank Act, the bank has offered various financial facilities to the customers. Financial facilities for construction of houses as well as personal loans are two major products of the bank. Further agricultural loans have also been passed as per the Act. In addition, it has become possible to provide financial planning facilities to industrial sector, tourism sector and other such income earning sectors.

The bank has won the hearts of people for more than 89 years due to the reason of maintaining a proper advertising campaign to make the people aware of the services offer by the Bank to direct and indirect customers. Various marketing techniques have been applied to win the customers through the relationship with the state mechanism and also through personal contacts. The continuous financial feasibility of the bank throughout the years proves the fact that an omnipresent marketing methodologies have been used.

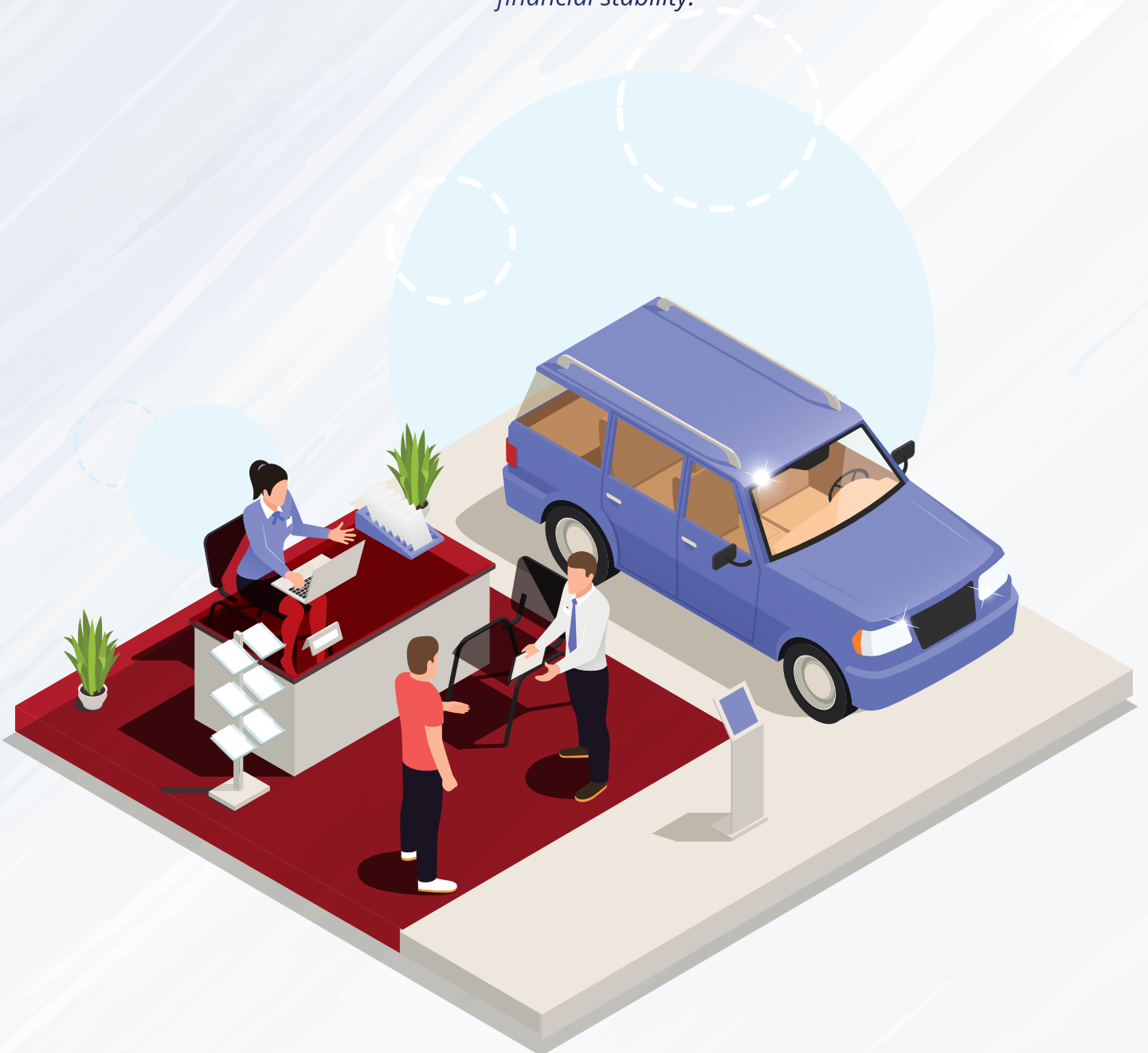
Year 2019 reported the highest number of loans issued. The amount is around ten billion rupees from the ministry's schemes loan. On the other hand, the profit on the interest of loans has hugely increased. This is one of the prominent milestones in the State Mortgage and Investment Bank on its 8 decades of history. Further, the bank had the opportunity to obtain more outstanding FD portfolio as short term and long-term fixed deposits.

The branch network established to cover the entire island has made it easier for the bank to serve thousands of customers in the country. In year 2019, around 10 housing loan schemes were introduced during past period to the public sector and together with the loan scheme introduced to the Department of Pensions, a few new products were introduced to the customers. Few of the savings products were implemented during the period.

It is an achievement to have the toll free number 1922 which is well known to Sri Lankan financial sector. Officers have been assigned to this service to provide required information to the customers. In addition, the web site has also been well used to provide financial information to the modern world. State Mortgage and Investment Bank, above all, has been able to maintain a strong channel of providing information through mass media and other services.

Financial Statements

Generating sustainable business performance and financial stability.



Directors' Report

General

The State Mortgage and Investment Bank was incorporated in Sri Lanka by State Mortgage and Investment Bank Law No: 13 of 1975 and was granted the status of Licensed Specialized Bank in terms of Banking act No. 30 of 1988 and amendments thereto.

The Board of Directors of State Mortgage and Investment Bank take pleasure in presenting their report on the affairs of the Bank together with the Audited Consolidated Financial Statements for the year ended 31 December 2019 of the Bank and the Auditor General's Report on those Financial Statements, conforming to the requirements of the State Mortgage and Investment Bank Law No: 13 of 1975 as amended and Banking Act No. 30 of 1988 and amendments thereto.

Principal Activities of the Bank

The principal activities of the State Mortgage & Investment Bank were to promote housing, agricultural and industrial development finance and Mobilization of Deposits. There have been no significant changes in the nature of the principal activities during the year. The Bank has not engaged in any activity which contravenes the Laws and Regulations of the country.

Directors

Under the provisions of the State Mortgage & Investment Bank Law No. 13 of 1975 as amended, the Board consists of Nine non-executive independent directors including the Chairman appointed by the Minister in compliance with section 7 of the State Mortgage and Investment Bank Act No. 13 of 1975 as amended. There are no executive directors in the bank.

Three of the directors so appointed shall be a representative of each of;

- (a) The Ministry of the Minister in charge of the subject of Agriculture,
- (b) The Ministry of the Minister in charge of the subject of Housing
- (c) The Ministry of the Minister in charge of the subject of Livestock Development.

And one Director is appointed as the Treasury Representative

Three members out of the nine constitute a quorum at any meeting of the Board. Meetings of the Board of Directors should be held at least once a month or oftener if the Chairman deems it necessary as per the State Mortgage and Investment Bank Law and the Banking Act. It has been reported that fourteen meetings were held in the year 2019.

Directors' attendance at the Board meetings:

Name of the Director	Number of meetings eligible to attend	Number of Meetings attended
Mr. Niroshana Perera (Chairman)	14	14
Mrs. K.D.R. Olga	13	13
Mr. Sheanath de Soysa	14	14
Mr. Dilhan Jayasinghe	14	12
Mr. Vidura Manchanayaka	13	13
Mr. Bernard Vasantha	13	08

Directors' interests in contracts

The objective of the Related Party Transaction Policy is to ensure that transactions between the Bank and its related parties are based on principles of transparency and arm's length pricing.

This Policy outlines the basis on which the materiality of related party transactions will be determined and the manner of dealing with the related party transactions by the Bank. The Bank followed the Related Party Transaction Policy of the bank which is in line with the directions issued by the Central Bank of Sri Lanka under the Banking Act.

A director who or whose spouse or dependent child or children, is directly or indirectly interested in any business transacted or proposed to be transacted by the Board shall disclose the nature of such interest at the meeting of the Board where such business is discussed.

Directors have to disclose their other directorships and connections at Board meetings to ensure that they are refrained from voting on matters in which they have an interest. Concerning the Board of Directors of the Bank, it is reported that no Director was directly or indirectly interested in any contract or proposed contract with the Bank for the year ended 31st December 2019.

Directors' Report Contd...

Review of Operations and Future Developments

An overview of the financial and operational performance and future Developments of the Bank during the financial year 2019 and results of those operations are contained in the Chairman's Report, General Manager's /CEO's Report and Financial Review appearing on pages 6 to 15 respectively in this annual report. These reports form an integral part of this annual report.

The General Manager / Chief Executive Officer (CEO)

The General Manager/ Chief Executive Officer (CEO) is the highest-ranking individual in the Bank and is appointed by the Board of Directors. His primary responsibilities include the managerial and operational activities of the bank. He carries out the day to day management of the bank's business in line with board approved strategic objectives, corporate values, and overall risk policy and risk management procedures to achieve sustainable development of the Bank.

Vision, Mission and Values

Vision, mission, and values statements keep everyone focused on where the Bank is going and what it is trying to achieve. Further that they define the core values of the Bank and how people are expected to behave. The business activities of the bank are conducted at a high level of ethical standards to achieve its vision.

The Bank's Vision, Mission and Values are given on page no 03 of this Annual Report

Corporate Governance

The Board of Directors is committed to maintaining an effective Corporate Governance structure and process.

The Board considers that effective governance is a precept for sustaining responsible growth. The financial, operational and compliance functions of the Bank are directed and controlled effectively within the Corporate Governance practices. Corporate Governance report appears on pages 21 to 75 of this Annual Report.

Board Sub Committees

The Board has formed four sub committees complying with the Directions of the Banking Act to ensure control over affairs of the Bank.

- **Board Audit Committee**

The Board Audit Committee (BAC) of the bank reviews financial information of the Bank, to monitor the integrity of the financial statements of the bank, its annual report, accounts and quarterly reports prepared for disclosure, the bank's compliance with legal and regulatory requirements, discuss annual work Programme of the bank's external audit functions and the performance of the bank's internal audit functions and controls over financial reporting, information technology security and operational matters fall under the purview of the committee.

The Board Audit Committee (BAC) comprises of four Independent non-executive Directors, one being an alternative member. The Chairman of the Committee is an independent non-executive director who possesses qualifications in accountancy and audit and she is the director who representing the Treasury. Members of the BAC are being appointed out of the said Board members who possess the necessary qualifications, skills and experience to serve BAC.

Board Secretary functions as the Secretary of the Board Audit Committee. The General Manager, AGM Finance, AGM Risk AGM-Credit and AGM (HR &L) attended Meetings as invitees whilst the Superintendent of Government Audit attended all the meetings as an observer.

Five Board Audit Committee meetings were held in the year 2019. Out of the said meetings, the Committee met once in the year 2019 without the Chief Executive Officer is being present.

The BAC report is given on page 77 to page 78 of this annual report.

- **Board Human Resources & Remuneration Committee**

The Board Human Resources and Remuneration Committee (BHRRC) of the bank guide and advise in developing and implementing Human Resource Policies, strategies and plans on behalf of the Bank, reviews all remuneration Policy, initiatives, salary structures and terms and conditions relating the General Manager/CEO and Key Management Personnel of the Bank and maintain a consultative role with the other Board Sub committees on all human resource issues, including matters relating to all staff, which are among the primary responsibilities vested in the BHRRC.

BHRRC comprises of four Independent, non executive Directors, one being an alternative member. AGM (Legal) functions as the Secretary to BHRRC. The General Manager/CEO attends all meetings of the Committee except when matters relating to the General Manager/CEO are being discussed.

The Committee meetings are held quarterly however based on the needs, meetings are fixed. Two

(2) Board Human Resources & Remuneration Committee meetings were held in the year 2019.

The BHRRC report is given on page 80 to page 81 of this annual report.

- **Board Integrated Risk Management Committee (BIRMC)**

Board Integrated Risk Management Committee (BIRMC) of the bank assesses all risks, i.e. credit, market, liquidity, operational and strategic to the bank through appropriate risk indicators and management information and reviews policies, reports and proposals on risk and compliance related to the Bank. The BIRMC reviews the adequacy and effectiveness of all management level committees such as the Credit Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee

The BIRMC has established an independent compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations and take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee based on the bank's policies and regulatory and supervisory requirements.

BIRMC comprises four Non-Executive Directors one being an alternative member, the General Manager/CEO and the Head of Risk Management who looks after the broad risk categories. Board Secretary/ AGM (Legal) functions as the Secretary to the Board Integrated Risk Management Committee

(BIRMC). Four Board Integrated Risk Management Committee (BIRMC) meetings were held in the year 2019.

The BIRMC report is given on page 82 to page 84 of this annual report.

- **Board Nomination Committee (BNC)**

The Board Nomination Committee (BNC) of the bank is responsible for implementing a procedure to select/appoint General Manager/CEO and Key Management Personnel, setting out criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of General Manager/CEO and the Key Management Positions.

The BNC reports to the Board in respect of its activities and decisions. The Committee considering the performance and contribution recommends (or not recommends) the re-election of current directors. It ensures the fit and propriety of Directors, Chief Executive Officer and Key Management Personnel.

BNC comprises four Non-Executive Directors one being an alternative member. General Manager/CEO, AGM (HR & L) AGM (Finance) and AGM (Risk Management) attended Meetings as invitees on the direction of the Chairman of the Committee. Board Secretary/ AGM (Legal) functions as the Secretary to the Board Nomination Committee (BNC).

The BNC meetings are held at least twice a year however based on the needs, meetings are fixed. One Committee meeting was held in the year 2019

The BNC report is given on page 79 of this annual report.

Capital Adequacy Ratio (CAR)

The capital adequacy ratio (CAR) is a measurement of a bank's available capital expressed as a percentage of a bank's risk-weighted credit exposures. The Bank has always maintained the minimum capital adequacy requirement.

Capital Adequacy Ratio is properly monitored regularly by the Assets and Liability Management Committee (ALCO) of the Bank.

Risk Management

The Board of Directors assumes overall responsibility for managing risks. The specific measures taken by the Bank in mitigating the risks are detailed on page 86 of this Annual Report.

Internal Control

Internal control, as defined by accounting and auditing, is a process for assuring a Bank's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies.

The Board of Directors has ensured the implementation of an effective and comprehensive system of internal controls in the Bank which is a guide to Corporate Management in the day-to-day management of the business.

The Directors Report on Internal Control appears on Pages 110 in this annual report.

Profit and Appropriations

The Total Income of the Bank for the year 2019 was Rs. 5,993 Mn

Details of profit relating to the Bank are given in the following Table:

Directors' Report Contd...

	2019 Rs. 000	2018 Rs. 000
Gross Income	5,993,473	5,473,221
Interest Income	5,981,510	5,524,857
Interest Expenses	(3,951,343)	(3,577,504)
Net Interest Income	2,030,167	1,947,352
Other Income	11,963	(51,635)
Net Income	2,042,130	1,895,717
Less: Operating expenses	(1,226,224)	(1,163,999)
VAT / NBT / DRL	(316,252)	(251,985)
Operating Profit before Tax	499,654	479,733
Less: Provision for Taxation	(80,580)	(235,261)
Profit for the Year	419,074	244,472
Retained Profits	2,957,694	2,729,278
Profit available for appropriation	3,376,767	2,973,750
Appropriations	-	71,619
Deemed Dividend Tax	40,364	(48,965)
Payments to consolidated Fund	-	-
Transfers to Reserve Fund	(9,253)	(15,033)
Transfers to Investment Fund	-	-
Other Comprehensive Income	12,247	(23,677)
Balance carried forward	3,420,126	2,957,694

Reserves

Total reserves as at 31st December 2019 amounted to Rs. 4,769 Mn (2018 – 4,297 Mn) movement of which are given on page 122 in the statement of Changes in Equity.

Capital Expenditure

The details of Property, Plant, and Equipment and Motor Vehicles of the Bank are shown in Note 16 on page 147.

Market Value of Immovable Properties

SMIB did not own tangible immovable properties as at 31st December 2019.

Contributed Capital

Sri Lankan Government has contributed the capital amounting to Rs. 890 Mn.

Substantial Shareholding and Share Information

The government of Sri Lanka is the sole contributor of capital to the SMIB. Additional information is provided in the Financial Statements.

Contributions to the government Statutory Payments

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to the Government and employees have been made on time.

Taxation

Income tax for 2019 has been provided at 28 % on taxable income arising from the operations of the Bank.

Events Occurring after the Balance Sheet Date

No circumstance has arisen since the Balance Sheet date, which requires adjustments to, or disclosure in the financial statements.

Post Balance Sheet Events

There have been no material events occurring after the balance sheet date that require adjustments to or disclosures in the Financial Statements.

Going Concern

The Board of Directors after reviewing the Financial Statements and considering the sovereign stakeholders' involvement, forecasts and budgets; borrowing requirements and maturities; liabilities existing and contingent; financial adoptability to changing circumstances; product and market trends; overall risk management strategies; strengths, weaknesses, opportunities and threats; the Board is satisfied that the bank has adequate resources to continue its operations in the foreseeable future without materially curtailing its operations.

The Financial Statements of the Bank has been prepared on a going concern basis in accordance with the Sri Lanka Accounting Standards (LKAS & SLFRS) laid down By the Institute of Chartered Accountants of Sri Lanka and in conformity with the generally accepted Accounting Principles. Reasonable and prudent judgments have been made where necessary when preparing the financial statements.

The Board of Directors reviewed and approved the Financial Statements which have been prepared in accordance and conformity with the Sri Lanka Accounting Standards.

Compliance with Applicable Laws, Rules and Regulations

The Bank has at all times ensured that it has complied with the State Mortgage & Investment Bank Law No: 13 of 1975 as amended and all other applicable laws, rules and regulations. Passed in accordance with the laws of Sri Lanka.

Equitable Treatment to all Stakeholders

The Bank attaches importance to and respects every group of stakeholders equally. The bank is dedicated to improving the efficiency of its services; fair pricing; quality of services; as well as honesty and integrity.

Customers and Borrowers

One of the Bank's prime objectives is to provide housing Loans to the nation at an affordable cost. The Bank has taken a special effort to carry out regular surveys in this regard. The bank has introduced several loan schemes to help the small and medium scale entrepreneurs, industrialists helping to nourish the governments wish to eradicate unemployment.

Depositors and Suppliers

Depositors are the main fund providers of the Bank. Deposit rates are published and competitive. Capital and interest are paid on due dates.

The Bank calls for quotations for supplying goods and services and ensure prompt payment.

Auditor's Report

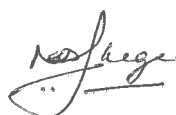
The Auditor General is the Auditor of the State Mortgage & Investment Bank. The audit of accounts of the State Mortgage & Investment Bank for the year ended 31st December 2019 was carried out under the Auditor General's directions in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13 (1) of the Finance Act No.38 of 1971.

The Auditor General's report on the Financial Statements of the Bank as at 31st December, 2019 is given on page 116 of this Annual Report.

ACKNOWLEDGMENT:

Directors place on record its sincere appreciation towards Bank's valued customers for the support and the confidence reposed by them in the Bank and look forward to the continuance of this mutually supportive relationship in the future. Directors gratefully acknowledge the contributions made by employees towards the success of your Bank. Directors are also thankful for the co-operation and assistance received from regulatory and Governmental authorities in Sri Lanka.

By order of the Board,



Nishani P.K. Lokuge
Secretary to the Board

Director's Statement on Internal Control over Financial Reporting

Responsibility

The report has been issued in line with the Banking Act Directions No 12 of 2007 section 3 (S) (ii) (b), and prepared based on principles D.1.5 of Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) (Code), the Board of Directors presents this report on Internal control.

The Board is responsible for internal control of the Bank and for reviewing its effectiveness. The Board of Directors ("The Board") has determined that internal control system has been designed to provide reasonable assurance that the assets are properly safeguarded, maintaining proper books of accounts and reliability of financial reporting system of the bank. However, the system does not provide absolute assurance for the elimination of possible errors, irregularities and frauds due to inherent risk.

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 as and when there are changes to the business environment or regulatory requirements and other guidelines. The process is regularly reviewed by the Board and confirmed the compliance with the Guidance for Directors of the Banks on the Directors Statement on Internal Controls issued by The Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control system taking into principles for the assessment of internal Control System as given in that guidance.

The Board is of the view that the system of internal controls in place is sound and adequate to provide

reasonable assurance regarding the reliability of financial reporting, and the preparation of Financial Statements for external purposes and is in accordance with the 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 by the Bank, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

Key features of the process adopted in applying and reviewing the design and effectiveness of the internal control system on financial reporting

The Board has also put in place the system of reviewing the design and the effectiveness of the system of internal control periodically. The key processes, among other things, include the following:

- The Board has established different subcommittees to ensure the adequacy and integrity of the internal control system within the bank and delegated the authority of the board among the layers of corporate management, senior management and managers of the bank in order to assist the board in implementation of policies and procedures for assessing and management of risk faced by the bank.
- Board Integrated Risk Management Committee consists of independent non-executive directors. The committee is responsible for reviewing the risk profile of the bank, identifies the principal risk faced by the bank

and prepares the policies based on the risk management of the bank.

- The Internal Audit Division of the Bank performs the tests on a sample basis to ensure whether the financial, administrative and operational activities of the bank are in agreement with the laid down internal control procedures. Audits are carried out on all units and branches frequently of which is determined based on the level of risk associated with the functional units and the products of the bank. Head of internal audit is responsible for submitting an independent objective report to the Chairman of the Board Audit Committee in respect of the audit observations on irregularities, misstatements, frauds in financial, administration and operational affairs of the bank.
- In general, the Board Audit Committee reviews the overall effectiveness of the internal control system in place and report to the Board of directors regularly in respect of the specific observations on internal control weaknesses. In this respect, the mechanism used by the committee includes; review of the Auditor General's report, internal Audit reports, regulatory reports, annual/ monthly financial statements and progress report.
- The Bank adopted the new Sri Lanka Accounting Standards Comprising LKAS and SLFRS in 2012. Since adoption of such Sri Lanka Accounting Standards, continue monitoring and progressive enhancement on processes to comply with new requirements of recognition, measurement, classification, and disclosure are being made.

- The Board also has taken into consideration the requirements of the Sri Lanka Accounting Standard - SLFRS 9 on "Financial Instruments" that is effective from 1 January 2018 and the Board has taken into consideration the requirement of the SLFRS - 16 "Leases" which is effective from the 1 January 2019 and necessary steps have been taken to assess its impact to financial statements.
- The Board has reviewed whether the financial reporting processes of the bank ensure that the annual financial statements are prepared in accordance with the Sri Lanka Accounting Standards and the guidance on reporting requirements issued by the Central Bank of Sri Lanka.
- Management level committees have also been functioning with appropriate empowerment to ensure effective management and supervision of Bank's core areas in the day-to-day business operations.
- A structured annual review of the design and effectiveness of the bank's internal control over financial reporting has been carried out. The Board has already approved that the documentation of the internal control system of the bank which would facilitate review of the effectiveness of the internal controls.
- The Board has realized that there are additional control procedures to be designed and implemented over the financial reporting process in order to ensure more effective internal control system of the bank.

Confirmation

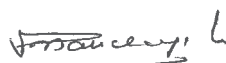
Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with Sri Lanka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

The External Auditor will review, the above Directors' Statement on Internal Control over financial reporting for the year ended 31st December 2019.



K.D.R. Olga

*Chairman - Board Audit Committee/
Director (NE)*



Vidura Manchanayaka

Director (NE)



Dilhan Jayasinghe

Director (NE)

Auditor General's Report on Bank's Internal Control



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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE



මගේ අංකය
எனது இல
My No.

BAF/G/SMIB/IC/2019/02

ඔබේ අංකය
உமது இல
Your No.

දිනය
திகதி
Date

29 September 2020

The Chairman
State Mortgage and Investment Bank

Assurance Report of the Auditor General to the Board of Directors on the Directors' Statement on Internal Control of State Mortgage and Investment Bank.

Introduction

This report is to provide assurance on the Directors' Statement on Internal Control ("Statement") of the State Mortgage and Investment Bank included in the annual report for the year ended 31 December 2019.

Management's Responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Bank on the Directors' Statement on Internal Control" issued in compliance with the section 3(8) (ii) (b) of the Banking Act Direction No.12 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

My Responsibility and Compliance with SLSAE 3050 (Revised)

My responsibility is to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the design and effectiveness of the internal control of the State Mortgage and Investment Bank.

I conducted this engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 (Revised), Assurance Report for Banks on Directors' Statement on Internal Control, issued by the institute of Chartered Accountants of Sri Lanka.

This Standard required that I plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material aspects, the Statement on Internal Control.

For the purpose of this engagement, I am not responsible for updating or reissuing any reports, nor have I, in the course of this engagement, performed an audit or review of the financial information.





Summary of Work Performed

I conducted my engagement to assess whether the Statement is supported by the documentation prepared by or for Directors; and appropriately reflected the process the Directors have adopted in reviewing the system of internal control over financial reporting of the Bank.

The procedures performed were limited primarily to inquiries of Bank personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

SLSAE 3050 (Revised) does not require me to consider whether the Statement covers all risk and controls, or to form an opinion on the effectiveness of the Bank's risk and control procedures.

SLSAE 3050 (Revised) also does not require me to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

The procedures selected depend on my judgment, having regard to my understanding of the nature of the Bank, the event or transaction in respect of which the Statement has been prepared.

I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

My Conclusion

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

W.P.C. Wickramaratne

Auditor General

Directors' Responsibility for Financial Reporting

Being responsible for overseeing the financial reporting processes undertaken by management, the Board of Directors has the ultimate responsibility for ensuring that legislative requirements in relation to financial reporting have adhered to when preparing the same. Accordingly, the responsibility of the Board of Directors in relation to the financial statements of the State Mortgage and Investment Bank is set out in this statement.

The Board of Directors of the Bank confirm that the Financial Statements of the Bank will reflect a true and fair view of the state of affairs as at 31st December 2019 and the financial performance of the Bank for the financial year then ended. The Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report.

Financial Statements

The Board of Directors of the Bank, having sufficient financial literacy to understand, monitor and direct the organization, is required to control and administer the affairs and the business of the Bank in terms of the provisions of the State Mortgage and Investment Bank Law No. 13 of 1975 and its amendments read with the Finance Act No. 38 of 1971, the Banking Act No. 30 of 1988 and its amendments and Directions issued by the Central Bank of Sri Lanka.

The Financial Statements for the year 2019 prepared and presented in this Annual Report are consistent with the underlying books of accounts and are in conformity with the requirements of Generally Accepted Accounting Principles, Sri Lanka Accounting Standards' and Sri Lanka Financial Reporting Standards that give a true and fair view of the financial position

of the Bank at the end of each financial year in compliance with the relevant statutory requirements.

The Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statement presented in this Annual Report. The Directors confirm that in preparing these Financial Statements;

1. The appropriate accounting policies have been selected, adopted and applied to prepare the Financial Statements according to the existing financial reporting framework in a consistent manner, material departures, if any, have been disclosed and explained;
2. All applicable accounting standards as relevant have been followed;
3. Judgments and estimates have been made which are reasonable and prudent.

The bank has published quarterly audited financial statements, including key performance indicators in the newspapers, in all three languages, within two months of the end of each period and also published them on the bank's websites.

The Board of Directors also approves the Interim Financial Statements prior to their release, following a review and recommendation by the Board Audit Committee. The Board Audit Committee report appears on Page 77 of this annual report.

The Board of Directors ensures that the Financial Statements comply with the prescribed format issued by the Central Bank for Licensed Specialized Banks.

Going Concern

The Board of Directors of SMIB is of the view that the Bank has adequate resources to continue in operation for the foreseeable future and to justify the application of the going concern basis in preparing these Financial Statements in accordance with the Sri Lanka Accounting Standards (LKAS & SLFRS) laid down By the Institute of Chartered Accountants of Sri Lanka and in conformity with the generally accepted Accounting Principles and the Board has taken all necessary measures to comply with the directives issued by the Central Bank of Sri Lanka.

Internal Controls and Risk Management

The Board of Directors of SMIB is responsible for taking reasonable measures and care to safeguard the assets of the Bank detect frauds and other irregularities and has also instituted an effective and comprehensive system of internal financial controls, an effective system of monitoring its effectiveness which includes the internal audit and risk management and places considerable importance on maintaining a strong control environment to protect and safeguard the Bank's assets and prevent fraud and mismanagement.

The purpose of internal control is to achieve an effective organization that achieves goals set by the Board of Directors and since this means to a reasonable extent ensure that the Bank's business is conducted appropriately and effectively, that laws and regulations are complied with and to provide reasonable assurance in relation to the reliability of the financial reporting.

The Internal Audit Department under the guidance of the Audit Committee monitors the effectiveness of the system of internal controls and recommends modifications where necessary.

The Directors ensure that the Financial Statements are reviewed by them directly at their regular meetings and also through the Board Audit Committee.

A report by the Directors on the Bank's internal control mechanism is given on page 110 to page 111 of this Annual Report.

Compliance Report

The Directors confirm that to the best of their knowledge and belief that all taxes payable by the Bank and all contributions and taxes payable on behalf of and in respect of employees of the Bank and all other known statutory dues to the Government and the other relevant regulatory and statutory authorities which were due and payable by the Bank as at the date of Statement of Financial Position have been paid or where relevant provided for.

Audit Report

The Auditor General is the Auditor of the Bank and issues the final opinion on the Financial Statements of the Bank.

The Auditor General has been made available with all records of the Bank including the Financial Statements by the Board of Directors and provided every opportunity to undertake the inspections they considered appropriate all of which the Auditor General's Department has examined and have expressed the Auditor General's opinion

The responsibilities of the Auditor in relation to the Financial Statements are set out in the Report of the Auditor General on page 116 of this Annual Report.

Directors' interests in contracts of significance

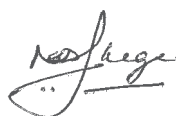
It has to be ensured that, no contracts of significance to which the Bank was a party and in which a director or former director of the Bank had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year and with respect to the Board of Directors of SMIB, there wasn't any contract of significance to which the bank was a party and in which a director of the bank had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Statutory payments

The Directors to the best of their knowledge and belief, are satisfied that all statutory payments in relation to all relevant regulatory and statutory authorities which were due and payable by the Bank as at the Statement of Financial Position date have been paid or where relevant, provided for.

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

By Order of the Board,



Nishani P.K. Lokuge

Secretary to the Board / AGM (Legal)

Report of the Auditor General



ජාතික විගණන කාර්යාලය தேசிய கணக்காய்வு அலுவலகம் NATIONAL AUDIT OFFICE



මගේ අංකය
எனது இல
My No.

BAF/G/SMIB/FA/2019/3

ඔබේ අංකය
உமது இல
Your No.

දිනය
திகதி
Date

17 September 2020

The Chairman State Mortgage and investment Bank

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the State Mortgage and Investment Bank for the year ended 31 December 2019 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

1. Financial Statements

1.1. Opinion

The audit of the financial statements of the State Mortgage and investment Bank ("Bank") for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the income statement, statement of 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, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No.38 of 1971. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

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

1.2. Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3. 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 determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.





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 NATIONAL AUDIT OFFICE

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.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Bank is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Bank.

1.4. Auditor's Responsibilities for the Audit of the Financial Statements

My objective is 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 my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

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

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report of the Auditor General Contd...



2. Report on Other Legal and Regulatory Requirements

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Bank as per the requirement of section 12 (a) of the National Audit Act, No. 19 of 2018.
- The financial statements presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

Based on the procedures performed and evidence obtained were limited to matters that are material, nothing has come to my attention;

- to state that any member of the governing body of the Bank has any direct or indirect interest in any contract entered into by the Bank which are out of the normal cause of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018.
- to state that the Bank has not complied with any applicable written law, general and special directions issued by the governing body of the Bank as per the requirement of section 12 (f) of the National Audit Act, No. 19 of 2018.
- to state that the Bank has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018.
- to state that the resources of the Bank had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018.

W.P.C. Wickramaratne
 Auditor General

Income Statement

<i>For the year ended 31st December 2019</i>	Note	2019	2018
		Rs	Rs
Interest Income		5,981,510,158	5,524,856,523
Interest Expenses		(3,951,342,868)	(3,577,504,063)
Net Interest Income	01	2,030,167,290	1,947,352,460
Fee and Commission Income		113,332,608	107,468,209
Fee and Commission Expenses		-	-
Net Fee and Commission Income	02	113,332,608	107,468,209
Net Fair Value Gains/(Losses) from FA at FVPL	03	1,840,000	(260,000)
Net Other Operating Income	04	28,318,619	26,114,437
Total Operating Income		2,173,658,517	2,080,675,106
Impairment Charges	05	(131,528,308)	(184,958,053)
Net Operating Income		2,042,130,209	1,895,717,053
Personnel Expenses	06	(882,138,042)	(824,017,672)
Depreciation and amortization expenses	07.2, 29.1	(57,301,152)	(25,817,153)
Other Expenses	07	(286,785,299)	(314,164,575)
Operating profit/(loss) before VAT, NBT & DRL		815,905,716	731,717,653
Value Added Tax (VAT) on Financial Services	30	(171,063,330)	(198,439,397)
Nation Building Tax (NBT) on Financial Services		(26,555,943)	(26,458,586)
Debt Repayment Levy (DRL) on Financial Services		(118,632,641)	(27,086,978)
Profit/(Loss) before Tax		499,653,802	479,732,692
Income tax expenses	08	(80,580,258)	(235,260,663)
Profit/(Loss) for the Year		419,073,544	244,472,029

Statement of Comprehensive Income

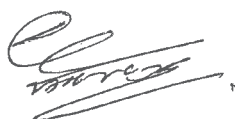
<i>For the year ended 31st December 2019</i>	2019	2018
	Rs	Rs
Profit/(Loss) for the Year	419,073,544	244,472,029
Items that will be reclassified to income statement		
Gains and Losses on Re-Measuring Financial Assets	-	-
Items that will not be reclassified to income statement		
Re-measurement of post-employment benefit obligations	17,009,388	(23,677,276)
Deffered Tax effect on Acturial Gains/Losses on defined benefit obligations	(4,762,629)	-
Total Comprehensive Income for the Year	431,320,303	220,794,753

Statement of Financial Position

<i>As at 31st December 2019</i>	Note	2019	2018
		Rs	Rs
Assets			
Cash and Cash Equivalents	10	121,239,625	96,180,182
Placements with Banks	11	7,090,741,107	5,206,048,813
Financial Assets - FVPL	12	19,475,000	17,635,000
Financial Assets - AC			
- Loans and Advances	13	35,892,870,362	34,225,486,332
- Debt and Other Instruments	14	2,613,184,244	1,943,157,959
Financial Assets - FVOCI	15	5,379,078	5,379,078
Property, Plant and Equipment	16	56,067,712	64,244,824
Right-of-use Assets	29	112,674,031	-
Deferred Tax Assets	17	221,648,675	107,451,184
Other Assets	18	1,178,156,939	931,684,987
Total Assets		47,311,436,771	42,597,268,360
Liabilities			
Due to Banks	19	12,412,879	12,196,466
Financial Liabilities at Amortised Cost	20		
- Due to Depositors		38,872,216,979	34,272,228,231
- Due to Debt Securities Holders		110,180,822	110,173,288
- Due to Other Borrowers		1,501,680,632	1,872,732,341
Employee Benefit Liability	21	390,291,731	382,499,632
Other Liabilities	22	765,985,183	760,454,437
Total Liabilities		41,652,768,226	37,410,284,396
Equity			
Stated Capital/Assigned Capital	23	889,812,899	889,812,899
Statutory Reserve Fund	24	270,921,034	261,668,385
Retained Earnings	25	3,420,125,609	2,957,693,676
Other Reserves	26	1,077,809,004	1,077,809,004
Total Equity		5,658,668,546	5,186,983,964
Total Equity and Liabilities		47,311,436,771	42,597,268,360

Certification:

(a) the above Statements have been prepared in compliance with the format and definitions prescribed by the Central Bank of Sri Lanka.



Mr. K.L.N.A Perera

Assistant General Manager (Finance)

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. These Financial Statements have been approved by the Board of Directors and signed on their behalf.



Dr. Udayasri Kariyawasam
Chairman



Mr. S.K.A. Galappatthi
Director



Mr. W.M. Dayasinghe
CEO/General Manager

Statement of Changes in Equity

	Title							Total
	Assigned Capital	Statutory Reserve	Capital Reserve	General Reserve	Indemnity Fund	Retained Earnings	AFS Reserve	
Balance as at 31.12.2017	889,812,899	246,635,734	393,498,004	683,280,000	1,031,000	2,729,277,654	12,895,000	4,956,430,290
Prior Period Adjustments						(11,967,208)		(11,967,208)
OCI Reserve Transfer to RE						12,895,000	(12,895,000)	-
Impairment Adjustment						70,691,003		70,691,003
Net Profit for the Year						244,472,029		244,472,029
Deemed Dividend Tax						(48,964,874)		(48,964,874)
Other Comprehensive Income						(23,677,276)		(23,677,276)
Transfer During the Year		15,032,651				(15,032,651)		-
Transfer to Consolidated Fund						-		-
Balance as at 31.12.2018	889,812,899	261,668,385	393,498,004	683,280,000	1,031,000	2,957,693,676	-	5,186,983,964
Prior Period Adjustments						-		-
OCI Reserve Transfer to RE						-		-
Impairment Adjustment						-		-
Net Profit for the Year						419,073,544		419,073,544
Deemed Dividend Tax Over Payment/Provision						40,364,278		40,364,278
Other Comprehensive Income						12,246,759		12,246,759
Transfer During the Year		9,252,649				(9,252,649)		-
Transfer to Consolidated Fund						-		-
Balance as at 31.12.2019	889,812,899	270,921,034	393,498,004	683,280,000	1,031,000	3,420,125,609	-	5,658,668,546

Statement of Cash Flows

For the period ended 31st December 2019	From	From
	01/01/2019 to 31/12/2019	01/01/2018 to 31/12/2018
	Rs	Rs
Cash flows from operating activities		
Interest Received	4,820,061,665.73	4,635,448,510.24
Interest Payments	(4,143,156,182.19)	(4,393,015,334.53)
Net commission receipts	113,332,607.83	107,468,208.73
Payments to Employees	(824,099,814.81)	(787,069,528.34)
VAT, DLR & NBT on financial services	(343,765,347.00)	(259,789,839.97)
Receipts from Other Operating Activities	3,530,149.29	2,540,436.78
Payments on Other Operating Activities	(347,767,571.77)	(315,804,667.13)
Operating profit before changes in Operating Assets & Liabilities	(721,864,492.92)	(1,010,222,214.21)
(Increase)/Decrease in Operating Assets		
Financial assets at amortised cost - loans & advances	(1,704,102,405.97)	(1,321,306,074.65)
Other Assets	(44,116,479.03)	-
	(1,748,218,885.00)	(1,321,306,074.65)
Increase/(Decrease) in Operating Liabilities		
Financial liabilities at amortised cost - due to depositors	4,674,406,102.68	1,467,261,443.29
Financial liabilities at amortised cost - due to other borrowers	(371,051,709.68)	(514,275,338.15)
Other liabilities	-	-
	4,303,354,393.00	952,986,105.14
Net cash generated from operating activities before Income Tax	1,833,271,015.08	(1,378,542,183.72)
Income Taxes Paid	(163,771,708.00)	(194,966,230.38)
Net Cash from Operating Activities	1,669,499,307.08	(1,573,508,414.11)
Cash flows from investing activities		
Dividend Received	21,771,330.00	23,574,000.00
Proceeds from the sale of property, plant and equipment	207,650.00	214,300.00
Purchase of financial investments	(2,556,558,578.51)	756,118,847.12
Purchase of Property, Plant & Equipment	(18,104,855.15)	(18,680,445.03)
Proceeds from the sale and maturity of financial investments	908,028,176.40	824,122,050.29
Net cash (used in)/from investing activities	(1,644,656,277.26)	1,585,348,752.38
Cash flows from financing activities		
Repayment of subordinated debt	-	-
Payments to Consolidated Fund	-	-
Net cash from financing activities	-	-
Net increase/(decrease) in cash & cash equivalents	24,843,029.82	11,840,338.27
Cash and cash equivalents at the beginning of the period	83,983,716.16	72,143,377.89
Cash and cash equivalents at the end of the period	108,826,745.98	83,983,716.16
Reconciliation of Cash and Cash Equivalents		
Cash and Short Term Funds	121,239,625.06	96,180,182.47
Government of Sri Lanka Treasury Bills	-	-
Borrowings from Banks (OD)	(12,412,879.08)	(12,196,466.31)
Cash and cash equivalents at the end of the period	108,826,745.98	83,983,716.16

Accounting Policies

1. Corporate Information

1.1. General

The State Mortgage & Investment Bank was inaugurated as the Ceylon State Mortgage Bank (CSMB) on 6th December 1931 by Ordinance No. 16 of 1931. State Mortgage & Investment Bank formed by the State Mortgage & Investment Bank Law No. 13 of 1975, amalgamating the Ceylon State Mortgage Bank and the Agricultural and Industrial Credit Corporation, established in 1943. The Bank commenced its operation on 1st January 1979. The Bank was recognized as a Licensed Specialized Bank and the license was issued by the Central Bank of Sri Lanka on 27th April 1998 in terms of the Banking Act No. 30 of 1988.

1.2. Principal Activities and Nature of Operations

The State Mortgage & Investment Bank is predominantly engaged in providing Housing Finance while recently diversified into other credit facilities such as vehicle loans and personal loans in order to face the rising competition.

1.3. Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements as per the provisions of the State Mortgage & Investment Bank Law No 13 of 1975, Banking Act No. 30 of 1988 and its amendments and Sri Lanka Accounting Standards (SLFRS and LKAS).

1.4. Date of Authorization

These Audited Financial Statements of the Bank for the year ended 31st December 2019 were authorized for issue in accordance with the approval given by the Board of Directors of

the Bank at the meeting held on 14.09.2020.

The staff strength of the Bank as at December 31, 2019 was 378 (386 as at December 31, 2018)

2. Summary of Significant Accounting Policies

2.1. Basis of Preparation

These Financial Statements for the year ended 31 December 2019 were prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRS and LKAS) laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

The Financial Statements of the State Mortgage and Investments Bank are presented in Sri Lanka Rupees and financial information has been rounded to the nearest Rupee on a historical cost basis and applied consistently with no adjustments being made for inflationary factors except for the followings:

- Financial instruments measured at fair value through profit or loss
- Financial assets measured at fair value through other comprehensive income
- Financial instruments at amortised cost
- The liability for defined benefit obligation

2.2. Statement of Compliance

The Financial Statements of the Bank is prepared and presented in accordance with Sri Lanka Accounting Standards (LKAS and SLFRS) as issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Banking Act.

2.3. Presentation of Financial Statements

The Bank presents its statement of financial position broadly in order of liquidity. Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions is presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard -LKAS 01 on 'Presentation of Financial Statements

2.4. Significant accounting Judgments, Estimates and Assumptions

In the process of applying the Bank's accounting policies, management has exercised judgement and estimates in determining the amounts recognised in the financial statements. The key significant accounting judgements, estimates and assumptions involving uncertainty are discussed below, whereas the respective carrying amounts of such assets and liabilities are given in related Notes.

2.4.1. Going Concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not

aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

2.4.2. Taxation

The Bank is subject to income tax and other taxes including VAT on financial services. Significant judgment was required to determine the total provision for current, deferred and other taxes pending the issue of tax guidelines on the treatment of the adoption of SLFRS in the Financial Statements and the taxable profit for the purpose of imposition of taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these financial statements.

The Bank recognized assets and liabilities for current, deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax amounts in the period in which the determination is made.

2.4.3. 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 upon the likely timing and level of future taxable profits, together with future tax-planning strategies.

2.4.4. Employee Benefit Liability- Gratuity

The cost of the defined benefit plan gratuity, is determined using an actuarial valuation. Actuarial valuation involves making assumptions about inter-alia discount rates, future salary increases, remaining working life of employees and mortality rates. Due to the long term nature of these obligations, such estimates are subject to significant uncertainty. The assumptions used are as follows.

	2019	2018
Interest Rate	10.50%	11.50%
Rate of Annual Salary Increase	6.50%	7.50%
Retirement Age	55-60 years	55-60 years

The employment benefit obligation of gratuity provision is given in Note 21

2.4.5. Employee Benefit Liability - Medical Benefit

The cost of the defined benefit plan medical benefit is determined using an actuarial valuation. Actuarial valuation involves making assumptions about inter-alia discount rates, medical inflation and mortality rates. Due to the long term nature of these obligations, such estimates are subject to significant uncertainty.

The assumptions used are as follows.

	2019	2018
Discount Rate	10.50%	11.50%
Medical Expense Escalation	7%	7%
Participant Data (Actives) census information at	31.12.2019	31.12.2018

Description of employee benefits is given in Note 21.

2.4.6. Useful Life of the Property, Plant and Equipment and Intangible Assets

The Bank reviews the residual values, useful lives and methods of depreciation of Property, Plant and Equipment at each reporting date. Judgement of the Management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty. The details of the depreciation methods and rates used for each assets category are given in Note 2.5.7.5.

2.5. Significant Accounting Policies

2.5.1. SLFRS 15 – “Revenue from Contracts with Customers”

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. New qualitative and quantitative disclosure requirements aim to enable financial statements users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Entities will apply five step model to determine when to recognise revenue and at what amount. The model specified that revenue is recognised when or as an entity transfers control of goods and services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised.

Accounting Policies Contd...

SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Bank has completed the initial review on potential impact over fee and commission income on its Financial Statements. The initial review indicates that SLFRS 15 will not have a material impact to the financial statements on the timing of recognition or measurement.

2.5.1. Dividend Income

Dividend income is recognised when the Bank's right to receive the payment is established.

2.5.2. Net Trading Income

Results arising from trading activities include all realised gains or losses from investment in equities and fixed income securities classified as Financial Assets - At Fair Value through Profit or Loss and unrealised gains and losses due to changes in fair value of such instruments.

2.5.3. Other Income

Other income is recognized on an accrual basis.

2.5.4. Other Expenses

All other expenses have been recognized in the Financial Statements as they are incurred in the period to which they relate. All expenditure incurred in the operation of the business and in maintaining the capital assets in a state of efficiency has been charged to revenue in arriving at the Bank's profit for the year.

2.5.5. Cash and Cash Equivalents

Cash and short term funds include cash in hand, balances with banks, placements with banks and money at call and at short notice. Details of the cash and short term funds are given in Note 10 to the Financial Statements.

2.5.6. Property, Plant and Equipment

Property, plant and equipment is stated at cost or valuation excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

2.5.6.1. Basis of Recognition

Property, Plant & Equipment are recognised, if it is probable that future economic benefits associated with the asset will flow to the bank and cost of the asset can be reliably measured

Plant & Equipment are stated at cost, excluding the cost of day-to-day servicing.

2.5.6.2. Basis of Measurement

The property, plant and equipment are stated at cost less accumulated depreciation, which is provided for on the basis specified as below.

2.5.6.3. Depreciation

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives and depreciation of an asset begins when it is available for use.

The estimated useful lives are as follows:

Category of Asset	Rate of Depreciation
Motor Vehicles	25.00% p.a.
Furniture and Fittings	12.50% p.a.
Office Equipment	12.50% p.a.
Computers	25.00% p.a.
Others	12.50% p.a.

The cost of alterations and modifications made to extension office buildings have been amortised over 4 years or initial lease period, whichever is less.

2.5.6.4. Subsequent Cost

The cost of replacing part of an item of Property, Plant & Equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow into the Bank and its cost can be reliably measured.

2.5.6.5. Restoration Cost

Expenditure incurred on repairs or maintenance of Property, Plant & Equipment in order to restore or maintain future economic benefits is charged to the Income Statement as incurred.

2.5.6.6. Capital Work-in-Progress

These are expenses of a capital nature directly incurred in the construction of building, major plant and machinery and system development, awaiting capitalisation. These are stated in the Statement of Financial Position at cost.

2.5.6.7. De-recognition

Property, Plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the income statement in the year the asset is derecognised.

2.5.7. Intangible Assets

The Bank's other intangible assets include the value of computer software. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are

accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

The Class of Intangible Assets	Useful Life	Amortisation Method
Computer Software	4 Years	Straight line method

2.5.8. Impairment of Non-Financial Assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit (CGU)'s fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are 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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

2.5.9. Financial Guarantees

In the ordinary course of business, the Bank gives financial guarantees. Financial guarantees are initially recognised in the financial statements (within 'other liabilities') at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the income statement in 'Credit loss expense'. The premium received is recognised in the income statement in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

2.5.10. Retirement Benefit Obligation

2.5.10.1. Gratuity

All the employees of the Bank are eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983.

Employees who have resigned or whose services are terminated other than by retirement are eligible to receive the terminal gratuity under the Payment of Gratuity Act No. 12 of 1983 at the rate of one half of the Gross Salary applicable

Accounting Policies Contd...

to the last month of the financial year in which the employment is terminated or resigned, for each year of completed service, for those who have served in excess of 5 years. The Bank measures the present value of the promised retirement benefits of gratuity which is a defined benefit plan using the actuarial valuation method.

Normal and Early Retirement

A participant is eligible for Normal retirement at age 55 provided that he/she has 3 years of service. All participants are eligible for extensions up to the attainment of age 60.

Recognition of Actuarial Losses / Gains

Actuarial losses / gains are recognized in OCI.

Expected Return on Assets

Expected return on assets is zero as the plan is not pre funded.

Interest Cost

Interest cost is the expected increase due to interest during the period in the present value of the plan liabilities because the benefits are one year closer to settlement.

Funding Arrangements

The Gratuity liability is not externally funded.

2.5.11. Defined Contribution Plan

The Bank also operates a defined contribution plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Bank by the employees and is recorded as an expense under 'Personnel expenses'. Unpaid contributions are recorded as a liability. The Bank contributes to the following schemes:

2.5.11.1. Employees' Provident Fund

The Bank and employees contribute 15% and 10% respectively of the employee's monthly gross salary (excluding overtime) to the Provident Fund. The Bank's Provident Fund is an approved fund under the Employees' Provident Fund Act.

2.5.11.2. Employees' Trust Fund

The Bank contributes 3% of the employee's monthly gross salary excluding overtime to the Employees' Trust Fund maintained by the Employees Trust Fund Board. The employees will be eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983.

2.5.12. Medical Benefit

Permanent employees and their families and retirees of State Mortgage & Investment Bank are eligible for medical reimbursement provided that they have adopted to participate in the Scheme and have paid their membership dues. Family members of a retired member is only eligible for benefits under special treatment (either any one of retired member or his/her family member is eligible).

The Bank measures the present value of the medical benefit using the actuarial valuation method.

The Bank uses Projected Unit Credit method for actuarial valuations. Under this method, Actuarial Gains / Losses as they occur, generally reduce /increase the Unfunded Actuarial Accrued Liability.

Recognition of Actuarial Losses / Gains

Actuarial losses / gains are recognized in OCI.

Expected Return on Assets

Expected return on assets is zero as the plan is not pre funded

Interest Cost

Interest Cost is the time value of Present Value of the Defined Benefit Obligation (PVDBO) and the Current Service Cost (CSC).

Funding Arrangements

The Medical Benefit Scheme is not externally funded

2.5.13. Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

2.5.14. Taxes

2.5.14.1. Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted by the Statement of Financial Position date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 24 of 2017 and the amendment thereto, at the rates specified in Note 08 to the Financial Statements.

2.5.14.2. Deferred Taxation

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

purposes and the amounts used for taxation purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in Subsidiaries and Associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible differences. Carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where deferred tax assets relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor the taxable profit or losses; and
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognized only to the extent it is probable that the temporary

differences will reverse in the foreseeable future and taxable profit will be available against which temporary differences can be utilised

The carrying amount of a deferred tax asset is reviewed at each Statement of Financial Position date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax asset are reassessed at each Statement of Financial Position date and are recognised to the extent that is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at the Statement of Financial Position date.

2.5.14.3. Value Added Tax on Financial Services (VAT)

Bank's total value addition was subjected to a 15% Value Added Tax as per section 25A of the Value Added Tax No. 14 of 2002 and amendments thereto.

2.5.15. Interest Income

2.5.15.1. The Effective Interest Rate Method

The interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost, financial instruments designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI under SLFRS 9, similarly to interest bearing financial assets classified as available-for-sale or held to maturity

under LKAS 39 are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk. The adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the Statement of Financial Position with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest and similar income in the income statement.

2.5.15.2. Interest and Similar Income

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset.

Accounting Policies Contd...

Interest income on all trading assets and financial assets mandatorily required to be measured at FVPL is recognised using the contractual interest rate in net trading income and Net gains/(losses) on financial assets at fair value through profit or loss, respectively.

2.5.16. Financial Instruments - Initial Recognition

2.5.16.1. Date of Recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to customers when funds are transferred to the Bank.

2.5.16.2. Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

2.5.16.3. Day 1 Profit or Loss

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

2.5.16.4. Measurement Categories of Financial Assets and Liabilities

From 1 January 2018, the Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost
- FVOCI
- FVPL

Before 1 January 2018, the Bank classified its financial assets as loans and receivables (amortised cost), FVPL, available-for-sale or held-to-maturity (amortised cost). Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost

2.5.17. Financial Assets and Liabilities

2.5.17.1. Due from Banks, Loans and Advances to Customers, Financial Investments at Amortised Cost (Policy applicable from 1 January 2018)

From 1 January 2018, the Bank only measures Due from banks, Loans

and advances to customers and other financial investments at amortised cost if both of the following conditions are met:

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

The details of these conditions are outlined below.

2.5.17.2. Business Model Assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of

the assets managed or on the contractual cash flows collected)

- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

2.5.17.3. The SPPI Test

As a second step of its classification process the Bank assesses the contractual cash flow terms of financial instrument to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/ discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimise exposure to risks or volatility in

the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

2.5.17.4. Debt Instruments at FVOCI (Policy applicable from 1 January 2018)

The Bank applies the new category under SLFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

These instruments largely comprise assets that had previously been classified as financial investments available for-sale under LKAS 39.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out LKASs. On de-recognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

2.5.17.5. Equity Instruments at FVOCI (Policy applicable from 1 January 2018)

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of definition of Equity under LKAS 32

Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

2.5.17.6. Debt Issued and Other Borrowed Funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

2.5.17.7. Financial Assets and Financial Liabilities at Fair Value Through Profit or Loss

Financial assets and financial liabilities in this category are those that are held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under SLFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that

Accounting Policies Contd...

would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.

Or

- The liabilities (and assets until 1 January 2018 under LKAS 39) are part of a group of financial liabilities (or financial assets, or both under LKAS 39), which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using contractual interest rate, Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established.

2.5.17.8. Reclassification of Financial Assets and Liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or

terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2018 & 2019.

2.5.17.9. De-recognition of Financial Assets and Liabilities

2.5.17.9.1. De-recognition due to Substantial Modification of Terms and Conditions

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a de-recognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in de-recognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

2.5.17.9.2. De-recognition Other than for Substantial Modification

Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for de-recognition.

The Bank has transferred the financial asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset, or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients

- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for de recognition if 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

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the

lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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

2.5.18. Impairment of Financial Assets (Policy applicable from 1 January 2018)

Provision for possible impairment losses is made on the basis of a continuous review of all loans and advances to customers in accordance with the Sri Lanka Financial Reporting Standard (SLFRS) No. 09 on 'Financial Instruments : Recognition and measurement

in the Financial Statements of the Banks. The following valuation techniques were used to calculate fair value of loans as it is necessary which are as follows.

1. Individual Impairment Method

Individual Impairment is made for the loans excluding cash back loans including all loans over Rs 5 Mn or 0.1% of the capital base is considered as individually significant. Facilities for individual impairment test shall be selected based on availability of objective evidences of impairment.

2. Collective Impairment Method

Collective impairment provisions for possible loan losses are made in accordance with the Sri Lanka Financial Reporting Standard No. 09 on 'Financial Instruments : Recognition and measurement in the Financial Statements of the Bank. The Bank used to make the

Collective impairment provision according to ECL principle. where the Individual impairment is not material.

2.5.18.1. Overview of the ECL Principles

The adoption of SLFRS 9 has fundamentally changed the Bank's loan loss impairment method by replacing LKAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under SLFRS 9.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis

Accounting Policies Contd...

or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank's policy for grouping financial assets measured on a collective basis.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- **Stage 1:**

When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

- **Stage 2:**

When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

- **Stage 3:**

Loans considered credit-impaired (as outlined in Note 13). The bank records an allowance for the LTECLs.

- **POCI:**

Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition.

POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) de-recognition of the financial asset.

2.5.18.2. The Calculation of ECLs

The Bank calculates ECLs based on probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- **PD:**

The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously recognised and is still in the portfolio.

- **EAD:**

The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal

and interest, either scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

- **LGD:**

The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

When estimating the ECLs, the Bank considers three scenarios base case, best case, and worst case. Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value

2.5.18.3. The Mechanics of the ECL Method are Summarised Below:

- **Stage 1:**

The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring

in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the four scenarios, as explained above.

- **Stage 2:**

When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

- **Stage 3:**

For loans considered credit-impaired, the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

- **POCI:**

POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit adjusted EIR.

2.5.18.4. Debt Instruments Measured at Fair Value Through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial

position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon de-recognition of the assets.

2.5.18.5. Purchased or Originated Credit Impaired Financial Assets (POCI)

For POCI financial assets, the Bank only recognises the cumulative changes in LTECL since initial recognition in the loss allowance.

2.5.18.6. Forward Looking Information

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth
- Inflation rate
- Interest Rates
- Exchange Rate
- Unemployment rates

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Therefore bank also considers the following qualitative factors

- Average LTV
- Government Policies

- Status of the Industry Business
- Regulatory impact

2.5.18.7. Collateral Valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Bank's accounting policy for collateral assigned to it through its lending arrangements under SLFRS 9 is the same as it was under LKAS 39.

2.5.18.8. Collateral Repossessed

The Bank's accounting policy under SLFRS 9 remains the same as it was under LKAS 39. The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

In its normal course of business, the Bank does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the Statement of Financial Position.

Accounting Policies Contd...

2.5.18.9. Write-offs

The Bank's accounting policy under SLFRS 9 remains the same as it was under LKAS 39. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

2.5.19. Leases

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank according to SLFRS 16 Leases.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the group under residual value guarantees
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease

term reflects the group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

2.5.20. Events after the Reporting Period

All material events after the reporting period have been considered where appropriate adjustments or disclosures are made in respective notes to the financial statements.

2.5.21. Related Party Transactions with Government and Government Related Entities

The Bank does not elect the disclosure exemption under para 25 of LKAS 24.

3. Changes in Accounting Policies and Disclosures (SLFRS 16)

3.1. New and Amended Standards and Interpretations

In these financial statements, the Bank has applied SLFRS 16 Leases, with effect from periods beginning on or after 1 January 2019, for the first time. The Bank has not adopted early any other standard, Interpretation or amendment that has been issued but is not yet effective.

The Bank has adopted SLFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard.

The new accounting policies are disclosed in note 2.5.19.

On adoption of SLFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of LKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate.

The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018.

Notes to the Financial Statements

1. Net Interest Income

	2019	2018
	Rs	Rs
Interest Income		
Placements with Banks	730,365,096	665,225,374
Financial Assets at Amortised Cost		
- Loans and Advances	5,042,348,392	4,687,478,097
- Debt and Other Instruments	208,796,671	172,413,052
Total Interest Income	5,981,510,158	5,524,856,523
Interest Expenses		
Due to Banks	27,417	65,731
Financial Liabilities at Amortised Cost		
- Due to Depositors	3,722,392,841	3,308,441,414
- Due to Debt Securities Holders	2,757,534	2,742,466
- Due to Other Borrowers	226,165,075	266,254,451
Total Interest Expenses	3,951,342,868	3,577,504,063
Net Interest Income	2,030,167,290	1,947,352,460

A. Net Income from Sri Lanka Government Securities

	2019	2018
	Rs	Rs
Interest Income	110,239,073	101,969,571
(Less): Interest Expenses	-	-
Net Interest Income	110,239,073	101,969,571

2. Net Fee and Commission Income

	2019	2018
	Rs	Rs
Fee and Commission Income	113,332,608	107,468,209
Fee and Commission Expenses	-	-
Net Fee and Commission Income	113,332,608	107,468,209
Comprising		
Bank Service Charges - Loans and Advances	104,823,332	97,755,399
Legal & Technical Fees - Loans and Advances	401,260	558,791
Other Charges	8,108,017	9,154,018
Net Fee and Commission Income	113,332,608	107,468,209

Notes to the Financial Statements Contd...

3. Net Fair Value Gains/(Losses) From Financial Instruments at Fair Value Through Profit or Loss

	2019	2018
	Rs	Rs
Gains on financial assets at fair value through profit or loss	1,840,000	-
Losses on financial assets at fair value through profit or loss	-	(260,000)
Total	1,840,000	(260,000)

4. Other Operating Income (net)

	2019	2018
	Rs	Rs
Dividend Income	21,771,330	23,574,000
Sundry Income	6,547,289	2,540,437
Other Operating Income (net)	28,318,619	26,114,437

05. Impairment Charges/ (Reversal) for Loans and Other Losses

	2019	2018
	Rs	Rs
Financial Assets at AC - Loans and Advances		
Stage 1	13,770,764	15,475,456
Stage 2	7,740,486	24,367,738
Stage 3	109,437,584	147,542,908
Other Financial assets at amortised cost		
Stage 1	135,598	67,391
Stage 2	443,876	(2,495,439)
Stage 3	-	-
Total	131,528,308	184,958,053

06. Personnel Expenses

	2019	2018
	Rs	Rs
Salaries and Bonus	588,537,495	574,169,121
Contribution to Defined Contribution/Benefit Plans	85,179,105	79,343,055
Provision for defined benefit obligations	51,915,646	46,338,201
Others	156,505,796	124,167,295
Total	882,138,042	824,017,672

07. Other Expenses

	2019	2018
	Rs	Rs
07.1		
Directors' Emoluments	2,601,651	2,350,426
Auditors' Remuneration	5,273,734	1,500,000
Professional and Legal Expenses	1,359,613	795,917
Office Administration and Establishment Expenses	148,221,814	196,942,381
Advertising and Promotional Expenses	7,785,485	20,788,846
Motor Vehicle Maintenance & Travelling	7,779,123	7,374,667
General Expense	15,918,508	18,557,667
District Rep's Commission	8,750	14,250
Other Losses, Bad Debts and Write Offs	3,686,529	947,787
CBSL Deposit Insurance	32,544,376	29,687,389
Other Expenses	61,605,715	35,205,244
07.2		
Depreciation/Amortisation of Property, Plant and Equipment	25,988,195	25,817,153
Total	312,773,494	339,981,728

Expenses Details

	2019	2018
Advertising Expenses	3,219,339	7,596,382
Promotional Expenses	4,566,147	13,192,465
	7,785,485	20,788,846

Staff Expenses

	2019	2018
	Rs	Rs
Salaries and Bonus	588,537,495	574,169,121
Defined Contribution Plan- EPF & ETF	85,179,105	79,343,055
Defined Benefits Plans - Gratuity Provision	35,084,300	31,480,006
Encashment of Sick Leave	18,986,857	19,470,333
Overtime and Out of Pocket Allowance	23,122,850	26,913,710
Staff Study and Training	4,231,845	4,474,804
Medical Scheme - Payments	47,499,204	33,102,227
Medical Scheme - Provision (IFRS)	16,831,345	24,693,846
Welfare	2,198,852	3,105,795
Insurance	1,589,577	1,679,452
Staff Loan day 1 Difference (IFRS)	35,956,285	5,425,562
PAYE Tax on Employment Income	20,770,371	20,159,760
Assistance to PF	2,149,953.42	-
Compensation	-	-
Total	882,138,042	824,017,672

Notes to the Financial Statements Contd...

Other Expenses - Other Category

	2019	2018
	Rs	Rs
Computer Maintenance	7,303,332	4,227,310
Bank Commission	1,581,565	1,346,174
Newspapers & Periodicals	556,070	575,017
Loan Related Expenses	3,751,716	1,997,039
Credit Information Bureau Charges	3,931,086	3,614,075
Insurance - Cash-in-Transit	-	37,381
Fuel	2,072,910	2,700,555
Insurance - Motor Vehicles	524,076	620,509
Subscriptions to Institutions	7,763,363	6,950,273
Consultancy Fees	3,409,672	3,275,716
ACL Charges	1,970,500	2,272,100
Crop Insurance Levy	2,330,441	2,497,852
Debt Repayment Levy (DRL)	-	-
Travelling paid to Valuers	4,474,625	4,304,806
Corporate Social Responsibility	91,750	663,250
Interest capitalized on rescheduled loans	-	63,187
Donations	100,000	60,000
Loss on Disposal of Assets	86,122	
Capital Write Off (Mortgage Loans)	11,901,834	
Capital Write Off (EPF Loans)	1,343,037	
NSB Commitment Fee Expenditure A/C	1,955,782	
Total	55,147,881	35,205,244

08. Tax Expenses

	2019	2018
	Rs	Rs
Current Tax Expense		
Current Year	199,540,377	246,910,840
Deferred Tax Expense/(Credit)	(118,960,119)	(11,650,177)
Total	80,580,258	235,260,663
A. Reconciliation of Tax Expenses		
Profit/(Loss) before Tax	815,905,716	731,717,653
Adjustment in Respect of Current Income Tax of Prior Periods		
Add: Tax Effect of Expenses that are not Deductible for Tax Purposes	282,061,551	274,697,263
(Less): Tax Effect of Expenses that are Deductible for Tax Purposes	(393,232,495)	(90,101,622)
Disposal of Assets	-	-
Dividends	(23,611,330)	(23,574,000)
Adjusted Profits for the Year	681,123,442	892,739,294
Taxation Based on Profit for the Year	190,714,564	249,967,002
Transfer to/from Deffered Taxation	(118,960,119)	(11,650,177)
(Over)/Under Provision in Previous years	8,825,814	(3,056,162)
Tax Expense for the Period	80,580,258	235,260,663
B. The Deferred Tax (Credit)/Charge in the Income Statement and Other Comprehensive Income Comprises from the changes on the Following.		
Deferred Tax Assets		
Property, Plant & Equipment	(6,529,482)	261,847
Employee Benefit Obligations	109,281,685	107,189,337
Impairment Provision	120,158,724	
Right to use Assets	(1,262,252)	
Deferred Tax Assets	221,648,675	107,451,184

Notes to the Financial Statements Contd...

09. Analysis of Financial Instruments by Measurement Basis - Bank - Current Year (2019)

In Rs.	AC	FVPL	FVOCI	Total
ASSETS				
Cash and cash equivalents	121,239,625	-	-	121,239,625
Placements with banks	7,090,741,107	-	-	7,090,741,107
Loans and advances	35,892,870,362	-	-	35,892,870,362
Debt instruments	65,983,517	-	-	65,983,517
Reverse Repos	1,385,517,561	-	-	1,385,517,561
Treasury Bills	994,878,307	-	-	994,878,307
Treasury Bonds	168,803,531	-	-	168,803,531
Unit Trusts	-	19,475,000	-	19,475,000
Unquoted Shares	-	-	5,379,078	5,379,078
Total financial assets	45,720,034,009	19,475,000	5,379,078	45,744,888,087
LIABILITIES				
Due to banks	12,412,879	-	-	12,412,879
Financial liabilities				
- Due to depositors	38,872,216,979	-	-	38,872,216,979
- Due to debt security holders	110,180,822	-	-	110,180,822
- Due to other borrowers	1,501,680,632	-	-	1,501,680,632
Total Financial Liabilities	40,496,491,311	-	-	40,496,491,311

AC - Financial assets/liabilities measured at amortised cost

FVPL - Financial assets/liabilities measured at fair value through profit or loss

FVOCI - Financial assets measured at fair value through other comprehensive income

Bank - Previous Year (2018)

In Rs.	AC	FVPL	FVOCI	Total
ASSETS				
Cash and cash equivalents	96,180,182	-	-	96,180,182
Placements with banks	5,206,048,813	-	-	5,206,048,813
Loans and advances	34,225,486,332	-	-	34,225,486,332
Debt instruments	65,983,517	-	-	65,983,517
Reverse Repos	729,583,724	-	-	729,583,724
Treasury Bills	874,312,408	-	-	874,312,408
Treasury Bonds	274,697,508	-	-	274,697,508
Unit Trusts	-	17,635,000	-	17,635,000
Unquoted Shares	-	-	5,379,078	5,379,078
Total financial assets	41,472,292,485	17,635,000	5,379,078	41,495,306,563
LIABILITIES				
Due to banks	12,196,466	-	-	12,196,466
Financial liabilities				
- Due to depositors	34,272,228,231	-	-	34,272,228,231
- Due to debt security holders	110,173,288	-	-	110,173,288
- Due to other borrowers	1,872,732,341	-	-	1,872,732,341
Total Financial Liabilities	36,267,330,327	-	-	36,267,330,327

10. Cash and Cash Equivalents

	2019	2018
	Rs	Rs
Cash in hand	51,038,006	40,970,999
Balances with banks	70,201,619	55,209,184
Total	121,239,625	96,180,182

11. Placements with Banks

	2019	2018
	Rs	Rs
Sampath	-	1,515,747,273
NDB	5,472,505,060	1,750,768,307
NSB	481,358,048	201,482,740
PB	-	-
RDB	-	1,206,029,945
SDB	541,651,017	532,020,548
BOC	595,226,980	-
Total	7,090,741,107	5,206,048,813

12. Financial Assets Recognized Through Profit or Loss

	2019	2018
	Rs	Rs
Unit Trusts (NDB)	19,475,000	17,635,000
Total	19,475,000	17,635,000

A. Analysis

	2019	2018
	Rs	Rs
By collateralisation		
Pledged as collateral	-	-
Unencumbered	19,475,000	17,635,000
Gross total	19,475,000	17,635,000

Notes to the Financial Statements Contd...

Note - 13 Financial Assets at Amortised Cost - Loans and Advances

	2019	2018
	Rs	Rs
Gross loans and advances	36,728,853,508	34,930,520,644
Stage 1	26,125,257,565	24,567,228,079
Stage 2	1,915,952,809	1,765,471,953
Stage 3	8,687,643,134	8,597,820,613
(Less): Accumulated impairment under:	835,983,146	705,034,312
Stage 1	153,428,543	139,657,779
Stage 2	64,705,873	56,965,387
Stage 3	617,848,730	508,411,145
Net Loans and Advances	35,892,870,362	34,225,486,332

A. Analysis

	2019	2018
	Rs	Rs
By product		
Mortgage	9,577,227,772	9,323,875,172
EPF	8,282,816,696	8,707,071,343
Vehicle	5,799,377	15,443,468
Staff loans	1,117,959,770	985,803,833
Personal Loans	16,648,653,558	14,821,377,959
Others	1,096,396,335	1,076,948,869
Gross Total	36,728,853,508	34,930,520,644
By collateralization		
Collateral held as Security	18,798,261,460	18,859,528,741
Other Credit Enhancements	17,930,592,047	16,070,991,903
Gross Total	36,728,853,508	34,930,520,644

B. Movements in impairment during the year

	2019	2018
Stage 1		
Opening balance as at 01/01/2019	139,657,779	124,182,324
Charge/(Write back) to income statement	13,770,764	15,475,456
Write-off during the year	-	-
Closing balance at 31/12/2019	153,428,543	139,657,779
Stage 2		
Opening balance as at 01/01/2019	56,965,387	32,597,649
Charge/(Write back) to income statement	7,740,486	24,367,738
Write-off during the year	-	-
Closing balance at 31/12/2019	64,705,873	56,965,387
Stage 3		
Opening balance as at 01/01/2019	508,411,145	360,868,238
Charge/(Write back) to income statement	109,437,584	147,542,908
Write-off during the year	-	-
Closing balance at 31/12/2019	617,848,730	508,411,145
Total	835,983,146	705,034,312

14. Financial Assets at Amortised Cost - Debt and Other Instruments

	2019	2018
	Rs	Rs
Treasury Bills	994,878,307	874,312,408
Treasury Bonds	168,803,531	274,697,508
Debenture	65,983,517	65,983,517
Reverse Repos	1,385,517,561	729,583,724
Commercial Paper	-	-
Gross total	2,615,182,916	1,944,577,157
A. Analysis		
By collateralization		
Pledged as collateral	-	-
Unencumbered	2,615,182,916	1,944,577,157
Gross total	2,615,182,916	1,944,577,157

Notes to the Financial Statements Contd...

B. Movements in impairment during the year

	2019	2018
Stage 1		
Opening balance as at 01/01/2019	333,215	265,824
Charge/(Write back) to income statement	135,598	67,391
Write-off during the year	-	-
Other movements	-	-
Closing balance at 31/12/2019	468,813	333,215
Stage 2		
Opening balance as at 01/01/2018	1,085,983	3,581,423
Charge/(Write back) to income statement	443,876	(2,495,439)
Write-off during the year	-	-
Other movements	-	-
Closing balance at 31/12/2019	1,529,859	1,085,983
Stage 3		
Opening balance as at 01/01/2019	-	-
Charge/(Write back) to income statement	-	-
Write-off during the year	-	-
Other movements	-	-
Closing balance at 31/12/2019	-	-

15. Financial Assets at Fair Value Through Other Comprehensive Income

	2019	2018
	Rs	Rs
Unquoted Shares		
CRIB	4,754,078	4,754,078
Fitch Rating	625,000	625,000
Gross total	5,379,078	5,379,078
A. Analysis		
By collateralization		
Pledged as collateral	-	-
Unencumbered	5,379,078	5,379,078
Gross total	5,379,078	5,379,078

B. Movements in impairment during the year

	2019	2018
	Rs	Rs
Stage 1		
Opening balance as at 01/01/2019	-	-
Charge/(Write back) to income statement	-	-
Write-off during the year	-	-
Closing balance at 31/12/2019	-	-
Stage 2		
Opening balance as at 01/01/2019	-	-
Charge/(Write back) to income statement	-	-
Write-off during the year	-	-
Closing balance at 31/12/2019	-	-
Stage 3		
Opening balance as at 01/01/2019	-	-
Charge/(Write back) to income statement	-	-
Write-off during the year	-	-
Closing balance at 31/12/2019	-	-

16. Property, Plant and Equipment**A. Property, Plant and Equipment**

In Rs.	Furniture, Fittings & Office Equipment			Computer Equipment & Software	Total
	Vehicles	Equipment	Office		
2019 (Current Year)					
Cost/Fair Value					
Opening Balance as at 01/01/2019	70,798,254	129,546,278	137,910,796	338,255,328	
Additions	-	9,224,149.40	8,880,706	18,104,855	
Disposals	-	(4,947,691.42)	(6,325,394)	(11,273,085)	
Adjustments	-	-	-	-	
Closing Balance as at 31/12/2019	70,798,254	133,822,736.20	140,466,108	345,087,098	
(Less): Accumulated Depreciation					
Opening Balance as at 01/01/2019	70,798,254	79,055,708	124,156,543	274,010,505	
Charge for the Year	-	13,002,578	12,985,617	25,988,195	
Disposals	-	(4,653,919)	(6,325,394)	(10,979,313)	
Adjustments	-	-	-	-	
Closing Balance as at 31/12/2019	70,798,254	87,404,366	130,816,766	289,019,386	
(Less): Impairment Charges					
Net Book Value as at 31/12/2019	-	46,418,370	9,649,342	56,067,711.98	

Notes to the Financial Statements Contd...

In Rs.	Vehicles	Furniture, Fittings & Office Equipment		Computer Equipment & Software	Total
2018 (Previous Year)					
Cost/Fair Value					
Opening Balance as at 01/01/2018	70,798,254	114,536,483	134,240,146		319,574,883
Additions	-	15,009,795	3,670,650		18,680,445
Disposals	-				-
Adjustments	-				-
Closing Balance as at 31/12/2018	70,798,254	129,546,278	137,910,796		338,255,328
(Less): Accumulated Depreciation					
Opening Balance as at 01/01/2018	70,798,254	65,668,370	111,726,728		248,193,352
Charge for the Year	-	13,387,338	12,429,815		25,817,153
Additions	-				-
Disposals	-				-
Adjustments	-				-
Closing Balance as at 31/12/2018	70,798,254	79,055,708	124,156,543		274,010,505
(Less): Impairment Charges					
Net Book Value as at 31/12/2018	-	50,490,570	13,754,253		64,244,824

17. Deferred Tax Assets/(Liabilities)

	2019	2018
	Rs	Rs
Opening Balance 01/01/2019	107,451,184	95,801,007
Charge for the year Recognized in		
- Profit/(Loss)	118,960,119	11,650,177
- Other Comprehensive Income	(4,762,629)	-
Closing Balance 31/12/2019	221,648,675	107,451,184

18. Other Assets

	2019	2018
	Rs	Rs
Cost		
Stationary Stock	18,197,038	10,743,575
Deposits and Prepayments	6,193,643	28,824,683
Prepaid Staff Loans	331,878,204	295,921,918
VAT Receivable	33,183,621	-
Interest Receivable - Senior Citizens Fixed Deposits	617,374,536	488,895,679
Others	171,329,897	107,299,133
Total	1,178,156,939	931,684,987

19. Due to Banks

	2019	2018
	Rs	Rs
Borrowings (ODs)	12,412,879	12,196,466
Repo agreements	-	-
Others	-	-
Total	12,412,879	12,196,466

20. Financial liabilities at amortised cost

	2019	2018
	Rs	Rs
Due to depositors	38,872,216,979	34,272,228,231
Debt securities issued by the bank	110,180,822	110,173,288
Repo agreements	-	-
Other borrowings	1,501,680,632	1,872,732,341
Total	40,484,078,432	36,255,133,860

A. Analysis of amount due to depositors

	2019	2018
	Rs	Rs
By Product		
Savings deposits	1,669,895,646	1,560,434,916
Fixed deposits	36,104,411,121	31,628,705,583
Other deposits (Schemes)	1,097,910,212	1,083,087,733
Total	38,872,216,979	34,272,228,231

B. Analysis of other borrowings

	2019	2018
	Rs	Rs
Bank Loans	1,202,349,370	1,604,093,151
AHF	3,540,664	11,912,260
CBSL Refinance Loans	212,235,156	256,726,931
Lease Liability	83,555,442	-
Total	1,501,680,632	1,872,732,341

21. Employee Benefit

The Bank measures the Present Value of Defined Benefit Obligation (PVDBO) which is a defined benefit plan with the advice of an actuary using the Projected Unit Credit Method.

The actuarial valuation involves making assumptions about discount rate, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The employee benefit obligation as at 31st December 2019 is calculated based on the actuarial valuation report as of 31st December 2019, carried out by Actuarial & Management Consultants (Pvt) Ltd.

Notes to the Financial Statements Contd...

The key assumptions used by the actuary include the following:

	2019	2018
Rate of Interest	10.50%	11.50%
Rate of Salary Increase	6.50%	7.50%
Retirement Age	55-60 years	55-60 years

Gratuity

	2019	2018
	Rs	Rs
Provision for Gratuity		
Balance at the Beginning of the Year	192,331,682	161,651,109
Current Service Cost	12,966,157	18,589,878
Interest Cost	22,118,143	12,890,128
Benefit Paid	(27,114,159)	(24,060,835)
Actuarial (Gains)/Losses	(4,770,465)	23,261,402
Total	195,531,358	192,331,682

Medical

	2019	2018
	Rs	Rs
Provision for Medical Benefit		
Balance at the Beginning of the Year	190,167,950	174,893,882
Current Service Cost	4,656,332	20,112,796
Interest Cost	21,869,314	4,581,049
Actuarial (Gain)/Losses	(12,238,922)	415,873
Benefit Paid	(9,694,301)	(9,835,651)
Total	194,760,373	190,167,950
Total Employee Benefit Liability	390,291,731	382,499,632

22. Other Liabilities

	2019	2018
	Rs	Rs
Taxes Payable	128,672,000	152,742,155
Accrued Expenditure	55,766,284	54,557,652
Others	249,668,695	257,232,712
Allowance for Day 1 Difference - Staff Loans	331,878,204	295,921,918
Total	765,985,183	760,454,437

23. Stated Capital/Assigned Capital

	2019	2018
	Rs	Rs
Authorised Capital	2,000,000,000	2,000,000,000
Contributed Capital	889,812,899	889,812,899

As per the provisions of the State Mortgage and Investment Bank Law No.13 of 1975 and amendments thereto, the authorised capital is Rs.2 Billion. Contributed capital consists of the amounts outstanding on 1st January 1979 of the sums advanced to the Agricultural and Industrial Credit Corporation in terms of section 22 of the Agricultural and Industrial Credit Corporation Ordinance together with the amount of the reserves of the Agricultural and Industrial Credit Corporation and the amounts standing to the credit reserve fund of the Ceylon State Mortgage Bank on 1st January 1979 formed part of the capital of the Bank and all such amounts are deemed to be contributions to the capital of the Bank by the Government.

The Government after the appointment date of 1st January 1979 made a contribution to the capital of the Bank so that the amounts of such contribution together with the amounts referred to the above paragraph amounted to RS.889,812,899 as at 31st December 2019

Further, as per the provisions of the Act, SMIB may from time to time, raise such sums of money as further contribution to the capital of the Bank in such a manner as the Bank deems fit, from the Government or any other source what so ever in or outside of the Republic of Sri Lanka and where such sums of money raised from the Government which shall be charged on the consolidated fund.

24. Statutory Reserve Fund

	2019	2018
	Rs	Rs
Opening Balance as at 01st January	261,668,385	246,635,734
Transfer During the Period	9,252,649	15,032,651
Closing Balance as at 31st December	270,921,034	261,668,385

25. Retained Earnings

	2019	2018
	Rs	Rs
Opening Balance as at 01st January	2,957,693,676	2,729,277,654
Prior Period Adjustments	-	(11,967,208)
Impairment 1st day Adjustment	-	70,691,003
OCI Reserve Transfer	-	12,895,000
Profit for the Year	419,073,544	244,472,029
Transfers to Other Reserves	(9,252,649)	(15,032,651)
Other Comprehensive Income	12,246,759	(23,677,276)
Deemed Dividend Tax	40,364,278	(48,964,874)
Closing Balance as at 31st December	3,420,125,609	2,957,693,676
Prior Period Adjustments		
Transfer opening balance difference of WHT	-	3,352,847
Transfer unreconcile Account balance	-	8,614,361
Total	-	11,967,208.28

Notes to the Financial Statements Contd...

26. Other Reserves

A. Bank - Current year (2019)

	Rs		
	Opening		Closing
	balance as at	Movements/ Transfers	Balance as at
	01/01/2019		31/12/2019
General reserve	683,280,000	-	683,280,000
Capital Reserve	393,498,004	-	393,498,004
Title Indemnity Fund	1,031,000	-	1,031,000
Total	1,077,809,004	-	1,077,809,004

B. Bank - Previous year (2018)

	Rs		
	Opening		Closing
	balance as at	Movements/ Transfers	Balance as at
	01/01/2018		31/12/2018
General reserve	683,280,000	-	683,280,000
Capital Reserve	393,498,004	-	393,498,004
Title Indemnity Fund	1,031,000	-	1,031,000
AFS Reserve	12,895,000	(12,895,000)	-
Total	1,090,704,004	(12,895,000)	1,077,809,004

27. Contingent Liabilities and Commitments

	2019	2018
	Rs	Rs
Guarantees issued	-	-
Other commitments	76,477,572.86	95,734,377.65
Total	76,477,572.86	95,734,377.65

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

28. Transactions with Key Management Personnel (KMPs)

According to LKAS 24 - 'Related Party Disclosure', the Key Management Personnel includes those who are having authority and responsibility for planning, directing and controlling the activities of the Bank and its subsidiaries and Associates. The Board of Directors, Members of the Corporate Management of the Bank, key employees and their Close Family Members (CFM) have been classified as Key Management Personnel of the Bank.

28.1 (A) Compensation to Key Management Personnel

	2019	2018
	Rs	Rs
Short - Term Employment Benefits	41,705,807	31,471,353
Post - Employment Benefits	7,287,004	5,415,113
Total	48,992,812	36,886,466

28.1 (B) Transactions ,arrangements and agreements involving Key Management Personnel ,their Close Family Members (CFMs) and entities that are controlled, significantly influenced by the KMPs or their CFMs.

	2019	2018
	Rs	Rs
Income Statement		
Interest Earned (From Loans)	1,557,493	2,462,047
Interest Paid (To Deposits)	1,426,182	1,099,673
Payment made as shown in 28.1 (A)	48,992,812	33,649,409

	2019	2018
Statement of Financial Position		
Assets		
Loans and Advances	26,963,340	31,752,208
Liabilities		
Deposits	26,479,749	26,305,767

29. Leases

29.1.Amounts recognised in the balance sheet

The statement of financial position shows the following amounts relating to leases:

	2019	2018
	Rs	Rs
Right-of-use Assets		
Building	112,674,031	-
	112,674,031	-
Lease liabilities		
Current		
Non-Current		
	83,555,442	-

29.2. Amounts recognised in the statement of profit or loss

The Income Statement shows the following amounts relating to leases:

	2019	2018
	Rs	Rs
Depreciation charge of right-of-use assets		
Building	31,312,957	-
Interest Expense	8,329,582	-

Notes to the Financial Statements Contd...

29.3. The total cash outflow for leases in 2019 was Rs. 22,951,328

30. Reconciliation of VAT Expense

	2019	2018
	Rs	Rs
Profit/(Loss) before Tax	815,905,716	731,717,653
Adjustment in Respect of Current period		
Add: Expenses that are not Deductible for VAT Purposes	941,789,776	844,604,651
(Less): Expenses that are Deductible for VAT Purposes	(62,943,481)	(28,495,007)
Adjusted Profits for the Year	1,694,752,011	1,547,827,297
VAT Based on Profit for the Year	217,590,791.50	198,439,397.08
(Over)/Under Provision in Previous years	(46,527,462)	
Tax Expense for the Period	171,063,330	198,439,397

30. Related party transaction

30.1. The transactions made with KMP s as follows (Balance as at 31st December)

	As at	
	31.12.2019	As % of Regulatory capital
	Rs. 000	
Loans and advances	26,963.34	0.48 %
Deposits	26,479.75	0.47 %
Total	53,443.09	0.95%

31. Events Occurring after the Date of Statement of Financial Position

There has been no material event after the date of Statement of Financial Position that requires adjustments or disclosure in the Financial Statement.

32. Capital Adequacy

Capital Adequacy

	(Rs. '000)	
	2019	2018
Total Common Equity Tier I (CET1) Capital		
Equity capital or stated capital/assigned capital	889,813	889,813
Reserve fund	270,921	261,668
Published retained earnings/(Accumulated retained losses)	3,407,879	2,944,799
Accumulated other comprehensive income (OCI)	-	-
General and other disclosed reserves	1,077,809	1,077,809
Sub Total	5,646,422	5,174,089
Total Adjustments to CET1 Capital		
Deferred tax assets (net)	(221,649)	(107,451)
Total Tier 1 Capital	5,424,773	5,066,638

	(Rs. '000)	
	2019	2018
Tier 2 Capital after Adjustments		
Addings		
General provisions	176,514	122,689
Total Capital	5,601,287	5,189,327
Capital Base		
Common Equity Tier 1 Capital	5,424,773	5,066,638
Total Tier 1 Capital	5,424,773	5,066,638
Total Capital	5,601,287	5,189,327
Risk Weighted Amount for Credit Risk	21,733,171	19,924,979
Risk Weighted Amount for Market Risk	-	0
Risk Weighted Amount for Operational Risk	2,384,896	2,440,758
Total Risk Weighted Amount	24,118,067	22,365,737
Capital Adequacy Ratio		
Common Equity Tier 1 Capital Ratio	22.49%	22.65%
Total Tier 1 Capital Ratio	22.49%	22.65%
Total Capital Ratio	23.22%	23.20%

Notes to the Financial Statements Contd...

	Principal Amount of On-Balance Sheet Items			Risk Weighted Assets Amount	
	2019	2018	Risk Weight (%)	2019	2018
Exposures					
Claims on Central Bank of Sri Lanka	2,549,199	1,815,815	-	-	-
Claims on Public Sector Entities (PSEs)	136,441	171,042	100%	136,441	171,042
Claims on Banks Exposures					
Due From local Banks Less Than 03 Months (AAA to BBB-)	4,178,516	3,077,981	20%	835,703	615,596
Due From local Banks More than 03 Months (A+ to BBB-)	3,005,409	1,545,191	50%	1,502,705	772,596
Due From local Banks More than 03 Months (BB+ to B-)	-	500,000	100%	-	500,000
Claims in Financial Institutions Regulated by CBSL	65,984	62,790	20%	13,197	12,558
Claims on Other Financial Institutions	10,379	10,379	100%	10,379	10,379
Retail Claims					
Individual exposures	15,826,931	14,361,299	75%	11,870,198	10,770,974
Claims Secured by Residential Property					
Claims that qualify for regulatory capital purposes	9,566,182	9,110,201	50%	4,783,091	4,555,101
Non-Performing Assets (NPAs)					
Specific Provisions are equal to or more than 20%	803,008	252,230	100%	803,008	252,230
Specific Provisions are less than 20%	-	425,258	150%	-	637,887
Non-Performing Assets Secured by Residential Property					
Specific Provisions are equal to or more than 20%	-	322,007	50%	-	161,004
Specific Provisions are less than 20%	853,515	457,426	100%	853,515	457,426
Cash Items and Other Assets					
Notes and Coins in own vault	51,038	40,971	0	-	-
Property Plant and Equipment	54,230	65,865	100%	54,230	65,865
Other Assets/Exposures	870,704	942,322	100%	870,704	942,322
Risk Weighted Amount for Credit Risk	37,971,536	33,160,777		21,733,171	19,924,979

Exposures Recognised under Credit Risk Mitigation (CRM) (Rs. '000)

	2019	2018
Retail Exposure		
Cash	626,095	512,589
Provident Fund Balances	8,290,361	8,002,803

Computation of Risk Weighted Amount for Operational Risk (Rs. '000)

	2019	2018
Gross Income (1st yr)	1,883,510	1,903,431
Gross Income (2nd yr)	2,006,920	1,884,948
Gross Income (3rd yr)	2,071,798	2,008,420
Capital Charge (1st yr)	282,527	285,515
Capital Charge (2nd yr)	301,038	282,742
Capital Charge (3rd yr)	310,770	301,263
Average Capital Charge	298,112	289,840
Risk Weighted Amount for Operational Risk (The Basic Indicator Approach)	2,384,896	2,440,758

33.1. Minimum Regulatory capital

Bank has complied with Rs. 05 Billion Minimum regulatory capital requirement as at 31.12.2019 as per directions of the Central Bank of Sri Lanka. The minimum capital requirement has further been enhanced to Rs 7.5 Billion with effect from 31.12.2022 by the Central bank as per direction dated 27.03.2020. Recorded shortfall of meeting with minimum regulatory capital as at 31.12.2019 was Rs 2,075.23 Million. Bank expect to fulfil the recorded shortfalls through the internally generated funds and capital infusion as per the provisions in the State mortgage Act no 13 of 1975 in forthcoming years.

33.2. Capital Adequacy Ratio

All license specialised bank shall maintain, at all time, minimum Tier I capital including capital conservation buffer of 8.5% and total capital ratio of 12.5% with effect from 01 January 2019. Recorded Tier I capital ratio and total capital ratio of the bank as at 31 December 2019 were 22.49% and 23.22% respectively.

34. Fair Value of Financial Instruments**Financial Instruments Recorded at Fair Value**

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the bank's estimate of assumptions that a market participant would make when valuing the instruments.

Financial Investments – Available For sale

Available for sale financial assets include an investment unit trust which has been valued using the market data.

Determination of Fair Value and Fair Value Hierarchy

The bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

Notes to the Financial Statements Contd...

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

31st December 2019	Level 1	Level 2	Level 3	Total
	Rs	Rs	Rs	Rs
Financial Assets				
Financial investments available for sale				
Quoted investments - Unit Trust	19,475,000	-	-	19,475,000
Total Financial Assets	19,475,000	-	-	19,475,000
Financial Liabilities				-
Total Financial Liabilities	-	-	-	-

Determination of fair value and fair value hierarchy

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities

34.1. Fair Value of Financial Assets and Liabilities not Carried at Fair Value

The following describes the methodologies and assumptions used to determine the fair values for those financial instruments which are not already recorded at fair value in the Financial Statements

Assets for which Fair Value Approximates Carrying Value

"For financial assets and financial liabilities that have a short term maturity (original maturities less than a year), it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to savings deposits without a specific maturity.

Long term deposits accepted from customers for which periodical interest is paid and loans and advances granted to customers with a variable rate are also considered to be approximately carried at fair value in the books."

Fixed Rate Financial Instruments

Carrying amounts are considered as fair values for short term credit facilities. The Placement with Banks includes Repurchase agreements, commercial Papers with tenors less than one year. In fair valuing held to maturity securities, rates published by the CBSL for similar trading securities were used. The Bank grants Loans and Receivables with the right of revision of the interest rate at its discretion. Conversely, fixed deposits with original tenures above one year and interest paid at maturity were discounted using current market rates offered to customers during the fourth quarter of the reporting year. Loans and advances since they are granted with the option of repricing are considered as carrying value equals the fair value.

	2019		2018	
	Carrying		Carrying	
	Amount	Fair Value	Amount	Fair Value
	Rs	Rs	Rs	Rs
Assets				
Cash and cash equivalents	121,239,625	121,239,625	96,180,182	96,180,182
Placements with banks	7,090,741,107	7,090,741,107	5,206,048,813	5,206,048,813
Loans and receivables to customers	35,892,870,362	35,892,870,362	34,225,486,332	34,225,486,332
Financial investments – Available-for-Sale	19,475,000	19,475,000	17,635,000	17,635,000
Financial investments – Held-to-maturity	5,379,078	5,379,078	5,379,078	5,379,078
Other assets	4,181,731,600	4,181,731,600	3,046,538,954	3,046,538,954
Total Financial Assets	47,311,436,772	47,311,436,772	42,597,268,359	42,597,268,360
Liabilities				
Due to banks	12,412,879	12,412,879	12,196,466	12,196,466
Due to customers	38,872,216,979	38,872,216,979	34,272,228,231	34,272,228,231
Other borrowings	1,611,861,453	1,611,861,453	1,982,905,629	1,982,905,629
Other liabilities	1,156,276,914	1,156,276,914	1,142,954,069	1,142,954,069
Total Financial Liabilities	41,652,768,226	41,652,768,226	37,410,284,396	37,410,284,396

35. Credit loss expense

The table below shows the Expected Credit Loss (ECL) charges on financial instruments for the year recorded in the income statement:

31st December 2019	Stage 1	Stage 2	Stage 3	Total
Cash & cash Equivalents	-	-	-	-
Cash & Balances with Central Bank	-	-	-	-
Sri Lanka Government Securities	-	-	-	-
Placement with other Banks	(308,278)	-	-	(308,278.00)
Loans & Advances to Customers	13,770,764	7,740,486	109,437,584	130,948,834.00
Total Impairment Loss	13,462,486	7,740,486	109,437,584	130,640,556

31st December 2018	Stage 1	Stage 2	Stage 3	Total
Cash & cash Equivalents	-	-	-	-
Cash & Balances with Central Bank	-	-	-	-
Sri Lanka Government Securities	-	-	-	-
Placement with other Banks	(2,428,049)	-	-	(2,428,049)
Loans & Advances to Customers	15,475,456	24,367,738	147,542,908	187,386,102
Total Impairment Loss	13,047,407	24,367,738	147,542,908	184,958,053

Notes to the Financial Statements Contd...

36. RISK MANAGEMENT

36.1. Introduction and Overview

The bank is exposed to the following risks from business operation.

- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

The bank's exposure to the above risk categories are discussed in detail in the management discussion on Risk Management of SMIB. Followings facts are highlighted in the notes to the account.

36.1.1 Risk Management Structure

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. In discharging its governance responsibility, it operates through two key committees the Board Integrated Risk Management Committee and the Audit Committee. The board and the BIRMC have delegated the risk management responsibility to the following executive management committees in co-ordination of risk matters for each of the focused areas.

- Executive Integrated Risk Management Committee
- Credit Committee
- Asset and Liability Committee (ALCO)
- IT Steering Committee

Bank Treasury is responsible for managing the bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the bank.

36.2. Credit risk

Credit risk arises from the potential that an obligor is either unwilling to perform on an obligation or its ability to perform such obligation is impaired resulting in economic loss to the bank. This is the primary category of risk with which the bank must deal, since the major share of its assets consists of loans and advances.

The credit risk policy plays a central role in managing daily business activities. The Bank has developed a policy which defines the principles encompassing client selection, due diligence, early alert reporting, tolerable levels of concentration risk and portfolio monitoring in line with Bank's risk appetite. The policy is reviewed at least annually and approved by the Board of Directors ensuring consistency with the Bank's business strategy.

Consistent standards maintained in initial screening and credit appraisal process, independent risk recommendation, delegation of authority for loan sanction process are some of the methods used for credit risk mitigation. Collaterals obtained are valued periodically as per regulator's guidelines. Loan review mechanism carried out by the risk management department of the bank ensures early identification of problem loans to safeguard the bank against possible losses.

36.2.1. Impairment Assessment

Definition of Default and Cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past or three instalments in arrears due on its contractual payments or when classified as Non-Performing Loan (NPL) as per directions issued by the Central Bank of Sri Lanka (CBSL). The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

Individually Assessed Allowances

"The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis if there is any objective evidence of a potential loss. The Bank has currently set individually significant threshold for any customer with total exposure (Outstanding Balance) exceeding Rs. 2.00Mn or 0.1% of capital base. Items considered when determining allowance amounts include the sustainability of the counterpart's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should bankruptcy arise, the availability of other financial support, their realizable value of collateral and the timing of the expected cash flows.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and receivables that are not individually significant and for individually significant loans and receivables that have been assessed individually and found not to be impaired. The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made for expected credit losses (ECLs). Which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as loan types, industry codes, and level of arrears) The Bank applies a three-stage approach to measure expected credit losses (ECLs). Financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

Stage 1: 12 - Months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognized. Bank determines 12 month ECL from customers whom are not significantly credit deteriorated (i.e. Less than 30 days past due)

Stage 2: Lifetime ECL - not credit impaired

For exposures where there has been a significant increase in credit risk since initial recognition but is not credit impaired, a lifetime ECL (i.e. Reflecting the remaining lifetime of the financial asset) is recognized. In consistent with the policies of the bank, significant deterioration is measured through the rebuttable presumption of 30 days past due other than the credit facilities categorized under Stage 3, in line with the requirements of the standard. Bank also have considered all restructured loans, which are restructured up to two times, other than credit facilities/ exposures upgraded credit facilities from a higher stage to a lower stage consider under stage 2 as per the guidance issued by the Central Bank.

Stage 3: Lifetime ECL - credit impaired

Exposures are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognized and interest revenue is calculated by applying the effective interest rate to the mortised cost (net of provision) rather than the gross carrying amount. Bank determines credit facilities where contractual payments of a customer are more than 90 days past due which are subject to the rebuttable presumption as stated in SLFRS 9 together with all NPL classifications as per Central Bank classification, All restructured loans which are restructured more than twice and all rescheduled loans other than credit facilities/exposures upgraded credit facilities from a higher stage to a lower stage and all credit facilities/ customers classified as non-performing as per CBSL Directions under stage 3.

Notes to the Financial Statements Contd...

PD estimation process

Probability of Default is the estimate of the likelihood of default over a given time horizon. PD estimation for loans and advances to other customers under SLFRS 9 is largely based on the Days Past Due (DPD) of the customers which is common for most Banks in the country at present. Accordingly, exposures are categorized among 5 groups based on the DPD as follows.

- "Zero days past due
- "1-30 days past due
- "31-60 days past due
- "61-90 days past due
- "Above 90 days past due

The exposure at default (EAD)

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. The Bank uses Credit Conversion Factors (CCF) which explains the historical utilization of defaulted facilities at the time of default to calculate the EAD of revolving facilities in which customers have the ability to increase their exposure. For non-revolving facilities, already utilized amount plus any accrued interest over same is considered as EAD.

Loss given default (LGD)

Loss given default (LGD) is the magnitude of likely loss on exposure, and is expressed as a percentage of exposure. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realized from any collateral held.

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are as follows,

The Bank obtains mortgages over residential properties for lending.

It is the bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the bank does not occupy repossessed properties for business use.

Analysis of Risk Concentration

The Bank's concentrations of risk are managed by industry sector. The following table shows the risk concentration by industry for the components of the statement of financial position. Within the assets concentrated as "Other" include agricultural loans.

Notes to the Financial Statements Contd...

36.3. Liquidity Risk and Funding Management

Liquidity risk is defined as the risk that the bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

Liquidity Ratios

Liquid assets mainly consists of cash, balances with banks and government securities. The bank monitors the following liquidity ratios to assess funding requirement.

	2019	2018
Liquid Asset Ratio (%)		
Year - End	25.09	22.34
Maximum	29.70	29.70
Minimum	22.01	22.34
Average	25.86	25.58

Refer to the note on Risk Management in Page 86.

The bank stresses the importance of savings accounts as sources of funds to finance lending to customers. They are monitored using the advances to deposit ratio, which compares loans and advances to customers as a percentage of customer savings accounts, together with term funding .

Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

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

Contractual maturities of undiscounted cash flows of financial assets and liabilities

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

As at 31 December 2019

	Less than					Over					Total
	7 days	7-30 days	1-3 months	3-6 months	6-12 months	1-3 years	3-5 years	5 years	Unclassified		
Cash	51,038	-	-	-	-	-	-	-	-	-	51,038
Due from Banks	1,027,919	3,118,074	1,364,110	-	2,940,000	-	-	-	-	-	8,450,103
Investment Currents	-	67,781	135,512	726,421	62,790	-	163,173	10,379	-	-	1,166,056
Investment Non performing	-	-	-	-	-	-	-	-	-	-	-
Loan & Advances Current	122,352	281,399	581,650	879,686	1,791,980	7,253,938	5,865,113	11,230,046	6,997,973	35,004,137	
Loan & Advances NPL	-	-	-	-	-	-	-	-	-	-	-
Fixed Assets	-	-	-	-	-	-	-	-	54,230	54,230	
Other Assets	41,048	118,959	19,384	50,209	710,248	40,843	9,246	74,095	-	1,064,032	
Total Assets	1,242,357	3,586,213	2,100,656	1,656,316	5,505,018	7,294,781	6,037,532	11,314,520	7,052,203	45,789,596	
Total Capital Fund	-	-	-	-	-	-	-	-	4,746,298	4,746,298	
Deposits	1,864,349	2,753,334	5,432,155	6,336,629	13,423,235	2,009,485	2,151,597	2,075,422	268,831	36,315,037	
Borrowings	59,994	457	27,544	1,874	426,342	1,015,368	54,183	-	-	1,585,762	
Other Liabilities	30,671	529,842	446,911	383,540	381,337	672,021	481,829	211,910	4,438	3,142,499	
Total Liabilities	1,955,014	3,283,633	5,906,610	6,722,043	14,230,914	3,696,874	2,687,609	2,287,332	5,019,567	45,789,596	

Notes to the Financial Statements Contd...

36.4 .Market Risk and Operational Risk

As discussed in the Risk Mangement -Management discussion.

36.5. Capital Management

Regulatory Capital

Licensed Specialised banks in Sri Lanka need to maintain a minimum Capital Adequacy Ratios, Common Equity Tier 1 Capital Ratio of 5.75%, Tier 1 Capital Ratio of 7.25% and Total Capital Ratio of 11.25%

Capital Adequacy

The bank computes CAR as a ratio of its capital to its risk weighted assets. Calculations of the risk weightings defined under credit risk and market risk are based on the standardised approach whereas operational risk is computed by using the basic indicator approach.

As of 31st December 2019, SMIB reported Common Equity Tier 1 Capital Ratio of 22.49%, Tier 1 Capital Ratio of 22.49% and Total Capital Ratio of 23.22% those are remain comfortably above the CBSL's capital requirements.

36.6. Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The bank does not possess any trading portfolios at present and hence the Bank's portfolio is mainly non trading.

36.6.1. Market risk – non-trading

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The bank's policy is to monitor positions on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

Prepayment Risk

Prepayment risk is the risk that the bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

36.7. Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The bank cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks.

Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

37. Maturity Gap Analysis

	Less than 7 days	7-30 days	1-3 months	3-6 months	6-12 months	1-3 years	3-5 years	5 years	Over 5 years	Total
Total Assets	1,242,357	3,586,213	2,100,656	1,656,316	5,505,018	7,294,781	6,037,532	11,314,520	7,052,203	45,789,596
Cash	51,038	-	-	-	-	-	-	-	-	51,038
Due from Banks	1,027,919	3,118,074	1,364,110	-	2,940,000	-	-	-	-	8,450,103
Investment Currents	-	67,781	135,512	726,421	62,790	-	163,173	10,379	-	1,166,056
Investment Non performing	-	-	-	-	-	-	-	-	-	-
Loan & Advances Current	122,352	281,399	581,650	879,686	1,791,980	7,253,938	5,865,113	11,230,046	6,997,973	35,004,137
Loan & Advances NPL	-	-	-	-	-	-	-	-	-	-
Fixed Assets	-	-	-	-	-	-	-	-	54,230	54,230
Other Assets	41,048	118,959	19,384	50,209	710,248	40,843	9,246	74,095	-	1,064,032
Total Liabilities	1,955,014	3,283,633	5,906,610	6,722,043	14,230,914	3,696,874	2,687,609	2,287,332	5,019,567	45,789,596
Total Capital Fund	-	-	-	-	-	-	-	-	4,746,298	4,746,298
Deposits	1,864,349	2,753,334	5,432,155	6,336,629	13,423,235	2,009,485	2,151,597	2,075,422	268,831	36,315,037
Borrowings	59,994	457	27,544	1,874	426,342	1,015,368	54,183	-	-	1,585,762
Other Liabilities	30,671	529,842	446,911	383,540	381,337	672,021	481,829	211,910	4,438	3,142,499
Maturity Gap	(712,657)	302,580	(3,805,954)	(5,065,727)	(8,725,896)	3,597,907	3,349,923	9,027,188	2,032,637	-
Cumulative M. Gap	(712,657)	(410,077)	(4,216,031)	(9,281,758)	(18,007,654)	(14,409,747)	(11,059,824)	(2,032,637)	-	-

Notes to the Financial Statements Contd...

38. The Events Occuring After the Balance Sheet Date

There are no material events occurred after the balance sheet date that require adjustments to or disclosure in the Financial Statements.

39. Assets Pledged

No assets have been pledged as security for liability.

40. Related Party Transactions

State Mortgage and Investment Bank is a state controlled enterprise. In the normal course of business it engages in transactions with other state controlled enterprises which are not disclosed in line with paragraph 4(d) of Sri Lanka Accounting Standard No.30 Related Parties.

41. Directors' Interest in Contracts and Proposed Contracts

As per the State Mortgage and Investment Bank law, No 13 of 1975, a Director who, or whose spouse or dependent child, is directly or indirectly interested in any business transacted or proposed to be transacted by the Board shall disclose the nature of such interest discussed. The disclosure shall be recorded in the minutes of the Board, and such Director shall not take part in any deliberation or decision of the Board with respect to that business, and shall withdraw from such meeting while such deliberation is in progress or decision is being made.

As per the Act, No loan shall be granted by the bank to any Director or employee of the bank or to the spouse or a dependant child of a Director or employee or to any company or firm in which a Director or employee has a substantial interest: " Provided however that the bank may grant to its employees loans for the purchase of any land for the construction of a dwelling house or for the purchase, construction, repair, renovation of or any extension to, a dwelling house or for any other purpose prescribed by the rules made under this law. Outstanding balance of loans given to employees as per this paragraph is disclosed on page xx of this report under Note- 10 Loans and advances. The Directors of SMIB were not directly or indirectly interested

Value added Statement

For the Year Ended 31st December	2019	2018
	Rs.	Rs.
Interest Income	5,981,510,158	5,524,856,523
Other Income	141,651,226	133,582,646
Total Revenue	6,123,161,385	5,658,439,169
Interest Expenses	(3,951,342,867)	(3,577,504,063)
Cost of Services	(603,037,213)	(566,149,536)
Impairment Provision	(131,528,308)	(184,958,053)
Total	1,437,252,997	1,329,827,517

Distribution of Value Added

For the year ended at 31st December	2019	2018
	Rs.	Rs.
To Employees		
Salaries and other benefits	882,138,042	824,017,672
To Government		
Corporate Tax	80,580,258	235,260,663
Deemed Dividends	-	48,964,874
Payment to Consolidated Fund	-	-
To Expansion and Growth		
Depreciation	57,301,152	25,817,153
Retained Profit	417,233,545	195,507,155
Total	1,437,252,997	1,329,567,517

Sources and Utilisation of Income

For the year ended at 31 st December	2019	2018
	Rs.	Rs.
Sources of Income		
Loans and Advances	5,042,348,392	4,687,478,097
Government Securities & Other Investments	939,161,767	837,378,426
Fee and Commission Income	113,332,608	107,468,209
Other Income	28,318,619	26,114,437
Total	6,123,161,385	5,658,439,169
Utilisation of Income		
Employees		
Salaries and other payment to staff	882,138,042	824,017,672
Suppliers		
Interest paid	3,951,342,868	3,577,504,063
Other Expenses	791,866,673	776,924,742
Government		
Corporate Taxes	80,580,258	235,260,663
Deemed Dividends	-	48,964,874
Payment to consolidated Fund	-	-
Retained Profit	417,233,545	195,507,155
Total	6,123,161,385	5,658,179,169

Ten Year Statistical Summary

Year ended 31st December (Rs.Million)	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Income Statement										
Interest Income	5,982	5,524	4,745	4,241	3,879	3,633	3,635	2,879	2,611	2,709
Interest Expenditure	3,951	3,577	3,102	2,425	2,057	2,214	2,459	1,725	1,214	1,368
Net Interest Income	2,030	1,947	1,643.17	1,815.44	1,821.69	1,419.29	1,176.04	1,154.00	1,397.28	1,341.00
Other Operating Income	142	134	171	131	120	113	102	79	76	41
Total Operating Income	2,174	2,081	1,814	1,947	1,941	1,532	1,278	1,233	1,473	1,382
Non Interest Expenses	1,226	1,164	1,435	1,240	1,260	1,119	935	803	785	740
Net Profit before Tax	500	480	379	706	681	413	343	430	689	642
Taxation	(81)	(235)	200	270	271	140	110	158	178	179
Net Profit after Tax	419	244	179	436	410	273	232	272	510	463
Assets										
Investment Securities	19	18	18	17	432	19	17	14	5	5
Loans and Advances	35,893	34,225	32,987	28,164	26,523	24,038	21,186	18,550	16,170	13,670
Other Assets	1,178	932	8,946	7,073	7,201	6,148	5,556	3,928	4,276	3,531
Property, Plant and Equipment	56	64	71	94	74	96	67	51	58	39
Total Assets	47,311	42,597	42,022	35,347	34,232	30,301	26,825	22,543	20,509	17,245
Fund Employed										
Capital Contributed	889.8	889.8	890	890	890	890	890	890	890	890
Reserves	4,768.9	4,297.2	4,067	4,028	3,373	3,128	3,040	2,920	2,753	1,763
Total Equity	5,658.7	5,187.0	4,957	4,918	4,263	4,018	3,930	3,810	3,643	2,653
Liabilities										
Deposits	38,872	34,272	33,620	28,845	27,836	24,146	21,201	17,237	15,088	12,506
Debentures	110	110	110	110	110	195	195	195	195	195
Other Liabilities	2,670	3,028	3,336	1,474	2,022	1,942	1,499	1,301	1,583	1,891
Total Liabilities	47,311	42,597	42,022	35,347	34,232	30,301	26,825	22,543	20,509	17,245
Ratio										
Return on Average Assets-NPBT% (ROA)	1.11	1.13	0.98	2.03	2.11	1.44	1.39	2.01	3.65	3.77
Return on Average Funds Employed% (ROE)	7.73	4.82	3.62	9.50	9.90	6.87	6.00	7.31	16.21	18.46
Number of Employees(no.)	378	385	392	392	392	407	334	323	302	308
Net Profit per Employee (Rs. Mn)	1.11	0.63	0.46	1.11	1.05	0.67	0.70	0.84	1.69	2.08
Statutory Reserve Fund	270.92	261.67	246.64	231.36	203.05	191.36	181.15	172.98	163.19	135.44
Advances to Deposits(Times)	0.92	1.00	0.98	0.98	0.95	1.00	1.00	1.08	1.07	1.09
Interest Cover(Times)	1.13	1.13	1.12	1.29	1.33	1.19	1.14	1.25	1.60	1.47
Debt to Equity Ratio(Times)	0.28	0.38	0.50	0.10	0.23	0.28	0.23	0.19	0.18	0.21
Equity Assets Ratio(Times)	0.12	0.12	0.12	0.14	0.12	0.13	0.15	0.17	0.18	0.15
Total Assets per Rupee Contributed	53.17	47.87	47.22	39.72	38.46	34.05	30.14	25.33	23.04	19.38
Effective Deemed Dividend Rate%	-	25.00	25.00	25.00	25.00	25.00	25.00	20.00	19.84	20.22
Deemed Dividend Cover	-	(6.06)	1.91	2.52	2.44	3.57	3.16	3.46	3.14	2.58
Our Contribution to the Nation										
Deemed Dividend Tax	-	(40.36)	93.27	173.35	167.86	76.42	73.60	79.00	177.00	180.00
Payments to Consolidated Fund	-	-	10.00	10.00	10.00	10.00	40.00	25.00	-	-

Corporate Information

Name of the Bank

State Mortgage & Investment Bank

Legal Form

A Body Corporate Incorporated under the State Mortgage & Investment Bank Law No. 13 of 1975.

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035-7722722-3, 035-2222877
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Horana

No. 155, Rathnapura Road, Horana.
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Ambalantota

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Batticaloa

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Jaffna

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Ampara

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Rathnapura

No.101, Main Street, Rathnapura.
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Kaduruwela

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Batticaloa Road, Kaduruwela.
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Vavuniya

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Hatton

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Badulla

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Monaragala

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Anuradhapura

No.521/7, Mithripala Senanayaka
Mawatha, New Twon, Anuradhapura.
025-7722722-3, 025-2237476
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Matale

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Panadura

No.26, Susantha Mawatha, Panadura.
038-7722722-3, 038-2243293
panadura.mgr@smib.lk

Board of Directors

Mr. Niroshana Perera - Chairman
(up to 3rd December 2019)

Mrs. K.D.R. Olga - Director
(up to 3rd December 2019)

Mr. Bernard Wasantha - Director
(up to 3rd December 2019)

Mr. Sheanath M. De Soyza - Director
(up to 3rd December 2019)

Mr. Dilhan Jayasinghe - Director
(up to 3rd December 2019)

Mr. Vidura Manchanayaka - Director
(up to 3rd December 2019)

General Manager

Mr. W.M. Dayasinghe

Board Secretary

Ms. N.P.K. Lokuge

Audit Committee

Mrs. K.D.R. Olga - Chairman (NED)

Mr. V. Manchanayaka - Member (NED)

Mr. D. Jayasinghe - Member (NED)

Mr. S. De Soyza - Member (NED)

Auditors

Auditor General
Auditor General's Department,
Colombo 07.

Principal Lines of Business

Provision of Housing Finance, Agriculture and Industrial Credit, Mobilizing terms and saving deposits, corporate Investments.

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