



State Mortgage & Investment Bank
Annual Report 2009

VISION

To be the Leader in Housing and Development Finance in Sri Lanka.

MISSION

Whilst strengthening the position of the premier housing finance institution, we are committed to serving all our customers with the best financial solutions to suit their financial needs and to provide our depositors attractive returns with solid security and flexibility.

To our employees, we are committed to creating exciting career opportunities and rewards.

To our shareholders, we strive to offer the best returns.

To the community, we are a responsible corporate citizen closer to their lives, and to the state and regulators, we are a partner in national development.

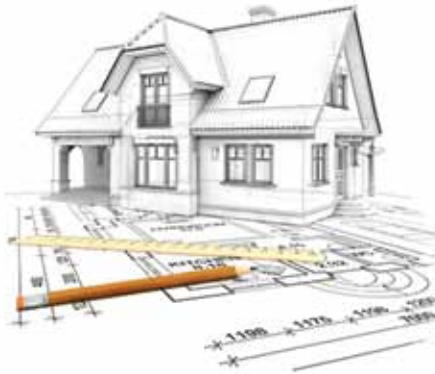
CORPORATE VALUES

In conducting our business we will respond promptly and act creatively, while being committed to:

Trust
Integrity
Accountability
Professionalism
Credibility
Equity
Efficiency, and
Social Responsibility

Contents

02	Financial Highlights
05	Chairman's Message
07	General Manager's Review
12	Board of Directors
14	Corporate Management
14	Senior Management
16	Financial Review
18	Products and Services
19	Human Resources
20	Corporate Governance
22	Corporate Social Responsibility
23	Risk Management
Financial Reports	
28	Directors' Report
30	Audit Committee Report
31	Statement of the Directors' Responsibilities
32	Auditor General's Report
35	Income Statement
36	Balance Sheet
37	Statement of Changes in Equity
38	Cash Flow Statement
39	Accounting Policies
40	Notes to the Financial Statements
48	Capital Adequacy
49	Sources and Utilization of Income
50	Ten Year Summary
51	Value Added Statement
Inner Back Cover - Corporate Information	



The SMIB was formed by amalgamating the Ceylon State Mortgage Bank and the Agricultural and Industrial Credit Corporation established in 1931 and 1943 respectively under the SMIB Law No. 13 of 1975 and commenced operations in 1979.

The Bank was recognized as a Licensed Specialized Bank by Central Bank of Sri Lanka in 1998. In 1991, the Bank started accepting deposits and Pass Book Savings commenced in 2001 in a bid to find more ways to strengthen its funds base.



FINANCIAL HIGHLIGHTS

Financial Statement Analysis

	2009 Rs. million	2008 Rs. million	% Change
Interest Income	2,636	2,101	25.46
Interest Expense	1,939	1,636	18.52
Net Interest Income	697	466	49.57
Profit before Tax	120	51	135.29
Taxation	47	30	56.67
Profit after Tax	73	21	247.62
Investment in Government Securities	725	703	3.13
Loans and Advances	13,511	13,220	2.20
Loan Loss Provisions	78	78	-
Total Assets	16,846	14,516	16.05
Customer Deposits	12,350	10,175	21.38
Borrowings	700	772	(9.33)
Stakeholders' Funds	2,369	2,397	(1.17)

Ratio Analysis

Profitability	%	%	
Net Interest Margin	4.45	3.48	27.87
Return on Equity	3.06	0.88	247.73
Return on Average Assets	0.77	0.38	102.63

Capital Adequacy

Equity/Total Assets	14.06	16.51	(14.84)
Equity/Loans and Advances	17.53	18.13	(3.31)
Tier I	24.18	27.81	(13.05)
Tier I and II	24.82	28.47	(12.82)

Liquidity

Liquid Assets Ratio	26.04	12.84	102.80
Deposits/Loans and Advances	91.41	76.96	18.78
Borrowings/Loans and Advances	5.18	5.84	(11.30)

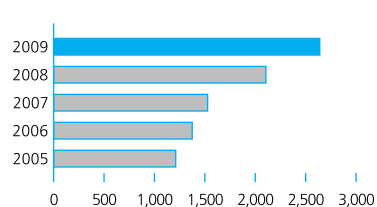
Rating

Rating	A-(Ika)	A-(Ika)	
--------	---------	---------	--

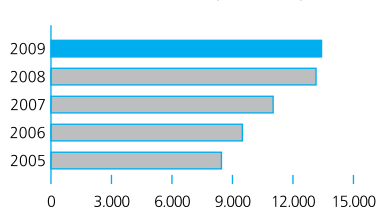
Asset Quality

Loan Loss Provision/NPL	1.40	1.85	(24.32)
NPL/Loans and Advances	41.28	31.84	29.65
Loans and Advances to Total Assets	80.20	91.07	(11.93)

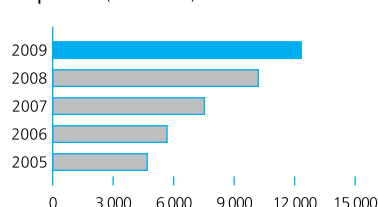
Interest Income (Rs. million)



Loans and Advances (Rs. million)



Deposits (Rs. million)





**...a home for every
Sri Lankan family**



Thimira

Thimira Rajapaksa
Chairman

CHAIRMAN'S MESSAGE

SMIB's Overall Performance

While the rest of this Report and the General Manager's review will detail the performances of the Bank, let me reiterate certain important factors which were significant last year (2009).

Even though the general industry trend slowed down somewhat, our Bank was able to significantly increase the profitability level when compared with the previous year.

We saw a sharp increase in momentum in our deposit mobilization, with retail fixed deposits rising by a commendable 54% as against 2008.

It is also important to note that the Bank continued to maintain its Capital Adequacy Ratio and Liquid Assets Ratio in line with the Central Bank regulations.

We worked on numerous incentives for deposit mobilization including reaching out to schoolchildren. This was aimed at inculcating the savings habit among the younger generation, with the Bank contributing to their savings accounts and thereby further encouraging their own input.

Housing Development

According to the Central Bank's Annual Report for 2009, with the increase in income levels and changing lifestyles, the private sector emerged as the major provider of housing for the middle and high income groups. The Government on the other hand was involved in providing housing facilities for low income families and other specific groups.

The Report notes that, growth in the housing market was hindered in 2009 due to several reasons. One of them was the wide gap between demand and supply in Sri Lanka, mainly due to high lending rates and relatively high housing prices making it difficult and out of reach for middle and low income households to own a house.

Among other issues were the low penetration of banks and microfinance institutions into low income groups, weak credit information and cautious lending by banks to 'irregularly' salaried employees.

The Report further notes that although the national housing needs are substantial, the effective demand was much smaller than the needs. Only 3-4.5% of the population have taken mortgages in Sri Lanka since access to housing mortgages is restricted by the slow housing finance market. The amount of housing loans provided by the banking sector in 2009 amounted to Rs. 167.8 billion, down 1.5% from 2008, the Report added.

The cost of building materials has increased substantially over the years while a slowdown in economic activities due to the global recession has also had an adverse impact on the housing market.

Moving Ahead

We hope to expand our branch network to the North and the East with a view to provide better facilities in these areas which have been underdeveloped for over three decades due to the civil conflict.

Our diversification plan for the coming year already includes providing finance facilities to Agricultural and Industrial Sectors where the Bank could also contribute towards the economic growth of the country.

To provide a quality service to existing and potential customers of our Bank, we hope to introduce core-banking solutions during 2010. It is a key driver within the banking process and will help to achieve the objectives of both the Bank and the existing and future customers.

We plan to be more competitive and market oriented among the other players in the field of lending and deposit mobilization, thereby maintaining a competitive edge and providing satisfactory services to the existing and potential clients of the Bank.

Appreciations

It is with immense appreciation and pride that I recognize, His Excellency the President Mahinda Rajapaksa's pragmatic vision and leadership which has today continued on course to reap in amazing results not only for peace and development but also for fostering unity among the people of Sri Lanka. This vision now places the country on the road to prosperity for all Sri Lankans. My thanks also go to the Honourable Minister Ranjith Siyambalapitiya, Secretary to the Treasury and his Deputies, Governor and officials of the Central Bank of Sri Lanka and the monetary and regulatory authorities, for the advice and consultation readily extended to me during my stewardship at the Bank. I also wish to thank my Board of Directors and senior management for the unwavering support extended to me at all times.

Thimira Rajapaksa

Chairman

11th May 2010



I. Wimalasena

Mrs. I. Wimalasena
Acting General Manager

GENERAL MANAGER'S REVIEW

Fixed Deposits Improve

While there was significant growth in 2008 in spite of the unprecedented crises in the financial services sector, both locally and abroad, 2009 saw a drop in SMIB's loan approvals. However, there was a substantial growth in Fixed Deposits as indicated below:

	2009		2008		2007	
	Value/No.	Increase Y.O.Y. (%)	Value/No.	Increase Y.O.Y. (%)	Value/No.	Increase Y.O.Y. (%)
Value of Loan Approvals (Rs. million)	1,282	(60)	3,179	9	2,918	10
No. of Loans approved	6,048	(44)	10,850	19	9,148	3
Total Loans and Advances (Rs. million)	13,511	2.20	13,220	19	11,074	15
Retail Fixed Deposits (Rs. million)	8,682	154	5,623	80	3,118	71
No. of Branches	12	-	12	9	11	120

Mixed Results in Loans and Advances

	2009		2008 Actual Rs. million	Variance as a % of Target 2009	Variance as a % of Actual 2008
	Budget Rs. million	Actual Rs. million			
Loans/Advances:					
Mortgage Backed	5,648	5,208	5,359	(8)	(3)
EPF Backed	5,579	5,208	4,902	(7)	6
Estate	809	798	716	(1)	11
Special Schemes	825	660	647	(20)	2
Shramoda	216	181	194	(16)	(7)
EHL	274	281	281	2	-
AHF	86	89	98	3	(9)
Government Loans	646	654	678	1	(4)
Loans against F/Ds	780	339	254	(57)	33
Other Loans	87	93	91	7	2
Total	14,950	13,511	13,220	(10)	2
Loan Approvals:					
Mortgage Backed	978	445	1,684	(54)	(74)
EPF Backed	1,080	686	1,373	(36)	(50)
Estate	72	150	122	108	23
Total	2,130	1,281	3,179	(40)	(60)

However, though the approvals declined sharply from the previous year, it has been possible to increase the total loans/advances by Rs. 291 million for which the main contribution came from the EPF (Including Estate) and loans against fixed deposits.

Being Among the Best

With growing competition coming from other established banks and financial services institutions, the Bank - which once monopolized the housing loan sector - had to take a serious look at gearing itself to be more market oriented and cater to the ever-changing demands of the marketplace.

Accordingly, some of the issues are being addressed through reducing the time in granting loans; being less risk averse; undertaking more promotional activities; and providing more flexibility in granting loans.

Quality of Service Key to Grow the Business

The past trend of a gradual increase in mortgage loans was reversed in 2009, as the last year was an exception. The Bank took a diligent effort to restrict loans in an adverse interest rate scenario.

We firmly believe that quality service is a critical success factor in attracting customers, and that it is essential to make strategic changes to reduce the loan processing time to provide a service that will 'delight' the customer, rather than driving them away to another provider. That is a practice we intend to consciously follow in an effort to attract new customers and retain our loyal customers and thus grow the business. We must strive to be an efficient state sector organization with a private sector type of service.

Bargaining with Buyers

Today's buyers are much more informed and in a demanding position for better products and services. Therefore, it is essential that the SMIB recognizes this fact and make the Bank more market oriented and provide its services to meet the customer needs.

Bargaining with Suppliers

Suppliers of funds to the Bank are basically retail fixed deposits/savings holders and institutional depositors. It is crucial that the relationship between these fund providers and the Bank is nurtured in a manner that they do not leave the Bank for the slightest provocation by internal or external action.

Threats of Substitute Products

Competitors are continuously putting out new or related products and the Bank too has to gear itself to a situation where it can add new features to its range of products and/or create new products with additional services to its customers for which the IT capability has to be enhanced.

Branch Network and Infrastructure Development

One of the major obstacles faced by the Bank is the lack of an extensive network. By end 2006, the Bank had only five branches, namely Kandy, Gampaha, Galle, Kurunegala and Mathugama, but steps were taken to subsequently open branches in Chilaw, Matara, Battaramulla, Kiribathgoda, Kegalle, Horana and Ambalanthota.

Further, another adverse factor facing the Bank was its over-dependence on a few large institutional depositors, making the institution vulnerable at all times. It was thus necessary to increase the retail fixed deposit base as against the institutional deposit base; essentially bringing in more retail depositors than institutional ones.

This requirement was met in 2008 mainly due to the expanded Branch network. The plan to open more Branches/Extension Offices (inclusive of the North and East) in 2009 however, did not materialize due to unavoidable circumstances.

Currently, these plans are on hold until the IT system is upgraded. In this respect, action has been taken to obtain the services of a consultant (i.e., the person who initially developed the IT system of the Bank) as an interim measure and till a new Core Banking Solution is procured by end 2010.

The composition of the fixed deposit base is indicated below:

	2009		2008		2007		2006	
	Rs. million	%	Rs. million	%	Rs. million	%	Rs. million	%
Retail Fixed Deposits:*	8,682	100	5,623	100	3,119	100	1,825	100
Head Office	4,037	46	2,953	51	2,203	70	1,605	88
Branches	4,645	54	2,670	49	916	30	220	12

* Including long-term deposits

Stability

The Bank maintained the required limits on capital adequacy and liquid assets to ensure financial stability of the Bank.

	Minimum required as per CBSL Directives %	31.12.09 Actual %	31.12.08 Actual %	31.12.07 Actual %	31.12.06 Actual %
Capital Adequacy Ratio:					
- Tier I	5	24	27	57	81
- Tier I & II	10	24	28	58	82
Liquid Assets Ratio*	10	26	12.80	10.40	12.80

* From 2009 onwards the minimum liquid assets ratio is 20%.

Over Dependence on Institutional Deposits

The Bank was able to substantially change its high dependence on institutional deposits and attract more retail deposit customers as shown in the figures below:

	31.12.09		31.12.08		31.12.07	
	Rs. million	%	Rs. million	%	Rs. million	%
Institutional Deposits	2,364	22	3,380	38	3,363	52
Retail Fixed Deposits	8,682	78	5,623	62	3,119	48
Total	11,046	100	9,003	100	6,482	100

Profitability

Profits of the Bank saw a good recovery in 2009 compared to a deteriorating situation in the previous year, as shown in the table below:

	2009	2008	2007	2006
Profit before Tax (Rs. million)	120	51	124	318
Net Interest Margin (%)	4.40	3.40	4.70	7.80
Return on Assets (%)	0.77	0.38	1.10	3.20
Return on Equity (%)	3.06	0.88	3.30	12.78
Cost/Income Ratio (%)	70.00	77.80	68.90	44.40

The major reasons for the deteriorating profitability of the Bank in 2008 are indicated below:

- Limited scope of being a non-commercial bank.
- Being basically a housing bank specializing in a single product with long-term duration of 15 years on average.
- Presently funded by retail fixed deposits and institutional deposits at market rates of interest and largely with duration of one year or less.
- This has led to a significant mismatch in the maturity profile and pricing of the Bank's assets and liabilities, implying that the Bank's liabilities are more rate sensitive than assets and results in a 'Negative Gap'.
- Due to this 'Negative Gap', the profits invariably drop when interest rates rise and vice-versa.

In order to reduce this mismatch, the Bank took the following steps:

- A long-term fixed deposit 'Dureksha' was introduced in August 2008 and as at end 2009, this stood at Rs. 590 million. (This has now been suspended due to low interest rates in the market.)
- The Bank took action to reprice the loans already granted at low rates but this has limitations, such as the ability of the customer to bear higher instalments, fixed rate loans such as Public Sector Loans, etc. With the reducing trend in interest rates, our existing customers are demanding a reduction in rates. As to whether this concession could be given to at least to those whose loans were repriced in October 2008 is being considered
- As an alternative the Bank took action to invest in other investment options such as commercial papers, which contributed to the Bank's revenue substantially.

The comparative financial figures for period 2006 - 2009 are indicated below:

	2009		2008		2007		2006 Rs. million
	Value Rs. million	Variation Y.O.Y. (%)	Value Rs. million	Variation Y.O.Y. (%)	Value Rs. million	Variation Y.O.Y. (%)	
Interest on Advances	2,165	18	1,842	32	1,399	7	1,308
Interest on Investments	472	81	260	96	133	87	71
Total Interest Income	2,637	25	2,102	37	1,532	11	1,379
Interest Expenditure	1,939	19	1,636	63	1,002	65	608
Net Interest Income	698	49	466	(11)	530	(31)	771
Other Income	35	(71)	120	215	39	(17)	47
Net Income	733	25	586	4	569	(30)	818
Staff Expenses	354	16	304	10	277	4%	267
Other Expenses	161	4	155	34	116	21%	96
VAT	98	29	76	43	53	(61)	136
Total Expenses	613	15	535	20	446	(11)	499
Profit before Tax	120	135	51	(56)	124	(61)	318

Non-Performing Loans (NPLs)

The Bank grants loans with mortgage or EPF Fund balance as the collateral. As indicated under the section 'Stability', there has been a significant increase in both mortgage and EPF backed loans. However, in both cases, although the Bank was able to record a satisfactory progress in NPLs upto end of 2008 there was a negative trend thereafter.

EPF Loans

The majority of EPF customers are reluctant to pay instalments monthly and prefer that these be recovered from their EPF balances. The high growth in EPF loans has resulted in reducing profitability on the short term during high interest regimes and high NPL ratios. However, action has been taken to mitigate this situation as indicated below:

- Obtaining 3 instalments as a deposit to be recovered in the event of default.
- Requiring instalments to be paid through standing orders or to be recovered from their salaries.

Mortgage Loans

Plans are underway to revamp the recovery process and strengthen same including following:

- Recruiting a Recoveries Manager
- Deploying existing staff exclusively for field recovery work by providing motor cycles, and other resources
- Explore the possibility of using Valuation staff for recoveries as well and/or outsource this service
- Inculcating the culture of making the 'credit giver' also responsible for recovery

Productivity

Employees have voluntarily participated in deposit promotions and recovery camps which contributed to maintaining the NPL Ratio at current levels, and in raising fixed deposits. We attribute this to a conscious effort taken to improve relations between the employees/union and the Management, which acted as a motivating factor towards enhanced productivity.

Even though the total number of employees has reduced in the last three years and the number of branches/ transactions have increased, the Bank has been able to operate without much hindrance:

	2009	2008	2007	2006
No. of Loans Approved	6,048	10,850	9,148	8,901
No. of Loans Disbursed	8,014	19,753	9,893	9,780
No. of Branches	12	12	11	5
No. of Employees (as at 31st December)	320	328	339	351

Enhancing IT Capacity

Though the Bank had planned to procure a Core Banking solution to improve its IT infrastructure in a bid to improve productivity and focus all its resources on its core business activities, it was forced to shelve the plans temporarily due to financial constraints. However, based on the consultants' recommendations the Bank has prepared a scaled down version of the funding requirements at the SMIB. A Procurement Committee and Technical Evaluation Committee have been appointed and the procurement is expected to be finalized in 2010.

Future Plans

Our future plans include diversifying into other business areas in accordance with Strategic/Corporate Plan for the period 2010-12, in order to reduce the risk of low profitability inherent in the Bank's structure and revising the Bank organization structure accordingly.

Other steps include sourcing low cost funds/refinancing facilities and procuring a Core Banking Solution in order to overcome the present weaknesses in IT System.

Acknowledgements

Our performance improved tremendously during the year all due to the absolute commitment shown by the entire Bank team in meeting our ambitious targets. For this I am eternally grateful to them. My appreciation also go out to the Chairman and the Board of Directors who have consistently been a source of guidance and inspiration in leading the Bank to greater heights now and in the years to come.

Mrs. I. Wimalasena

Acting General Manager

11th May 2010

BOARD OF DIRECTORS



Mr. Thimira Rajapaksa
Dip. Bus. Studies (UK), Dip.
Mgt. (UK), AIPFM
Chairman

Mr. A.M. Mohideen
B.Sc. (Hons.)
Director

Mr. D. Weerasekera
B.A.
Director

Mr. N. Diddeniya
B.A. Pg. Dip. (Sri. J.)
Visharad Sangeeth
Director

Mr. M.S.M. Zuhair
B.Sc. (Mgt.) Sp., Dip. in Public
Financial Management
Director
(w.e.f. 30.04.2009)



Mr. P.W. Kodippili
B.Com. (Sp.) Dip. in
Management
Director



Mr. P.G.R.U.B. Higgoda
B.A. Dip. in Education
Director



Mr. W.N. Abeysiri Perera
Degree in Workers' Education
Observer



Ms. C. Wijewardena
M.Sc. (Development Studies)
Director



Ms. M.P.E. Rukmanie
B.A., Pg. Dip. in Development
Administration, University of
Birmingham, UK
Director

CORPORATE MANAGEMENT



Mr. Ajit Weerasingha
General Manager
(Resigned on 31st January 2010)



Mr. R.M. Gunathilaka
B. Dev.(Sp.), FCMA, MBA
Chief Risk Officer
(Resigned on 31st December 2009)



Mrs. I. Wimalasena
FCMA, MBA
Acting General Manager,
Deputy General Manager
(Finance, Planning & Administration)

SENIOR MANAGEMENT



Mrs. B.I.B. Dharmathilake
B.Sc, ACA
Chief Internal Auditor



Mr. T.M.J. Wickramasekera
B.Com.(Sp.) Pg. Dip. in Business &
Finance Administration
Assistant General Manager
(Loan Administration)



Mr. L.G. Samarawickrama
B.A.(Sp.).Dip. in Personnel Management,
Associate Member IPM Corporate Management
Assistant General Manager
(Personnel & Administration)



Mrs. D.K. Hidellarachchi
B.Sc.(Sp.) (Business Administration)
Assistant General Manager (Recoveries)



Mrs. P.A.C.K. Amarasinghe
Attorney-at-Law & N.P.
Assistant General Manager (Legal),
Secretary to the Board



Mr. W.M. Dayasingha
ACA, B.Com.(Sp.), MAAT, ISSCA, Dip. in Banking
Assistant General Manager (Finance)



Mr. I.U. Hapuarachchi
BIT, MBA
Assistant General Manager
(Information Technology)



Mr. R.P.U. Pathirana
B.Sc (Hons.)
Assistant General Manager (Credit)



Mr. D.L. Palihakkara
B.Sc.(Sp.) Estate Management & Valuation,
Dip. in Valuation
Assistant General Manager (Valuation)



Mr. A.D.N. Dharmarathna
MBA (Banking & Finance) PIM-(US), Pg. Ex. Dip. in Bank Mgt. (IBSL), Pg. Dip. in Business Studies (US). B.Sc.(EMV) Sp. (Hons.) USJ, H.N. Dip. in Com. (SLTC), MAAT, ICVSP (Malaysia), Fellow Member (IVSL), J.P (All Island)
Chief Manager (Valuation)



Mr. I.N. Fernando
Dip. in (Valuation), FIV (SL)
Chief Manager (Valuation)



Mr. K. Suganthan
B.Sc. (Hons.), MBA (Colombo)
Chief Manager (Credit)



Mr. I.K. Gamini
BA (Hons.), 2nd Class Upper Division
University of Peradeniya
Chief Manager (Credit)



Mrs. K.P.K.H.D. Perera
Attorney-at-Law & N.P., LL.B.
Chief Manager (Recoveries)



Mrs. S.V.P. Cooray
Attorney-at-Law & N.P.
Chief Manager (Legal)



Mrs. S.R. De Silva
Attorney-at-Law & N.P.
Chief Manager (Legal)



Mr. H.A.N. Perera
Chief Manager (Information Technology)

Not in Picture

Mr. S.S. Satharasingha
BA (Vidyodaya University) Dip. in Public Mgt. (University of Connecticut, USA)
Chief Manager (Personnel & Administration)

FINANCIAL REVIEW

Review of Operating Results

SMB recorded a Profit after Tax amounting to Rs. 73.49 million in the year 2009 compared with Rs. 21.02 million in 2008. This represents an increase in Profit after Tax of 249.61%.

Interest Income

Total interest income registered an increase of 25.40%, from Rs. 2,101.98 million in 2008 to Rs. 2,635.85 million in the current year. This was mainly due to a rise in interest earned on housing loans, Government Securities and placements with banks and other financial institutions.

Interest Income (Rs. million)

	2009	2008
Loans and Advances	2,165	1,841
Government Securities	151	108
Placements with Banks and Other Financial Institutions	319	153
Total	2,635	2,102

Interest Expenses

Interest expense was Rs. 1,938.71 million in 2009 compared to Rs. 1,636.30 million in 2008 an increase of Rs. 302.41 million, or 18.48% in percentage terms, the contributory factor being the high market rates. The weighted average cost of deposits (Corporate) was revolving around 16.50% throughout the year.

Interest Expenses (Rs. million)

	2009	2008
Deposits	1,873	1,520
Borrowings - Long Term	21	38
Short Term	45	78
Total	1,939	1,636

Staff Costs

Personnel costs increased by 16.63% from Rs. 303.62 million in 2008 to Rs. 354.10 million in 2009, contributory factor being increase of salaries in accordance with the collective agreement.

Overhead Expenses

Other overhead expenses increased by Rs. 4.06 million compared to the previous year.

Provision for Loan Losses

Loan loss provision for the year amounted to Rs. 0.47 million compared to a reversal of Rs. 1.1 million in 2008.

Contribution to the National Economy

A greater portion of our earnings has been conferred upon the Government as the Bank's contribution to the national economy. We are pleased to be able to record that our contribution in 2009 to the Government was Rs. 246 million.

	2009 Rs. million	2008 Rs. million
VAT	98	76
Corporate Taxes and Deemed Dividend Tax	98	59
Payments to Consolidated Fund	50	-
Total	246	135

Value Added Tax on Financial Services

In compliance with the Value Added Tax Act No. 14 of 2002 and the amendments thereto, the Bank is liable to pay VAT on value addition. The amount paid during the year amounted to Rs. 98.32 million.

Income Tax Expenses and Deemed Dividend Tax

Income tax and deemed dividend tax for the year were Rs. 98 million, compared to Rs. 59 million in 2008.

Financial Position

Cash and Short-Term Funds

The cash and short-term funds balance decreased to Rs. 27.45 million as at December 31, 2009 from Rs. 41.26 million in 2008.

Investments

Investment in Treasury Bills and Bonds were increased to Rs. 724.66 million by end of December 2009, compared to Rs. 703.21 million in 2008. This was to strengthen liquid assets position as directed by the Central Bank of Sri Lanka.

Loans and Advances

During the year under review, we were able to increase our EPF backed loan portfolio by 6.91%. Provision of housing loans against EPF balances continued to expand significantly as borrowers prefer this scheme to traditional mortgage loans. This is further evidenced by the weightage of this scheme in the loan portfolio over the last few years. Both the Bank and its borrowers benefit equally from this scheme, which exposes the Bank to minimal credit risk while enabling customers to obtain loans more easily, with less paperwork and shorter processing time.

Deposits

The Bank's deposit base increased in the year under review, from Rs. 10,175 million in 2008 to Rs. 12,350 million in 2009. Surplus liquidity was utilized to reduce the institutional deposits by 30% from Rs. 3,381 million in 2008 to Rs. 2,365 million in December 2009.

Competitive deposit rates offered along with the security of a state bank, are expected to expand our deposit base further. We intend promoting minor savings (*Muthu Sina*), also with a view to increasing our deposit base.

Borrowings

Borrowings stood at Rs. 700 million on 31st December 2009, compared with a figure of Rs. 772 million in 2008.

Operating Performance

During the year under review, the Bank disbursed loans amounting to Rs. 1,350 million compared to Rs. 2,977 million in 2008.

Loans (Mortgage and EPF) Disbursed

	2009 Rs. million	2008 Rs. million
Value of Loans Disbursed	1,350	2,977

Employee Productivity

We have been able to maintain high employee productivity as can be seen by the figures below:

	2009	2008
Profit before Tax (Rs. million)	120	51
Profit per Employee (Rs. million)	0.38	0.16
No. of Employees	320	328

HUMAN RESOURCES

Staff Strength

The SMIB is a bank with very long history and has an experienced workforce. The present total staff is 320 of which nearly 49% has more than 15 years experience at the Bank. The Bank continuously improves the skills and knowledge of the staff through training and development. An analysis of the gender ratio provides an interesting statistic, probably not seen in any Public or Private Sector organization: with equal proportions of males and females.

Staff Strength

Corporate Management	3
Senior Management	18
Middle Management	155
Other	144
Total	320

Gender Analysis

Male	159
Female	161
Total	320

Age Analysis

Years	No. of Employees	Percentage
56 - 60	45	14.06
51 - 55	70	21.88
46 - 50	51	15.94
41 - 45	49	15.31
36 - 40	28	8.75
31 - 35	34	10.63
30 & below	43	13.44
Total	320	

Service Analysis

Years	No. of Employees	Percentage
Over 30	21	6.56
26 - 30	45	14.06
21 - 25	79	24.69
16 - 20	14	4.38
Below 15	161	50.31
Total	320	

Retired

8 Employees

Recruitments

a. External Recruitments - Nil

b. Internal Recruitments/Promotions:

Assistant General Manager - Finance	01
Chief Manager - Valuation	02
Branch Manager	01
Manager - Legal	03
Manager - Credit	01
Banking Assistant	04
Office Assistant	01
Driver	02

Training and Development

The objectives of training programmes at the Bank are to develop and maintain a skilled and dedicated workforce. In the year under review, twenty (20) training programmes were held with the participation of 320 employees. The programmes covered all sections relevant to the Bank's business and services.

Staff Training

No. of Programmes	20
No. of Participants	320

Fields of Training

- Law
- Finance and Accounts
- Risk
- Attitude Development
- Information Technology
- Audit
- Marketing
- Human Resources
- Administration

Staff Welfare

The Bank continued with its staff welfare activities ensuring the safety and well-being of the staff and their family members. Staff welfare includes a Medical Scheme, an Insurance Scheme and Staff Loans at concessionary rates.

CORPORATE GOVERNANCE

The Pillars of Strength of SMIB over the years were professionalism and efficiency, further augmented through the introduction of Corporate Governance under the Banking Act direction No. 12 of 2007 for Licensed Specialized Banks in Sri Lanka.

The Corporate manifesto of SMIB emphasizes or highlights its exemplary commitments towards the customers, employees, shareholders and other stakeholders which it serves through trust, integrity, accountability organizational credibility, efficiency and social responsibility.

The SMIB is one of the oldest state-owned banks in the country. It was set up under State Mortgage & Investment Bank Law No. 13 of 1975 by amalgamating Ceylon State Mortgage Bank Ordinance and The Agricultural and Industrial Credit Corporation Ordinance with the objective of assisting in the development of housing, agriculture and industry by providing financial and other assistance in accordance with the provision of the said Act and subsequent amendments Nos. 62 of 1981, 29 of 1984 and 10 of 1994 in order to face the challenges of the industry.

Board of Directors

The Board of Directors is responsible for the overall operation and financial stability of the Bank. It promulgates strategies and oversees proper execution.

The Board of Directors consists of nine fit and proper persons appointed by the Minister of Finance for three years. The Minister is empowered to appoint one member as the Chairman from the nominees. The Directors of the Bank are selected based on adequate learning experience from various spheres and relevant ministries to maintain independence within the Board Members. It has been structured to ensure that Directors have no material interest or business attachment with the Bank. They are independent and unbiased. This stance adds value to their judgment and to the decision-making process which remain devoid of undue influence or vested interest.

Directors and Senior Management are provided relevant training in keeping with the public sector practices. All Directors have required acuity and competence to formulate formal business decisions. There is strong commitment and effective contribution to the prudent management of the affairs of the Bank by the Chairman and the Directors.

The Functions of the General Manager

The Board is empowered to appoint a General Manager to the staff of the Bank. The General Manager shall be the Chief Executive Officer (CEO) of the Bank. He is bound to perform all acts directed by the Board or directed by the Act specially or generally authorized in writing.

Thereby day-to-day management of the Bank has been delegated to the CEO who heads the Corporate Management team in line with Board approved strategic

objectives, corporate values, overall risk policy and risk management procedure in a very highbrow standard and in confident manner.

Board Meetings

The Board of Directors meets at least once a month. Its main objective is to oversee the Banks' strategic and corporate value and to ensure that matters and proposals are related to the promotion of business and management risk of the Bank.

The Board meetings are carried out with due notice and active participation in person of a majority of Directors, who acts with due care and prudence in performing its duties guided by the Chairman.

Seventeen Board meetings were held during the year 2009 and the minutes of the Board are maintained by the Secretary to the Board in accordance with the rules and regulations and are open for inspection at any reasonable times, or reasonable notice of Directors/Auditors.

Subcommittees

In view of the Corporate Governance to ensure it oversees control over affairs and smooth running of the Bank, Board has appointed several Subcommittees focussed on Audit, Human Resources Remuneration and Nomination Committee, Credit, Assets and Liabilities (ALCO) and Risk Management. These Committees are chaired by Non-Executive Directors who have experience in the relevant subject and who are working independently.

Audit Committee

The Audit Committee, which is constituted in accordance with the provisions of the Public Enterprise Guidelines for best governance, is accountable to the Board. It comprises of 4 Non-Executive Directors of the Bank with the Chief Internal Auditor functioning as the Secretary. The General Manager, Deputy General Manager (Finance), Deputy General Manager (Credit), Chief Risk Officer and Assistant General Manager (Finance) attend the Committee Meetings by invitation.

The Audit Committee is authorized to determine the scope of the internal audit unit, review the management letters, consider contents of internal audit reports, examine the adequacy and effectiveness of internal control systems, review the statutory accounts and published Financial Statements, assess compliance with regulatory requirements, review performance including budgetary reports and review the implementation of the recommendations of the Committee on Public Enterprises (COPE). During the year 2009, 5 meetings were held.

Human Resources Remuneration and Nomination Committee

The above Committee was constituted according to the Corporate Governance direction which came into effect on 1st January 2008. It comprises of 4 Non-Executive Directors and an Observer. Assistant General Manager

(Legal) functions as the Secretary, General Manager and Assistant General Manager (Personnel & Administration) attend the meetings by invitation.

The said Committee functions in accordance with the regulations of the Board and Guidelines issued by the Central Bank. It is authorized to determine the remuneration policy, evaluate performance, introduce/monitor and review the development and Human Resource Performance. Four meetings were held during the year of 2009.

Credit Committee

The Credit Committee which is headed by the General Manager, comprises of Deputy General Manager (Credit), Deputy General Manager (Finance, Planning and Administration), Chief Risk Officer, Assistant General Manager (Credit), Assistant General Manager (Legal) and Assistant General Manager (Valuation) attend the Committee meetings by invitation. This Committee formulates the Bank's Credit Policy and monitors the Management of credit risk.

Facilities over and above the delegated authority of the Management are also referred to this Committee for approval. During the year 2009, 43 meetings were held.

Assets and Liabilities Management Committee

The main function of the Assets and Liabilities Committee (ALCO) is to monitor the assets and liabilities of the Bank and then assess and manage the risks involved.

The ALCO is chaired by the General Manager and consists of the Deputy General Manager (Finance), Deputy General Manager (Credit), Chief Risk Officer, Assistant General Manager (Finance) and Assistant General Manager (Information Technology) with Treasury Executive as the Secretary. The ALCO's authority is delegated by the Board of Directors. The Committee functions as a top operational unit, managing the Balance Sheet within the parameters laid down by the Board. Meetings were held twice a week during the year 2009.

Management Committee

Corporate Management is responsible for the day-to-day operations of the Bank, working within the controlled environment and framework set out by the Board of Directors. The Management Committee is headed by the General Manager and comprises of all senior staff above Manager grade. It meets regularly to discuss the performance against targets, opportunities, issues and current developments.

The Branch Managers participate in this meeting once a month, along with the Management Committee.

Ethics

The principle compound should distinctly express their own moral codes to sustain viable system. The following are the trade ethics which are supported by the personnel of the SMIB:

- We will not risk the Bank's reputation by knowingly associating with people, organizations, products or transactions that could potentially damage our reputation.
- We are positive about complying with our legal and regulatory obligations - this protects out stakeholders and ourselves.
- Each member of staff has a personal responsibility to contribute to the Bank's success and reputation by carrying out his or her job conscientiously, efficiently and honestly, and maintaining the highest standards of integrity and personal conduct in all matters which affect SMIB.
- Consistent with the highest standards of integrity, we do not approve of the solicitation or acceptance of hospitality of gifts, which may be mistaken for an inducement. We also do not approve of the use of information received in the course of our business dealings, for personal gain.
- We encourage the means whereby staff can report any suspicions of wrongdoing to senior management.
- We seek business relationships, which are mutually beneficial and lead to success through fair dealing and high standards of business integrity.
- We will normally seek competitive proposals from suitable suppliers and service providers.
- We acknowledge responsibility for all employee related issues, including health and safety.
- We encourage employees to develop a lifestyle which integrates both work and family.
- We believe it is important for all staff to be able to share the benefits of good performance by the Bank.
- SMIB encourages employees to adopt a responsible attitude to work, with explicable self-imposed discipline. The main aim of the SMIB's discipline policy is to be corrective rather than punitive and is in line with governmental regulations. It sets reasonable standards of performance and behaviour and aims to ensure consistency and fairness of treatment of all employees.
- We aim to lend with responsibility and base our credit decisions on a thorough understanding of the customer.
- We seek a clear link between equality, diversity and business excellence.





The Bank believes it has a responsibility towards minimizing the impact of its activities on consumers, employees, communities, stakeholders, environment and all other members of the public. In this context, the Bank promotes public interest activities by encouraging community growth and development and is acutely aware of the need to include the public interest component in its decision-making. The Bank is actively encouraging Corporate Social Responsibility (CSR) activities such as payroll contributions, fund-raising activities, community volunteering, etc., which has helped in enhancing the value of the Bank among its staff and the public.

Some of the activities undertaken in respect of CSR are indicated below:

Encouraging Savings Habit Among Children

The Bank in an effort to encourage savings sponsored the opening of about 500 savings accounts for children from low income families in the Kegalle District.

Social Welfare

1. A cash donation of Rs. 110,000/- and medical items worth Rs. 62,434/- were given to the Children's Unit of the Maharagama Cancer Hospital.
2. The Bank organized several blood donation campaigns in the head office with the participation of many of its employees.
3. The Bank continued its sponsorship of maintaining the Koggala Beach Park this year too, contributing towards harmony and good relations with the community in the area.

Promoting Religious Activities

1. Conducting a Sil campaign within the Bank premises, release of the 'Seth Maga' Vesak Souvenir and distribution of Vesak cards free of charge during Vesak month.
2. A day and night Pirith chanting ceremony and alms-giving to the Maha Sanga on 31st December 2009 and 1st January 2010 in connection with the dawn of a New Year 2010.

Education

Distribution of exercise books for children from low income families in the Kegalle District.

Environmental Protection

The Earth's climate has changed many times during this planet's history with events ranging from the ice age to long periods of warmth. Natural factors such as volcanic eruptions, changes in the Earth's orbit and varying energy from the Sun, have affected our climate. From the 18th Century, human activities associated with the Industrial Revolution have also changed the composition of the atmosphere and therefore had a tremendous impact on climate as well.

Among these issues, water pollution is a serious problem and affects human health. Recognizing the need to contribute to the well-being and health of our employees the Bank provides purified drinking water to all its staff. Customers are also provided free, purified water as an additional service.

Although a lot can be done to clean up environmental pollution, prevention is better than the cure. Therefore, awareness on reducing waste and pollution is provided to the Bank employees by promoting a concept of reduced use and reuse wherever possible.

Responsibility Towards Customers

The Bank has introduced a programme whereby existing customers and potential homeowners are provided with advice in areas of legal, financial planning and rescheduling of loans wherever necessary. The Bank has a special department to serve low income customers employed in the Estate Sector.

RISK MANAGEMENT

Risk management is a fundamental method of ensuring that a business risk taken by a bank or any other organization is well-calculated and based on sound management principles. This enables an organization to safeguard its capital, financial and other resources, as well as its profits, from various risks both real and potential, arising from both internal and external sources. The Bank therefore needs to adopt policies that will trade-off well between risk and reward. Currently, the banking system is undergoing a global economic and financial crisis. Accordingly, managerial emphasis is on risk intermediation (consideration of both profit and risk for any activity), taking the objectives, risk tolerance and shareholder expectations of the Bank into account. Risk management has thus become more complex, but remains a fundamental requirement for financial institutions today. At SMIB, risk management is focused on deciding policy, setting risk levels, and identifying and effectively controlling risk. The object is to ensure that the Bank properly calculates risks in order to maintain stability and profitability. This chapter tabulates and reviews the structure and operations of the risk management function at SMIB.

Responsibilities for Risk Management

Board of Directors	<ul style="list-style-type: none">▪ Spearheads the risk management process▪ Decides policy and oversees implementation▪ Appoints key managerial personnel to manage risks and defines their areas of responsibility▪ Monitors overall operational risk, reviews risk management policy, sets strategies, guidelines, etc.
Board Integrated Risk Management Committee	<p>This committee, consisting of four Independent Directors, identifies the principal risks faced by the Bank and prepares policies based on its own assessments. Its tasks are to:</p> <ul style="list-style-type: none">▪ Review the risk profile of the Bank▪ Make recommendations to the Board concerning risk appetite and with regard to specific risks or risk management practices of concern to the committee▪ Ensure that risk areas are properly identified▪ Design control measures and implement them <p>Key Non-Committee Executives of the Bank participate in the committee's deliberations whenever appropriate.</p>
Board Audit Committee	<p>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.</p>
Board Credit Committee	<p>Role of the Committee</p> <p>Main functions of the Board Credit Committee include the following:</p> <ul style="list-style-type: none">▪ Formulating and periodically reviewing the Credit Policy of the Bank▪ Authorizing credit facilities over and the above the delegated limits of specified categories <p>The members of the committee during 2009 were as follows:</p> <ul style="list-style-type: none">▪ Mr. Thimira Rajapaksa - Chairman▪ Mr. A.M. Mohideen - Director▪ Mr. M.S.M. Zuhair - Director▪ Mrs. C. Wijewardena - Director

Credit Committee

Chaired by the General Manager, the Credit Committee comprises the Deputy General Manager (Finance, Planning & Administration), Chief Risk Officer, Assistant General Managers (Credit and Legal) and the Chief Manager (Valuations) of the Bank. Its function is to determine credit policy in accordance with the directives of the Board.

Thus the Committee -

- Decides procedures for day-to-day credit management
- Sets credit exposure limits
- Analyses and controls the loan portfolio of the Bank, reviewing exposure and risk
- Considers credit concentrations and gives appropriate instructions
- Recommends lending guidelines and delegated limits to the Board of Directors and Board Credit Committee
- Approves credit policy, procedures and guidelines regarding the management and control of the Bank's credit portfolio.

Assets and Liabilities Committee (ALCO)

Chaired by the General Manager, the ALCO comprises the Deputy General Manager (Finance, Planning & Administration), Chief Risk Officer, Assistant General Managers (Finance, Information Technology), Chief Manager (Branch Operations), Marketing Manager and Treasurer of the Bank. Its scope of activity includes:

- Decisions on day-to-day interest risk and liquidity risk management and on operational risk in accordance with the policies and directives of the Board
- Direct the Bank's Treasury and other departments regarding short-term business strategy, taking into account market variables in relation to the Bank's exposures and budget
- Approve the liquidity and funding plans of the Bank and assess the liquidity risks it faces
- Provide guidelines to mitigate and manage such risks
- Review and formulate directives regarding risks associated in short- and long-term fund raising
- Review investments and make decisions on new ones
- Review interest rates and make rate recommendations to the Board

Risk Management Department

The Risk Management Department spearheads operational risk management and provides independent opinions on all operational areas, providing guidelines for further development of a risk-based approach to management. Its responsibilities include:

Management of risk across the entire Bank

- Bringing perceived risks to the attention of the ALCO and Credit Committee
 - Arranging and co-ordinating meetings of the Board Risk Management Committee
 - Initiating risk management policies and guidelines
 - Interacting regularly with line managers to familiarize them with relevant risk management guidelines
 - Review credit, interest rate and operational risks and submit its observations to the respective committees
 - Study operational areas and introduce procedures and controls to ensure operational risks are well-managed.
-

Risk Assessment

The following assessment concerns risks facing the Bank in the year under review. They are categorized in the usual way, with a brief description of the category of risk prefacing each assessment.

Credit Risk

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. In evaluating and managing credit risk, its credit policy offers basic guidelines against which to assess default risk. Short-term guidelines have also been drawn up, these varying with market conditions and the Bank's portfolio-building plan and being devised to minimize sub-prime lending. Credit assessment and collateral cover, together with a strict legal and documentation process, further minimize recovery risk.

SMIB's sector exposure is high since it operates in a single industry segment, housing finance. However, this is somewhat mitigated because loans granted against the Employees' Provident Fund are secured against a Central Bank guarantee. Diversification of the mortgage portfolio in terms of social and income groups, as well as geographically, further helps reduce credit risk.

The Risk Management Department closely monitors changes in economic and market conditions, supporting and guiding the Bank's credit operations in terms of portfolio management and preserving a uniform credit culture through prudent policies, procedures and management strategies.

Maintaining the quality of loans and advances is the key to the Bank's success. It depends on the ability of its credit officers to assess customer creditworthiness, repayment capacity, etc. The Bank therefore takes considerable pains to ensure that credit staff understand its lending guidelines and procedures as well as the pertinent environmental factors. A high degree of competence among its internal legal and valuation officers also helps mitigate recovery risk; it is the task of these officers to assess the quality of collateral offered through title examination, documentation and property valuation.

These processes are continuously reviewed and improved so as to maintain an optimal balance of risk and reward in the credit portfolio. The Credit Committee periodically reviews policies relating to security cover, limits on borrowers, income assessment and limits, as well as reviews of the market, the health of various industries and the national economy as a whole. Based on these the committee issues short-term regulations in line with Bank strategy and the annual business plan.

The regulatory guidelines of the Central Bank of Sri Lanka are strictly adhered to in security valuation, interest suspension, provision for bad and doubtful debt and loan classification.

Default and probable-default loans are closely monitored and measures taken to achieve recovery targets in the annual budget. During the year under review, the Bank strengthened the Recovery Division to facilitate recovery and monitoring of NPL trend.

The Bank's independently-functioning Risk Management Department investigates and assesses the risk profiles of large loans and makes its own recommendation on them thereafter. This is in addition to being involved in the formulation of credit policies and lending criteria.

Market Risk

For the Bank, market risk largely means interest rate and liquidity risk. During the year under review, significant additional attention was paid to potential impacts from the volatility of financial markets in general and the housing finance market in particular. The ALCO has taken on more responsibility in this regard, including frequent meetings, reviews of interest rates and investments, and closer monitoring of cash flows through the Bank's Treasury.

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. In other words, the Bank operates in a predominantly fixed-rate lending environment while the majority of its liabilities are subject to frequent repricing. This mismatch was clearly discerned in operations during the year under review.

Loan agreements between the Bank and its borrowers provide for the revision of interest rates. In the past, the Bank has tended to revise its rates downward as a concession to valued long-term customers. In 2009, also the Bank reduced lending rates as a concession to valued customers.

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.

As always, the Risk Management Department is actively and independently involved in financial and profitability outcomes and assists the ALCO in devising strategies to manage and ensure the financial stability of the Bank in the event of drastic changes in market conditions.

Liquidity Risk

Liquidity risk was particularly salient in 2009 due to volatile market conditions.

Liquidity management is of vital importance to SMIB due to the nature of its assets and liabilities profile. Accordingly, it has taken steps to increase the ratio of long-term deposits to short-term ones in order to reduce assets and liabilities mismatch. This was no easy task, considering that market preference in 2009 was for short-term maturity of deposits.

Closely monitoring funding concentrations, the ALCO was able to manage deposit rates, reducing deposit concentrations that were likely to influence costs and cash flows. The Bank also won depositor confidence through the fair and competitive deposit rates it offered.

The Bank monitors its own liquidity movements (such as the advances-to-deposits and liquid assets ratios) daily. Liquidity trends are also projected based on expected cash flow from operations.

The ALCO, as the Bank's primary arbiter of lending and deposit rates, increased the frequency of its formerly twice-monthly meeting schedule in order to deal more expeditiously with the volatile market conditions of 2009. Thus it fulfilled its brief of maintaining liquidity in compliance with the 20% statutory liquid asset ratio (SLR) on a daily basis.

Operational Risk

Effectiveness in this area of risk management was strengthening during the year under review by policy improvements, improved technology, streamlining procedures and controls, etc.

The Bank is involved in a continuing process of systems development and improvement. This subsumes the improvement of controls through the IT system, preventive maintenance, the development of employee skills, the timely introduction and application of procedures

and policies, the use of risk transfer measures such as insurance, the introduction of new products and the conduct of operations according to the corporate plan, the annual budget and the annual action plan. Reviews of operations and activities are undertaken at regular meetings.

Training was provided to staff at all levels 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. Thus, operational efficiency and individual accountability were optimized.

On occasions when shortcomings in processes were detected, immediate procedural steps were taken to prevent any repetition. Action was taken to improve transparency in business activities, controls and policies, thus helping ensure smooth and sound operations at the Bank. Both the External and Internal Auditors were involved in ensuring that systems, controls and procedures were adhered to.

Conclusion

The prevailing environment for financial institutions, particularly housing financiers, is sufficiently turbulent not only to warrant concentration on regulatory compliance but to justify a degree of micro-management in terms of risk methodologies and practices. Keenly aware of this, the Bank is at present diligently involved in policy development and the refinement of its operating guidelines. It is streamlining its systems, controls, procedures and compliance regimes, refining and improving risk management practice across the full range of its operations.

SMIB remains at all times in full compliance with BASEL II and other regulatory requirements.

FINANCIAL REPORTS



- 28 Directors' Report
- 30 Audit Committee Report
- 31 Statement of the Directors' Responsibilities
- 32 Auditor General's Report
- 35 Income Statement
- 36 Balance Sheet
- 37 Statement of Changes in Equity
- 38 Cash Flow Statement
- 39 Accounting Policies
- 40 Notes to the Financial Statements

Financial Calendar

Publication of Results

- 1st Quarter Results Released - 29th May 2009
- 2nd Quarter Results Released - 28th August 2009
- 3rd Quarter Results Released - 27th November 2009
- 4th Quarter Results Released - 26th February 2010

Annual Accounts

Submission of Draft Annual Accounts to the
Auditor General - 26th February 2010

DIRECTORS' REPORT

The Directors of State Mortgage & Investment Bank have pleasure in presenting their Report together with the annual accounts for the year ended 31st December 2009 which were approved by the Directors.

Directors

Under the provisions of the State Mortgage & Investment Bank Law No. 13 of 1975 and as amended, the Board of Directors consists of nine fit and proper persons including the Chairman and one Observer. Three members represent the Ministry of Agriculture, Ministry of Housing and Ministry of Livestock Development. Quorum for meetings is three members. Meetings of the Board of Directors should be held at least once a month as per the SMIB Law. 17 meetings were held in the year 2009.

The names of Directors and details of meetings attended are as follows:

Name of Director	No. of Meetings Attended
Mr. Chandima Weerakkody - Chairman (up to 08th June 2009)	06
Mr. Thimira Rajapaksa - Chairman (w.e.f. 26th June 2009)	08
Mr. A.M. Mohideen	10
Mr. D. Weerasekera	07
Mr. N. Diddeniya	12
Mr. M.S.M. Zuhair	08
Mr. P.W. Kodippili	12
Mr. P.G.R.U.B. Higgoda	16
Mr. W.N. Abeyesiri Perera (Observer)	10
Mrs. Chandani Wijewardena	16
Mrs. M.P.E. Rukmanie	17

Directors' Interests in Contracts and Proposed Contracts

No Director was directly or indirectly interested in any contract or proposed contract with the Bank for the year ended 31st December 2009.

Directors have disclosed their other directorships and connections at Board meetings so as to ensure that they are refrained from voting on matters in which they have an interest.

Principal Activities

The principal activities of State Mortgage & Investment Bank were to promote Housing Finance and Mobilization of Deposits. There has been no significant changes in the nature of the principal activities during the year.

Review of Operations

A review of the operations of the Bank during the financial year and results of those operations are contained in the General Manager's Review and Financial Highlights of this Report.

Future Development

Bank formulated a new strategic plan for 2010-12 to achieve the set goals and objectives. The Bank will also look for the new business opportunities to enter in to Agricultural and Industrial Sector, details of future developments of which are given in the Chairman's Message and the General Manager's Review.

Audit Committee

All the members of the Committee are Non-Executive Directors and their report is contained on page 30 of this Report.

Profit and Appropriations

The Total Income of the Bank for 2009 was Rs. 2,672.020 million (2008 - Rs. 2,221.972 million). An analysis of the Net Income is given on page 35.

	2009 Rs. 000	2008 Rs. 000
Gross Income	2,672,020	2,221,971
Interest Income	2,635,854	2,101,981
Interest Expenses	(1,938,716)	(1,636,300)
Net Interest Income	697,138	465,681
Other Income	36,166	119,990
Net Income	733,304	585,671
Less: Operating Expenses	(515,052)	(458,895)
VAT	(98,322)	(76,091)
Operating Profit before Tax	119,930	50,685
Less: Provision for Taxation	(46,439)	(29,659)
Profit for the Year	73,491	21,026
Retained Profits	705,326	716,127
Profit Available for Appropriation	778,817	737,153
Appropriations		
Deemed Dividend Tax	51,120	29,658
Payments to Consolidated Fund	50,000	-
Transfers to Reserve Fund	3,675	2,170
Balance Carried Forward	674,022	705,325

Deemed Dividend and Reserves

Deemed dividend tax for the year 2009 has been provided at 25% on the net profit for the year after taxation in accordance with provisions for the Inland Revenue Act No. 38 of 2000.

Reserves

The total reserves as at 31st December 2009 amounted to Rs. 1,480 million (2008 - Rs. 1,508 million) movement of which are given on page 37 in the Statement of Changes in Equity.

Corporate Donations

During the year no donations were granted.

Capital Expenditure

The details of Property, Plant and Equipment and Motor Vehicles of the Bank are shown in Note 16 on page 43.

Market Value of Immovable Properties

SMIB does not own tangible immovable properties as at 31st December 2009.

Contributed Capital

The Sri Lanka Government has contributed the capital amounting to Rs. 889,812,899/-.

Substantial Shareholding and Share Information

Government of Sri Lanka is the sole contributor of capital in SMIB. Additional information is provided in Note 20 to the Financial Statements.

Payment to Consolidated Fund

The payments made to the Consolidated Fund for the period of 2000 to 2009 totalled to Rs. 601 million.

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 up to date.

Taxation

Income tax for 2009 has been provided at 20% on taxable income arising from the operations of the Bank.

Compliance with Applicable Laws, Rules and Regulations

To the best of our knowledge there have been no violation or possible violation of Laws, Rules and Regulations in Bank, any jurisdiction whose effect should be disclosed.

There have been no irregularities involving management or employees that could have material financial effect or otherwise.

Customers and Borrowers

One of the SMIB's prime objectives is to provide housing loan facilities to the nation at an affordable cost. In order to achieve this objective, the Bank has taken special effort to carry out regular surveys in this regard.

Depositors and Suppliers

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

It is the Bank's policy to call for quotations for the supply of goods and services and ensure prompt payment.

Environmental Protection

The policy of the SMIB is to promote co-operation and compliance with the relevant Laws, Rules and Regulations.

Events after the Balance Sheet Date

There have been no material events occurred after the Balance Sheet date that require adjustments to or disclosure in the Financial Statements.

Going Concern

After reviewing the Financial Statements and considering sovereign stakeholder's involvement, forecasts and budgets; borrowing requirements and maturities; liabilities existing and contingent; financial adaptability to changing circumstances; product and market trends; overall risk management strategies and 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. Therefore, we continued to adopt the going-concern basis in preparing the Financial Statements.

Equitable Treatment to all Stakeholders

While valuing the patronage of all our stakeholders, the Bank has made all endeavours to ensure equitable treatment to all our stakeholders.

The Auditors

The audit of accounts of the State Mortgage & Investment Bank for the year ended 31st December 2009 was carried out under the Auditor General's direction 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.

By Order of the Board,



Mrs. P.A.C.K. Amarasinghe
Secretary to the Board of Directors

25th May 2010

AUDIT COMMITTEE REPORT

The Audit Committee comprises of five Non-Executive Directors of the Bank and the Secretary to the Committee. Deputy General Manager (Finance, Planning and Administration), functioned as Secretary to the Committee from 1st January 2009 up to 5th November 2009. Thereafter, Chief Internal Auditor has been functioning as the Secretary to the Committee since 6th November 2009. Audit Committee meetings were held under the Chairmanship of Mrs. M.P.E. Rukmani, Additional Secretary, Ministry of Live Stock Development from January 2009 to June 2009. Mr. M.S.M. Zuhair, Director (Finance), Ministry of Agricultural Development was appointed as a Chairman of the Committee in June 2009. The Audit Committee is constituted in accordance with the provision of Public Enterprise Guidelines on Good Governance.

In terms of the guidelines, Audit Committee is empowered to determine the scope of the internal audit unit, review annual audit plan, review the report of the Auditor General on the Financial Statements in terms of Section 13 (7) (a) of the Finance Act No. 38 of 1971 and Management's responses to the same, consider contents of internal audit reports, examine the adequacy and effectiveness of internal control systems based on internal audit reports, review the statutory accounts and published Financial Statements, assess compliance with regulatory requirements, review quarterly progress reports, review implementations and recommendations of the Committee of Public Enterprise (COPE) of the Parliament and monitor follow up action on the recommendations of the Committee.

One of the major obstacles in improving the efficiency of operations and management Decision Making Process was observed to be the existing IT system which is an internally-developed one. Therefore, it is expected to be replaced with better infrastructure at an affordable cost in the near future.

Having paid attention to the comments by the management on matters raised by the Auditor General and Chief Internal Auditor with regard to:

- Reconciliation of accounts
- Activities related to the branches
- Payments
- Recovery
- Credit
- Loan Disbursements
- Compliance with financial regulations, etc.

the Audit Committee made recommendations/directions to improve existing systems and procedures.

The Audit Committee was of the opinion that the terms of references of the Audit Committee were complied with in all material aspects.



M.S.M. Zuhair
Chairman

Audit Committee
5th May 2010

STATEMENT OF THE DIRECTORS' RESPONSIBILITIES

In terms of the Banking Act No. 30 of 1988 and as amended by Act No. 46 of 2006, the Board of Directors should assume the overall responsibility and accountability of the licensed specialized banks.

In accordance with Sections 7 and 8 of SMIB Act No. 13 of 1975 and its amendment No. 29 of 1994 the General Supervision control and administration of the affairs and the Business of the Bank is entrusted to the Board of Directors headed by the Chairman, and the Board may exercise all such powers and do all such acts and things as may be necessary for carrying on the business of the Bank.

Thereby the Board of Directors shall undertake to execute the following requirements:

- a. Resolve the structure and managing affairs of the Bank.
- b. Authorize business activities to Key Management Personnel led by the Chief Executive Officer designated by the Board.
- c. Ensure the effective role of the Key Management Personnel and policy making and risk management of the business.

In compliance with the policy, set by the Board and the Act of the SMIB, the Directors' responsibilities are to oversee and ensure that the Key Management Personnel are carrying out the day-to-day activities of the Bank in accountable, safe and effective manner. The utmost responsibility of the Directors is to safeguard the interest of the Bank and ensure that the Bank does not in any manner act detrimental or prejudice to the interest of the Bank Depositors, Creditors, Shareholders, and other Stakeholders by understanding the risk management of the Bank.

The Directors of State-owned banks should be aware of the additional liabilities that arise from status of such bank being State enterprises and consequently being accountable to the public.

Therefore, it is essential that the Directors should discharge their duties diligently and realizing civil and criminal liabilities which may arise.

The Directors are of the opinion that the internal control system in place are capable of achieving the primary objects such as:

1. To safeguard assets
2. The preventive detection of frauds and errors
3. The accuracy and completeness of the accounting records
4. The timely preparation of reliable finance information

The Directors confirm, that to the best of their knowledge, all statutory taxes, dues and levies payable by the Bank as at the Balance Sheet date have been paid to relevant authorities.

The Financial Statements for the year 2009 have been prepared and presented in conformity with the requirements of the Banking Act and Sri Lanka Accounting Standards.

By order of the Board,



Mrs. P.A.C.K. Amarasinghe
Secretary to the Board

11th May 2010

AUDITOR GENERAL'S REPORT

EF/E/SMIB/FA/2009
24th May 2010

The Chairman,
State Mortgage and Investment Bank

Report of the Auditor General on the Financial Statements of the State Mortgage and Investment Bank for the year ended 31st December 2009 in terms of Section 14 (2) (c) of the Finance Act No. 38 of 1971.

The audit of Financial Statements of the State Mortgage and Investment Bank for the year ended 31st December 2009 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 Section 13 (1) of the Finance Act No. 38 of 1971. My comments and observations which I consider should be published with the annual report of the Bank in terms of Section 14 (2) (c) of the Finance Act appear in this report. A detailed report in terms of Section 13 (7) (a) of the Finance Act was furnished to the Chairman of the Bank on 12th March 2010.

1.2 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with the Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Financial Statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

1.3 Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on a review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and the extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating of their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. Sub-sections (3) and (4) of Section 13 of the Finance Act No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

2 Financial Statements

2.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the State Mortgage and Investment Bank has maintained proper accounting records for the year ended 31st December 2009 and except for the effects on the financial statements of the matters referred to in paragraph 2.2 of this report, the financial statements have been prepared in accordance with the Sri Lanka Accounting Standards, give a true and fair view of the state of affairs of the State Mortgage and Investment Bank as at 31st December 2009 and the financial results of its operation and cash flows for the year then ended.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following accounting deficiencies were observed in audit.

- (a) Provision for compensation amounting to Rs. 508,648 which had to be paid to an officer had not been made in the financial statements for the year under review.
- (b) The gift items remained at the stores and outstation branches of the Bank valued at Rs. 1,382,176 had not been shown in the financial statement for the year under review.

2.2.2 Accounts Receivables and Payables

Following observations are made:

- (a) Advances paid to various Institutions and to the officers of the Bank during the period 2003 to 2009 aggregating Rs. 1,602,259 had not been recovered even as at 10 March 2010.
- (b) Accrued interest amounting to Rs. 134,321,918 which had to be paid to the Government had remained unsettled for over a long period.

2.2.3 Reconciled Control Accounts

Following observations are made:

- (a) Unreconciled balances amounting to Rs. 8,561,853 under the current assets and Rs. 4,874,419 under the current liabilities had remained from 2004 without being reconciled with relevant accounts.
- (b) The following cash balances in respect of 4 branches had not been reconciled with the balances shown in the cash flow statements presented for audit. The reasons for the differences had not been furnished to audit. Details are shown below.

Balance as per Accounts	Rs. 6,275,683
Balance as per Cash Flow Statement	Rs. 5,853,875
Difference	Rs. 421,808

- (c) The following Bank balances in respect of 4 branches of the Bank had not been reconciled with the balances shown in cash flow statements presented for audit. The reasons for the difference had not been furnished to audit. Details are shown below.

Balance as per Accounts	Rs. 2,889,797
Balance as per Cash Flow Statement	Rs. 4,249,666
Difference	Rs. 1,359,871

- (d) According to the schedule attached to the Financial Statement, the balances of vested properties as at 31 December 2009 was Rs. 22,457,639 and according to the schedule provided by Recovery Division, it was shown as Rs. 22,088,395 (BPO). Hence the difference was Rs. 369,244.

2.2.4 Evidence for Audit

Advertisement expenditure, rent expenditure, sundry expenditure and payment made to various institutions aggregating Rs. 6,459,392 could not be satisfactory vouched in audit in the absence of evidence such as source documents, receipts etc.

2.2.5 Unidentified Transactions

Following observations are made.

- (a) Deposits aggregating Rs. 7,262,062 as at the end of the year under review had not been identified and the pattern of the movement of the balances is given below.

Year ended 31st December	Amount shown in the accounts Rs.
2004	5,767,325
2005	7,654,648
2006	11,022,769
2007	12,339,334
2008	8,189,152
2009	7,262,062

According to the above details unidentified deposits had gradually increased from Rs. 5,767,325 to Rs. 12,339,334 for the last four years from 2004 to 2007. However the balance of unidentified deposits as at 31st December 2008 and 31 December 2009 had shown a declining trend.

- (b) Suspense account debit balance amounting to Rs. 61,091 and Suspense account credit balances of the branches of the Bank amounting to Rs 3,889,219 which were shown under the other creditors, had remained unsettled for a long period.

2.2.6 Non-Compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance observed in audit are given below:

Reference to Laws, Rules, Regulation etc.	Non-Compliance
(a) Government procurement guidelines of the National Procurement Agency Circular No. 8 dated 25 January 2006 as amended by Circular No. 06 dated 5 October 2006.	Although vehicle repairing cost over the value of Rs. 100,000 should only be made with the approval of the Secretary to the Ministry. However, such approval had not been obtained in respect of vehicle repairs amounting to Rs. 991,705 made by the Bank.

- (b) Financial Regulations

(i) F.R.104 (2)

A loss of Rs. 705,766 in respect of a vehicle accident had not been reported.

(ii) F.R. 756 and 757

A copy of the Board of Survey report had not been forwarded to the Auditor General for the year under review as required.

(Sgd.)

S. Swarnajothi

Auditor General

INCOME STATEMENT

Note	<i>For the year ended 31st December</i>	2009 Rs. '000	2008 Rs. '000
1	Income	2,672,020	2,221,971
2	Interest Income	2,635,854	2,101,981
3	Interest Expense	(1,938,716)	(1,636,300)
	Net Interest Income	697,138	465,681
4	Other Income	36,166	119,990
		733,304	585,671
	Less: Non-Interest Expenses		
	Personnel Costs	286,298	250,107
	Premises, Equipment and Establishment Expenses	92,769	85,032
5	Operating Expenses	67,707	71,385
	Retirement Benefit Costs	67,806	53,515
	Profit before Loan Losses and Diminution/ (Appreciation) in Value of Dealing Investment	218,724	125,632
	(Provision)/Reversal for Loan Losses	(472)	1,144
	(Diminution)/Appreciation in Value of Dealing Investments	-	-
		218,252	126,776
	Less: Value Added Tax	98,322	76,091
	Profit on Ordinary Activities before Tax	119,930	50,685
6	Less: Tax on Profit on Ordinary Activities	46,439	29,659
	Profit on Ordinary Activities after Tax	73,491	21,026
	Retained Profit/(Accumulated Loss) brought forward	705,325	716,127
	Profit Available for Appropriation	778,817	737,153
	Appropriations		
	Transfer to Reserve Fund	3,674	2,170
	Deemed Dividend Tax	51,120	29,658
	Transfer to Consolidated Fund	50,000	-
	Retained Profits carried forward	674,022	705,325

BALANCE SHEET

Note	As at 31st December	2009 Rs. '000	2008 Rs. '000
Assets			
7	Cash and Short-Term Funds	27,448	41,264
8	Treasury Bills and Other Securities Eligible for Rediscounting with Central Bank	724,660	703,208
9	Government and Other Securities Held for Dealing Purposes	5,000	5,000
10	Placements with and Loans to Other Banks and Financial Institutions	2,125,138	185,300
11	Investment Securities	5,379	1,303
12	Loans and Advances	13,432,995	13,142,405
13	Interest Receivable	434,153	243,031
15	Other Assets	51,663	157,774
16	Property, Plant and Equipment	40,110	37,007
	Total Assets	16,846,547	14,516,292
Liabilities			
	Bank Overdraft	31,352	52,692
17	Deposits	12,350,220	10,174,769
18	Borrowings	668,347	719,217
19	Other Liabilities	1,427,038	1,172,396
	Total Liabilities	14,476,958	12,119,074
Funds Employed			
20	Contributed Capital	889,813	889,813
21	Statutory Reserve Fund	112,267	108,592
	Reserves	1,367,509	1,398,813
	Total Funds Employed	2,369,589	2,397,218
	Total Liabilities and Funds Employed	16,846,547	14,516,292
23	Commitments and Contingencies	358	358

Certification:

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

These Financial Statements were approved by the Board of Directors and signed on their behalf.



Thimira Rajapaksa
Chairman



I. Wimalasena
Acting General Manager
DGM - Finance, Planning and Administration



W.M. Dayasingha
Assistant General Manager - Finance

26th February 2010
Colombo

STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December

	Contributed Capital	Statutory Reserve Fund	Capital Reserve	General Reserve	Title Indemnity Fund	Profit & Loss Account	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 31.12.07	889,813	106,422	9,176	683,280	1,031	716,127	2,405,849
Net Profit for the Period	-	-	-	-	-	21,027	21,027
Deemed Dividend Tax	-	-	-	-	-	(29,659)	(29,659)
Payment to the Consolidated Fund	-	-	-	-	-	-	-
Transfers during the Year	-	2,170	-	-	-	(2,170)	-
Balance as at 31.12.08	889,813	108,592	9,176	683,280	1,031	705,325	2,397,217
Net Profit for the Period	-	-	-	-	-	73,491	73,491
Deemed Dividend Tax	-	-	-	-	-	(51,120)	(51,120)
Payment to the Consolidated Fund	-	-	-	-	-	(50,000)	(50,000)
Transfers during the Year	-	(3,674)	-	-	-	(3,674)	-
Balance as at 31.12.09	889,813	112,266	9,176	683,280	1,031	674,022	2,369,588

* Error Correction adjustments relating to all prior periods prior to 31st December 2007.

	Rs. '000	Rs. '000
Profit and Loss Account balance as at 31.12.2007 prior to Error Correction Adjustments	-	817,083
Adjustments		
Under Provision of Tax 2004/05/06/07	(125,486)	-
Over Provision of Tax 2003	8,512	-
Notional Tax 2003/04/05/06/07	31,819	-
Under Provision of VAT 2007	(26,968)	-
Deferred Tax Adjustment	(8,177)	-
Overstatement of Loss 2006 (Kandy Branch)	1,679	-
Grant-Asian Development Bank	17,665	(100,956)
Profit and Loss Account balance as at 31.12.2007 after the Error Correction Adjustments		716,127

CASH FLOW STATEMENT

For the year ended 31st December

	2009 Rs. '000	2008 Rs. '000
Cash Flows from Operating Activities		
Interest Received	2,301,931	2,192,006
Interest Payments	(1,938,716)	(1,636,300)
Cash Payments to Employees and Suppliers	(336,565)	(296,124)
Receipts from Operating Activities	34,434	123,222
Payments on Other Operating Activities	(147,562)	(145,218)
Operating Profit before Changes in Operating Assets	(86,478)	237,586
(Increase)/Decrease in Operating Assets		
Funds Advanced to Customers	(291,062)	(2,146,553)
Other Short-Term Securities	(2,471,131)	473,705
	(2,762,193)	(1,672,848)
Increase/(Decrease) in Operating Liabilities		
Deposits from Customers	2,175,451	2,658,164
Others	47,368	(313,176)
	2,222,819	2,344,988
Net Cash from Operating Activities before Income Tax	(625,852)	909,726
Income Tax and Deemed Dividend Tax Paid	(229,392)	(121,288)
Net Cash from Operating Activities	(855,244)	788,438
Cash Flows from Investing Activities		
Dividends Received	1,179	339
Purchase of Property, Plant and Equipment	(14,730)	(11,115)
Proceeds from Sale of Property, Plant and Equipment	552	177
Interest Received from Deposits with Other Banks	319,431	152,745
Interest Received from Government Securities	151,440	107,703
Net Cash from Investing Activities	457,872	249,849
Cash Flows from Financing Activities		
Repayment of Debentures	-	-
Repayment of Loans	(50,870)	(506,549)
Proceeds from Borrowings	-	-
Payment to the Consolidated Fund	(50,000)	-
Net Cash from Financing Activities	(100,870)	(506,549)
Net Increase in Cash and Cash Equivalents	(498,242)	531,738
Cash and Cash Equivalents at the Beginning of the Year	494,338	(37,400)
Cash and Cash Equivalents at the End of the Year	(3,904)	494,338
Reconciliation of Cash and Cash Equivalents		
Cash and Short-Term Funds	27,448	41,264
Government of Sri Lanka Treasury Bills	-	505,765
Borrowings from Banks	(31,352)	(52,691)
	(3,904)	494,338

ACCOUNTING POLICIES

1. General

The Financial Statements of the Bank comprising the Balance Sheet, Income Statement and Cash Flow Statement are prepared on the basis of historical cost convention and in conformity with the generally accepted accounting principles and the Sri Lanka Accounting Standards. These principles have been adopted consistently with that of the previous year unless indicated otherwise. No adjustments are made for inflationary factors.

2. Prior Year Figures

Certain prior year figures and phrases have been rearranged wherever necessary to conform to the current year presentation.

3. Investments

Investments comprises Treasury Bills, Treasury Bonds, Fixed Deposits, Debentures, Trust Certificates and Commercial Papers and are held to maturity and accounted for at cost or market value whichever is less.

4. Taxation

Provision for taxation is made on the basis of the profit for the year as adjusted for taxation purposes in accordance with the provision of the Inland Revenue Act No. 38 of 2000 and amendments thereto.

5. Depreciation of Fixed Assets

Fixed assets are depreciated on a straight-line method at the undermentioned rates. Depreciation is not charged in the year of purchase.

Type of Asset	Rate of Depreciation (%)
Motor Vehicles	25.00
Furniture & Fittings	12.50
Office Equipment	12.50
Computer Equipment & Calculators	25.00

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

6. Revenue Recognition

Interest income from Loans is recognized on an accrual basis subject to the directions issued by the Central Bank of Sri Lanka and accordingly accrued income on non-performing loans is not recognized as income.

7. Provision for Gratuity

I. Provision has been made for retirement gratuity payable to employees in terms of Payment of Gratuity Act No. 12 of 1983.

II. Defined Benefit Plan

Terminal benefits are provided for all employees (who complete one or more years of continuous service) at the rate of one-half of the basic salary, cost of living and all other allowances for the last month of the financial year, for each year of completed service. This provision is not externally invested.

8. Provision for Loan Losses

Both general or specific provisions have been made in terms of the directions issued by the Central Bank of Sri Lanka.

9. Advance to Customers

Carrying amount of advance to customers in the Balance Sheet is determined net of provisions for possible loan losses and also net of interest which is not accrued to revenue.

10. Error Correction Adjustments Relating to Previous Years

Adjustments were done to the profit and loss account balance as at 31st December 2007 in the Statement of Changes in Equity after incorporating the error corrections relating to all periods prior to 31st December 2007. Comparative figures of the previous year were adjusted to correct errors relating to the year 2008.

	Rs. '000
I. Adjustment to all periods prior to 31st December 2007	
Under Provision of Tax 2004/05/06/07	(125,486)
Over Provision of Tax 2003	8,512
Notional Tax 2003/04/05/06/07	31,819
Under Provision of VAT 2007	(26,968)
Deferred Tax Adjustment	(8,177)
Overstatement of Kandy Branch Loss 2006	1,679
Grant - Asian Development Bank	17,665
	(100,956)
II. Adjustments relating to previous year	
Under provision of Income Tax/ Deemed Dividend Tax	(37,613)
Over recovery of service charges	(3,570)
	(41,183)

11. Accounting for Government Grant (Asian Development Bank) Rs. 17,665,358.50

Grant received from Asian Development Bank had been shown in the accounts as other reserve until 31st December 2008. This amount has been recognized as income relating to previous years and adjusted in the Statement of Changes in Equity in accordance with Sri Lanka Accounting Standard 10.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December

	2009 Rs. '000	2008 Rs. '000
1. Income		
Gross Income	2,672,020	2,221,971
	2,672,020	2,221,971
Interest Income (Note 2)	2,635,854	2,101,981
Other Income (Note 4)	36,166	119,990
	2,672,020	2,221,971
2. Interest Income		
Loans and Advances	2,164,982	1,841,533
Government Securities	151,440	107,703
Placements with Other Banks	319,431	152,745
	2,635,854	2,101,981
3. Interest Expense		
Deposits	1,872,936	1,520,128
Interest paid on Debentures	6,250	6,250
Long-Term Borrowings	14,725	32,032
Short-Term Borrowings	44,805	77,890
	1,938,716	1,636,300
4. Other Income		
Dividend Income	1,179	339
Fee and Commission Income	33,465	114,846
Other	1,522	4,805
	36,166	119,990
5. Operating Expenses		
Operating Expenses include the following:		
Directors' Emoluments	600	870
Auditors' Remuneration	500	404
Depreciation	12,914	11,199
Donations	-	-
Advertising	26,102	29,873
Retirement Benefit Costs include:		
Defined Benefit Plan Costs - Gratuity	23,280	16,543
Defined Contribution Plan Costs - EPF/ETF	44,526	36,972

5.1 Transactions with Key Management Personnel (KMPs)

According to Sri Lanka Accounting Standard 30 (Revised 2005) - '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 (CFMs) have been classified as Key Management Personnel of the Bank.

5.1 (A) Compensation to Key Management Personnel

	2009	2008
Short-Term Employment Benefits	31,479	25,761
Post-Employment Benefits	17,630	14,531
Total	49,109	40,292

5.1 (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.

As at 31st December	2009	2008
a. Income Statement		
Interest Earned	818	577
Interest Paid	3,149	2,267
Payments made as shown in Note 5.1 (A)	49,109	40,292

As at 31st December	2009	2008
b. Balance Sheet		
Assets		
Loan and Advances	15,135	12,713
Liabilities		
Deposits	20,821	14,705

For the year ended 31st December	2009 Rs. '000	2008 Rs. '000
6. Tax on Profits on Ordinary Activities		
Taxation Based on Profits for the Year	50,184	29,659
Transfer to/from Deferred Taxation	(3,745)	–
(Over)/Under Provision in previous years	–	–
	46,439	29,659

Income tax on profits has been computed at the rate of 20% on the taxable income of the Bank.

For the year ended 31st December	2009 Rs. '000	2008 Rs. '000
7. Cash and Short-Term Funds		
Cash in Hand and Balances with Banks	27,448	41,264
	27,448	41,264

8. Treasury Bills and Other Securities Eligible for Rediscounting with Central Bank

	2009		2008	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
Treasury Bills	–	–	505,765	–
Treasury Bonds	724,660	–	197,443	–
	724,660	–	703,208	–

9. Government and Other Securities Held for Dealing Purposes

	2009		2008	
	Cost Rs. '000	Managers' Buying Price Rs. '000	Cost Rs. '000	Managers' Buying Price Rs. '000
Quoted				
Units				
Pyramid Unit Trust	5,000	5,000	5,000	5,000
	5,000	–	5,000	–
Provision for (Fall)/Increase in Value	–	–	–	–
	5,000	–	5,000	–

10. Placements with and Loans to Other Banks and Financial Institutions

As at 31st December	2009		2008	
	Cost	Market Value	Cost	Market Value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Commercial Papers	1,375,097	–	100,000	–
Trust Certificates	70,800	–	9,800	–
Treasury Bills Held under Resale Agreements	439,241	–	75,500	–
Fixed Deposits	200,000	–	–	–
Debentures	40,000	–	–	–
	2,125,138	–	185,300	–

11. Investment Securities

As at 31st December	2009		2008	
	No. of Shares	Cost Rs. '000	No. of Shares	Cost Rs. '000
	Unquoted			
Fitch Ratings Lanka Limited	62,500	625	62,500	625
Credit Information Bureau	8,885	4,754	6,783	678
	–	5,379	–	1,303

The unquoted investments are carried at Directors' Valuation. The Directors have valued above investments at cost in consistence with the previous year.

12. Loans and Advances

12.1 Customer Group Concentration of Loans and Advances

As at 31st December	2009 Rs. '000	2008 Rs. '000
Housing Loans	7,072,603	7,256,582
Housing Loans against EPF	6,006,431	5,618,618
Housing Loans against Deposits	338,565	253,789
Staff Loans	85,785	82,882
Other Loans	8,078	8,530
	13,511,462	13,220,401
Less: Loan Loss Provision	78,467	77,995
	13,432,995	13,142,406

12.2 Non-performing assets included in the loans and advances on which interest is not recognized are as follows:

As at 31st December	2009 Rs. '000	2008 Rs. '000
Loans and Advances*	5,578,250	4,210,022
Less: Loan Loss Provision	14,037	19,927
	5,564,214	4,190,095

* This consists of total receivable from non-performing advances included under the Loans and Advances.

13. Interest Receivable

As at 31st December	2009 Rs. '000	2008 Rs. '000
Interest Receivable	1,349,348	1,021,278
Less: Interest in Suspense	915,195	778,247
	434,153	243,031

14. Movements in Provisions for Loan Losses

	Specific Rs. '000	General Rs. '000	Total Rs. '000
As at 1st January	19,927	58,068	77,995
Recoveries of Advances written off in previous year	(5,890)	–	(5,890)
Provisions made during the year	–	6,363	6,363
As at 31st December	14,037	64,430	78,467

15. Other Assets

As at 31st December	2009 Rs. '000	2008 Rs. '000
Stationery Stock	3,368	5,649
Deposits and Prepayments	21,612	24,211
Others	26,683	127,914
	51,663	157,774

16. Property, Plant and Equipment

	Equipment and Furniture Rs. '000	Motor Vehicles Rs. '000	Total Rs. '000
Cost			
Balance at the beginning of the Year	79,395	24,429	103,824
Additions for the Year	10,355	5,661	16,016
Disposals/Adjustments during the Year	–	(628)	(628)
Balance at the end of the Year	89,750	29,462	119,212
Accumulated Depreciation			
Balance at the beginning of the Year	47,348	19,469	66,817
Charge for the Year	8,877	4,037	12,914
Disposals/Adjustments	–	(628)	(628)
Balance at the end of the Year	56,226	22,877	79,103
Net Book Value as at 31st December 2009	33,525	6,585	40,110
Net Book Value as at 31st December 2008	32,047	4,961	37,007

During the financial year, SMIB acquired Property, Plant and Equipment to the aggregate value of Rs. 16,016,478/- (2008 - Rs. 16,345,424/-).

As at 31st December	2009 Rs. '000	2008 Rs. '000
17. Deposits		
Savings Deposits	444,571	332,211
Time Deposits	11,905,650	9,842,558
	12,350,221	10,174,769
Deposits from Non-Bank (LCB/LSB Customers)	12,350,220	10,174,769
18. Borrowings		
Debentures	250,000	250,000
Government of Sri Lanka	250,000	250,000
Asian Development Bank	48,765	83,771
USAID	16,670	22,341
Affordable Housing Finance (Refinance)	102,912	113,105
	668,347	719,217

Terms of Borrowing

	Period	Grace Period	Details of Terms
Government of Sri Lanka	Not Specified	Not Specified	Not Specified
Asian Development Bank	15 yrs.	N/A	In instalments
USAID	20 yrs.	6 Months	Fixed instalment
Debentures	25 yrs.	5 yrs.	Payable in 3 instalments

19. Other Liabilities

As at 31st December

	2009 Rs. '000	2008 Rs. '000
Provision for Gratuity (19.1)	124,754	107,215
Income Tax and Deemed Dividend Tax	8,760	(3,595)
NSL, WHT and PAYE Payable	1,825	(99)
VAT and Debits Tax	(1,124)	46,666
Accrued Expenditure	1,092,453	829,392
Others	200,370	192,817
	1,427,038	1,172,396

19.1 Provision for Gratuity

	2009 Rs. '000	2008 Rs. '000
Balance at the beginning of the Year	107,215	99,717
Provisions made during the Year	22,783	16,543
Payments made during the Year	(5,244)	(9,045)
Balance at the end of the Year	124,754	107,215

20. Contributed Capital (By Government of Sri Lanka)

	2009 Rs. '000	2008 Rs. '000
Authorized Capital	2,000,000	2,000,000
Contributed Capital	889,813	889,813

As per the provisions of the State Mortgage & Investment Bank Law No. 13 of 1975 and amendments thereto, the authorized 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 deemed to be contributions to the capital of the Bank by the Government.

The Government after the appointed 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 in the above paragraph amounted to Rs. 889,812,899/- as at 31st December 2009.

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 whatsoever in or outside of the Democratic Socialist Republic of Sri Lanka and where such sums of money raised from the Government, they shall be charged on the Consolidated Fund.

21. Statutory Reserve Fund

As at 31st December

	2009 Rs. '000	2008 Rs. '000
Balance as at 1st January	108,592	106,422
Add: Transfers during the Year	3,675	2,170
Balance as at 31st December	112,267	108,592

22. Appropriation to General Reserves

	As at 31.12.2009 Rs. '000	As at 31.12.2008 Rs. '000
The following amounts are set aside as Reserves:		
General Reserve	-	-
	-	-

23. Commitments and Contingencies

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.

As at 31st December	2009 Rs. '000	2008 Rs. '000
a. Guarantees Issued	358	358
	358	358
b. Loans approved and to be released	326,785	332,570

c. Rs. 508,648/- was awarded to Mrs. S.P. Serasinghe as compensation. The Bank has appealed against this decision in the Court of Appeal.

24. The Events Occurring after the Balance Sheet Date

There have been no material event occurring after the Balance Sheet date that require adjustments to or disclosure in the Financial Statements.

25. Assets Pledged

No assets have been pledged as security for liability.

26. Related Party Transactions

State Mortgage & Investment Bank is a state-controlled enterprise. In the normal course of the 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 Party Disclosures'.

27. Directors' Interests in Contracts and Proposed Contracts

As per the State Mortgage & Investment Bank Law No. 13 of 1975, a Director who, or whose spouse or dependant 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 42 of this Report under Note 12.1 - Loans and Advances. The Directors of SMIB were not directly or indirectly interested in any contract with SMIB during the year ended 31st December 2009.

28. Maturity Analysis

An analysis of the interest bearing assets and liabilities based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is as follows:

	Less than 7 days Rs. '000	7 - 30 days Rs. '000	1 - 3 months Rs. '000	3 - 6 months Rs. '000	6 - 12 months Rs. '000	1 - 3 years Rs. '000	3 - 5 years Rs. '000	Over 5 years Rs. '000	Unclassified Rs. '000	Total Rs. '000
Total Assets	701,165	194,277	312,508	1,860,850	1,949,881	1,938,495	3,198,260	1,121,514	5,569,693	16,846,543
Cash	17,446	–	–	–	–	–	–	–	–	17,446
Due from Banks	10,002	–	–	–	–	–	–	–	–	10,002
Investment Current	339,241	6,000	11,500	1,405,524	1,047,533	–	40,000	5,000	5,379	2,860,177
Investment Non-Performing Loans and Advances Current	140,506	187,918	300,289	454,248	895,881	1,936,951	3,082,448	1,076,404	–	8,074,644
Loans & Advances NPL	–	–	–	–	–	–	–	–	5,564,314	5,564,314
Property, Plant & Equipment	–	–	–	–	–	–	–	40,110	–	40,110
Other Assets	193,970	359	719	1,078	6,468	1,544	75,812	–	–	279,950
Total Liabilities	269,608	2,003,881	2,591,951	3,340,940	3,287,881	982,427	387,523	1,611,935	2,359,580	16,846,546
Total Capital Funds	–	–	–	–	–	–	–	–	2,358,769	2,369,589
Deposits	234,650	1,573,323	2,498,769	3,145,490	2,773,212	818,546	325,637	979,783	811	12,350,221
Borrowings	34,958	1,708	1,568	22,169	25,425	98,339	20,384	495,147	–	699,698
Other Liabilities	–	428,850	91,613	173,281	489,244	65,541	41,503	137,005	–	1,427,038
Maturity Gap	431,557	(1,809,604)	(2,279,443)	(1,480,090)	(1,338,000)	956,068	2,810,736	(490,421)	3,210,113	–
Cumulative Maturity Gap	–	(1,378,047)	(4,089,047)	(3,759,533)	(2,818,090)	(381,931)	3,766,805	2,320,316	2,719,692	–

Significant Risks Associated with the Bank's Operations and Monitoring

The overall Risk Management is spearheaded by the Board of Directors directly and through Board subcommittees. The Board of Directors is provided with MIS and other related operating results and policies for management of risks. The Board subcommittees such as Audit Committee, Risk Management Committee, etc., engage in the risk and compliance in an extensive manner. The Risk Management Committee look into risks such as credit, interest rate, liquidity, operational while the Audit Committee covers accounting, financial, controls, procedures etc.

In addition to the Board subcommittees, the Credit Committee oversees the credit aspects such as credit policy, changes required for systems and procedures in the short- and long-term basis, credit strategies, recoveries, etc., while ALCO looks into fund mobilization, interest rate, liquidity risks, pricing of loans and deposits, maintenance of liquidity requirements, etc. The Management Committee reviews general operations and operational decisions. In addition, it reviews ALCO and Credit Committee decisions and proposes review, actions, etc., required.

The significant risks associated with Bank's operations are given below:

The Bank's operations are primarily associated with credit risk, interest rate risk, liquidity risk and operational risk.

Credit Risk

The major component of credit risk includes default risk, recovery risk, legal risk and exposure risk. The credit risk and its associated risks strongly and directly influence the Bank's operations and profitability as loans and advances represent the single major asset of the Bank.

The temporary defaults affect short-term cash flow while non-performing loans influence provisions and write off in the medium to long run. The maintaining of quality loans and advances is a key factor in the entire operations of the Bank. The skills and expertise of the Credit Officers to assess the customer creditworthiness, repayment capacity, etc., are key factors in maintaining quality of credit and the Bank takes conscious and continuous effort in developing skills and expertise in Credit Officers to evaluate credit proposals with integrity and accountability. The improvement of skills and expertise of the Internal Legal and Valuation Officers is also contributing to mitigate credit risk as it improves title examination, documentation and property valuations to establish quality of collateral which mitigates recovery risk.

The entire credit process is based on the credit policy established on the basis of the Bank's Risk Management policy.

The default risk is mitigated as a result of strict due diligence on well-developed credit policy and process applied for mortgage-based loans whereas the EPF loans are concerned, repayment of those loans are guaranteed by the CBSL.

The exposure risk is high as the Bank is operating in housing finance market segment only. However, since EPF loan portfolio is guaranteed by CBSL, the risk of that portfolio is minimized. For mortgage loans, the borrowers are from all sections of the society and scattered all over the country and thereby spread the risk geographically and income categories. The recovery risk is minimal due to mortgage loans being backed by property mortgages with adequate coverage while EPF loans are guaranteed by CBSL.

Frequent reviews of limits on borrowers, income assessment, industry, market, economy etc., are carried out at the Credit Committee (CC) periodically and issue short-term measures to be in line with the strategies and the annual action plans.

The regulatory guidelines of the Central Bank of Sri Lanka are strictly adhered in loan classification, interest suspension and loan classification.

The regular monitoring of default and probable default loans is closely monitored and more stringent measures are taken to achieve recovery targets in the annual budget.

Market Risk

Interest rate risk and the liquidity risks are the main forms of risks exposed by the Bank. The Bank predominantly operates in fixed interest rate scenario for its lending, while interest rates of the main source of funding, deposits are fixed to short term but subject to repricing more frequently depending on the market forces. Hence, risk is inherent from the unexpected market forces. The financing of long-term assets through strong equity base and medium- to long-term borrowings reduces the interest rate risk to a certain extent.

The loan agreements entered into with the borrowers provide for revision of interest rates of existing loan portfolio for which, the Bank in the past has revised its rates downward to offer concessions to its valuable long-tenured customers. For the first time in the Bank's history, the Bank has successfully revised its interest rates for existing loan portfolio upwardly to mitigate interest rate risk during the year under review.

The Bank is exposed to liquidity risk due to dependency on short-term deposits for long-tenure loan portfolio. This is also highlighted in the mismatch of assets and liabilities in the Bank. Actions have been taken to minimize the assets and liability mismatch by promoting relatively short-tenure loans and introducing deposit product with long-term maturity profile. The said actions were implemented during the period under review.

The Assets and Liabilities Committee (ALCO), the main body which decides lending and deposit rates that meets normally twice a month, met in the recent past more frequently due to environment that warranted as a result of volatile market conditions. The repricing of products is a result of ALCO decisions.

The Bank daily monitors its liquidity movements, advances, deposits, liquid assets, etc.

The Bank constantly takes steps to develop skills and expertise for the Treasury operations to develop more comprehensive money market operations.

Operational Risk

The operational risk exists as the Bank operates on internally-developed IT system. The continuous improvements to the system and additional controls introduced would mitigate operational risk substantially.

CAPITAL ADEQUACY

Introduction

The Minimum Risk-Weighted Capital required to be maintained by the Bank is laid down by the Central Bank of Sri Lanka and is consistent with the International Standard of BASEL Committee on banking regulation and supervisory practice.

Core Capital: Representing

Permanent shareholders' Equity and Reserve created or increased by the appropriation of retained Earnings or other surpluses.

Supplementary Capital

Representing the Revaluation Reserve, General Provision and Other Capital Instrument which combine certain characteristics of Equity.

Minimum Requirement

The Bank shall maintain minimum Capital Adequacy Standard to achieve a Risk-Weighted Asset Ratio of 10% with Core Capital constituting not less than 5%.

Rs. '000	31.12.2009	31.12.2008	Risk-Weighted Balance	
			31.12.2009	31.12.2008
Cash	17,446	29,069	-	-
Treasury Bills and Other Securities Eligible for Re-Discounting with Central Bank	724,660	703,208	-	-
Securities Purchased under Resale Agreement	439,241	75,500	-	-
Claims on Financial Institutions	1,696,276	109,800	843,298	54,900
Loans against Cash Deposit	338,565	253,789	-	-
Loans Guaranteed by CBSL	6,026,035	5,618,618	-	-
Secured by a Primary Mortgage over Residential Property	6,974,850	7,178,905	6,974,850	7,178,905
Other Loans and Advances	93,545	*	70,159	-
Due from Local Banks	10,002	12,195	2,000	2,439
Property, Plant and Equipment	40,110	37,007	40,110	37,007
Other Assets	485,816	501,379	485,816	501,379
	16,846,546	14,519,470	8,416,233	7,774,630

* According to the new CBSL classification these items are included in Other Assets.

	31.12.2009	31.12.2008
Core Capital (%)	25.29	27.81
Total Risk-Weighted Capital Ratio (%)	25.98	28.47

Basis of Computation

The Risk Weights assigned on Balance Sheet assets and compositions of capital are prescribed by the Central Bank.

Rs. '000	31.12.2009	31.12.2008
Paid-up Shares	889,813	889,813
Statutory Reserve	108,592	108,592
Published Retained Profit	687,660	745,015
General and Other Reserves	692,456	711,153
Total Tier-I Capital	2,378,521	2,461,747
General Provision	64,430	58,067
Capital Base	2,442,951	2,454,572

SOURCES AND UTILIZATION OF INCOME

Sources of Income

For the year ended 31st December

	2009 Rs. '000	2008 Rs. '000
Loans and Advances	2,164,982	1,841,533
Government Securities	470,872	260,448
Fee and Commission Income	33,465	114,848
Other Income	2,701	5,143
Total	2,672,020	2,221,972

Utilization of Income

Employees

Salaries and Other Payments to Staff	354,104	303,622
--------------------------------------	---------	---------

Suppliers

Interest Paid	1,938,716	1,636,300
Other Expenses	259,270	231,364

Government

Corporate Taxes	46,439	29,659
Deemed Dividend Tax	51,120	29,659
Payments to Consolidated Fund	50,000	–
Retained Profits	(27,629)	(8,632)
Total	2,672,020	2,221,972

TEN YEAR SUMMARY

Rs. million

Year ended 31st December	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Income Statement										
Interest Income (Gross)	2,636	2,102	1,532	1,379	1,213	1,233	1,305	1,369	1,390	1,146
Interest Expenditure	1,939	1,636	1,002	608	468	468	596	803	796	559
	697	466	530	771	745	765	709	566	594	587
Other Operating Income	36	120	39	47	28	31	23	19	23	24
	733	586	569	818	773	796	732	585	617	611
National Security Levy	N/A	N/A	N/A	N/A	N/A	N/A	N/A	53	102	75
Non-Interest Expenses	612	535	445	500	359	414	304	218	195	199
Net Profit before Tax	120	51	124	318	414	382	428	314	320	337
Taxation	46	30	41	105	102	54	85	57	116	130
Net Profit after Tax	74	21	83	213	312	328	343	257	204	207
Assets										
Investment Securities	5	1	1	1	1	1	1	1	1	1
Loans and Advances	13,433	13,142	10,995	9,488	8,475	8,079	7,193	7,757	7,480	7,135
Other Assets	3,368	1,336	1,219	679	663	770	963	1,534	720	507
Property, Plant and Equipment	40	37	37	30	31	22	27	16	27	19
	16,846	14,516	12,252	10,198	9,170	8,871	8,922	9,308	8,228	7,662
Funds Employed										
Capital Contributed	890	890	890	890	890	890	890	890	890	890
Reserves	1,480	1,507	1,634	1,597	1,507	1,461	1,337	1,117	1,022	920
Liabilities										
Deposits	12,350	10,174	7,517	5,663	4,690	4,605	4,922	5,658	4,615	3,979
Debentures	250	250	250	250	250	-	-	-	-	500
Other Liabilities	1,694	1,679	1,960	1,798	1,833	1,914	1,773	1,643	1,701	1,373
Ratios										
Return on Average Assets - NPBT (%)	0.77	0.38	1.11	3.28	5.42	4.29	4.70	3.58	3.83	4.35
Return on Average Funds Employed (%)	3.06	0.88	3.32	12.78	13.14	14.33	16.20	13.26	11.24	12.11
Number of Employees (No.)	320	328	345	349	304	311	319	322	326	328
Net Profit per Employee	0.38	0.16	0.36	0.91	1.61	1.23	1.34	0.98	0.98	1.03
Statutory Reserve Fund	112.26	108.59	106.42	102.26	91.60	75.98	59.51	42.00	29.00	19.00
Advances to Deposits (Times)	1.09	1.36	1.46	1.68	1.80	1.75	1.61	1.37	1.62	1.79
Interest Cover (Times)	1.06	1.03	1.12	1.52	1.88	1.82	1.72	1.39	1.40	1.60
Debt Equity Ratio (Times)	0.28	0.30	0.48	0.53	0.48	0.50	0.51	0.44	0.45	0.34
Equity Assets Ratio (Times)	0.14	0.17	0.21	0.24	0.26	0.27	0.25	0.22	0.23	0.24
Total Assets per Rupee Contributed	18.93	16.31	13.69	10.30	10.30	9.97	10.02	10.46	9.24	8.61
Effective Deemed Dividend Rate	5.74	3.33	2.34	10.96	10.74	6.19	8.11	7.66	5.94	6.80
Deemed Dividend Cover	1.44	0.71	4.00	2.18	3.26	5.95	4.76	3.77	3.86	3.42
Our Contribution to the Nation										
Deemed Dividend Tax	51.12	29.65	20.82	97.49	95.64	55.12	72.21	68.17	52.90	60.54
Payments to Consolidated Fund	50.00	-	25	25	126	150	50	100	50	25

VALUE ADDED STATEMENT

Sources of Value Added

For the year ended 31st December

	2009 Rs. '000	2008 Rs. '000
Interest Income	2,635,854	2,101,981
Other Income	36,166	119,991
Total	2,672,020	2,221,972
Interest Expenses	(1,938,716)	(1,636,300)
Cost of Services	(245,884)	(221,309)
(Provision)/Reversal for Bad and Doubtful Debts	(472)	1,144
(Diminution)/Appreciation for Fall in Value of Investments	–	–
	486,948	365,507

Distribution of Value Added

For the year ended 31st December

	2009 Rs. '000	%	2008 Rs. '000	%
To Employees				
Salaries and Other Benefits	354,104	73	303,622	83
To Government				
Corporate Taxes	46,439		29,659	
Deemed Dividends Tax	51,120		29,659	
Payment to Consolidated Fund	50,000		–	
	147,559	30	59,318	16
To Expansion and Growth				
Depreciation	12,914	3	11,199	3
Retained Profits	(27,629)	(6)	(8,632)	(2)
	486,948	100	365,507	100

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

Registered Office

No. 269, Galle Road, Colombo 3, Sri Lanka

Head Office

No. 269, Galle Road, Colombo 3
Telephone: 011-2573561, 011-2573347, 011-2573568

E-mail: gm@smib.lk

Fax: 011-2573346

Web Address: www.smib.lk

Head Office Branch

No. 269, Galle Road, Colombo 3

Telephone: 011-2573561,

E-mail: both@smib.lk

Fax: 011 -2573346

Kandy Branch

No. 61, 1st Floor, King's Street, Kandy
Telephone: 081-2222819, 081-4471826

E-mail: kndb@smib.lk

Gampaha Branch

No. 232, Colombo Road, Gampaha
Telephone: 033-2221316, 033-2221317

E-mail: gmpb@smib.lk

Galle Branch

No. 50, 1st Floor,

Havelock Road, Galle

Telephone: 091-2246788

E-mail: glb@smib.lk

Kurunegala Branch

No. 21, 1st Floor,

Athula Cooray Building,

Dambulla Road, Kurunegala

Telephone: 037-2231234

E-mail: krgb@smib.lk

Matugama Branch

No. 38, Kalutara Road, Matugama

Telephone: 034-2243713

Fax: 034-2243714

E-mail: mtgb@smib.lk

Chilaw Branch

No. 5A, Edmond Peiris Mawatha, Chilaw

Telephone: 032-2223996

E-mail: chwb@smib.lk

Matara Branch

No. 45/A/1/1, 1st Floor,

Anagarika Dharmapala Mawatha, Matara

Telephone: 041-2222204

E-mail: mtrb@smib.lk

Battaramulla Extension Office

No. 108, Main Street, Battaramulla

Telephone: 011-2882144

Kiribathgoda Extension Office

No. 63, Kandy Road, Kiribathgoda

Telephone: 011-2908833

Kegalle Extension Office

No. 82, Main Street, Kegalle

Telephone: 035-2222877

Horana Extension Office

No. 45, Ratnapura Road, Horana

Telephone: 011-5740931-2

Ambalanthota Extension Office

No. 122, Main Street, Ambalanthota

Telephone: 047-5677818

Board of Directors

Mr. Thimira Rajapaksa - Chairman

Mr. A.M. Mohideen

Mr. D. Weerasekera

Mr. N. Diddeniya

Mr. M.S.M. Zuhair

Mr. P.W. Kodippili

Mr. P.G.R.U.B. Higgoda

Mr. W.N. Abeysiri Perera (Observer)

Mrs. C. Wijewardena

Mrs. M.P.E. Rukmanie

Acting General Manager

Mrs. I. Wimalasena

Board Secretary

Mrs. P.A.C.K. Amarasinghe

Audit Committee

Mr. P.W. Kodippili

Mr. M.S.M. Zuhair

Mrs. C. Wijewardena

Mrs. M.P.E. Rukmanie

Mr. W.N. Abeysiri Perera

Auditors

Auditor General

Auditor General's Department, Colombo 7

Principal Lines of Business

Provision of housing finance,
agriculture and industrial credit
mobilizing term and saving deposits
corporate investments



State Mortgage & Investment Bank

No. 269, Galle Road, Colombo 3, Sri Lanka.

www.smib.lk
