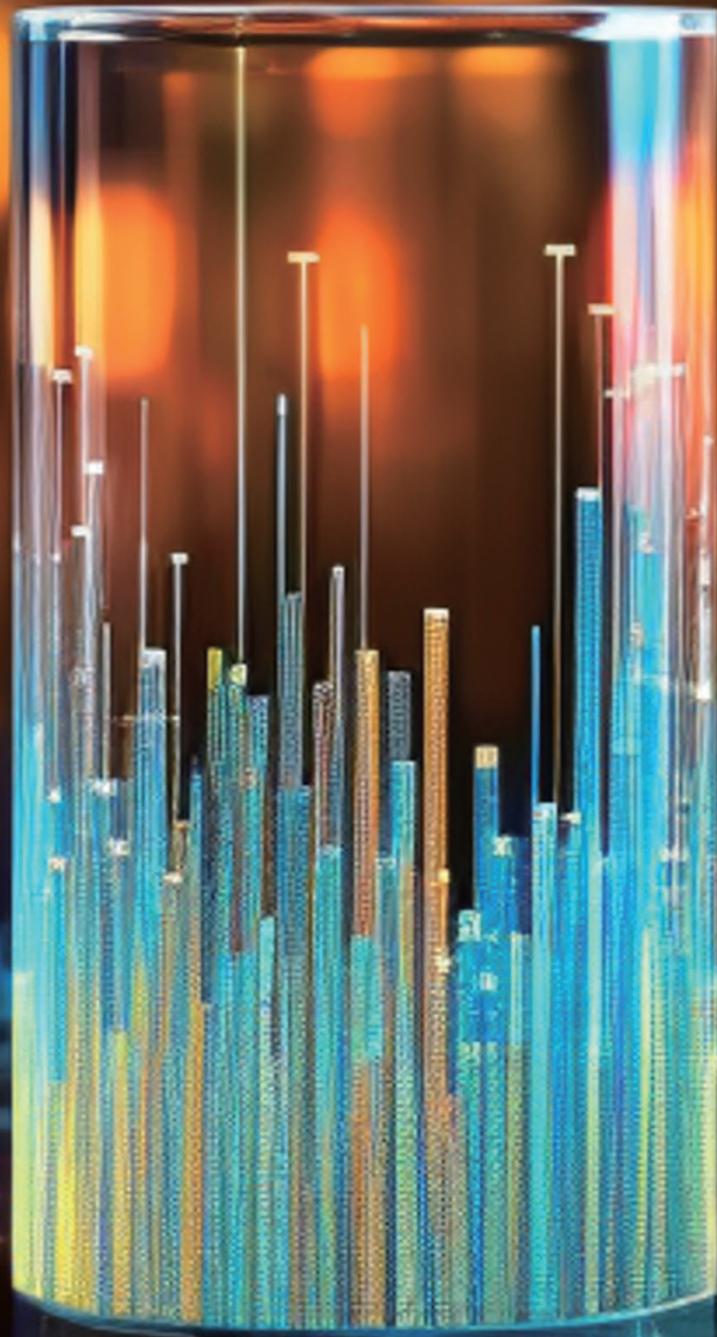


BRIDGING DREAMS WITH TECHNOLOGY



2024

ANNUAL REPORT



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Bridging Dreams with Technology



As technology continues to revolutionize the financial industry, we are committed to harnessing its power to create a seamless, inclusive, and future-ready banking experience. By integrating cutting-edge digital solutions, we are not only bridging gaps in financial accessibility but also empowering individuals and businesses to achieve their dreams with confidence.

From AI-driven customer support to fully automated onboarding and real-time digital transactions, our transformation goes beyond convenience it redefines the way banking connects with people's lives. By breaking down geographical and social barriers, we are shaping a future where financial empowerment is just a click away, making banking smarter, faster, and more accessible than ever before.



CORPORATE PROFILE

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

Business partners: We will offer best returns for best investment with solid security and flexibility.

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

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

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

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



Vision

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



Mission

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



Corporate Value

What we stand for

- We act with integrity and show respect
- We exhibit professionalism and excellence in all what we do
- We work with dedication and accept accountability for our own actions
- We display openness and strive for teamwork
- We solicit innovative ideas and proactive solutions
- We have hunger for learning and passion for growing with the bank

FINANCIAL HIGHLIGHTS

	2024 Rs. Mn	2023 Rs. Mn	Change %
Interest Income	7,591	9,324	-18.59%
Interest Expenses	(5,392)	(8,733)	-38.25%
Net Interest Income	2,198	591	271.98%
Profit before Tax	158	(1,165)	113.56%
Taxation	(126)	162	-177.78%
Profit after Tax	32	(1,003)	103.19%
Investment in Government Securities	6,030	10,256	-41.20%
Loans and Advance Net	41,730	38,603	8.10%
Total Assets	55,668	59,067	-5.75%
Customer Deposits	48,161	52,138	-7.63%
Borrowings	141	179	-21.34%
Stakeholders' Fund	5,420	5,454	-0.62%
Ratio Analysis			
Profitability Level	%	%	%
Net Interest Margin	3.83%	1.02%	276.19%
Return on Equity (ROE)	0.59%	-16.82%	103.50%
Return on Assets (ROA)	0.28%	-2.01%	-113.72%
Capital Adequacy			
Equity / Total Assets	9.74	9.23	5.45%
Equity / Loans & Advances	12.99	14.13	-8.07%
	Basel (III)	Basel (III)	
Tier 1	19.28%	18.81%	2.52%
Tier 1 & 11	19.28%	18.89%	2.06%
Liquidity			
Liquidity Coverage Ratio	104.79	175.14	-40.17%
Loans and Advances /Deposit	86.65%	74.04%	17.03%
Borrowings/Loans and Advances	0.34%	0.46%	-27.24%
Rating			
Asset Quality			
NPL/Loans and Advances	29.13%	23.07%	26.27%
NPL Excluding EPF	17.07%	13.54%	26.07%
Loans and Advance to Total Assets	74.96%	69.42%	7.98%

FINANCIAL REVIEW: 2024

State Mortgage and Investment Bank (SMIB) demonstrated impressive performance in 2024, reflecting its strategic focus on resilience and recovery in response ease of tight market conditions evident by a gradual reduction in headline inflation, the AWPLR, yield on government securities, and policy rate cuts—SMIB made notable strides in revitalizing the economy. The bank successfully navigated growing appetited in privet sector credit demand driven by gradual reduction of cost of funds, embracing of new cutting-edge technology and fostering a performance-based culture. These efforts significantly contributed to the bank's strong recovery and improved performance during the year.

Negative bottom line incurred in 2023 turned into a profit of Rs. 32 million in 2024 despite of significant increases in the other operating expenses, 21% salary increased granted to employees as per collective agreement and additional cost incurred on implementation of new status of technology was main contributing cost element for such surge. The bank has strong confidence that on such investments will boost overall performance in coming years. Unstable political situation persisted in the first half of the year has been turned into stable political atmosphere soon after electing on new president and strong parliament, the strong government and decision on continue with IMF program illustrated steady recovery in the economy showcase in the finalizing of external debt restructuring program, acceleration of credit demand in the privet sector, stable exchange rate position, recorded GDP growth than anticipated, improvement of all macroeconomic variables .

The notable 8% growth in SMIB's loan portfolio against recorded private sector growth of 8.2% reflects its ability to strengthen relationships with existing customers while attracting new clients through innovative products. This growth was supported by the expansion of its loan offerings and a focused strategy to meet the needs of individual and business clients across Sri Lanka. A significant highlight of SMIB's financial performance in 2024 was the 38% reduction in interest expenses, from Rs. 8.7 billion in 2023 to Rs. 5.4 billion in 2024. The renegotiation and refinancing of its funding arrangements to lower interest rates significantly improved the bank's bottom line, underscoring the importance of controlling funding costs as a core element of its overall strategy. Another key achievement was the improvement in the Net Interest Margin (NIM), which grew from 1.02% in 2023 to 3.83% in 2024. This increase of 2.06% reflects the optimization of loan pricing, improved asset-liability management, and a

more favorable interest rate environment in the latter part of the year.

2024 was a year of significant recovery and growth for SMIB, despite numerous challenges such as intense competition from market leaders, which made rapid expansion difficult, and improvement in macro-economic variable including sharp appreciation of exchange rates and slowdown of inflationary pressures. Additionally, excess liquidity and ease of credit conditions across the banking sector. SMIB adapted effective strategy to reduce overall cost of deposit while managing liquidity to cushion to accelerated credit growth. The bank not only achieved remarkable financial performance compared to the previous year's loss, but it also grew its loan portfolio diversified its product offerings, and improved its net interest margin than anticipated. With a strong foundation in place and a clear strategy for future growth, SMIB is well-positioned to continue its positive trajectory in the years ahead, contributing to Sri Lanka's broader economic recovery while enhancing value for its stakeholders.

The bank plans to continue diversifying its product offerings and expanding into emerging markets such as digital banking, which will enable it to better serve tech-savvy customers. The ongoing recovery in Sri Lanka's economy presents opportunities for growth, and SMIB is poised to capitalize on these through its focus on sustainable, responsible lending practices. The bank will also continue to prioritize operational efficiency, cost control, and effective interest rate management as part of its strategy to improve profitability and maintain a strong financial position.

ANALYSIS OF INCOME STATEMENT

Income Statement Summary

Indicator	2024 Rs. Mn	2023 Rs. Mn	Change %
Interest Income	7,591	9,324	-19%
Total Operating Income	2,780	867	221%
Profit/(Loss) before Tax	158	(1,165)	114%
Profit After Tax	32	(1,003)	103%

INTEREST INCOME

The total interest income has declined from Rs. 9,324 million to Rs. 7,591 million, reflecting an overall decrease. However, interest income from loans and advances has seen a positive shift, rising by Rs. 473 million, (by 8%) compared to 2023. This increase

is attributed to the 8% growth in the loan portfolio, which has contributed positively to the overall income. On the other hand, interest income from investments has dropped significantly by Rs. 2.2 billion, (by 59%), primarily due to a 40% reduction in the investment portfolio coupled with a decrease in market interest rates. This sharp decline highlights the negative impact of both a smaller portfolio and less favorable market conditions on income from investments.

NET INTEREST INCOME

The Net Interest Income has revealed a remarkable growth of 272% compared to last year, primarily driven by a significant reduction in interest costs. The interest expense has decreased from Rs. 8.7 billion in 2023 to Rs. 5.4 billion, marking a 38% reduction. This reduction in interest expense demonstrated the effective management and control over the deposit base throughout the year, allowing the bank to lower its cost of funds. By strategically managing its interest obligations, the bank has been able to significantly enhance its Net Interest Income, reflecting improved operational efficiency and better cost control in a challenging economic environment.

NON-INTEREST INCOME

Non-interest income, comprising fee and commission income, net gain/loss from financial investments, and other operating income. The bank's non-interest income has shown a significant improvement, driven by several key factors. Fee and commission income grew by 79%, primarily due to revised charges implemented during the year. Additionally, the fair value of financial assets contributed to a 140% increase in other income, driven by favorable price movements in unit trusts. 42% increase in both dividend income and sundry income, further enhanced the bank's non-interest income.

TOTAL OPERATING INCOME

The total operating income has experienced a substantial increase of 221%, driven by several key factors. A significant reduction of 38% in interest expense has played a pivotal role, reflecting effective cost control over the deposit base and improving profitability. Additionally, a 114% rise in other income, fueled by increases in fee and commission income, dividend income, and gains from financial investments, further boosted overall income. The growth in loan income by 8%, attributed to an expansion of the loan portfolio by Rs. 3.6 billion, also contributed to the positive performance.

PROFITABILITY

The bank has demonstrated remarkable profitability growth in 2024, with Profit Before Tax (PBT) rising by 114% and Profit After Tax (PAT) increasing by 103%

compared to the previous year. The increase in Net Interest Income, driven by strategically managing its interest obligations, has significantly enhanced the bank's profitability, reflecting improved operational efficiency and better cost control in a challenging economic environment. The growth in other income has also contributed to the increase in PAT, highlighting strong revenue generation outside of traditional interest income and indicating a diversified and robust income stream for the bank. Furthermore, a 4% reduction in impairment charges, due to effective recovery controls, has further supported the overall profitability, underscoring the bank's strong operational efficiency and risk management practices.



CONTRIBUTION TO THE NATION

As the oldest bank in the nation, SMIB remains dedicated to contributing to the development of the country. In addition to maintaining required Liquidity and Capital Adequacy Ratios mandated by the Central Bank of Sri Lanka, the bank actively supports national development through various means, contributions to the National Insurance Trust Fund, alongside fulfilling tax obligations.

In 2024 alone, Bank made a significant contribution to the government, paying a total of Rs. 166.24 million in taxes such as VAT and Social Security Levy. These financial contributions underscore the bank's commitment to both its shareholders and the broader community, reinforcing its role as a key player in the nation's economic growth and stability.

Description	2024 Rs. Mn
Value Added Tax (VAT)	146.14
Social Security Levy (SSCL)	20.1

ANALYSIS OF FINANCIAL POSITION ASSETS

In 2024, the bank reported a marginal decline in its total assets amounting to Rs. 55,668 million. This decline was primarily driven by a significant reduction in the investment portfolio, which saw a decrease of

Rs. 6.5 billion, (by 42%). The bank strategically utilized this reduction to settle high-cost funds, thereby reducing its interest expenses and contributing to the overall profitability. This targeted approach not only helped in improving the bank's cost structure but also strengthened the resilience of its balance sheet. By focusing on optimizing asset allocation, the bank has positioned itself favorably for future growth and stability.

LOANS AND ADVANCES

Despite a 6% decrease in total assets, the bank's total loan portfolio increased by Rs. 3.6 billion, marking a 8% growth compared to the previous year. This increase can be attributed to various factors, including shifts in credit demand and strategic lending decisions. Notably, there was a significant rise in credit demand, particularly from the Employee Provident Fund (EPF) and retail credit lines, which contributed to the overall growth. SMIB also maintained a well-diversified loans and receivables portfolio across multiple industry sectors, highlighting its prudent risk management practices and strategic approach to lending. This diversification helped mitigate risk while capitalizing on emerging credit opportunities, contributing to the bank's overall growth during the period.

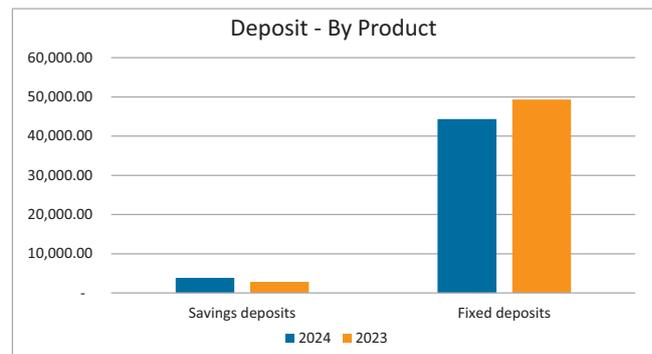
By product	2024 Rs. Mn	2023 Rs. Mn
Mortgage	10,881.11	10,179.55
EPF	13,938.72	8,857.46
Staff loans	149.61	1,208.08
Personal Loans	17,669.14	19,295.36
Others	2,404.17	1,864.19
Total	45,042.75	41,404.64

LIABILITIES

Similar to the decrease in total assets, the bank's liability portfolio also reduced by 6% compared to the previous year. Total liabilities stood at Rs. 50,248 million, reflecting a significant 6.28% decrease from 2023. This reduction was primarily driven by amendments to the bank's funding arrangements, aimed at maximizing profitability. By restructuring its liabilities, the bank was able to reduce high-cost borrowings, which in turn led to lower interest expenses. This strategic move not only helped improve the bank's net interest income but also positively impacted its interest margins, contributing to overall financial performance. The decrease in liabilities, therefore, reflects effective cost management and a focus on enhancing profitability through more efficient funding strategies.

DEPOSIT BASE

Total deposits, encompassing savings deposits and fixed deposits, amounted to Rs. 48,161 million, representing a significant decrease of 7.63% compared to the previous year. The decrease in the bank's deposit base was a strategic decision aimed at increasing profitability. By reducing the deposit base, the bank effectively lowered its interest-bearing liabilities, resulting in a reduction in interest expenses. This decline in interest expenses, coupled with better management of high-cost deposits, enabled the bank to improve its net interest income and expand its interest margins. The decision to decrease the deposit base may also have been part of a broader strategy to optimize funding sources and reduce reliance on high-cost deposits, leading to a more efficient cost structure. Ultimately, this reduction in deposits contributed to a more favorable financial position, enhancing the bank's profitability while maintaining a strong balance sheet.



LIQUIDITY COVERAGE

As a licensed specialized government bank (LSB) of the Democratic Socialist Republic of Sri Lanka, State Mortgage and Investment Bank (SMIB) is mandated to adhere to a minimum Liquidity Coverage Ratio of 100%, in accordance with the regulations stipulated in Section 86 of the Banking Act, No. 30 of 1988. Moreover, aligning with Basel III standards, SMIB diligently maintains liquidity resilience through the Liquidity Coverage Ratio (LCR), ensuring ample unencumbered high-quality liquid assets to meet liquidity needs in a 30-calendar-day stress scenario. By the end of 2023, SMIB's LCR stood at a reassuring 104%, exceeding the statutory minimum requirement of 100%.

Additionally, the bank maintained strong accessibility to stable funding, as outlined by the Central Bank of Sri Lanka (CBSL), with the net Stable Funding ratio (NSFR) reaching 108% as of December 31, 2024, significantly surpassing the minimum requirement of 100%. These metrics underscore SMIB's unwavering commitment to regulatory compliance and prudent liquidity management, safeguarding the stability and resilience of its operations in supporting the nation's financial landscape.

**Integrity,
Innovation
and
Sustainable
Growth
with New
Technology**



CHAIRMAN'S MESSAGE



“Integrity, innovation and sustainable growth will be the SMIB’s constant companions in its journey into the future, which, we are confident, will be bright, meaningful and sustainable.”

It is my pleasure to present to you the Annual Report and the Audited Financial Statements of the State Mortgage and Investment Bank for the financial year 2024. Although there was less volatility both politically and economically than in the previous year, the challenges pertaining to recovery remained formidable, and the Bank demonstrated remarkable fortitude and strategic acumen in sustaining growth and creating value for stakeholders, ensuring in particular that the burdens are not transferred to clients, most of whom are among the most vulnerable segments of society.

A Frugal, Cautious and Determined Financial Landscape

The year 2024 was characterised by efforts to build on the recovery efforts of the previous year following the worst economic debacle the country has seen in recent times. The implementation of the economic reforms programme, admittedly under difficult circumstances, slowly but surely began to pay dividends, especially in the second half of the year.

The growth momentum persisted as the economy registered a healthy 5.5% expansion in the third quarter of 2024, largely due to the expansion in the industrial sector even though the returns of the services and agricultural sectors were modest. Meanwhile, the downward revisions of energy prices helped continued deflation, although headline inflation remained below targets due to downward adjustment in electricity and water tariffs as well as reduced fuel prices.

In another sign of recovery, market liquidity remained at surplus levels, with currency in circulation increasing due to seasonal demand during the third quarter. Short term market interest rates adjusted downwards, in response to the easing of monetary policies; this has offered some comfort and has enhanced the sense of certainty in livelihoods and business activities.

The easing of the Central Bank's policy rate, coupled with the gradual decline in interest rates on government securities, resulted in continuous downward pressure on the Average Weighted Prime Lending (AWPL) rate, fostering growth in credit to the private sector.

Vigilance to Safeguard Stakeholder Interests

Extremely cognisant of the fact that although the worst of the economic crisis may have passed and the road ahead remains littered with obstacles and even traps that can snare the unwary and imprudent, the SMIB placed a high value of vigilance of potential risks as it strived to relentlessly safeguard the interests of all stakeholders, from customers to shareholders and employees.

While the robust risk-management framework and proactive governance structures necessitated by the crisis continued to strengthen the industry's foundation, the Bank, tempered by hardship and empowered by lessons learned, reaffirmed its commitment to drive growth and stability in an economic landscape that was recovering but was as yet quite a distance away from the kind of stability required for sustained progress.

The SMIB which demonstrated considerable resilience to mitigate uncertainty and volatility in the aftermath of the economic turbulence of 2022, performed modestly in 2024 but displayed progress in critical operational pillars, particularly the migration to the new core banking system.

The Bank succeeded in maintaining solid liquidity buffers and retain a strong capital position during the year under review. The Bank's key liquidity and capital adequacy ratios, including the Liquidity Coverage Ratio (LCR), stood at 104% and the Net Stable Funding Ratio (NSFR) at 108%, while the Tier 1 Ratio and Total Capital Ratio were at 19.28% and 19.28% respectively. These figures are indicative of the Bank's prudential management practices that ensure adequate liquidity and capital reserves as insurance against the vagaries that could result in a less an ideal financial climate.

The Bank, as always, prioritised the financial requirements of its diverse clientele, including small and medium-sized enterprises (SMEs) and micro, small, and medium-sized enterprises (MSMEs), taking into consideration challenges they continued to face during this period of gradual economic recovery.

Although economic uncertainty abated, the Bank nevertheless had to contend with the issues of competition, non-performing loans and cost management and did so with conservative and prudent strategic approaches. The capacity to support the clientele as well as the foundation for future growth and prosperity were strengthened during this period. The business strategy continued to focus on four key areas: prudent liquidity management, efficient NPL and impairment management, cost optimisation and increasing earnings from loans and advances as well as investment activities.

Meanwhile the Bank adhered to prudent risk management practices with a close eye on market dynamics. The policy framework placed high value on financial resilience and customer centricity even as the Bank strived for continuous and sustainable improvement. Consequently, the Bank has positioned itself, to expeditiously capitalise on emerging opportunities.

Productive Quality Management

The transition from the Legacy System to a Core Banking System was carried out seamlessly and within the scheduled time frame, a significant achievement for the bank. The new system has removed one of the key barriers to transforming the bank into a fully digital platform.

This new system enables streamlining of internal processes, enhancing the Bank's ability to deliver efficient services to its customers. In addition, the Bank continues to enhance its digital footprint by recognizing the growing demand for digital banking transactions. In this regard, the bank will plan to develop various digital channels including mobile apps, online platforms, and contactless payments. During the year 2024 with a view to supporting ongoing operations, the Bank concentrated on maintaining financial resilience through ensuring ample liquidity as per the regulatory standards.

The full implementation of the KPI system is another notable achievement in terms of optimising the efficiency of the Bank's human resources.

Financial performance during 2024 was mixed but there were significant positive developments. For example, the Bank achieved a persistent reduction in the cost of funds, succeeding to lower it from 14.43% to 8.9% by the end of the year. Moreover, the Bank recorded an 8% growth in net loans for the year, which exceeded the industry growth rate 4.56%.

I am pleased to inform you that the Bank made every effort to address the challenges it faced while ensuring sustainable progress. At no time did we forget the difficulties encountered by our clientele, particularly within the deposit and loan segments. Through a collaborative and prudent approach, targeted measures were implemented to support these segments through challenging times.

Upholding Governance and Risk Management

We remain committed to maintaining the highest standards of corporate governance in building trust and integrity amongst our stakeholders, ensuring both accountability and transparency. In this regard, the Bank was fully compliant with all required corporate governance standards, including statutory requirements. In pursuit of further enhancement, the Bank conducted a thorough review of its governance framework during the year, with a view to obtain full alignment with global best practices.

We worked on building a stronger and closer dialogue between the Board and Management through the effective use of committees, and envision continued incorporation of global best practices as we seek to inculcate and initiate a strong control and governance mind-set and framework where robust decision-making processes priorities the long-term interests of our stakeholders.

The Bank recognised the need to review its Risk Management practices and processes in light of unprecedented and unexpected developments in both the global and domestic economic landscapes. This includes the frequent monitoring and running of scenarios to ensure that the Bank is protected from possible adverse effects of the same.

Finally, the Bank expended extensive efforts with regard to IT and cyber security areas that have evolved to be of increasing relevance for both financial institutions and regulators. Information security, data privacy and governance have been identified as important areas of concern and have been duly prioritised.

Commitment to sustainability

The steadfast commitment to sound governance and proactive risk management has strategically positioned SMIB to traverse the complexities of the financial landscape while delivering sustainable value to our stakeholders.

Sustainability is now embedded in the Bank's core values that drive actions towards building a more inclusive and resilient future. Recognising the interconnectedness of environmental, social, and governance (ESG) factors, sustainability has been duly woven into the fabric of the Bank's operations, ensuring that it is integral element in every aspect of the Bank's business.

Inclusive banking and community resilience remain the core foundation of our ESG and development goals. To further enhance our impact, we have diligently worked to strengthen and create structures that facilitate far-reaching and enhanced sustainability across all our endeavors.

These efforts have to be understood against efforts to put behind the economic crisis and the political instability which served to emphasize the country's vulnerability and the pressing need for adaptive capacity, particularly in energy and food security. Now, with a significantly more stable economy, the Bank has an even more significant role to play in mobilizing sustainable finance resources to support the country's development aspirations.

The Bank continues to engage effectively with clients and stakeholders to facilitate sustainable recovery, leveraging expertise and resources to promote long-term resilience. We will continue to uphold our steadfast commitment to sustainable finance, adopting focused strategies to drive growth aligned with the Bank's environmental and social objectives.

We will also continue to seek collaboration with development agencies and partners to access technical assistance and enhance our solutions and value propositions. We are confident that harnessing the power of sustainable financial resources, will enable a more robust and meaningful contribution to the agenda of sustainable development and consequently contribute significantly in creating a more prosperous and equitable future for all.

Way Forward

The Bank has never shied away from challenges. We have always opted to understand challenges as opportunities for better, more efficient and sustainable ways of doing business.

We will certainly reflect back on the journey we've undertaken, embark on course-correction where necessary, be prudent when we have to and, as always, move ahead with a sense of purpose and with utmost determination. We will spare no efforts to re-scrutinize meticulously our strategies even as we channel our innovative energies to thrive in a dynamic environment marked by evolving needs, relentless creating value for our stakeholders.

We will act with utmost fidelity to our statutory mandates, especially in not just serving the SME, MSME and cooperative clientele, but deepening our impact and broadening our reach. Increased penetration and meticulous cost efficiency, we are certain, will contribute towards enhancing the value proposition for our clients.

We look forward to the coming year with optimism as we expend effort to consolidate our cooperative partnerships while exploring opportunities in adjacent markets to further expand our footprint. The digital drive, of course, will remain at the forefront of our transformational strategy. We are confident that strategic investments and innovation will enable us to leverage digitally enabled solutions to drive operational efficiency and enhance customer experiences. Our focus on smart growth, which reflect our commitment to quality over quantity, will certainly enable us to adopt lean strategies and conduct scenario-based risk assessments with regard to the anticipation and mitigation of future challenges.

Integrity, innovation and sustainable growth will be the Bank's constant companions in its journey into the future, which, we are confident, will be bright, meaningful and sustainable.

Our thanks

We record with a degree of satisfaction and as a reason for renewed hope, that our clientele has understood and appreciated many of the cost-effective financing options we have developed. We place the highest value on their loyalty and continued trust and we are immensely grateful for the same.

The Board of Directors has consistently offered sound advice and unwavering support during the year under review and I am grateful for the guidance they have given. I would like to thank Minister of Finance whose advice was invaluable. I am similarly grateful to the Deputy Minister of Finance and Planning, Secretary, Ministry of Finance, the Governor of the Central Bank of Sri Lanka, all officials of these institutions, the Attorney General and the Auditor General for their support, advice and assistance accorded to the Bank.

While we have encouraged our employees to enhance their skills and indeed have provided opportunities for training, they have, in return, worked tirelessly to generate envisaged outcomes. The bank continues to work towards ensuring an inclusive and inspiring workplace for the employees to excel, develop skills and feel truly belonged, and will always strive to attract, nurture and retain the talent it needs in the drive towards excellence. The Bank, in a sense, is its contingent of employees and I am proud of the personnel who have made us who we are and will play a crucial role as we move forward. I place on record my immense gratitude to the management team and indeed each and every employee whose energies are translated into the figures you read in these pages.

Sincerely,



Mr. Maheel P Kuragama

CEO'S MESSAGE



“SMIB’s performance reflected its commitment to prudent risk management, innovation, and customer-centricity, positioning the Bank for sustainable growth and value creation in the future.”

Recovery efforts marked the year 2024 following the unprecedented economic crisis that had adversely impacted all sectors in the preceding years. The State Mortgage and Investment Bank was not spared, and the fallout of the economic downturn in 2022 continued to pose severe challenges. The year 2023 was in fact one of the worst for the Bank. However, if that year generated despair, the year 2024, the performance during which is under review here, gave ample reasons to be optimistic about the future.

Since SMIB is predominantly a bank based on customer deposits with 95% being term deposits, and moreover has a limited branch network, sans ATMs and at the time had only begun venturing into digital banking, there was little possibility to obtain low-cost funds. During that year average interest rates on deposits went up to 20.5% even as the loan-yield was a relatively meagre 11% with the Bank additionally hampered by a mandate to cater to low-income borrowers to whom therefore the burden could not be passed on. All these factors contributed to a loss in the region of one billion rupees. However, thanks to a greater degree of macroeconomic stability with improved inflation and economic activity stepping up several gears supported by favourable monetary policy conditions as well as a resurgence in the external sector, there was reason to believe that the worst was behind us, even though there's still a long and arduous road ahead that needs to be navigated. A profit of 32 million rupees might not give reasons for grand celebrations under normal circumstances, but considering the context in which the Bank had to operate, it does give a sense of satisfaction as well as hope for an even better performance in 2025.

As the country moved from despair in 2022 to cautious hope in 2023 and greater confidence in 2024, so too did the industry and the Bank. The year 2024 was marked by the remarkable resilience and strategic agility of the banking sector in confronting economic uncertainty yielding positive results. The SMIB also moved ahead, strengthening its resolve to provide appropriate financial solutions to suit the customer's intricate financial needs.

The Annual Report and the Audited Financial Statements of the State Mortgage and Investment Bank for the financial year 2024 are therefore presented in a climate of optimism obtained by the Bank's operational and financial performance in creating value for stakeholders in a more stable economic landscape and a banking industry that has recovered its dynamism.

The SMIB performed creditably well during the year with positive performances on profitability, sound liquidity and capital adequacy, largely accomplished by

determined and innovative approaches at strengthening resilience both within the organisation and among stakeholders. This is indicated by the net improved of net interest margins from 1-3% and a reduction of the cost of funds by 38% compared to 2023. We shelved high cost deposits and moved to retail deposits targeting Samurdhi beneficiaries, women and children, and as a result the savings portfolio increased by 1.3 billion rupees. We were also able to reduce the high cost institutional deposits, which focused on the Army, Army Welfare, SLT etc., by 10 billion rupees and thereby considerably reduce such dependencies.

Operating Landscape

The year 2024 was far more stable politically than the preceding years. Although two major elections were held and there was a change of government, the operating landscape remained intact with no disruptions whatsoever. The Sri Lankan consumers, by no means thriving, appeared to be quite capable of adjusting lifestyles in accordance with reduced circumstances. Inflation declined and at the end of the year was almost negative. Interest rates also declined during the year. Balance of payments coming under control, the increase of reserves albeit marginally, and improvement in the country rating, all indicate a far more healthier macroeconomic environment. This of course meant that the banking sector was on a stronger footing when dealing with international banks. Overall, there were more investments, a revival of consumption and improvement in consumer spending. There were also changes in the legislative apparatus with the passage of the new Banking Act and the amendment of the Central Bank Act, changes that bode well for the industry.

Growth momentum persisted as the economy registered a robust 5.5% expansion in the third quarter of 2024. Leading indicators such as the Index of Industrial Production, Business Activity Index, PMI Manufacturing and PMI Construction provide a positive picture in domestic economic activity. According to the Central Bank, deflation continued to contribute towards the downward revision of energy prices. Headline inflation remained below the target, primarily owing to downward adjustment in electricity and water tariffs as well as reduced fuel price and is projected to remain negative in the near term. Meanwhile core inflation is projected to slow further over the next few months and stabilise thereafter. The Central Bank predicts that inflation would turn positive by mid-2025 and gradually converge towards the targeted level of 5% over the medium term if supported by appropriate policy measures.

Market liquidity remained at surplus levels, with currency in circulation increasing due to seasonal demand. It is also noted that short term market interest rates have commenced adjusting downward in response to the easing of the government's monetary policy stance. Meanwhile other market interest rates are also expected to adjust downwards in the period ahead. Prime lending rates of LCBs have shown signs of further downward adjustment, again due to easing of monetary policy. Meanwhile, credit extended to the private sector by LCBs continued to expand significantly since March 2024.

It is noted that SME lending rates declined in October 2024 after consecutive increases in August and September. There was also a notable reduction in yields on government securities. Expansion in import expenditure relative to export earnings widened the merchandise trade deficit, while there were improvements in earnings from tourism and workers' remittances which contributed positively to the external current account.

These factors have contributed to the Gross Official Reserves remaining healthy, supported of course by large net forex purchases of the Central Bank and multilateral fund inflows.

Therefore, in 2024, the macroeconomic landscape ceased to be defined by issues such as political instability, supply chain disruptions, inflationary pressures, and elevated interest rates, indicating that adaptive strategies and prudent decision-making across the banking industry, including institutions such as the State Mortgage and Investment Bank, have indeed had a positive effect on the operating landscape.

Banking sector performance

I am pleased to report that the year 2024 did not run its course hampered by the turbulence that marked the previous year where the banking sector had to contend with amplified credit risks, liquidity constraints, regulatory uncertainties, and interest rate volatility.

As at the end of November 2024, the total assets stood at Rs 21.7 trillion. Loans and receivables accounted for Rs 11.4 trillion, with LKR loans and FCY loans making up 80% and 20% respectively. Deposits amounted to Rs 17.8 trillion, with the LKR and FCY shares being 81% and 19% respectively. Investments in LKR (93%) and in FCY (7%) made up Rs 8.4 trillion while borrowings amounted to Rs 1.3 trillion, LKR borrowings being 83% of this while FCY borrowings accounted for 17%.

Month-on-month assets increased by Rs 238 billion, while loans improved by Rs 127 billion. Deposits, meanwhile, increased by Rs 225 billion. There was

a decline of Rs 14 billion in borrowings while profits went by Rs 42 billion.

Overall, there was an increase in the banking sector assets which stood at Rs 21.7 trillion as at the end of November 2024, showing a year-on-year growth of 8%. This increase is attributed mainly to loans and receivables which increased by Rs 11.4 trillion as at the end of November, a growth of 4.9%.

During this period banking sector investments also improved to stand at Rs 8.4 trillion at the end of November 2024, an 18.7% year-on-year growth. Deposits continued to be the main source of funding, recording Rs 17.8 trillion as at the end of November 2024, and 8.3% year-on-year growth. Banking sector borrowing declined by Rs 13.9 billion during the same period; the overall growth being 0.4%. It is also important to note that liquidity coverage ratios were maintained above the minimum requirements during this time. Profits of the banking sector increased by Rs 42 billion compared to the corresponding period in the previous year, a 24.0% growth.

The profitability and efficiency of the banking sector, as indicated by efficiency and profitability ratios remained stable during this period.

It can be said that credit risk was a less significant issue than in the previous year due to an easing off of economic uncertainties, due to the stringent credit assessment protocols including monitoring of borrower's financial health implemented by banks. Banks maintained a healthy liquidity stance which included taking necessary prudent strategic measures in order to respond swiftly to the changing dynamics. Banks, in general, succeeded in aligning with the evolving regulations regime which required significant investments in terms of technology and personnel training.

During this period, the industry strived to implement prudent NPL management practices and the introduction of competitive interest rates while considering profitability and risk management. The sector continued along the path to digital transformation, investing in technology infrastructure and employee skill enhancement to meet shifting consumer preferences towards digital banking services which in turn contributed to enhancing the customer experience.

In summary, banks were proactive in risk management and strategic adaptation including substantial investments in technology and innovation, steps necessary to face the critical challenges faced by the industry.

SMIB PERFORMANCE

As was the case in the previous year, the SMIB demonstrated remarkable resilience and adaptability, navigating the year with strategic foresight and proactive measures to mitigate risks and capitalise on emerging opportunities, positioning the bank for continued growth and success in the dynamic banking landscape. While the performance was modest overall, the gains are nevertheless significant when taking into account the challenges that Bank had to face in the preceding years. The Bank, during that period, had successfully mitigated uncertainty and volatility and made remarkable progress in critical operational spheres, especially in the migration to the new core banking system.

During the period under review, the SMIB was able to adhere to all Central Bank regulatory requirements. The Bank's Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) remained healthy even though we were in a recovery state. The Bank matched the 8% credit growth of the overall banking sector, which, in our case, amounted to an increase in Rs 3 billion. Along with loan growth, the generation of additional fee income, amounting to approximately Rs 200 million, helped the Bank enhance profit levels.

During 2024 we also initiated a new co-banking system, the Temenos (T 24) co-banking solution which is a platform to run all banking operations. It is envisaged that in 2025, with the introduction of ATMs and the enabling of internet banking and fund transfers, the Bank would be positioned to offer more services to the clientele. Moreover, with these developments the overall banking system will be far more secure and would enable greater control as well.

Considering the challenge faced and those that are likely to confront us, we are in the process of seeking an amendment to the SMIB Act. We have completed around 60% of process, which is obviously complex and takes time. Successful completion of this initiative will clearly enable us to introduce more products.

It must be mentioned that we have yet to enter and embrace the full range of challenges in the market. However, during the past year, we did link up with some private and government entities such as insurance companies. We have signed MoUs with 12 insurance companies to provide insurance facilities to loan customers. Discussions have been held with the Water Board and the Ceylon Electricity Board to allow consumers to pay water and electricity bills at our Bank. In the meantime, a Memorandum of Understanding was signed with Webex-Pay so that we can use their platform to get deposits to our accounts.

The Bank is in the process of enhancing the effectiveness of its network of 25 branches including the Head Office Branch. To this end, training/awareness sessions for customers as well as potential customers as a CSR project. Accordingly five such sessions were held in Anuradhapura, Bandarawela, Ratnapura, Jaffna and Galle.

The Bank's financial position remained robust, as evidence from a strong Capital Adequacy Ratio (CAR) of 19.28%, which is well above the regulatory requirement and provides a solid buffer against potential losses, thus ensuring the bank's financial stability even in the event of market volatility.

The SIMB also maintain adequate liquidity buffers, surpassing the regulatory liquidity requirement, to meet short-term obligations and insure against unforeseen liquidity shocks. The Bank affirmed a renewed commitment to focusing on strategic options that reinforces market presence and revenue stream by expanding its investment portfolio and concentrating on targeted growth efforts. The Bank continued to diversify revenue streams in order to mitigate the impact of economic headwinds on profitability and improve the bank's competitive position within the sector.

As in the previous year, the Bank was cognisant of increased competition in the form of an aggressing pricing regime and an ever diversifying complement of product offerings, and took necessary steps to attract and retain customers as well as maintain market share. The cost of funds, consequently, was reduced from 13.98% to 9%. The net interest margin of the bank also improved from 1% to 3.83% against the previous year. With regard to non-interest income, the segment improved by 111% over the previous year. Overall revenue of the bank increased by 221% while the deposit based receded by 7.7% against last year due to the reduction of high-cost deposits.

Meanwhile the average LCR ratio was maintained above 100%. Investments in technology adoption and digital transformation continued to be a crucial component of the Bank's strategic vision which envisaged enhanced operational efficiency, improvement of customer experiences, and streamlining of internal processes. This included upgrading digital platforms, enhancing cybersecurity measures, and leveraging data analytics for informed decision-making.

The Bank continued to prioritise the development of its human resources as an integral part of its strategic agenda, providing employees with exposure to various professional development programs in the form of

training programs to equip them with the necessary skills and capabilities to navigate the changing market dynamics and deliver exceptional service to customers. To further retain their motivation and productivity, the Bank also used performance incentives and talent retention strategies. Instead of recruiting additional staff, the Bank implemented transitional plans with existing staff or minimum replacement. In other words, during the year under review, there was greater optimisation of the Bank's human resources.

As in previous years, the SMIB did not veer from the strategic path that centred around four main drivers: prudent liquidity management, managing NPL and impairment below the industry average,

Cost-management strategies, and finally increasing the yield on loans and advance and investment income. The Bank's average LCR stood at 160% whereas the minimum requirement was 100%. The bank's NPL ratio stood at 17% against the industry average of 13% by the end of 2024. Despite of const management strategies continued to mitigate increasing overhead costs the Bank's operating expenditure by increased 26% against the figures of the previous financial year due to additional cost incurred on implementation process on status of art technology . The Bank's efforts also resulted in interest income from loans and advances increasing by 8%.

These multi-pronged efforts enabled the SMIB to sustain steady loan growth while maintain a healthy loan portfolio diversified across various sectors. The bank maintained strong asset quality, with prudent risk management practices contributing to manageable levels of non-performing loans.

On the financial front, SMIB achieved its profitability targets, driven by steady interest income, prudent cost management, and efficient use of resources. In terms of customer service and engagement, SMIB continued to prioritise customer satisfaction, enhancing its digital banking offerings and streamlining processes to provide convenient and efficient services to customers.

Overall, SMIB's performance during the year reflected its commitment to prudent risk management, innovation, and customer-centricity, positioning the Bank for sustainable growth and value creation in the future.

SIGNIFICANT MILESTONES

Commitment to digital transformation, prowess in innovation and customer-centricity and unwavering commitment to corporate social responsibility (CSR) were significant features of the Bank's operations during

this year. Important steps were taken with regard to the implementation of a Core Banking System. This is a landmark achievement in the Bank's journey towards digital transformation since it streamlines internal processes while enhancing the Bank's ability to deliver seamless and efficient services to customers in an increasingly digitised banking landscape.

SMIB's branch network, strategically dispersed across the island, continued to play a crucial role in fostering community engagement and nurturing meaningful relationships with residents. These branches participated in social and trade-related activities within their respective localities, further emphasising SMIB's reputation as a Bank that is absolutely committed to being an integral part of the communities it serves. SMIB's branches also responded during times of crisis with empathy and support demonstrating its commitment to ensure the wellbeing of its stakeholders.

FUTURE AHEAD

The Bank will continue along its chosen strategic direction that aligns with both short-term and long-term goals, focusing on sustainable growth, financial resilience, and customer centric innovation. In this regard, considering the transformations we have embarked upon, the Bank will be strengthening its digital platform with continued investments in digital capabilities to meet evolving customer preferences and market demands.

This will entail further development of mobile banking apps, online platforms, and digital payment solutions including establishing an ATM network which will come into operation in the next financial year. These measures will no doubt help streamline customer experiences and improve operational efficiency. In the coming year, the Bank will also focus on expanding its loan portfolio by targeting key sectors such as small and medium-sized enterprises (SMEs), agriculture, and renewable energy.

SMIB will not relent on cost-optimisation measures through efficiency measures, process automation, and resource optimisation. As such there will be continuing commitment to streamline internal processes, reduce overhead expenses, and enhance productivity, all aimed at improving overall cost effectiveness.

In terms of long-term strategies the Bank will aim to achieve sustainable growth by balancing financial performance with social and environmental responsibility through investing in sustainable finance initiatives, promoting green lending practices, and supporting projects that contribute to environmental conservation and social welfare. Market expansion and

diversification, both domestically and internationally, will continue to be on the agenda. The Bank will be identifying new markets, establishing strategic partnerships, and leveraging existing networks to expand its customer base and geographic footprint.

SMIB will continue to prioritise innovation and technology adoption to stay ahead of industry trends and enhance competitiveness. This will entail investing in emerging technologies such as data analytics to drive operational efficiency, improve risk management, and enhance customer engagement.

In terms of products, the SMIB, by mandate, predominantly offers housing solutions. However during 2024 the Bank actively pursued a strategy of supporting the SME segment, introducing new products such as refinancing credit for solar power purchases, fisheries, coconut-based products etc. The objective was to reduce dependency on the housing sector. The diversification efforts were indeed successful and we plan to grow further along these lines.

Targeted lending initiatives and sector-specific focus are expected to enhance growth in lending volumes on account of the expansion of the Bank's loan portfolio. Moreover, the Bank envisages the reduction of its cost-to-income ratio by implementing operational efficiency improvements and cost optimization measures to enhance overall financial performance. Offering user-friendly digital platforms and implementing enhanced digital banking services will no doubt improve customer engagement and satisfaction.

The Bank will continue to sustainably improve its profitability by achieving steady revenue growth and implementing effective cost management strategies to maximise returns on investment and ensure long-term financial stability.

In essence, the Bank's future outlook and strategic direction for the new financial year will prioritise sustainable growth, innovation, customer-centricity, and financial resilience, setting the stage for long-term success and value creation for stakeholders. Through it all, the Bank will continue its support for impactful community and environmental projects that align with its core values and contribute to the betterment of society and thereby solidify its reputation as a responsible corporate citizen and a catalyst for positive change in Sri Lanka's banking industry and beyond.

APPRECIATION

I extend my sincere gratitude to the former Chairman, Joseph Soosaithasan, our new Chairman, Maheel Kuragama, the Board of Directors, and the entire SMIB

team for the unstinted support extended throughout the year 2024. I am also deeply appreciative of our valued customers and partners, who have been instrumental in our progress and assure them that the Bank will remain committed to delivering value and sustaining competitiveness in the evolving banking landscape. Our regulators have played an all-important role in ensuring that discipline on all counts is maintained. I am indebted to their guidance throughout a difficult year and look forward to continued support.

Finally, I take this opportunity to express the Bank's absolute commitment to prioritise financial resilience, innovation, and stakeholder engagement, and thereby ensuring that it remains a trusted partner for our stakeholders and a catalyst for positive change in the communities we serve.

Sincerely,



Thushara Asuramanna

General Manager/CEO

BOARD OF DIRECTORS



↓
Mr. Aruna P. Ranasinghe
Independent Non-Executive Director,

↓
Mr. Athula C. Gamage
Independent Non-Executive Director

↓
Mr. D. Rohana L. Wickramasinghe
Independent Non-Executive Director

↓
Mr. Maheel P. Kuragama
Independent Non-Executive Chairman

↓
H. C. D. L. Silva
Non-Executive, Ex-officio Director

↓
Mr. M. Tyronne A. J. F. Gomis
Independent Non-Executive Director

Mr. Maheel P. Kuragama

Independent Non-Executive Chairman

Mr. Maheel P. Kuragama was appointed as the Chairman of the Board of Directors of SMIB on 04th October 2024. Mr. Kuragama a distinguished financial expert, brings over 32 years of extensive experience in finance, banking, and exemplary service in the banking sector. With his appointment as the Chairman, he brings a wealth of knowledge in leadership, strategic planning, and management to the role.

Throughout his career, Mr. Kuragama has held diverse roles, including Branch Operations, Administration, and Internal Audit, showcasing his versatility and depth of expertise. He primarily served at Sampath Bank, where he was a pivotal member of the Corporate Management team and the Bank's Technical Advisory Team. His contributions were instrumental in shaping strategic decisions, driving innovation, and ensuring operational excellence. His tenure has been marked by his exceptional leadership and managerial skills, which have consistently fostered innovation and efficiency within the organization he served. His dedication to excellence and deep understanding of the banking sector have earned him recognition as a trusted professional committed to advancing organizational goals and fostering growth.

His professional development includes participation in prestigious international training programmes such as, an Alumnus of the Harvard Business School (USA). He has attended many development programmes both in Sri Lanka and overseas, including at the prestigious National University of Singapore.

Additionally, Mr. Kuragama is an associate member of the Institute of Bankers of Sri Lanka (IBSL), further reflecting his commitment to professional development and industry standards.

Mr. Aruna P. Ranasinghe

Independent Non-Executive Director,

Mr. Aruna P. Ranasinghe was appointed as an Independent Non-Executive Director of State Mortgage and Investment Bank on 22nd January 2025. Mr. Ranasinghe's extensive career which expands over 20 years reflects his deep expertise in operational risk management, banking operations, audit and financial service years, making him a valuable asset to the Board of State Mortgage and Investment Bank.

Mr. Ranasinghe holds a Master of Business Administration in General Business Administration from American City University, USA. Additionally, he possesses the following qualifications: Executive

Diploma in Business Administration, University of Colombo, Sri Lanka; Diploma in Bank Management, Institute of Bankers of Sri Lanka; Certificate in Treasury & Foreign Exchange Operations, Centre for Banking Studies, Central Bank of Sri Lanka. His professional qualifications include Certificates in Managing Operational Risk in Financial Institutions from the Chartered Institute of Securities and Investment, UK, specializing in Risk Management.

Prior to his current appointment, Mr. Ranasinghe held several senior leadership positions in renowned financial institutions, including Senior (Oversight) Manager, Operational Risk, Saudi British Bank, Riyadh, KSA, focusing on Operational Risk Management, Deputy General Manager - International, Seylan Bank PLC, Head of Trade Product Development, Saudi Hollandi Bank, Riyadh, KSA and Head of Trade Services and Corporate Branch, Peoples Bank. In addition, he has undertaken Special Assignments & Consultancy while employed in Protiviti Management Consultancy Services, Riyadh, KSA as a Guest Auditor in Saudi British Bank (SABB) Audit Team, and has Provided consultancy/technical know-how for Operational Risk Management project at Saudi Fransi Bank.

Mr. Ranasinghe currently serves as a Director at the Academy for Professional and International Studies (Pvt) Ltd, where he has been appointed since 8th February 2019. His role focuses on administration, lecturing, and educational leadership.

Mr. Aruna P. Ranasinghe is an accomplished professional with a wealth of experience in banking operations, risk management, and finance, having held key leadership roles in major financial institutions in both Sri Lanka and Saudi Arabia. His vast expertise spans risk management, operational oversight, and strategic banking initiatives. As a result, he brings a deep understanding of financial systems and operational risk to his current role as an independent non-executive director.

Mr. Athula C. Gamage

Independent Non-Executive Director

Mr. Athula C. Gamage was appointed as an Independent Non-Executive Director of State Mortgage and Investment Bank, with effect from 22nd January 2025.

Mr. Gamage brings with him over 29 years of invaluable experience in the banking sector, with a focus on retail credit, credit management, and banking operations. He holds a Bachelor of Science (BSc) in Physical Science from the University of Kelaniya, and an MBA in Business Administration and Management from the same institution. Additionally, he holds a Diploma in Credit Management from Sri Lanka Institute of Credit

Management and passed the Intermediate Level - IBSL (Banking) at the Institute of Bankers of Sri Lanka.

Mr. Gamage's extensive banking career spans a series of senior roles in National Savings Bank, where he contributed to the bank's growth and success in various credit management and banking functions. His previous roles include; Deputy General Manager (DGM) – Credit, Assistant General Manager (AGM) – Credit and Recovery Divisions, Assistant General Manager (AGM) – Branch Credit, and Assistant General Manager (AGM) – Branch Management Division.

With a strong foundation in retail banking, credit management, and strategic oversight, Mr. Gamage's deep expertise will contribute significantly to the board's decision-making processes. His leadership experience at National Savings Bank, particularly in overseeing credit functions, positions him as a valuable asset to the State Mortgage and Investment Bank.

Mr. M. Tyrone A. J. F. Gomis

Independent Non-Executive Director

Mr. Tyrone Gomis was appointed as an Independent Non-Executive Director of State Mortgage and Investment Bank, on 22nd January 2025.

With over 32 years of experience in the banking sector, Mr. Gomis has developed a deep understanding of banking operations, branch management, and general management. His extensive career in both operational and management roles has equipped him with the expertise needed to contribute effectively to the strategic direction of the bank.

Mr. Gomis holds an MBA in Business Administration, University of London Metropolitan, UK and a BCom in Business and Commerce, University of Kelaniya. Further, he holds a Diploma in Credit Management, Institute of Credit Management, and a diploma in Management, Ceylinco Institute of Management.

Mr. Gomis has held several senior positions throughout his career, with his most recent role being General Manager at MAX PBC Holdings (Pvt) Ltd., where he has been serving since January 2023. Mr. Gomis counts over 32 years experience as a Banker served in National Savings Bank and he has served as the Deputy General Manager – Operations, Assistant General Manager – Operations, and Regional Manager – Operations.

Mr. Gomis' vast experience in branch management, operations, and general management makes him an invaluable asset to the Board of State Mortgage and Investment Bank. His leadership and management expertise, particularly in overseeing the operations of

large banking networks, will be instrumental in driving the bank's continued success and strategic growth.

Mr. D. Rohana L. Wickramasinghe

Independent Non-Executive Director

Mr. Don Rohana Lal Wickramasinghe was appointed as an Independent Non-Executive Director of the State Mortgage and Investment Bank on 31st January 2025, bringing over 32 years of extensive experience in finance, audit, taxation, and policy formulation. His distinguished career spans key roles in financial regulation, internal auditing, and management, with a special focus on banking oversight and strategic policy development.

Mr. Wickramasinghe holds a B.Sc. in Business Administration, from the University of Sri Jayewardenepura. He has completed the Preliminary and Licentiate Examinations in Institute of Chartered Accountants, Sri Lanka and is a Certified Internal Auditor (CIA) of the Institute of Internal Auditors, USA, a Certified Financial Services Auditor (CFSA), Institute of Internal Auditors, USA and a Certified Information System Auditor (CISA), Information Systems Audit and Control Association, USA.

Mr. Wickramasinghe has held pivotal roles across renowned institutions in Sri Lanka and Oman, contributing to financial governance and regulatory frameworks. He has held the position of Banking Expert in Central Bank of Oman where he was responsible for examining licensed financial institutions, training staff, and assisting in policy formulation to strengthen Oman's banking and financial sectors.

Mr. Wickramasinghe has held the positions of Assistant Bank Examiner, Bank Examiner, and Head of Policy Division at the Central Bank of Sri Lanka. In his long tenure at the Central Bank of Sri Lanka, Mr. Wickramasinghe oversaw the examination of licensed financial institutions and played a key role in developing regulatory policies.

With his vast expertise in banking regulation, internal audit, taxation, and policy development, Mr. Wickramasinghe is a valuable asset to the Board of State Mortgage and Investment Bank. His comprehensive knowledge in financial services auditing and information system audits, combined with his significant leadership experience, positions him well to contribute to the Bank's strategic decisions and governance.

H. C. D. L. Silva

Non-Executive, Ex-officio Director

With a master's in public management from the Sri Lanka Institute of Development Administration and a BSc in Public Admin from the University of Sri Jayawardarapura, he is a seasoned accountant who boasts over 30+ years in Sri Lanka's service.

His credentials include Associate Membership with the Association of Accounting Technicians, Fellowship in Public Finance Accountants, Certified Business Accountant, and Chartered Public Financial Management Accountant (ICASL), and he is a Member of the Chartered Institute of Public Finance & Accountancy. He is an expert in Public Financial Management, Treasury, Debt Management, Auditing, Accounting, and Public Procurement.

Mr. Joseph M. Soosaithasan

Tenure of Appointment:

From 17th May 2023 to 04th October 2024

Mr. Joseph .M. Soosaithasan, was appointed to the Board on 17th May 2023, as the Chairman of the Bank. A Fellow of the Chartered Institute of Management Accountants by profession, he is an accomplished professional with extensive experience across various senior executive and non-executive roles in finance, administration, and management. His contributions have been instrumental in shaping the organizations he has been associated with, particularly in areas of governance and strategic oversight. His broad background, spanning both local and international markets, positions him as a key leader in the business world. Before taking over the reins of the State Mortgage and Investment Bank as the Chairman he has held various positions including the position of Independent/ Non-Executive Director, Hotel Developers (Lanka) PLC, Chief Operating Officer- Trend Setters (Pvt) Ltd, General Manager - Timex & Fergasam Group, General Manager/Consultant - Star Apparels (T) Limited, Tanzania, General Manager - L.M. Collections (Pvt) Ltd and Finance and Administration Manager, Pegasus Reef Hotel.

Professor D. Aminda M. Perera

Independent Non-Executive Director

Tenure of Appointment:

From 21st March 2023 to 22nd January 2025

With a well-known academic background, Professor Perera holds two Ph.D. degrees: one in Business Management from KEISEI International University and another in Marketing from Wayamba University.

Additionally, he has mastered the art of Financial Management through an MBA from Indira Gandhi National Open University and broadened his expertise with a General MBA from Wayamba University.

His foundational knowledge stems from a B.Sc. (Special) in Public Administration from the University of Sri Jayewardenepura. Beyond his educational achievements, he is an esteemed Member of the Association of Accounting Technicians, showcasing a diverse and comprehensive skill set in both academia and professional fields.

Mr. Buddhika R. Madihahewa

Independent Non-Executive Director

Tenure of Appointment:

From 02nd May 2023 to 22nd January 2025

Mr. Madihahewa began his educational chase at the Australian Institute of Business, Adelaide, earning an MBA and a Post Graduate Diploma in Business Management. His quest for professional growth led him to become a fellow member of the Chartered Professional Managers and a certified member of the Sri Lanka Institute of Marketing.

Further elevating his stature, he is also a fellow member of both the Chartered Management Institute and the Association of Business Executives, in addition to memberships in the Chartered Institute of Marketing and the Institute of Management. With over 30 years of senior managerial experience, his career narrates a journey of leadership, excellence, and an unwavering commitment to the business realm.

Mr. Saman K. A. Galappaththi

Independent Non-Executive Director

Tenure of Appointment:

First appointment - from 02nd January 2020 to 01st January 2023, Second appointment from 07th March 2023, to 31st January 2025

He is an Attorney-at-Law boasting over 29 years of experience, equipped with an LL.B from the University of Colombo's Faculty of Law. He has specialized in a broad spectrum of legal fields, including Commercial Law, Companies Law, Land Law, and Labour Law, practicing across District Courts, Commercial High Court, Civil Appeal High Court, and Labour Tribunals.

Additionally, he is skilled in handling Writ Applications, Administrative Law, and Fundamental Rights cases in both the Court of Appeal and Supreme Court. He is a dedicated delegate of the Bar Association of Sri Lanka

and an esteemed member of the Colombo Law Society and the Organization of Professional Associations, showcasing his extensive expertise and commitment to his profession.

Dr. R. A. T. Kapila Ranasinghe

Independent Non-Executive Director

Tenure of Appointment:

From 09th January 2024 to 22nd January 2025

Dr. Kapila Ranasinghe holds an extensive academic background, with a PhD in Strategic Planning from The University of Cambridge (UK) in 2013, an MBA in Other Mathematics from The University of Colombo (Sri Lanka) in 2007, and a BSc in Information Technology from the University of Colombo (School of Computing) (Sri Lanka) in 2000. Additionally, [Name] has obtained professional qualifications in Strategy and Innovation Ex in Business from Harvard University (USA) in 2014.

Currently, Dr Ranasinghe serves as the Director at C2L (UK); he is also the Chairman and Group CEO of Pioneer Institute of Business and Technology (Pvt) Ltd (PIBT).

Previously, Dr, Ranasinghe has held various advisory and leadership positions. These include serving as the Chairman of the Skills Development Fund – Ministry of Skills Development, and as the Founder Member/ Acting Chairman of the National Medicine Regulatory Authority – Ministry of Health and Indigenous Medicine. Dr. Ranasinghe has also been a Board Member at the Private Health Sector Regulatory Commission and the Chairman of the Quality Assurance Institute Sri Lanka. Additionally, Dr, Ranasinghe served as an Advisor to the Minister at the Ministry of Health and Indigenous Medicine, and in various roles within other ministries, including Ministry of Fisheries and Aquatic Resources Development, Ministry of Power and Energy, and Ministry of Health and Indigenous Medicine.

With a wealth of experience in administration, strategy, and leadership across both the public and private sectors, Dr. Ranasinghe continues to contribute to various business and regulatory initiatives in Sri Lanka and internationally.

CORPORATE MANAGEMENT



Mr. I.T. Asuramanna
General Manager /CEO
MBA, BSc. Eng., ACMA - UK, CGMA - UK,
BMS, AM (IESL), MIEE- UK



Mr. K.L.N.A. Perera
Deputy General Manager (Finance,
Planning & Branch Operation)
MBA (Fin), FCA, B.Com.(Sp),SAT, HNDA,
Dip. in Risk Management



Mr. L.W. Samarawickrama
Act. Deputy General Manager (Credit)
BSc (Sp) Estate Management & Valuation,
AIV, ACBF - (IBSL)



Mr. K.K. Kapila Keerawella
Assistant General Manager
(Recovery & Credit Support)
B.Com (Sp) Hons (USJ),PG.EX.Dip. in Bank
Mgt (IBSL)



Mr. W. K. K. Thantrige
Assistant General Manager (IT)
MBA-PM, MDT,BSc MIS, CLSSGB, CISE



Mrs. H.A.G.M. Samanthilaka
Assistant General Manager (Legal)
LLM,AAL



Mr. P.R.A. Lasantha U. Kumara
Assistant General Manager (HR & L)
MBA, BSc. HRM, ACIPM



Mrs. A.M.D.S. Alahakoon
Board Secretary
ACCS, Dip. ICSA (UK),LLB



Mr. P. Kuruwita
Chief Internal Auditor
ACA, ACMA, CGMA, AAT, DIP IT, IIA
Member

SENIOR MANAGEMENT



Mr. S. Wickramasinghe
Chief Manager (Credit)
B.Sc (EMV) (Sp) Hons., AIV



Mr. R.M.U.D. Bandara
Chief Manager (Human Resources
and Logistics)
MHRM, BSc BA (Sp), NDHRM ACIPM



Mr. I. Edirisooriya
Chief Manager (Valuation)
MEM, B.Sc (EMV) (Sp) Hons. MRICS, AIV



MS. T. Thilakarathne
Chief Manager (Legal)
LLB, AAL



Mrs. E.A.D.W. Sepalika
Chief Manager (Finance)
BSc.ACC (Sp) (USIP), ACA



Mrs. R.K.A.N. Rathnayake
Chief Manager, HOD (Risk Management)
ACMA(UK), CGMA (UK), Dip.in Busisness
Management, Dip in Integrated Risk
Management (IBSL)



Mr. J. Emilrajan
Senior Manager, HOD
(Branch Operations)
BBA (Hons) in Finance, MBA in Finance



Mr. D.G.K. Wijesinghe
Senior Manager, HOD
(SME & Business Banking)
MBA (ARU), B.Sc BA (UOSJ), CMA (SL), Dip.
Banking & Finance (IBSL)



MS. J.T.R. Ranaweera
Manager (Cover up Compliance)
MBA (UK), ACMA/CGMA, AIB (Sri Lanka),
Dip. In Compliance

CORPORATE GOVERNANCE

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

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

The Board of Directors of the State Mortgage and Investment Bank, as the highest decision making authority has overall responsibility for the operations and the financial soundness of the Bank and liable to ensure that the interests of depositors, creditors, employees, and other stakeholders are met. The Board of Directors of the Bank has an active combination of professionals with practical experience in banking, finance, economics, business management, human resource management, law, marketing, etc. They have the necessary skills and experiences needed to arrive independent, impartial and direct decisions regarding issues of strategy, performance and resources. The Board continued to strengthen its oversight responsibilities on the affairs of the Bank providing the leadership to put the Institution's strategic aims into effect, supervising the management of the business and reporting shareholders on their stewardship.

The Banks' governing principles and structure, strengthen effective decision making, which encourages greater transparency and endorses accountability across all aspects of the business. The Board ensures that the Bank is managed prudently and within the framework of laws and regulations of the country and governing authorities and the internal policies of the Bank.

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

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

Accountability Since one of the keystones to the success of an institution is developing a culture of

accountability, the Bank having a better understanding of the said fact has developed a culture of accepting responsibility for its action.

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

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

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

Fairness

Being the Housing Bank to the Nation, the bank treats its all interested parties in a way that is right and reasonable. The Bank makes good decisions that serve the needs of the business without harming anyone such as customers, employees. Shareholders, suppliers and the community at large.

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

Transparency and disclosure

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

Transparency is one of the key steps to corporate governance and ensures that management will not engage in improper or unlawful behavior since their conduct can be and will be scrutinized.

To achieve transparency, the Bank strongly believes that it should adopt accurate accounting methods, make full and prompt disclosure of company information and make disclosure of conflict of interests of the directors or controlling shareholders, etc. Accordingly, the bank ensures that it has to be more transparent in its activities discloses through its annual report, the capital adequacy, key performance indicators, business concentrations, corporate governance statements, and financial statements.

Further, the Bank publishes its quarterly and Annual Financial Reports prepared in accordance with Basel III regulations and SLFRS standards, which are clear and easy to understand. This ensures that the public interest in the Bank's affairs is secured. Adhering to the fact that the bank should make its disclosures on key points, concerning its risk exposures and risk management strategies without breaching necessary confidentiality, all material developments that arise between regular reports are being disclosed to the relevant authorities and stakeholders as required by law without undue delay.

During the year 2024, there weren't any related party transactions reported in the bank.

Board of Directors

The Board of Directors of SMIB has been appointed by the Minister of Finance, Economy and Policy Development as stipulated in the State Mortgage and Investment Bank Law No. 13 of 1975 as amended, and it consists of nine fit and proper independent and non-executive directors having knowledge in diverse areas. Three of the directors out of the said nine members shall be the representatives of the Ministry of the Minister in charge of the subject of Agriculture, the Ministry of the Minister in charge of the subject of Housing and the Ministry of the Minister in charge of the subject of Livestock Development since the purpose of the Bank is to assist the general public in the development of agricultural, industrial and housing, by providing financial and other assistance. The composition of the Board ensures that there is a sufficient balance of power and continuation of contribution guides in the decision-making process of the board.

The Board of Directors of SMIB supervises and undertakes overall responsibilities and accountability of the Bank by setting high level strategic directions and has delegated the power of implementation of

strategies to the General Manager /CEO who exercises executive authority through the corporate management team which he heads and to which he provides leadership and direction. The Bank has an effective leadership structure that allows the board to work collaboratively as a team.

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

The Chairman and the Board of Directors with their strong commitment and farsighted guidance manage the bank ahead. The Board of Directors meets at least once a month and in the year 2024, 14 meetings have been held.

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

The Board periodically reviews, assesses, and approves Corporate Plan, Action Plan setting out the Bank's mission, vision, business objectives and strategy considering the business opportunities and the main risks to which the Bank is exposed. The Board proposes such amendments to the strategic plan as it deems appropriate before approving it. The Management implements the strategy as approved and submits progress reports to the Board.

Composition of the Board

	Name of the Director	Date of Appointment	Category of Director
1	Mr. M. P. Kuragama	04-10-2024	Independent non-executive director
2	Mr. J.M. Soosaithasan (Resigned on 04.10.2024)	17-05-2023	Independent non-executive director
3	Mr. H. C. D. L. Silva	11-01-2020	Non-executive director
4	Mr. A. P. Ranasinghe	22-01-2025	Independent non-executive director
5	Mr. A. C. Gamage	22-01-2025	Independent non-executive director
6	Mr. M. T. A. J. F. Gomis	22-01-2025	Independent non-executive director
7	Mr. D. R. L. Ranasinghe	31-01-2025	Independent non-executive director
8	Mr. S. K. A. Galappatthi (Resigned on 31.01.2025)	07-03-2023	Independent non-executive director
9	Mr. B. R. Madihahewa (Resigned on 22.01.2025)	02-05-2023	Independent non-executive director
10	Prof. D. A. M. Perera (Resigned on 22.01.2025)	21-03-2023	Independent non-executive director
11	Dr. R. A. T. K. Ranasinghe (Resigned on 22.01.2025)	09-01-2024	Independent non-executive director

Functions of the General Manager/ Chief Executive Officer (CEO)

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

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

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

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

Directors' attendance at Meetings in the Year 2024 is being given in the Director's Report of this annual report. The authority and responsibilities of the Chairman and the Chief Executive Officer are separate as per the CBSL Directions.

Board Sub Committees

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

The subcommittees are as follows;

1. Board Audit Committee (BAC)
2. Board Human Resources and Remuneration Committee (BHRRC)
3. Board Nomination Committee (BNC)
4. Board Integrated Risk Management Committee (BIRMC).

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

The Board Audit Committee (BAC) provides oversight of the financial reporting process, the audit process, the Bank's system of internal controls and compliance with

laws and regulations. It can expect to review significant accounting and reporting issues and recent professional and regulatory pronouncements to understand the potential impact on financial statements.

An understanding of how management develops internal interim financial information is necessary to assess whether reports are complete and accurate.

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

The Board Nomination Committee (BNC) is responsible for implementing a procedure to select/appoint General Manager/ CEO and Key Management Personnel, setting out criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of General Manager/CEO and the Key Management Positions. Accordingly, the committee acts as part of the Bank's corporate governance. The committee will consider and recommend from time to time, the requirement of additional/ new expertise and the succession arrangement for rehiring Directors and Key Management Personal.

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

The Board Audit Committee (BAC) and Board Integrated Risk Management Committee (BIRMC) assist the Board to review and make decisions on the

adequacy and integrity of internal controls, review of financial information and their integrity, principal risk elements of the industry and precise risk factors and Corporate Governance of the Bank. The Board has also retained the critical areas of operations under its purview without delegating to the operational level as per Corporate Governance practices.

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

Management Committees

Adhering to the Basel Guidelines the board should not participate in day-to-day management but should receive information which sufficient to judge management. The Board of Directors in managing affairs of the bank has delegated business operations to certain specialized committees comprising of key management personnel led by the General Manager/ Chief Executive Officer. These committees have been established to assist the board in its oversight function. These committees should submit the minutes to the Board of Directors enabling the board to guide and oversee that the key management personnel are carrying out the day to day activities of the bank in a safe and sound manner. In this context, the Board of Directors has appointed the following Management Committees in addition to Board sub committees.

1. Executive Credit Committee (ECC)
2. Asset/Liability Management Committee (ALCO)
3. Marketing Committee (MC)
4. Product Development Committee (PDC)
5. Recovery Committee (RC)
6. Executive Integrated Risk Management Committee (EIRMC)

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



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NATIONAL AUDIT OFFICE



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எனது இல.
My No.

} BAN/F/SMIB/CG/2024/43

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உமது இல.
Your No.

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திகதி
Date

} 01 April 2025

The Chairman
State Mortgage and Investment Bank

Auditor General's Report of Factual Findings of State Mortgage and Investment Bank on the compliance requirement of the Corporate Governance Directive issued by the Central Bank of Sri Lanka 31 December 2024

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

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

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

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

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

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

W.P.C. Wickramaratne

Auditor General



CORPORATE GOVERNANCE REPORT

Annexure to the report on factual findings

S. No.	Details	Complied	Reference
3.1	The responsibilities of the Board		
3.1.i	Procedures to be carried out to ensure the Board have strengthened the safety and soundness of the Bank.		
3.1.i.a	Check the Board approval of the Bank's strategic objectives and corporate values.	Complied	Corporate Plan for the period 2024-2028 was approved by the Board paper No. 23/06/BD(APP)/16 and Board Minutes No. 23.SP 04.11.01 at the meetings held on 21.11.2023 and 07.12.2023 respectively.
	Check whether the Bank has communicated the Bank's strategic objectives and corporate values throughout the Bank	Complied	Strategic objectives and corporate values are communicated through Heads of Departments at each division at the Senior Management Meetings and Branch Managers Meetings held during the year 2024.
3.1.i.b	Check the Board approval of the overall business strategy of the Bank.	Complied	Overall business strategy (Corporate vision, mission and the objectives) included in the Corporate Plan and it was approved by the Board by the Board paper No. 23/06/BD(APP)/16 and Board Minutes No. 23/SP 04/11/01 at the meetings held on 21.11.2023 and 07.12.2023 respectively.
	Check that the overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented.	Complied	The Bank has documented the overall business strategy including the overall risk policy, risk management procedures and mechanisms.
	Check that the overall business strategy contains measurable goals, for at least the next three years.	Complied	The Corporate Plan 2024-2028 is operationalized through an Action Plan with goals.
3.1.i.c	Check that the appropriate systems to manage the risks identified by the Board are prudent and are properly implemented.	Complied	<p>Board appointed Board Integrated Risk Management Committee (BIRMC) acts with the delegated authority according to the board approved TOR.</p> <p>BIRMC meets periodically to assess the identified major risk areas and review/approve the Integrated Risk Management Framework, Risk assessment framework, and Risk appetite of the Bank. BIRMC implements the systems to measure, monitor and manage principal risks.</p> <p>BIRMC submit the KRIs and Stress testing results and Risk Assessment Report of the BIRMC meetings to discuss at board meetings to take strategic decisions to mitigate the risks. Key Risk Indicators and Risk Appetite is set by the Board.</p>

3.1.i.d	Check that the Board has approved and implemented a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	Complied	<p>The Customer Charter is used for the purpose of effective communication between customers and the Bank.</p> <p>Further, Government has 100% ownership of the Bank and all directors are appointed by the Ministry of Finance. Therefore, effective communication between government/ shareholders, depositors, creditors, borrowers and the Bank is maintained. Quarterly financial statements are published in newspapers.</p> <p>The revised Communication Policy has been approved by the Board on 30.10.2024 (Minute No. 24.10.140.03 - Board Paper No. 24/10/BD(APP)/04).</p>
3.1.i.e	Check that the Board has reviewed the adequacy and the integrity of the Bank's internal control systems and management information systems.	Complied	<p>The adequacy and integrity of the internal controls and management information system had been reviewed by the Board Audit Committee.</p> <p>The BAC is assisting the Board which reviews the adequacy and integrity of the Bank's internal control system and management information system. The Internal Audit Division continuously monitor the same.</p>
3.1.i.f	Check that the Board has identified and designated key management personnel, as defined in Banking Act Determination No. 03 of 2010 as per Bank Supervision Dept. Guideline ref. 02/17/550/0002/003 on 02nd December 2015 subsequently amended by Banking Act Determination No 01 of 2019 which was effective from 1st January 2020.	Complied	<p>The Board of Directors, and the Officers performing executive functions including the General Manager are defined as Key Management Personal in the Sri Lanka Accounting Standards (LKAS 24) and have been recommended by the BNC and approved by the Board.</p>
3.1.i. g	Check that the Board has exercised appropriate oversight of the affairs of the Bank by key management personnel, that is consistent with Board policy	Complied	<p>The Board reviews the performance of the Bank against the Strategic Business Plan and receives reports from Board Subcommittees on financial reporting, internal control, risk management and other relevant matters delegated to those Committees. The Board sub committees are governed by the Board approved Terms of References.</p> <p>Further, KMPs make regular presentation on the matters under their purview at senior management meetings.</p>

3.1.i.h	Check that the Board has defined the areas of authority and key responsibilities for the Board directors themselves and for the key management personnel	Complied	<p>Directors' powers and authority defined in SMIB Law No.13 of 1975 under the Section 07.</p> <p>Directors have been appointed to Board sub-Committees by the Board of Directors and Charter/TOR of each committee defines responsibilities.</p> <p>KMPs authorities and responsibilities are listed in their Job Descriptions. BHRRRC discuss the areas of authority and key responsibility for Board of Directors & KMPs.</p>
3.1.i.i	Check that the Board has periodically assessed the effectiveness of the Board directors' own governance practices, including: (i) the selection, nomination and election of directors and key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary.	Complied	<p>Selections, nominations and election of the Board of directors are done by the Minister according to the SMIB Law No.13 of 1975. Based on nominations received from the Minister, the Board Nomination Committee evaluate the suitability of the directors to be appointed to the Board and recommend them to be appointed.</p> <p>Directors confirmed in their self-evaluation forms that the Board has undertaken an annual evaluation of its own governance practices.</p> <p>The effectiveness of the BODs is assessed through a questionnaire. Board has taken a decision to audit the implementation of Board decisions.</p>
3.1.i.j.	Check that the Board has a succession plan for key management personnel.	Complied	A Succession Plan for KMPs was approved on 13th December 2024.
3.1.i.k.	Check that the Board has scheduled regular meetings with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Complied	<p>In each Board meeting the General Manager being attended and through that the Board has established communication lines and monitor progress towards corporate objectives. KMPs make regular presentation/ summoned for clarifications on the matters under their purview.</p> <p>Further, in each BIRMC and BAC meetings KMPs make presentations / summoned for clarifications when matters arise under their preview.</p> <p>Further, the Board has directed to hold Management Committee meetings and Senior Management Meetings to ensure that management is working towards corporate objectives.</p>

3.1.i.l	Check that the Board has taken measures and processes in place to understand the regulatory environment and that the Bank maintains a relationship with regulators.	Complied	<p>The Bank maintains a good relationship with regulators through the Compliance officer. She maintains regular contacts with the regulators. She appraises the board and the KMPs on all regulatory requirements regularly. All changes to regulatory environment are intimated as soon as they were communicated by the relevant regulator.</p> <p>Further the Compliance officer and the Head of Risk Management report on the status of the compliance requirements periodically.</p> <p>Also, the Board of Directors attend to the awareness programmes and seminars conducted by the regulators to better understand changes in the regulatory environment.</p>
3.1.i.m	Check that the Board has a process in place for hiring and oversight of external auditors.		Auditor General has been appointed as per the provision contained in the State Mortgage and Investment Bank Law No.13 of 1975 and in terms of the provisions of Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka as per such provisions Auditor General is the external auditor of SMIB.
3.1.ii	Check that the Board has appointed the Chairman and the Chief Executive Officer (CEO). Check that the functions and responsibilities of the Chairman and the CEO are in line with Direction 3(5) of these Directions.	Complied	<p>According to the SMIB Law No.13 of 1975 Section 14.1, The Chairman has been appointed by relevant Line Minister.</p> <p>The General Manager/CEO has been appointed by the Board of Directors.</p> <p>The functions and responsibilities of the Chairman and the CEO which are in line with the above said direction.</p>
3.1.iii	Check that the Board has met regularly and held Board meetings at least twelve times a year at approximately monthly intervals.	Complied	<p>The Board has met 18 times during the year 2024, 12 meetings has been held approximately at monthly intervals and 5 Special Board Meetings.</p> <p>Board minutes register and directors' attendance register are available.</p>
3.1.iv	Check that the Board has a procedure in place to enable all directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank	Complied	<p>The notice of the meeting and agenda for the meeting circulated to all directors by the Secretary at least seven days prior to the meeting to provide reasonable time to study and make any proposals.</p> <p>Accordingly, matters and proposals related to the promotion of business and the management of risks of the Bank is discussed by the Board of directors.</p>
3.1.v	Check that the Board has given notice of at least 7 days for a regular Board meeting to provide all directors an opportunity to attend. And for all other Board meetings, notice has been given.	Complied	<p>Calendar Notice for the meetings are being send to directors via electronic media before 7 days.</p> <p>Prepared agenda is being sent to each director of the Board which is signed by the Board Secretary with the approval of the Chairman by hand at least seven days prior to the meeting.</p>

3.1.vi	Check that the Board has taken required action on directors who have not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held. Participation at the directors' meetings through an alternate director, however, to be acceptable as attendance.	Complied	The directors have attended the meetings as required and hence, no such requirement has been arisen.
3.1.vii	Check that the Board has appointed a company secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and carry out other functions specified in the statutes and other regulations.	Complied	<p>The Board has appointed the Secretary to the Board in accordance with the section 43 of the Banking Act No. 30 of 1988.</p> <p>The Board has set up a separate Board Secretariat and recruited a qualified person as the Board Secretary.</p>
3.1.viii	Check the process to enable all directors to have access to advice and services of the company secretary.	Complied	All directors have access to advice and obtain the service of the Board Secretary.
3.1.ix	Check that the company secretary maintains the minutes of Board meetings and there is a process for the directors to inspect such minutes.	Complied	All the minutes of the Board meetings are filed sequentially and kept under the Board Secretary's authority. At any time, any director shall have access to any information regarding the Board meetings.
3.1.x	<p>Check that the minutes of a Board meeting contain or refer to the following:</p> <p>a summary of data and information used by the Board in its deliberations;</p> <p>the matters considered by the Board;</p> <p>the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence;</p> <p>the matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations the understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and the decisions and Board resolutions.</p>	Complied	<p>The Board minutes are recorded in sufficient detail includes all the facts referred above.</p> <p>Generally, followings are included in the contents of the Board minutes.</p> <p>Confirmation minutes of the previous meeting</p> <p>Matters arising out of the minutes of the previous meetings.</p> <p>Differed from the previous meeting (if any)</p> <p>Recovery matters</p> <p>Financial matters</p> <p>Marketing and publication matters</p> <p>Administration and personal matters.</p> <p>Administration and personal matters.</p> <p>Credit matters</p> <p>Risk Matters</p> <p>Legal Matters</p> <p>Compliance matters and,</p> <p>Any Other Matters.</p>

3.1.xi	Check that there are procedures agreed by the Board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense.	Complied	Board approval is obtained enabling to seek independent professional advice whenever necessary while carrying out duties and making decisions. Bank follows Government approved tender procedures.
3.1.xii	Check that there is a procedure to determine, report, resolve and to take appropriate action relating to directors avoid conflicts of interests, or the appearance of conflicts of interest.	Complied	According to the section 28 of the SMIB Law No.1975, no loan shall be granted by the Bank to any director. (Board Paper No 16/08/35) Board minute no 16.08.95.02 held on 26.08.2016.
	Check that a director has abstained from voting on any Board resolution in relation to which he/she or any of his/her close relation or a concern in which a director has substantial interest, is interested.		No such situation taken place in year under review.
	Check that has he/she been counted in the quorum for the relevant agenda item at the Board meeting		Such a matter has not arisen during the year 2024 and therefore this section is not applicable.
3.1.xiii.	Check that the Board has a formal schedule of matters specifically reserved to it for decision to identify the direction and control of the Bank is firmly under its authority.	Complied	The Board has a formal schedule of matters, the Board maintain schedule of matters specifically reserved to it for decision to identify the direction and control of the Bank is firmly under its authority. Board Paper No.16/10/40 in the minutes of 16.10.122.02
3.1.xiv	Check that the Board has forthwith informed the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action, if it considers that the procedures to identify when the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors.		Such situation has not occurred.
3.1.xv	Check that the Board has the Bank capitalized at levels as required by the Monetary Board.	Non - Complied	Common Equity Tier 1 Capital Ratio as 19.28% and Total Capital Ratio 19.28% as at 31.12.2024 and the recorded capital for the period is Rs.4,787 Mn. The recorded capital shortfall is Rs.2,713 Mn.
3.1.xvi	Check that the Board publishes, in the Bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.	Complied	The Board publishes the annual Corporate Governance Report setting out the compliance with direction 3 of these directions in the annual report.

3.1. xvii	Check that the Board adopts a scheme of self-assessment to be undertaken by each director annually, and maintains records of such assessments.	Complied	Self-assessment/evaluation process has been carried out by the Board of directors for the year 2024.																								
3.2	The Board's Composition																										
3.2.i	Check that the Board comprise of not less than 7 and not more than 13 directors.	Non-Complied	Board consists of (05) Independent Non-Executive Directors and one (01) Non-Executive Director. <table border="1"> <thead> <tr> <th></th> <th>Name of Director</th> <th>Appointment date</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Mr. J. M. Soosaitasan (Resigned with effect from 07.10.2024)</td> <td>17.05.2023</td> </tr> <tr> <td>2</td> <td>Mr. M. P. Kuragama</td> <td>04.11.2024</td> </tr> <tr> <td>3</td> <td>Mr. S. K. A. Galappatthi</td> <td>07.03.2023</td> </tr> <tr> <td>4</td> <td>Professor D. A. M. Perera</td> <td>21.03.2023</td> </tr> <tr> <td>5</td> <td>Mr. B. R. Madihahewa</td> <td>02.05.2023</td> </tr> <tr> <td>6</td> <td>Mr. H. C. D. L. Silva</td> <td>01.01.2023</td> </tr> <tr> <td>7</td> <td>Dr. R. A. T. K. Ranasinghe</td> <td>07.06.2024</td> </tr> </tbody> </table>		Name of Director	Appointment date	1	Mr. J. M. Soosaitasan (Resigned with effect from 07.10.2024)	17.05.2023	2	Mr. M. P. Kuragama	04.11.2024	3	Mr. S. K. A. Galappatthi	07.03.2023	4	Professor D. A. M. Perera	21.03.2023	5	Mr. B. R. Madihahewa	02.05.2023	6	Mr. H. C. D. L. Silva	01.01.2023	7	Dr. R. A. T. K. Ranasinghe	07.06.2024
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3.2.ii.a	Check that the total period of service of a director other than a director who holds the position of CEO, does not exceed nine years.	Complied	No director has exceeded 9 years of service in the capacity of director																								
3.2.ii.b	In the event of any director serving more than 9 years, check that the transitional provisions have been applied with.		No director has exceeded 9 years of service in the capacity of director.																								
3.2.iii.	Check that the number of executive directors, including the CEO does not exceed one-third of the number of directors of the Board.		In accordance with the provisions of the SMIB Law No.13 of 1975 the Board consists of directors appointed by the Line Ministry and all are non-executive directors.																								
3.2.iv	Check that the Board has at least three independent non-executive directors- or one third of the total number of directors, whichever is higher. Check if non-executive directors can be considered independent if he/she:	Complied	As per the SMIB Law No 13 of 1975, all the directors are appointed by the Minister. Five Directors are Independent non- executive directors and one director is a Non independent non-executive director.																								
3.2.iv.a	Holds a direct and indirect shareholding of more than 1 per cent of the Bank;		There is no such situation has arisen as the Bank is fully owned by the Government.																								
3.2.iv.b	Currently has or had during the period of two years immediately preceding his/her appointment as director, any business transactions with the Bank as described in Direction 3(7) hereof, exceeding 10 per cent of the regulatory capital of the Bank.		According to note 31 of the Financial Statement 2024 no such transaction occurred. Also, no such transaction has been disclosed or identified.																								
3.2.iv.c	Has been employed by the Bank during the two-year period immediately preceding the appointment as director.		There are no such non-executive directors who were employed by the Bank.																								

3.2.iv.d	Has had a close relation; who is a director, CEO, a member of key management personnel, a material shareholder of the Bank or another Bank. (For this purpose, a "close relation" means the spouse or a financially dependent child)		There is no such non-executive director has had a close relation according to the self-declaration made by the directors according to the section 42 of the Banking act and declaration made by KMPs.
3.2.iv.e	Represents a specific stakeholder of the Bank		The Bank is fully owned by the Government.
3.2.iv.f	Is an employee or a director or a material shareholder in a company or business organization:		There was no transaction in which a director is directly involved.
3.2.iv.f.I	which currently has a transaction with the Bank as defined in Direction 3(7) of these Directions, exceeding 10 per cent of the regulatory capital of the Bank, or		There was no transaction in which a director is directly or indirectly interested during the year 2024.
3.2.iv.f.II	In which any of the other directors of the Bank are employed or are directors or are material shareholders; or		No incident was arisen in this regard.
3.2.iv.f.III	In which any of the other directors of the Bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10 per cent of regulatory capital in the Bank.		No incident was arisen in this regard.
3.2.v	In the event an alternate director was appointed to represent an independent director, Check the person so appointed meet the criteria that applies to the independent director.		No alternative directors were appointed during the year.
3.2.vi	Check that the Bank has a process for appointing independent directors.	Complied	Directors are appointed by the Minister according to the section 7 of SMIB Law No.13 of 1975.
3.2.vii	Check that the stipulated quorum of the Bank includes more than 50% of the directors and out of this quorum more than 50% should include non-executive directors.	Complied	All directors are non –executive directors.
3.2.viii.	Check that the Bank discloses the composition of the Board, by category of directors, including the names of the Chairman, executive directors, non-executive directors and independent non-executive directors in the annual corporate governance report.	Complied	The Bank has disclosed the composition of the Board, including the names of the Chairman and directors. It had disclosed directors' category as independent non-executive directors in the annual report.
3.2.ix	Check the procedure for the appointment of new directors to the Board.	Complied	The appointment of directors is done by the Minister in accordance with the SMIB Law No.13 of 1975.

3.2.x	Check that all directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after their appointment.		The directors are appointed by the Minister in accordance with the SMIB Law No.13 of 1975.
3.2.xi	Check if a director resigns or is removed from office,		The removal of the directors is done by the Minister of relevant Line Ministry in accordance with the SMIB Law No.13 of 1975.
3.2.xi.a	the Board announce the director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the Bank, if any; and		
3.2.xi.b	Issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.		The removal of the directors is done by the Minister of relevant Line Ministry in accordance with the SMIB Law No.13 of 1975.
3.2.xii	Check if there is a process to identify whether a director or an employee of a Bank is appointed, elected or nominated as a director of another Bank.	Complied	As per section 76H read with Section 42 of the Banking Act, Director of Bank Supervision of CBSL has accepted the assessment of fitness and propriety of the directors of SMIB.
3.3	Criteria to assess the fitness and propriety of directors		
3.3.i	Check that the age of a person who serves as director does not exceed 70 years.	Complied	Checked and ensured through the declarations that all directors are below the age of 70.
3.3.i.a	Check that the transitional provisions have been complied with.		Since no directors exceed age of 70 years, this section does not apply.
3.3.ii	Check if a person holds office as a director of more than 20 companies/ entities/ institutions inclusive of subsidiaries or associate companies of the Bank.	Complied	No director holds office as a director of more than 20 companies'/entities/ institutions.
3.3.iii	Check that a Director or a Chief Executive Officer of a licensed Bank operating in Sri Lanka shall not be appointed as a Director or a Chief Executive Officer of another licensed Bank, operating in Sri Lanka before the expiry of a period of 6 months from the date of cessation of his/her office at the previous Bank.		No such appointment has taken place.
3.4	Management functions delegated by the Board		
3.4.i	Check that the delegation arrangements have been approved by the Board.	Complied	Power delegation by the BOD to the General Manager /CEO to manage the business is done according to the SMIB Law -Section 20, 21. The Board appointed sub committees are in place and delegate powers accordingly.

3.4.ii	Check that the Board has taken responsibility for the matters in 3 (1) (i) even in the instances such actions are delegated.	Complied	The Board limits delegation of any function to Board committees, CEO or Key Management Personnel to an extent that will not reduce the ability of the Board to discharge its function.
3.4.iii	Check that the Board review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	Complied	The Board reviews the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.
3.5	The Chairman and CEO		
3.5.i	Check that the roles of Chairman and CEO is separate and not performed by the same individual.	Complied	The role of the Chairman and CEO are separate and not performed by the same individual.
3.5.ii	Check that the Chairman is a non-executive director.	Complied	Chairman is an Independent Non –executive director and he is appointed by the relevant Line Ministry, Under the SMIB Law. No.13 of 1975.
	In the case where the Chairman is not an independent director, check that the Board designate an independent director as the senior director with suitably documented terms of reference.		The Chairman is an independent director.
	Check that the designation of the senior director be disclosed in the Bank's Annual Report		SMIB Law No. 13 of 1975 does not provide provisions to appoint senior director position.
3.5.iii	Check that the Board has a process to identify and disclose in its corporate governance report, which shall be a part of its Annual Report, any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairman and the CEO and Board members and the nature of any relationships including among members of the Board.	Complied	This has been disclosed in the self-declaration made by the directors in accordance with the term of Section 42 of the Banking Act.
3.5.iv	Check that the Board has a self-evaluation process where the Chairman: (a) provides leadership to the Board; (b) ensures that the Board works effectively and discharges its responsibilities; and (c) ensures that all key and appropriate issues are discussed by the Board in a timely manner	Complied	Self-evaluation process has been carried out by the Board.
3.5.v	Check that a formal agenda is circulated by the Company Secretary approved by the Chairman.	Complied	The agenda was circulated to all Directors by the Board Secretary with the approval of the Chairman.
3.5.vi	Check that the Chairman ensures, through timely submission that all directors are properly briefed on issues arising at Board meetings	Complied	The Directors are properly briefed on issues arising at the Board meetings and Board papers are circulated to Directors in advance to prepare for the board meetings.

3.5.vii	Check that the Board has a self-evaluation process that encourages all directors to make a full and active contribution to the Board's affairs and the Chairman taking the lead to act in the best interest of the Bank	Complied	Self-evaluation process has been carried out to assess the contribution of the Non-executive Directors by the Board in 2024.
3.5.viii	Check that the Board has a self-evaluation process that assesses the contribution of non-executive directors.	Complied	Self-evaluation process has been carried out by the Board in 2024 and it assesses the contribution of non-executive directors.
3.5.ix	Check that the Chairman engages in activities involving direct supervision of key management personnel or any other Executive duties whatsoever.		The Chairman does not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.
3.5.x	Check that there is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.		Government has the 100% ownership of the Bank and all directors are appointed by the relevant Line Ministry. The Treasury representative is a permanent member of the Board.
3.5.xi	Check that the CEO functions as the apex executive-in-charge of the day-to-day management of the Bank's operations and business.	Complied	As per the Organization Chart the CEO/ GM function as apex executive in charge of day-to-day management of the Bank operations and business.
3.6	Board appointed committees		
3.6.i	Check that the Bank has established at least four Board committees as set out in Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions.	Complied	Bank has established following Board sub committees; Board Audit Committee (BAC) Board Human Resources, and Remuneration Committee (BHRRC) Board Nomination Committee (BNC) Board Integrated Risk Management Committee (BIRMC)
	Check that each Board committee report is addressed directly to the Board.	Complied	Each Board subcommittee reports/minutes are directly addressed to the Board.
	Check that the Board presents in its annual report, a report on each committee on its duties, roles and performance.	Complied	The Bank has disclosed details of all Board Sub Committees including the composition, duties, roles and performance in the annual report.
3.6.ii	Audit Committee:		
3.6.ii.a	Check that the Chairman of the committee is an independent non-executive director and possesses qualifications and related experience.	Complied	The Chairman of BAC was an independent non-executive director and has necessary qualifications and experience. Chairperson of BAC holds following qualifications: Double Ph.D.s in Business Management from the KEISEI International University and in Marketing from the Wayamba University MBA in Financial Management from the Indira Gandhi National Open University and a General MBA from the Wayamba University B.Sc. (Special) in Public Administration from the University of Sri Jayewardenepura Member of the Association of Accounting Technicians

3.6.ii.b	Check that all members of the committee are non-executive directors.	Complied	Board Audit Committee consists of 3 members and one alternative member. Out of three members two are independent non-executive directors and one is a non-executive.
3.6.ii.c	Check that the committee has made recommendations on matters in connection with		
3.6.ii.c.I	The appointment of the external auditor for audit services to be provided in compliance with the relevant statutes		The External Auditor is the Auditor General who has been appointed in accordance with the Constitution of Sri Lanka, Finance Act/ Audit Act and Section 65 of SMIB Law No. 13 of 1975.
3.6.ii.c.II	the implementation of the Central Bank guidelines issued to auditors from time to time;		
3.6.ii.c.III	the application of the relevant accounting standards; and	Complied	<p>The Financial Statements are prepared in accordance with the new Sri Lanka Accounting Standards (SLFRSs/LKASs) and the formats prescribed by the regulators.</p> <p>Financial Statement were approved at the Board Meeting held on 28.02.2025 and ratified by the Board Audit Committee at its meeting held on 28.02.2025</p> <p>Annual Financial Statements are disclosed in the annual report; quarterly statements are published in newspapers in all three languages.</p>
3.6.ii.c.IV	the service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.		The external auditor is Auditor General who has been appointed as per the Constitution of Sri Lanka, Finance Act/ Audit Act and Section 65 of SMIB Law No. 13 of 1975.
3.6.ii.d	Check that the committee has obtained representations from the external auditors on their independence, and that the audit is carried out in accordance with SLAUS		Not relevant. According to the SMIB Law No.13 of 1975, Auditor General is the external Auditor of the SMIB.
3.6.ii.e	Check that the committee has implemented a policy on the engagement of an external auditor to provide non-audit services in accordance with relevant regulations		Not relevant. According to the SMIB Law No.13 of 1975, Auditor General is the external Auditor of the SMIB.
3.6.ii.f	Check that the committee has discussed and finalized, the nature and scope of the audit, with the external auditors in accordance with SLAUS before the audit commences		The Audit Committee has discussed the nature and scope of the audit with the external auditor. Audit Report States that the audit was conducted in accordance with SLAUS.

3.6.ii.g	<p>Check that the committee has a process to review the financial information of the Bank, in order to monitor the integrity of the financial statements of the Bank, its annual report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following;</p> <p>major judgmental areas; any changes in accounting policies and practices; the going concern assumption; and the compliance with relevant accounting standards and other legal requirements, and; in respect of the annual financial statements the significant adjustments arising from the audit.</p>	Complied	<p>The Board Audit Committee has reviewed the financial information of the Bank through following audit committee meetings:</p> <p>Meeting Date- 22/02/2024 Meeting Date- 25/04/2024 Meeting Date- 29/04/2024 Meeting Date – 24/07/2024 Meeting Date – 29/10/2024 Meeting Date – 11/12/2024</p>
3.6.ii.h	<p>Check that the committee has met the external auditors relating to any issue in the absence of the executive management with relation to the audit.</p>	Complied	<p>Board Audit Committee has met the external auditor in the absence of the executive management. There were no such matters arisen during the year.</p>
3.6.ii.i	<p>Check that the committee has reviewed the external auditor's management letter and the management's response thereto.</p>		<p>Management has reviewed the Detailed Management Audit Report for the year 2023 issued under Section 12 of the National Audit Act, No.19 of 2018.</p>
3.6.ii.j	<p>Check that the committee shall take the following steps with regard to the internal audit function of the Bank:</p>		
3.6.ii.j.I	<p>Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;</p>	Complied	<p>Internal Audit Plan – 2024 was approved by BAC Paper No. BAC/23/04/03 at the meeting held on 08/12/2023.</p> <p>The Internal Audit Division has been delegated necessary authority to carry out their work by the Internal Audit Charter which has been approved by the Board Audit Committee and the Board of Directors.</p>
3.6.ii.j.II	<p>Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;</p>	Complied	<p>Audit Committee has reviewed the internal audit plan quarterly and the results of the internal audit process and taken the appropriate actions where those were necessary.</p>
3.6.ii.j.III	<p>Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department</p>	Complied	<p>On performance matters, BAC Chairman evaluates the performance of the Chief Internal Auditor. Assessment of the performance of senior staff members of the Internal Audit Division are assessed by the Chief Internal Auditor.</p>

3.6.ii.j.IV	Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function.	Complied	The Chief Internal Auditor was appointed with the recommendation of the Committee. There were no terminations during the year the year 2024.
3.6.ii.j.V	Check that the committee is appraised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;	Complied	No such requirement has arisen during the year 2024.
3.6.ii.j.VI	Check that the internal audit function is independent of the activities it audits	Complied	As provided in the Charter of Board Audit Committee the BAC ensures that internal audit functions are carried out independent audits. Internal audit function is independent of the activities it audits.
3.6.ii.k	Check the minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto	Complied	Minutes of the committee has recorded the reviewed major findings and Management responses thereto during the period under review.
3.6.ii.l	Check whether the committee has had at least two meetings with the external auditors without the executive directors being present.	Complied	A representative of AG was present at all BAC meetings in 2024. The BAC members do not include any executive directors.
3.6.ii.m	Check the terms of reference of the committee to ensure that there is; explicit authority to investigate into any matter within its terms of reference the resources which it needs to do so full access to information; and authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary	Complied	Terms of References the Board audit committee includes required terms. As per the BAC Charter the Committee has been empowered to investigate any matter, access to information, authority to obtain professional advice, resources to carry out its functions etc.
3.6.ii.n	Check that the committee has met, at least four times and maintained minutes	Complied	The committee met six times for the period of 2024 and maintains minutes of those meetings.
3.6.ii.o	Check that the Board has disclosed in the annual report, details of the activities of the audit committee; the number of audit committee meetings held in the year; and details of attendance of each individual director at such meetings	Complied Complied Complied	The annual report contains a detailed Board audit committee report

3.6.ii.p	Check that the secretary of the committee is the company secretary or the head of the internal audit function.	Complied	The Secretary of the committee is the Secretary to the Board of Directors.
3.6.ii.q	Check that the "whistle blower" policy covers the process of dealing with; The improprieties in financial reporting, internal control or other matters. In relation to (i) the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters, and Appropriate follow-up action.	Complied	The Whistle Blower policy with the Internal Audit Manual has been reviewed by the IAD and BAC has approved same in BAC Meeting which was held on 29/10/2024.
3.6.iii	Does the following rules apply in relation to the Human Resources and Remuneration Committee		
3.6.iii.a	Check that the Committee has implemented a policy to determine the remuneration (salaries, allowances and other financial payments) relating to directors, CEO and key management personnel of the Bank by review of the "Terms of reference" and minutes.	Complied	Presently remunerations are decided as follows. Circular of the Public Enterprises No. PED 3/2015-Directors and Chairman and Pub. Ent. Circular No. PED 01/2020 The remuneration of the KMPs is decided in par with the Collective Agreement considering salary increment of three main government Banks and approved by the BOD of the Bank with the concurrence of the Ministry of Finance.
3.6.iii.b	Check that the goals and targets for the directors, CEO and the key management personnel are documented	Complied	Goals and target for the directors, CEO /GM and for the key management personnel are documented in the Revised Corporate Plan and Action Plan 2024-2028. Further, KPIs are processing in order to evaluate performance of CEO and KMPs against the set targets and goals periodically.
3.6.iii.c	Check that the committee has considered evaluations of the performance of the CEO and key management personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Complied	Performance of the Key Management Personnel are evaluated by monitoring their performance against the set KPIs by the Board Human Resources & Remuneration Committee. Further, the Board of directors evaluate the performance of the CEO annually. Performance Evaluation of Internal Auditor is reviewed by BAC, Performance Evaluation of AGM- Compliance is reviewed by BIRMC and Performance Evaluation of the Head of Risk Management is reviewed by BIRMC. Remuneration of the CEO and Key Management Personnel are decided based on the collective agreement by the Board Human Resources and Remunerations Committee, and the Board.
3.6.iii.d	Check that the "Terms of reference" provides that the CEO is not present at meetings of the committee, when matters relating to the CEO are being discussed by reviewing the minutes.	Complied	Terms of Reference of Human Resources and Remuneration Committee stated that CEO is not present at the meeting when matters relate to him are being discussed.

3.6.iv	Does the following rules apply in relation to the Nomination Committee:		
3.6.iv.a	Check that the committee has implemented a procedure to select/appoint new directors, CEO and key management personnel.	Complied	The directors are appointed by the Ministry as per provisions in the SMIB Law No13 of 1975. KMPs are selected as per the Scheme of Recruitment of the Bank; selected candidate is recruited with the recommendation and approval of the BNC and the Board respectively.
3.6.iv.b	Check that the committee has considered and recommended (or not recommended) the re-election of current directors.	Complied	The BNC has recommended the re-election of the current (continuing) directors.
3.6.iv.c	Check that the committee has set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the key management personnel, by review of job descriptions	Complied	Approved SOR contains the qualifications and experience required for appointment of CEO and KMPs.
3.6.iv.d	Check that the committee has obtained from the directors, CEO and key management personnel signed declarations that they are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes.	Complied	All completed declarations of directors, CEO and Key Management Personnel have been obtained by Board Secretary and forwarded to CBSL.
3.6.iv.e	Check that the committee has considered a formal succession plan for the retiring directors and key management personnel.	Complied	The Appointment of Directors are governed by the SMIB Law No. 13 of 1975, and accordingly, the Minister periodically nominate/ appoint directors to the Board. A succession policy for KMPs was approved on 13th December 2024.
3.6.iv.f	Check that the Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.	Complied	The Committee comprised of two independents non -executive directors, one non-executive director and one alternative member who is also an independent non-executive director. Chairman of the Committee is an independent non -executive director. The CEO presented meetings by invitation.
3.6.v	Does the following rules apply in relation to the Integrated Risk Management Committee (IRMC)		
3.6.v.a	The committee shall consist of at least three non- executive directors, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.	Complied	BIRMC consist of one Non – Executive Director, two Independent non-executive Directors, one alternative member who is also an independent non-executive director, the GM/CEO, the Head of Risk Management, Compliance Officer and the Secretary to the BIRMC.

3.6.v.b	Check that the committee has a process to assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a Bank basis and group basis	Complied	Risk Management Division (RMD) assesses the credit market operational risk, strategic risk, liquidity risk adequately and submits reports to the committee on a quarterly basis. In addition, RMD uses RCSA mechanism to let the risk owners identify their own risk.
3.6.v.c	The committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset and Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee	Complied	BIRMC has discussed matters regarding the quantitative and qualitative risk of credit, liquidity, operational, strategic and compliance; KRIs depict the relevant risk limits and responsible parties / officers/ committees. It is required to report the quarterly KRIs by the risk owners themselves with proposed corrective actions.
3.6.v.d	Check that the committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	Complied	Committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits. In the summary paper of KRIs submitted to the BIRMC, the committee has given special attention for the risk indicators which have gone beyond the prudential limits and has given due directions.
3.6.v.e	Check how many times the committee has met at least quarterly.	Complied	BIRMC has met five times during the year 2024.
3.6.v.f	Check that the committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.	Complied	All disciplinary actions are governed by the SMIB rules in Disciplinary Code, such actions are being informed the events where such actions need to be initiated. As the committee meets on a quarterly basis such events are initially informed to the GM (the Disciplinary authority) and disciplinary actions are initiated.
3.6.v.g	Check that the committee submits a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Complied	The Committee submitted the risk assessment report to the Board for their information and necessary action subsequent to each meeting.
3.6.v.h	Check that the committee has established a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations and that there is a dedicated compliance officer selected from key management personnel to carry out the compliance function and report to the committee periodically.	Complied	The Board has appointed a Compliance Officer for the compliance function. With the retirement of the AGM-Compliance the Bank has appointed Manager-Compliance to cover duties until a suitable officer is recruited for the position. The Compliance Officer reports the compliance function regularly to the Board and quarterly to the BIRMC.

3.7	Related party transactions		
3.7.i	<p>Check that there is an established and documented process by the Board to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction:</p> <p>a. Any of the Bank's subsidiary companies;</p> <p>b. Any of the Bank's associate companies;</p> <p>c. Any of the directors of the Bank;</p> <p>d. Any of the Bank's key management personnel;</p> <p>e. A close relation of any of the Bank's directors or key management personnel;</p> <p>f. A shareholder owning a material interest in the Bank;</p> <p>g. A concern in which any of the Bank's directors or a close relation of any of the Bank's directors or any of its material shareholders has a substantial interest.</p>	Complied	<p>An established process is always available to identify related parties prior carrying out transactions to avoid conflict of interest, Related Party Transaction Policy is approved by the Board.</p> <p>Board Paper No. 24/11/BD(APP)/15 Board Minute No. 24.11.153.04 dated 27.12.2024.</p>
3.7.ii	Check that there is process to identify and report the following types of transactions been identified as a transaction with the related parties that is covered by this direction.	Complied	<p>Related Party Transaction Policy has been approved by the Board.</p> <p>Board Paper No. 24/11/BD(APP)/15 Board Minute No. 24.11.153.04 dated 27.12.2024.</p>
3.7.ii.a	The grant of any type of accommodation as defined in the Monetary Board' Directions on maximum amount of accommodation.		<p>According to the section 28 of the SMIB Law No.1975, no loan shall be granted by the Bank to any of a director or employee or to any company or firm in which a director or employee has a substantial interest.</p>
3.7.ii.b	The creation of any liabilities of the Bank in the form of deposits, borrowings and investments.		<p>No such liabilities in the form of deposits, borrowings and investments were created during the period under review.</p>
3.7.ii.c	The provision of any services of a financial or non- financial nature provided to the Bank or received from the Bank.		<p>No such financial or non-financial services were provided during the period under review.</p>
3.7.ii.d	The creation or maintenance of reporting lines and information flows between the Bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.		<p>No such reporting lines have been created during the period under review.</p>

3.7.iii	Does the Board have a process to ensure that the Bank does not engage in transactions with related parties as defined in Direction 3(7)(i) above, in a manner that would grant such parties "more favorable treatment" than that accorded to other constituents of the Bank carrying on the same business	Complied	Related Party Transaction Policy is approved by the Board. Board Paper No. 24/11/BD(APP)/15 Board Minute No. 24.11.153.04 dated 27.12.2024.
3.7.iii.	<p>a. Granting of "total net accommodation" to related parties, exceeding a prudent percentage of the Bank's regulatory capital, as determined by the Board. For purposes of this sub-direction: "Accommodation" shall mean accommodation as defined in the Banking Act Directions, No.7 of 2007 on Maximum Amount of Accommodation. The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Bank's share capital and debt instruments with a maturity of 5 years or more.</p> <p>b. Charging of a lower rate of interest than the Bank's best lending rate or paying more than the Bank's deposit rate for a comparable transaction with an unrelated comparable counterparty</p> <p>c. Providing of preferential treatment, such as favorable terms, covering trade losses and/ or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;</p> <p>d. Providing services to or receiving services from related-party without an evaluation procedure;</p> <p>e. Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions</p>		No facilities have been granted to the Directors. Employee housing loan facilities obtain by the KMPs are within allowed accommodation limits.

3.7.iv	Check that the Bank has a process for granting accommodation to any of its directors and key management personnel, and that such accommodation is sanctioned at a meeting of its Board of directors, with not less than two-thirds of the number of directors other than the director concerned, voting in favor of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary Board as well.		No such accommodation granted.
3.7.v.a	Check that the Bank has a process, where any accommodation has been granted by a Bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a director of the Bank, that steps have been taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a director.		No such accommodation granted.
3.7.v.b	Check where such security is not provided by the period as provided in Direction 3(7)(v)(a) above, has the Check where such security is not provided by the period as provided in Direction 3(7)(v)(a) above, has the Bank taken steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such director, whichever is earlier Bank taken steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such director, whichever is earlier.		No such accommodation granted.

3.7.v.c	Check that there is a process to identify any director who fails to comply with the above sub-directions be deemed to have vacated the office of director and has the Bank discloses such fact to the public.		Not occurred.
3.7.v.d	Check the process in place to ensure clause 3 (7) (v) (c) does not apply to any director who at the time of the grant of the ac Check the process in place to ensure clause 3 (7) (v) (c) does not apply to any director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such Bank accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such Bank		Not occurred.
3.7.vi	Check that there is a process in place to identify when the Bank grants any accommodation or "more favorable treatment" relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such Bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3(7)(v) above.		Not occurred.
3.7.vii.	Check that there is a process to obtain prior approval from the Monitory Board for any accommodation granted by a Bank under Direction 3(7) (v) and 3(7)(vi) above, nor any part of such accommodation, nor any interest due thereon been remitted without the prior approval of the Monetary Board and any remission without such approval is void and has no effect		Not occurred.
3.8.	Disclosures		

3.8.i.a	Check that the Board has disclosed: Annual audited financial statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied	Annual Audited Financial Statements are prepared in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards. Further, those statements were published in the following newspapers. 1. The Island 2. Dinamina 3. Thinakural
3.8.i.b	Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English	Complied	Observed that the quarterly financial statements are also published as above as per the requirements of CBSL.
3.8.ii	Check that the Board has made the following minimum disclosures in the Annual Report		
3.8. ii.a.	The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied	These details are disclosed in the "Directors' Responsibility, for the Financial Reporting"
3.8. ii.b	The report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements	Complied	Director's statement on Bank's internal control over Financial Reporting Systems was included in the annual report.
3.8. ii.c	Check that the Board has obtained the external auditor's report on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above.	Complied	Auditor General's report on Bank's Internal Control over Financial Reporting is included in the annual Report.
3.8. ii.d	Details of directors, including names, qualifications, age, experience fulfilling the requirements of the guideline fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank	Complied	Directors' profile has been disclosed in the annual report. Directors' remuneration disclosed in the annual report.

3.8. ii.e	Total net accommodation as defined in 3(7)(iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.	Complied	No accommodation provided to related parties.
3.8. ii.f	The aggregate values of remuneration paid by the Bank to its key management personnel and the aggregate values of the transactions of the Bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.	Complied	Transactions with KMPs are disclosed in the annual report.
3.8. ii.g	Check that the Board has obtained the external auditor's report on the compliance with Corporate Governance Direction	Complied	Auditor General report on a compliance with corporate governance directions is included in the annual report
3.8. ii.h	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance.	Complied	There is no separate report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance in the annual reports. However, directors' report includes the statement of compliance with applicable laws and regulations.
3.8. ii.i	A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so, directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns	Complied	Director of Bank Supervision has not submitted any reports highlighting the non-compliances during the year 2024.

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BOARD AUDIT COMMITTEE REPORT

Audit Committee Charter

The Audit Committee Terms of Reference is governed by the Audit Committee Charter which is annually reviewed and approved by the Board. The Charter of the Committee was last reviewed and approved by the Board on 27 November, 2024 to ensure the new developments relating to the Committee's function.

The Committee has full access to information, cooperation from the management and discretion to invite any Executive Officer to attend its meetings.

The Banking Act Direction No 12 of 2007 on "Corporate Governance for Licensed Specialized Banks in Sri Lanka" and its subsequent amendments issued by the Central Bank of Sri Lanka further regulate the composition, role and functions of the Committee.

Principle Focus

The Audit Committee assists the Board in discharging its responsibilities and exercises oversight over financial reporting, internal controls and internal/external audits.

Composition of the Committee

The Board Audit Committee (BAC) comprised the following members during the year under review.

	Member	Status of BAC	Appointed Date	Attendance
1	Prof.Aminda Methsila Perera	Chairman (Independent Director)	26.06.2023	6
2	Mr. H.C. Dilip Lal Silva	Member (Nonexecutive Director)	26.06.2023	6
3	Mr. S.K.A. Galappatthi	Member (Independent Director)	26.06.2023	6

The quorum of the Audit Committee is two members or majority of members whichever is higher. Profiles of the members as at December 31, 2024 are given on page 19-22

The Board Secretary functions as the Secretary to the Board Audit Committee as per the authority given in the Audit Committee Charter.

General Manager/CEO, Representative of the Government Audit as an External Auditor, Deputy General Manager Finance and the Chief Internal Auditor were the regular participants of the Audit Committee by invitation.

Meetings held in 2024

The committee met on six (06) occasions during the year 2024. The proceedings of the meetings are tabled and ratified at the Board meetings where all key issues, concerns, actions taken are discussed and Board approval obtained thereof.

Areas of Focus and Activities in 2024 Reporting of Financial Position and Performance

In fulfilling its oversight responsibilities, the Committee reviewed and discussed the quarterly and annual unaudited/audited financial statements to ensure

that they are prepared and published in accordance with applicable Sri Lanka accounting standards and requirements prescribed in the supervisory and regulatory authorities.

In assessing the fairness of the financial statements, the Committee discussed and evaluated the application of accounting principles, reasonableness of estimates and judgments thereon.

The Committee also assessed the adequacy and effectiveness of the internal control mechanism in place to meet the regulatory requirements of Internal Capital Adequacy Assessment (ICAAP) for the year 2024 in accordance with the requirement stipulated in the Banking Act Direction No 1 of 2016 on "Regulatory Framework on Supervisory Review Process".

Regulatory Compliance

The Committee ensured that the Bank complies with all mandatory banking and other regulatory requirements. The Internal Audit Division has conducted independent test checks covering all regulatory compliance requirements as a further monitoring measure.

Internal Controls

The risk-based audit approach towards the assessments of adequacy and effectiveness of the internal control policies and procedures to identify and manage all significant risks was adopted by the Bank and the Committee reviewed the stipulated process and make recommendations to improve and broaden the coverage of internal audit scope.

The Committee sought and obtained the required assurance from the business units on the remedial action in respect of the identified risks to maintain the effectiveness of internal control policies and procedures.

On a regular basis and when a specific case warranted, the committee analyzed the root cause of the control deficiency and made suggestions for due improvements.

Internal Audit

Internal audit charter and manual relating to the function of internal audit were reviewed to assure the independence and objectivity of the internal audit function.

Annual audit plan was approved by the audit committee and reviewed the effectiveness of the implementation throughout the year.

During the year, the Committee reviewed the progress of the initiatives taken by the Internal Audit Department to monitor the internal control process and systems through the audit performed in various spectrums of the Bank.

Branch credit and deposit portfolios were evaluated by the audit committee and made recommendations to improve the performance.

Investigation carried out by the Internal Audit with respect to the complaints made by the customers and employees as per the Whistleblowing Policy were reviewed by the Audit Committee and made recommendation to improve the transparency of the bank conducts and affairs. Whistleblowing policy was reviewed to update with new developments in the industry best practices.

External Audit

By statute, the Auditor General is the External Auditor of the Bank. The committee ensured the provision of all information and documents required by the External Auditor for the purpose of annual audit. The committee has reviewed the external audit concerns disclosed in the final audit reports and reviewed the adequacy

of the corrective actions taken by the management to address the concerns highlighted in the management letter and periodic audit queries.



Prof. Aminda Methsila Perera

Chairman – Board Audit Committee

BOARD NOMINATION COMMITTEE REPORT

Scope of the Committee

Board Nomination Committee involves implementing a procedure to select or appoint CEO and Key Management Personnel, setting the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the Key Management Positions. Further to that, the Committee shall consider and recommend the requirements of additional or new expertise to the Bank from time to time by working together to form the best process for recruiting and nominating candidates.

Composition of the Committee

The Board Nomination Committee (BNC) comprises four Independent Non - Executive Directors, including one alternative member who has been appointed by the Board of Directors of the State Mortgage and Investment Bank.

BNC comprised of the following Independent Non - Executive Directors as of the end of the year 2024.

- Mr. J.M. Soosaithasan - Chairman
(Resigned on 04.10.2024)
- Mr. S. K. A. Galappatthi - Member
- Mr. H. C. D. L. Silva - Member
- Prof. D. A. M Perera - Alternate Member

Meetings of Committee

It is required for the Committee to meet at least once a year, and meetings can be conveyed when necessary. The quorum is two members, both of whom must be independent Non-Executive Directors present through the meeting. General Manager/ CEO attended meetings as an invitee on the direction of the Chairman of the Committee.

Proceedings of the Committee meetings are regularly reported to the Board of Directors for their information. Nine (09) Committee meeting were held in the year 2024.

Attendance of the Committee Members at the Meetings

	Name of the Committee Member	Status in BNC	Number of Meetings Held	Number of Meetings attended
1	Mr. J. M. Soosaithasan	Chairman	09	04
2	Mr. S. K. A. Galappatthi	Member		09
3	Mr. H. C. D. L. Silva	Member		08
4	Prof. D. A. M Perera	Alternate Member		05

Secretary

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



Mr. S. K. A. Galappatthi

Protem Chairman of the Committee

20-01-2025

BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

Composition and Quorum during the Year 2024

The Board Human Resources and Remuneration Committee (BHRRC) comprises of Three Independent Non-executive Directors, including one alternative member who has been appointed by the Board of Directors of the State Mortgage and Investment Bank. The quorum of the Committee is two members.

Committee members during the year 2024

- Mr. J.M. Soosaitasan -Chairman
(Resigned on 04.10.2024)
- Mr. S. K. A. Galappatthi - Member
- Mr. B. R. Madihahewa - Member
- Mr. H. C. D. L. Silva - Member

Secretary

Secretary to the Board functions as the Secretary to the Board Human Resources & Remuneration Committee.

Attendance of the Committee Members at the Meetings

Name of the Director	Number of Meetings held	Number of Meetings attended
Mr. J. M. Soosaitasan	04	03
Mr. S. K. A. Galappatthi		04
Mr. B. R. Madihahewa		02
Mr. H. C. D. L. Silva		01



Mr. S. K. A. Galappatthi

Protem Chairman of the Committee

20-01-2025

Scope of the Committee

The Committee guides and advice in developing and implementing HR policies, strategies, and plans, resolving HR-related issues, and determines the remuneration policy relating to Directors, Chief Executive Officer (CEO) and Key Management Personnel of the Bank. The committee sets goals and targets for the Directors, CEO and the Key Management Personnel. Further, the committee evaluates the CEO and Key Management Personnel's performance against the set targets and goals periodically and determines the basis for revising remuneration, benefits, and other payments of performance-based incentives.

Meetings of Committee

The Human Recourses and Remuneration Committee shall meet at least once a year and meetings can be convened as and when it is necessary. Four (04) meetings were held during the year 2024.

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

Composition of the Board Integrated Risk Management Committee-2024

The Board Integrated Risk Management Committee comprised of four Non-Executive Directors, the General Manager/CEO of the Bank, the Head of Risk Management Division and the Secretary to the Committee. Four BIRMC meetings were conducted for the year of 2024.

The Committee composition is as follows [For the 1st, 2nd, 3rd and 4th BIRMC Meetings]

- Mr. H C D L Silva - Non-Executive Director – The Chairman to the Committee)
- Mr. S Galappathi - Non-Executive Director
- Mr. B R Madihahewa - Non-Executive Director
- Professor D A M Perera - Non-Executive Director (Alternate)
- Mr. I T Asuramanna - General Manger/Chief Executive Officer
- Mrs. R K A N Ratnayake - Head of Risk Management Division
- Mrs. D Alahakoon - Board Secretary

Charter of the BIRMC

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

The Charter of the BIRMC was approved by the Board of Directors at the meeting which was held on 12.12.2023 and reviewed periodically. Approved charter stipulates its authority, structure and responsibilities.

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

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

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

The BIRMC meetings

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

For Q 1st, 2nd, 3rd & 4th BIRMCs -

Name of the Director	No of meeting attended/ No of meetings to be attended
Mr. H C D L Silva (The Chairman to the Committee)	4/4
Mr. S Galappatthi	4/4
Mr. B R Madihahewa	4/4
Professor D A M Perera (Alternative member)	Excused

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

Reporting

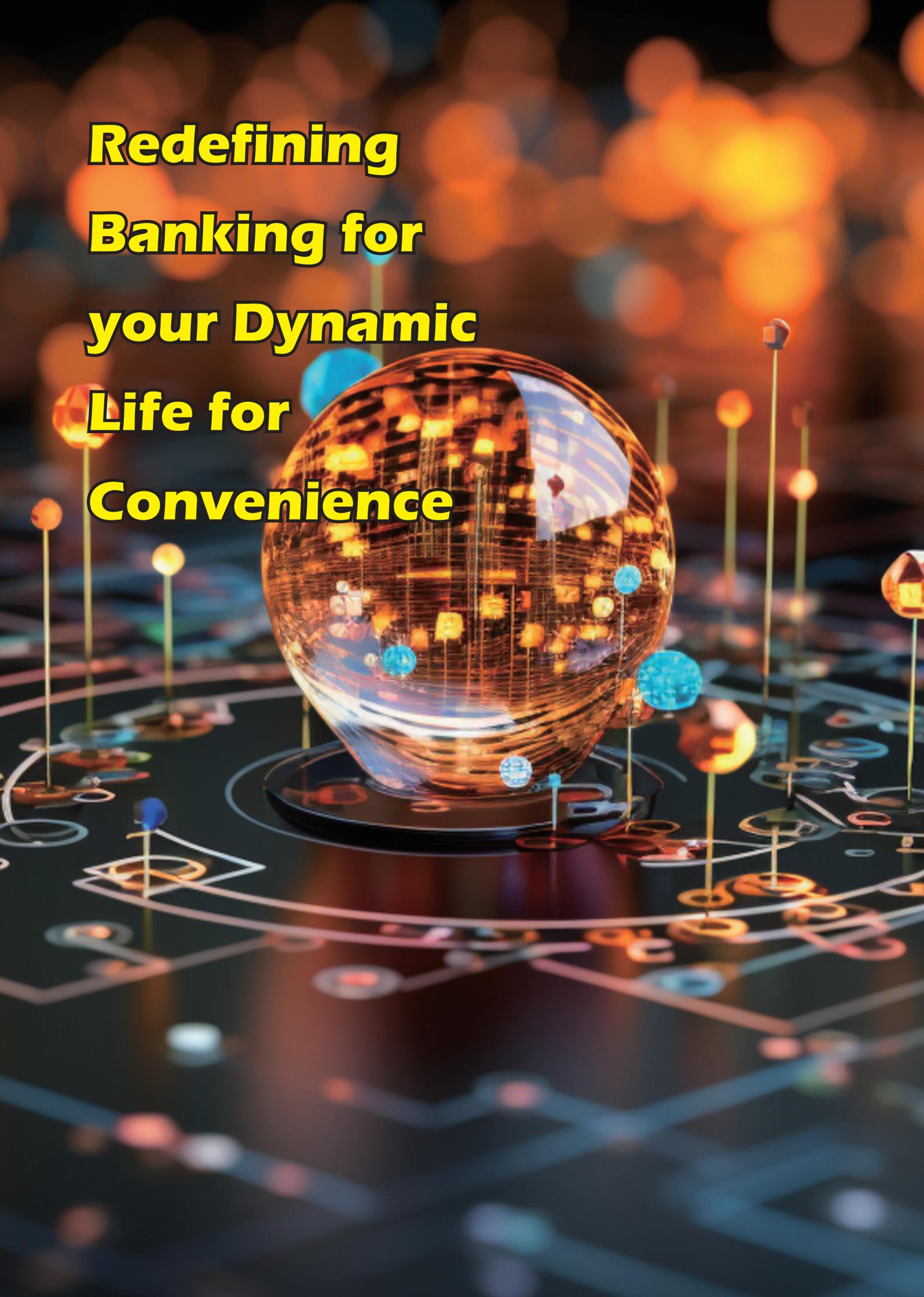
Processes proposed and discussed at the BIRMC meetings were reported to the Board seeking Board's views, concurrences and specific directions and approval with the recommendation of the BIRMC. Recommendations made by the BIRMC during the year under review were discussed at Board Level and approved by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



Mr. H.C.D.L.Silva

The Chairman-Board Integrated Risk Management Committee

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RISK MANAGEMENT

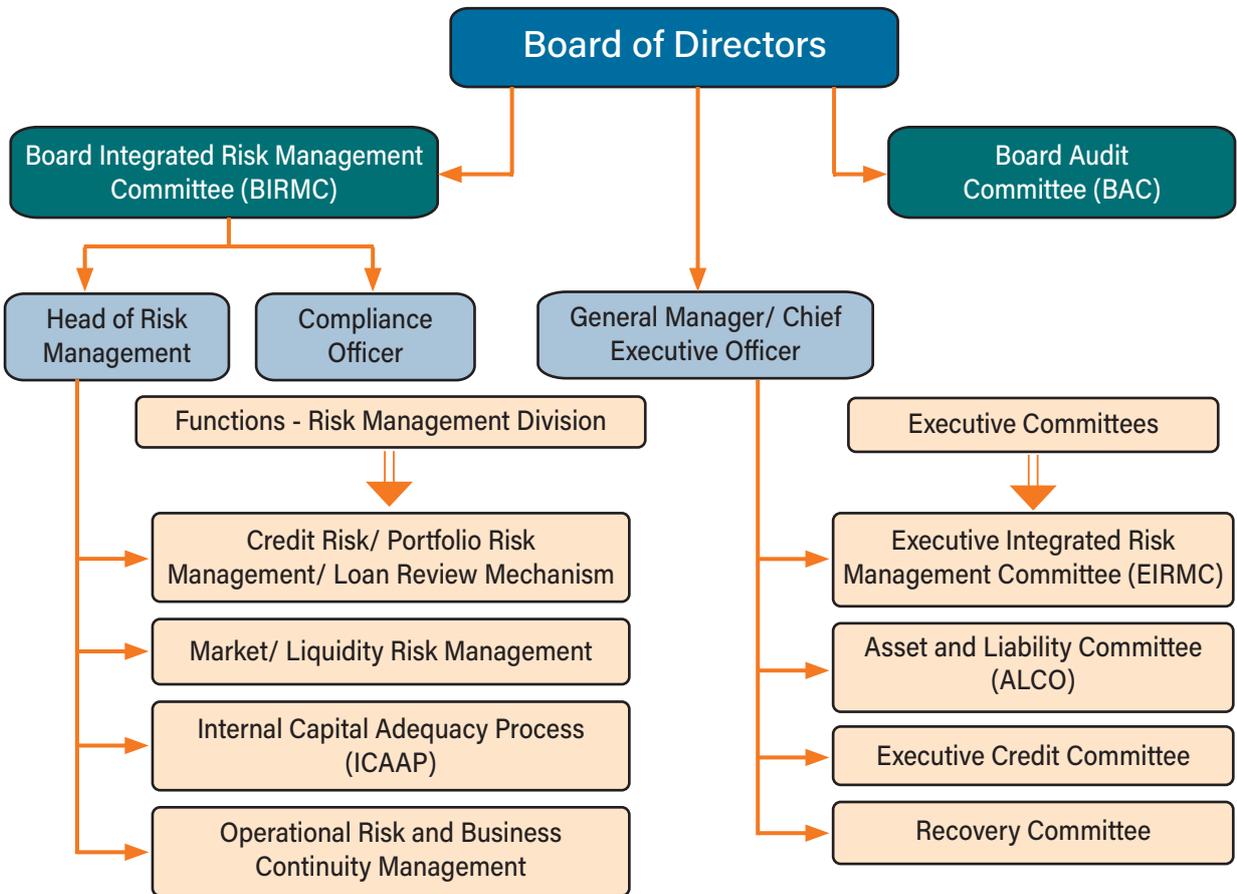
Sri Lanka has demonstrated remarkable resilience in recent years, bouncing back faster than expected despite the tough times it has faced. The outlook for 2024 remains cautiously optimistic as the country continues its recovery from a severe financial crisis. Efforts to stabilize the economy, including fiscal consolidation, debt restructuring and inflation control are expected to bring gradual improvements. The GDP growth rate for the year is projected to be between 4% and 5%, supported by reforms aimed at restoring investor confidence and a strong rebound in the tourism industry. Inflation has decreased significantly from a peak of 70% in 2022 to a deflationary rate of 1.7% in December 2024, thanks to the lasting impact of substantial reductions in energy prices, a drop in volatile food prices and currency depreciation. However, challenges such as high debt levels, unemployment and low foreign reserves persist. The global economic

climate and the ongoing debt restructuring process will play a crucial role in shaping Sri Lanka’s recovery path.

Amidst these economic challenges, the Bank remained focused on its operations and upheld its risk management efforts to effectively address these challenges by minimizing any potential disruption to its operations.

The Bank’s risk governance structure clearly defines responsibilities for the identification, measurement, management, monitoring and reporting of risks. The mandates of risk related governance committees at both Board and Executive level ensure accountability for all types of risks across the organization, facilitating a holistic and systematic approach to risk management. The risk governance structure comprising Board and executive functions is graphically illustrated below;

Risk Governance and Management Structure of the bank



Risk Culture

SMIB promotes a culture of risk awareness where all employees are responsible for the identification, management and escalation of risks. Employees are also expected to demonstrate behavior which is in line with the Bank's Code of Ethics with emphasis on doing the right business, the right way. The three lines of defense model has also facilitated the propagation of a strong risk culture through clear allocation of risk related responsibilities. Regular training programmes reinforcing the Bank's values and ethics through employee engagement platforms has also contributed towards nurturing a risk culture.

Risk Reporting

Clearly defined risk reporting mechanisms ensure that key risk exposures are identified and escalated to the relevant personnel and ultimately to the Board of Directors in a timely and relevant manner. Risk reporting encompasses all key risk exposures and is clearly communicated to all relevant employees across the organization.

Risk Appetite

Bank's risk appetite demonstrates the quantum of risk the bank is willing to take when driving towards its

strategic and financial objectives. In addition to that, risk appetite inclusive risk appetite triggers and defines specific corrective action to be taken in the event that such limits are exceeded/ triggered.

The Bank's risk appetite is monitored by the risk management function and reported regularly to Board of Directors, corporate management and relevant committees. To keep these policies in line with significant changes in internal and external environment, the Board periodically review these policies and make appropriate changes as and when deemed necessary.

Capital Management

Effective capital management is crucial in protecting the Bank against insolvency while safeguarding the financial position and reputation of the Bank. The Internal Capital Adequacy Assessment Process (ICAAP) which complies with Basel requirements, guild to the process for assessing overall capital adequacy in relation to the Bank's risk profile. As a state bank, currently SMIB has limited ability to access the equity market to raise capital and must rely primarily on internal profit generation and government injections in enhancing capital.

	Minimum Requirement	2024 %	2023 %	2022 %
Common Equity Tier 1	7%	19.28	23.46	21.91
Tier I Ratio	8.5%	19.28	23.46	21.91
Total Capital Ratio	12.5%	19.28	23.46	23.80

Policy Framework

A comprehensive suite of Board-approved policies ensure that risks are identified, measured, mitigated and reported in a consistent and systematic manner across all levels of the organization. The policies are regularly reviewed and revised to ensure alignment with industry best practices and relevance in addressing emerging risks. During the year the Bank introduced the Data Classification Policy and Disclosure Policy clearly setting out guidelines on enhanced data security and transparency.

Managing Risks

Credit Risk

Credit risk is defined as potential losses arising due to a counterparty to a credit transaction failing to meet his/her obligations in accordance with agreed terms. Credit

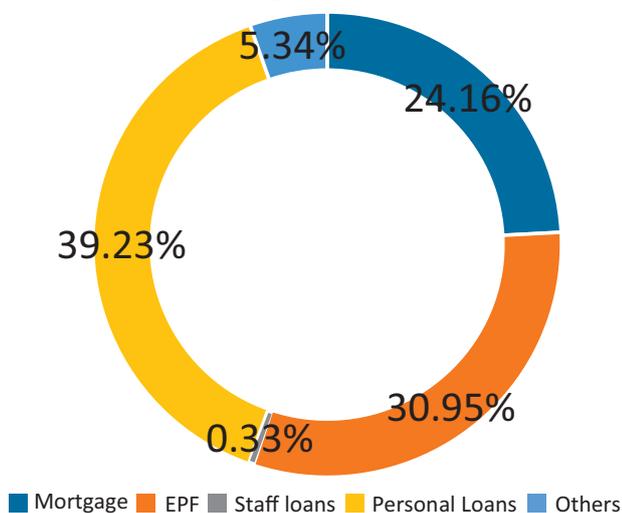
risk can take the form of default risk, concentration of counterparties, geographical regions or industry sectors. Operate in a regulated industry Compliance Risk and prudential limits. Policies are reviewed and regularly updated to ensure relevance to market conditions and alignment to evolving best practices. With approximately accounting for majority of the risk weighted assets, credit risk is one of the Bank's key risk exposures.

Credit risk management is conducted within a robust framework approved by the Board which includes credit policies, a credit manual, delegation of authority, risk ratings, collateral management and credit monitoring procedures. Additionally, customer screening processes are rigorously followed, including a dedicated unit for valuations and income inspections that utilizes an Income Source Verification Model to assess the reliability of income sources. A separate unit

is responsible for pre-disbursement reviews to ensure the quality of credit. Internal credit rating models have been developed for each loan product category, tailored to the specific risk profiles of the products. These ratings are conducted before offering credit facilities or increasing credit limits, helping to predict the probability of default and potential losses. Portfolio analysis is regularly performed, assessing sectoral exposure, product categorization, risk rating grades, key risk indicators with tolerance limits, and other critical ratios. These analyses are reported periodically to the Board Integrated Risk Management Committee (BIRMC), in line with the bank's defined risk appetites, and include remedial and recovery actions. These procedures are regularly reviewed and updated to reflect emerging best practices risks and opportunities.

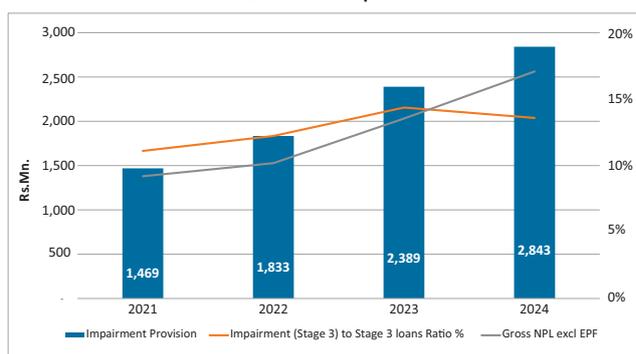
In terms of product-wise exposures, the 60% of the loan portfolio is collateralized through Mortgage and cash backed EPF loans and 39% of the portfolio is concentrated on Personal loans. The bank has taken several measures to enhance diversification across various sectors and industries and to expand its collateralized portfolio.

PRODUCT-WISE PORTFOLIO CONCENTRATION



The Bank continues to review and update its credit policies and processes in response to evolving dynamics to ensure that risk practices are relevant, up to date and address the changing business requirements. During the year impairment Policy was reviewed and watch listing process was streamlined further with a view to strengthen Credit Risk Management of the Bank. The Bank also took steps to strengthen the recovery actions and close follow up of the portfolio, restricted the non-performing portion of loans to increase.

NPL Ratio and Impairment



Market Risk

Market risk is the risk that the value or income derived from the Bank's assets and liabilities changes unfavorably due to movements in market rates or prices.

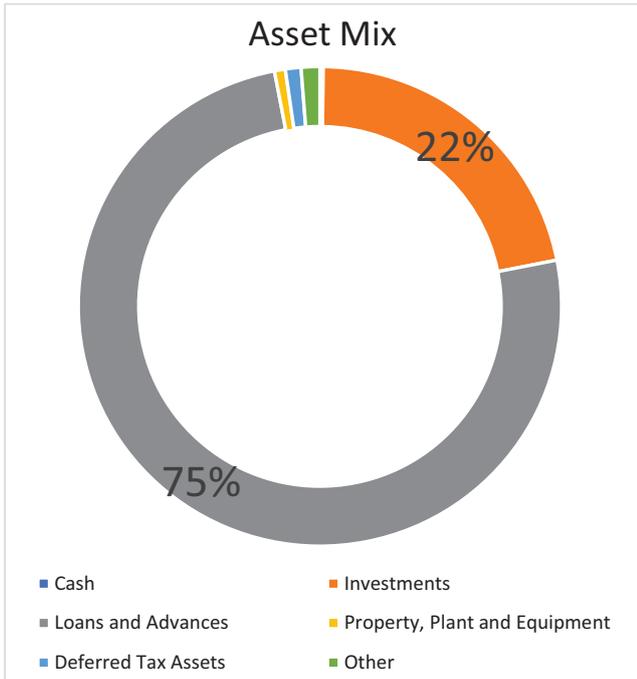
In terms of Market Risk, the Bank is mainly exposed to the interest rate risk arising from the Bank's trading book.

The Asset and Liability Management Committee (ALCO) is vested with the responsibility of implementing the market risk management framework and monitoring maturity mismatches, advances and deposits to ensure that the market risk exposure is within the defined risk appetite.

Liquidity Risk

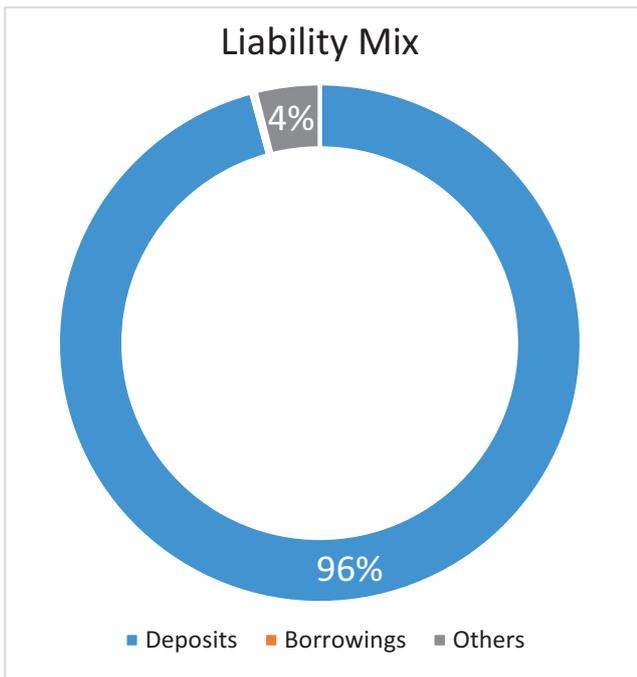
Liquidity risk involves potential losses to earnings and/or capital due to inability to meet the Bank's financial obligations as and when they are due. It ensures Bank's resiliency in facing unexpected liquidity crisis situations. The ALCO holds the responsibility for managing liquidity risks and consistently monitor the Bank's liquidity position. RMD continuously assess liquidity risk and interest Rate Risks to identify necessary corrective actions and report to the EIRMC, ALCO and BIRMC.

The bank's deposit portfolio is typically short to medium-term, while its primary business, housing finance, mostly involves long-term loans. Moreover, the bank has been operated in a fixed-rate lending environment, whereas the majority of its liabilities are subject to frequent repricing. To manage the negative maturity mismatch, the bank has taken several measures such as introducing short-term lending options through its SME division, offering variable-rate loans and encouraging the growth of Minor Savings Accounts to help mitigate the risks associated with the maturity mismatch.



The Bank operates a range of internal stress tests to ensure that market risk is within an acceptable range. The liquidity movements are measured through regular cash flow forecasts, liquidity ratio and maturity gap analysis. The stress testing policy framework covers all the material risks such as credit, liquidity, interest rate and maturity gap under different stress levels; Minor, Moderate, Major, Crisis. Resulting impact on the profitability, liquidity and capital adequacy is evaluated and reported to the top management, EIRMC and BIRMC on a quarterly basis and more frequently as and when required for effective decision making. The stress testing also provides a broader view to Supervisors and Regulators on the resilience of the Bank in plausible stress scenarios.

The outcome of the stress testing process is monitored carefully and remedial actions taken and used by the Bank as a tool to supplement other risk management approaches.



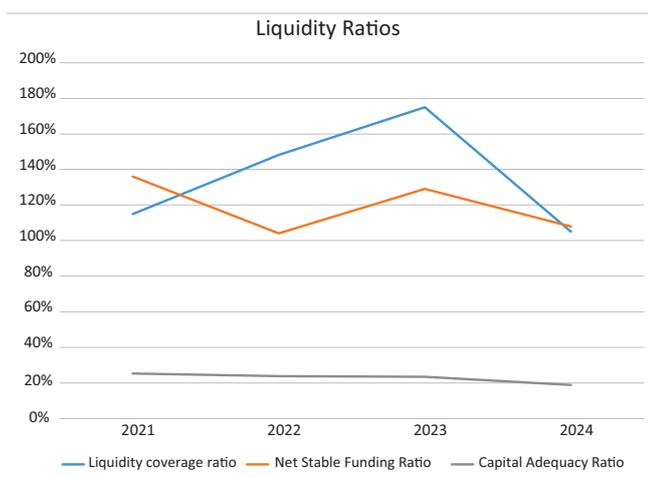
Stress Testing

Routine stress testing evaluates potential risk effects on the Bank’s business and assesses sensitivity of the Bank’s current and potential risk profile relative to risk appetite. The Bank’s stress testing framework utilises a combination of techniques including macroeconomic and business model stress testing

Stress testing contributes to increase the risk awareness across bank’s functions and works to safeguard business continuity by means of proactive management.

The Stress Tests carried out as at 31.12.2024 are given below.

Credit Risk	Increase in impairment due to shifts in NPL categories/ Deterioration in asset quality and adverse movements in the economic factors, probability of default etc. Fall in value of collateral
Credit Concentration Risk	Increase in HHI values across lending counterparties and sectors
Interest Rate Risk	Adverse movements in interest rates
Liquidity Risk	Liquidity stress scenarios with adverse movements in both assets and liabilities of the Bank Effects on SLAR , LCR and capital



The Bank maintains a contingency funding plan in place to deal with liquidity issues and the Treasury department is responsible for maintaining and assuring the liquidity Coverage Ratio (LCR) above the central bank stipulated levels.

As precautionary measures the Bank has taken several steps to introduce new assets and liability products during the year in order reduce the duration mismatches and to be aligned with customer needs and market conditions.

Additionally the Banks efforts to secure a core banking solution for the Bank was successful and offer multiple benefits to the bank such as improved operational efficiency, enhanced customer experience, data driven decision making, etc .

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Managing operational risk is an organization-wide discipline and is implemented using tools embedded in the Bank's Operational Risk Management Framework. The framework supports the identification, measurement,

management, monitoring and reporting of material operational risks.

A comprehensive operational risk management framework provides guidance on the effective identification and management of operational risks. The branches and Divisions which are identified as 'First line of Defense' are responsible for the identification of risks at the point of origination. The second line of defense includes the RMD is responsible for implementing the operational risk framework and monitoring risk performance against parameters defined in the risk appetite. Assurance is provided by the Audit and Compliance units on the adequacy and effectiveness of the operational risk management processes.

Identification of operational risks occurs at the First Line of Defense level through Risk and Control Self-Assessments (RCSA) which are administered to all key business units by the RMD. Tools such as Incident reporting, Key Risk Indicators and internal loss data are also used across the organization to evaluate the exposure to operational risk.

The objective of the Bank is to manage, control and mitigate operational risk in a manner consistent with the Bank's risk appetite. The Bank has ensured an escalated level of rigor in operational risk management approaches for sensitive areas of its operations.

HUMAN RESOURCE MANAGEMENT

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

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

Staff Strength

The total staff for the year accounted for 353, which was comparatively small; however, they have contributed to the bank performance to a greater extent. During the year, 33 staff members left the Bank, of which 10 was retired from the Bank and 23 staff members left the Bank due to resignation and other grounds. We recruited 30 new staff members to the Bank during the year. Filling of vacancies were carried out as per the recruitment policy of the bank.

Staff Variance

Management Level	Variance		
	Retired	Resigned/ Other	Externally Recruited
Corporate Management	3	1	2
Senior Management	-	-	-
Executive	1	10	4
Non Executives	6	9	2
Contract Basis / TBA	-	3	22
Total	10	23	30

Staff Strength by Tier Wise

Management Level	No: of Employees as at 31.12.2024
Corporate Management	9
Senior Management	6
Executive	103
Non Executives	195
Contract Basis/TBA	40
Total	353

Gender Profile

As an equal employment opportunity provider, SMIB employed both males and females in an equal manner. The gender profile of the SMIB accounted for 48 % male and 52% female in the year 2024.

Employee Age Profile

Bank utilizes the most experienced and senior staff. In the bank, 50% of the staff is above 40 years of age.

Age category	No: of Employees as at 31.12.2024
50 or Above	71
40 - 49	105
30 - 39	120
29 or below	57
Total	353

Talent Management

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

Talent Attraction and Acquisition

New talent acquisition is addressed through the Bank's recruitment procedure, to be designed to select the candidate who best suited for our business needs. The talents with the necessary skills, knowledge, capabilities, and behaviors that fit and nurture our culture are prioritized. Immediate consideration is given to internal talent, whenever vacancies occur, external employee given opportunity when the internal talent is not available.

Training and Development

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

During 2024 delivering and attending the training programs were also challenging due to the unfavorable volatility market surface. Most of the scheduled training programs were canceled however we managed to deliver, Internal and external training the year under review witnessed our employees going through 03 internal training programs and 26 external training programs.

The under mention table summarizes the employee participation in different categories of training granted during the year 2024.

Key Area	Number of Participants
Knowledge and Skill Development Training	137
Attitude Development Training / Motivational Training	67
Seminars, Workshops, Membership Fees, Quiz Competitions	3

Employee Service

Service category (Years)	No: of Employees as at 31.12.2024
0-4	79
5-9	40
10-14	130
15-19	44
Above 20	60
Total	353

78% of the employees have been working for more than 5 years in the Bank and contribute their service to bank is development. Providing financial as well as non-financial benefits to the staff, has catered for increased job satisfaction.

The way towards where we are today had never been easy. However, the Bank achieved everything through its employees' untiring and committed efforts.

Future matters

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

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

PRODUCT BRANDING

Introduction

In 2024, the State Mortgage & Investment Bank (SMIB) continued to evolve and meet the growing financial needs of the Sri Lankan population. As a bank deeply rooted in providing innovative financial solutions to all segments of society, SMIB placed a strong emphasis on product branding this year. This approach has allowed us to introduce new and re-imagined products that resonate with our customers' diverse needs and aspirations.

This section of the Annual Report highlights the bank's key product branding initiatives for 2024, which include the introduction of the Max Saver, Apoorwa, SME Deewaradiya, and the relaunch of Muthusina. These offerings reflect our commitment to delivering customer-centric solutions, building brand equity, and fostering long-term relationships with our clients.

Max Saver – High Interest Savings Account

Product Branding Strategies

The Max Saver savings account was launched in 2024 to cater to customers seeking higher returns on their savings. The product branding for Max Saver is centered around the concept of maximizing savings potential with high returns, emphasizing both security and growth. This brand proposition has been reinforced through clear messaging in all customer communications, focusing on the benefits of increased interest rates and the ease of access to funds.

Key Features:

- Attractive interest rates are based on your daily balance.
- A balance of Rs. 5,000 should be maintained to be eligible for interest income.
- Interest is calculated on the daily balance and credited monthly.
- Ability to nominate an account beneficiary.

Branding Message:

"Maximize Your Savings Potential with Max Saver." This message was conveyed through digital marketing campaigns, in-branch promotions, and media advertisements.

Impact in 2024:

- Brand awareness has significantly increased through targeted advertising and influencer partnerships. The account became one of the most popular offerings for retail customers in 2024.

Apoorwa - A Savings Account for Women

Product Branding Strategy:

Apoorwa, introduced in 2024, was developed as a women-centric savings account. The branding strategy was focused on empowering women, fostering financial independence, and offering a platform that recognizes their unique needs in managing finances. The brand name "Apoorwa" translates to "exceptional" or "unique" in Sinhala, reflecting the bank's commitment to offering an exceptional financial solution for women.

Key Features:

- A Special Interest Rate of 6% p.a.
- Special rates on loan facilities by SMIB.

Branding Message:

"Empowering Women, One Save at a Time." The marketing campaign leveraged emotional appeal, highlighting stories of women entrepreneurs, professionals, and homemakers achieving financial security through Apoorwa.

Impact in 2024:

- **Positive customer feedback** around the empowerment message, leading to a 25% increase in female account holders.

SME Deewaradiya - New Loan Scheme for Small and Medium Enterprises (SMEs)

Product Branding Strategy:

The SME Deewaradiya loan scheme was introduced in 2024 with the goal of empowering small and medium-sized enterprises (SMEs) across Sri Lanka. The product branding emphasizes supporting entrepreneurship and business growth, positioning the scheme as a pillar for local businesses to overcome financial barriers and expand their operations. "Deewaradiya" translates to "fortitude", symbolizing strength and resilience.

Key Features:

- To introduce new technology for the development of the fisheries industry
- Improving the infrastructure needed to minimize post-harvest losses
- Improving the standard and quality of fish products for export and local consumption
- Empowerment of fishermen and fisherwomen for improving socio-economic status of fisher households

Branding Message:

"Empowering Sri Lanka's Entrepreneurs." This messaging was communicated through targeted campaigns highlighting the growth potential of SMEs and the support offered by SMIB through the loan scheme.

Impact in 2024:

- **1,000 SMEs** successfully benefited from the loan scheme.

Muthusina - Relaunched child Savings Account

Product Branding Strategy:

Muthusina child Saving Account was relaunched in 2024 with enhanced features designed to help parents save for their children's future education, healthcare, and other needs. This product offers a secure and lucrative investment opportunity, giving parents peace of mind while preparing for their children's future. The relaunch includes the following features:

Key Features:

- Amazing gift scheme with an attractive interest rate of 5%
- Receive gifts based on an account balance up to the age of 13 years
- Special rewards for the child's performance at Grade 5 scholarship, G.C.E O/L, and A/L exams.
- An automatic conversion of the "Muthusina" account to a normal savings account soon after the child turns 18 years old.

Branding Message:

"Trust in Your Savings with Muthusina." The relaunch was communicated through a series of advertisements emphasizing the stability and security that Muthusina offers, accompanied by testimonials from loyal customers who have benefited from the account over the years.

Impact in 2024:

- Increased **customer retention** and **loyalty**, with a noticeable rise in the number of long-term customers opting for Muthusina.

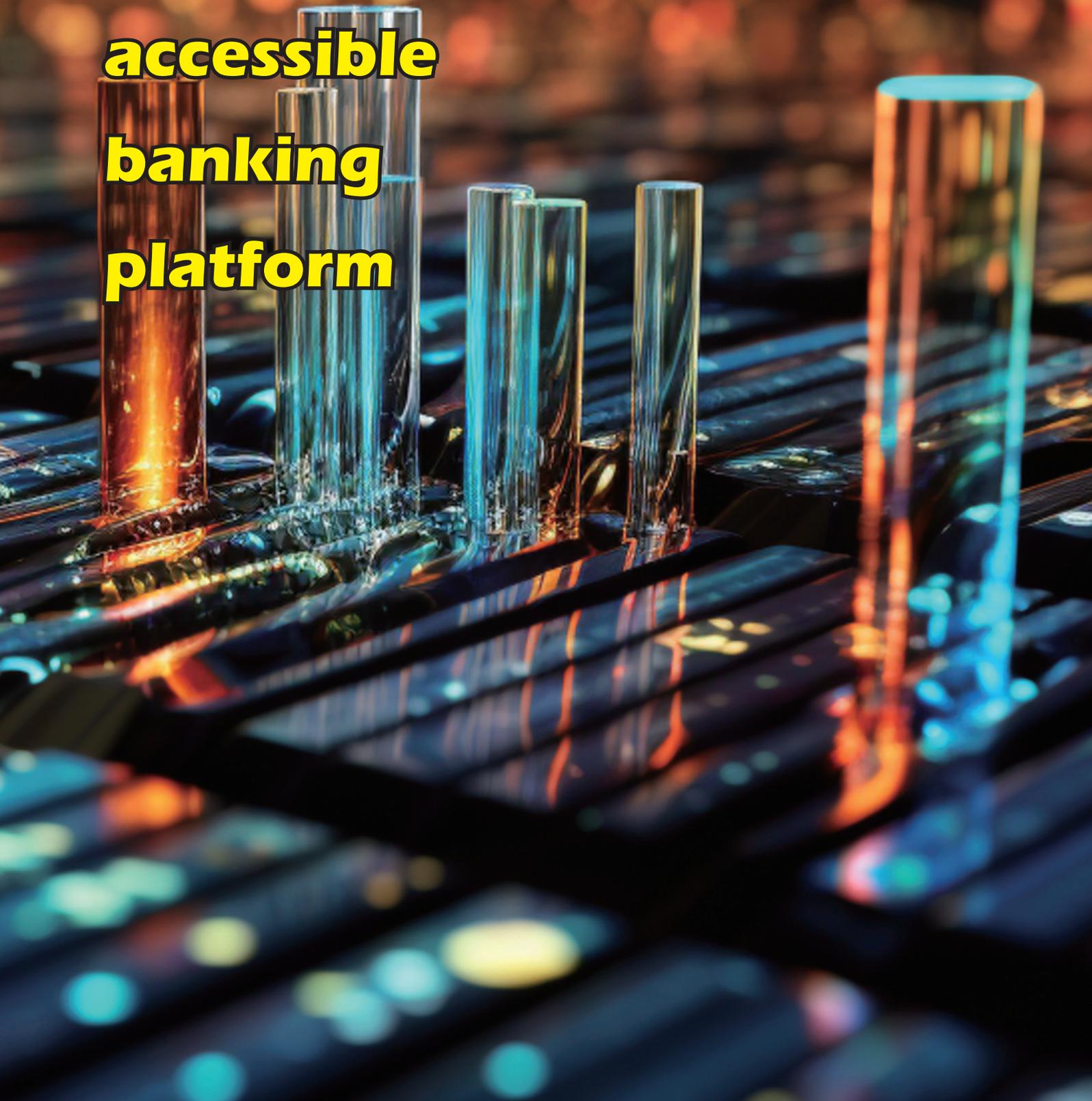
Conclusion

In 2024, the State Mortgage & Investment Bank (SMIB) has significantly strengthened its product branding efforts, with the launch of new, innovative products such as **Max Saver**, **Apoorwa**, and **SME Deewaradiya**, as well as the successful relaunch of **Muthusina**. Each of these products was designed with a specific target audience in mind and supported by tailored branding strategies that emphasize trust, empowerment, growth, and security.

Through strategic branding, SMIB has not only been able to reach a wider audience but has also reinforced its commitment to financial inclusion and customer satisfaction. These efforts are aligned with the bank's vision of becoming the leading financial institution in Sri Lanka, providing innovative and customer-centric solutions to individuals, SMEs, and communities across the nation.

As we move into 2025, SMIB will continue to build on these branding initiatives, introducing even more products and services that meet the evolving needs of our customers and contribute to the country's economic growth.

**Emphasis
on a secure,
reliable, and
accessible
banking
platform**



DIRECTORS' REPORT

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

The Board of Directors of State Mortgage and Investment Bank take pleasure in presenting their report on the affairs of the Bank together with the Audited Consolidated Financial Statements for the year ended 31 December 2024 of the Bank and the Auditor General's Report on those Financial Statements, conforming to the requirements of the State Mortgage and Investment Bank Law No: 13 of 1975 as amended and Banking Act No. 30 of 1988 and amendments thereto.

Principal Activities of the Bank

The principal activities of the State Mortgage & Investment Bank were to promote housing, agricultural and industrial development finance and Mobilization of Deposits. There have been no significant changes in the nature of the principal activities during the year. The Bank

has not engaged in any activity which contravenes the Laws and Regulations of the country. Directors Under the provisions of the State Mortgage & Investment Bank Law No. 13 of 1975 as amended, the Board consists of Seven non-executive independent directors including the Chairman appointed by the Minister in compliance with section 7 of the State Mortgage and Investment Bank Act No. 13 of 1975 as amended. There are no executive directors in the bank. Three of the directors so appointed shall be a representative of each of; (a) The Ministry of the Minister in charge of the subject of Agriculture; (b) The Ministry of the Minister in charge of the subject of Housing; (c) The Ministry of the Minister in charge of the subject of Livestock Development. One Director is appointed as the Treasury Representative.

Three members out of the nine constitute a quorum at any meeting of the Board. Meetings of the Board of Directors should be held at least once a month or oftener if the Chairman deems it necessary as per the State Mortgage and Investment Bank Law and the Banking Act. It has been reported that Sixteen meetings were held in the year 2024.

Directors' attendance at the Board meetings:

#	Name of the Director	Number of Meetings eligible to attend	Number of Meetings attended
1	Mr. J.M. Soosaithasan – Chairman (Resigned on 04-10-2024)	14	14
2	Mr. M. P. Kuragama – Chairman (Appointed W.E.F. on 04-10-2024)	04	03
3	Mr. S. K. A. Galappatthi	18	18
4	Mr. B. R. Madihahewa	18	16
5	Mr. H. C. D. L. Silva	18	17
6	Prof. D. A. M. Perera	18	17
7	DR. R. A T. K. Ranasinghe (CBSL Approval received in June 2024)	09	08

Directors' interests in contracts

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

This Policy outlines the basis on which the materiality of related party transactions will be determined and the manner of dealing with the related party transactions by the Bank. The Bank followed the Related Party

Transaction Policy of the bank which is in line with the directions issued by the Central Bank of Sri Lanka under the Banking Act.

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

Directors have to disclose their other directorships and connections at Board meetings to ensure that they are refrained from voting on matters in which they have an interest. Concerning the Board of Directors of the Bank, it is reported that no Director was directly or indirectly interested in any contract or proposed contract with the Bank for the year ended 31st December 2024.

Review of Operations and Future Developments

An overview of the financial and operational performance and future Developments of the Bank during the financial year 2024 and results of those operations are contained in the Chairman's Report, General Manager's /CEO's Report and Financial Review appearing on pages 3 to 17. in this annual report. These reports form an integral part of this annual report.

The General Manager / Chief Executive Officer (CEO)

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

Vision, Mission and Values

Vision, mission, and values statements keep everyone focused on where the Bank is going and what it is trying to achieve. Further that they define the core values of the Bank and how people are expected to behave. The business activities of the bank are conducted at a high level of ethical standards to achieve its vision. The Bank's Vision, Mission and Values are given on page no 2 of this Annual Report.

Corporate Governance

The Board of Directors is committed to maintaining an effective Corporate Governance structure and process. The Board considers that effective governance is a precept for sustaining responsible growth. The financial, operational and compliance functions of the Bank are directed and controlled effectively within the Corporate Governance practices. Corporate Governance report appears on pages 25 to 52 of this Annual Report.

Board Sub Committees

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

Board Audit Committee

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

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

Board Secretary functions as the Secretary of the Board Audit Committee.

The General Manager, AGM Finance, AGM (HR &L) and Chief Manager (Branch Operations) attended Meetings as invitees whilst the Superintendent of Government Audit attended all the meetings as an observer.

Six Board Audit Committee meetings were held in the year 2024. The BAC report is given on page 54 to page 55 of this annual report.

Board Human Resources & Remuneration Committee

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

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

The Committee is required to meet at least once a year and during the year 2024 the Committee met once. The BHRRC report is given on page 57. of this annual report.

Board Integrated Risk Management Committee (BIRMC)

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

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

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

Four Board Integrated Risk Management Committee (BIRMC) meetings were held in the year 2024. The BIRMC report is given on pages 58 to page 60 of this annual report.

Board Nomination Committee (BNC)

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

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

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

The BNC is required to meet at least once a year and based on the needs, more meetings can be fixed. Seven Committee meeting were held in the year 2024. The BNC report is given on page 56 of this annual report.

Capital Adequacy Ratio (CAR)

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

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

Risk Management

The Board of Directors assumes overall responsibility for managing risks. The specific measures taken by the Bank in mitigating the risks are detailed on page 62 to 66 of this Annual Report.

Internal Control

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

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

The Directors Report on Internal Control appears on Pages 76 to 77 in this annual report.

Profit and Appropriations.

The Total Income of the Bank for the year 2024 was Rs. 7,591 Mn Details of profit relating to the Bank are given in the following Table:

Details	Rs.Mn
Reserves	5,420
Capital Expenditure	375
Market/ Fair Value of Immovable Properties	-
Contributed Capital	889
Substantial Shareholding and Share Information	-
Contributions to the government Statutory Payments	166
Taxation	166
Events Occurring after the Balance Sheet Date	N/A
Post Balance Sheet Events	N/A
Going Concern N/A	N/A

Events after the reporting date

There are no events required reporting after the reporting date.

Compliance with Applicable Laws, Rules and Regulations

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

Equitable Treatment to all Stakeholders

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

Customers and Borrowers

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

Depositors and Suppliers

Depositors are the main fund providers of the Bank. Deposit rates are published and competitive. Capital and interest are paid on due dates. The Bank calls for quotations for supplying goods and services and ensure prompt payment.

Auditor's Report

The Auditor General is the Auditor of the State Mortgage & Investment Bank. The audit of accounts of the State Mortgage & Investment Bank for the year ended 31st December 2024 was carried out under the Auditor General's directions in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13 (1) of the Finance Act No.38 of 1971.

The Auditor General's report on the Financial Statements of the Bank as at 31st December, 2024 is given on page 82 to 86 of this Annual Report.

Acknowledgment

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

By order of the Board,



Dilani Alahakoon

Secretary to the Board

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Responsibility

In line with the Banking Act Directions No 12 of 2007 section 3 (8) (ii) (b), the Board of Directors presents this report on Internal Control over Financial Reporting.

The Board of Directors ("The Board") is responsible for ensuring that the process of the sound internal control system of the Bank is in place and for reviewing its adequacy and effectiveness. In considering such adequacy and effectiveness, the Board recognizes that the business of banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlighting any deviations from the limits and indicators which comprise the risk appetite of the Bank. In this light, considering the adequacy and effectiveness of the controls, the Board has recognized that the internal control system has been designed to provide reasonable assurance that the assets are properly safeguarded, maintaining proper books of accounts and reliability of the financial reporting system of the bank. However, the system does not provide absolute assurance against material misstatement of financial information and records or for the elimination of irregularities and frauds due to inherent limitations.

The Board has established an ongoing process for identifying, evaluating, and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls as and when there are changes to the business environment or regulatory requirements and other guidelines. The process is regularly reviewed by the Board and confirmed in compliance with the Guidance for Directors of the Banks on the Directors Statement on Internal Controls issued by The Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control system taking into principles for the assessment of internal Control System as given in that guidance.

The Board is of the view that the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and the preparation of Financial Statements for external purposes and is in accordance with the relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced by the Bank, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

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

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

- The Board has established different subcommittees to ensure the adequacy and integrity of the internal control system within the bank and delegated the authority of the board among the layers of corporate management, senior management, and managers of the bank in order to assist the board in achieving the corporate objectives, strategies, and the annual budget as well as implementation of policies and procedures for assessing and managing of risk faced by the bank.
- Board Integrated Risk Management Committee consists of independent non-executive directors. The committee is responsible for reviewing the risk profile of the bank, identifies the principal risk faced by the bank and prepares the policies based on the risk profile and risk appetite of the bank.
- The Internal Audit Division of the Bank performs the tests based on the risk-based audit approach to ensure whether the financial, administrative and operational activities of the bank agree with the laid down internal control policies and procedures. Audits are carried out on all functional units and branches frequently depending on the level of risk associated with the functional units and the products of the bank. Chief Internal Auditor is responsible for objective and independent assessment on the internal control system and submitting regular reports to the Board Audit Committee in respect of the audit observations on irregularities, misstatements, frauds, administration and operational affairs of the bank.

- In general, the Board Audit Committee reviews the overall effectiveness of the internal control system in place and reports to the Board of Directors regularly in respect of the specific observations on internal control weaknesses. In this respect, the mechanism used by the committee includes; review of the Auditor General's report, Internal Audit reports, regulatory reports, annual/ monthly Financial Statements and progress reports.
- The Bank adopted the new Sri Lanka Accounting Standards Comprising LKAS and SLFRS in 2012. Since adoption of such Sri Lanka Accounting Standards, continuous monitoring and progressive enhancement of processes to comply with new requirements of recognition, measurement, classification, and disclosure are being made.
- The Bank adhered to Sri Lanka Accounting Standards - SLFRS 9 - "Financial Instruments" with effect from 1 January, 2018. In order to comply with the requirements of SLFRS 9, the Bank developed an expected credit loss (ECL) model using a wide range of forecast economic scenarios. During the year, model validation of impairment policy has been assigned to the International Firm of Chartered Accountants. The Bank has taken adequate measures to comply with the Directions issued by the Central Bank of Sri Lanka regarding classification, recognition, and measurement of credit facilities under SLFRS 9.
- The Board has reviewed whether the financial reporting processes of the bank ensure that the annual Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards and the guidance on reporting requirements issued by the Central Bank of Sri Lanka.
- Management level committees have also been functioning with appropriate empowerment to ensure effective management and supervision of Bank's core areas in the day-to-day business operations.
- A structured annual review of the design and effectiveness of the bank's internal control over financial reporting has been carried out. The Board has already approved the documentation of the internal control system of the bank which would facilitate review of the effectiveness of the internal controls.
- The Board has taken effective steps to review the information system security control policies and procedures formulated by the international firm of Chartered Accountants to strengthen the information system GRC framework.
- The Board recognized that the changes in the technological and information system environment of the business industry are vitally important to abreast the industry best practices and improve the customer service. To address this matter, the Board has taken an effective step to launch a new core banking system aiming to increase the productivity in the business operations and leverage the customer experience to achieve the best result for the organization's growth perspective.
- The comments made by the external auditor and the Central Bank on the internal control deficiencies in previous year and during the year were also considered and necessary steps were taken to address them where necessary.

Confirmation

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

By Order of the Board.



Prof. D. A. M Perera
Chairman - Board Audit Committee/Independent Director



Mr. H. C. D. L. Silva
Member - Board Audit Committee/Non-Executive Director



Mr. S. K. A. Galappatthi
Member - Board Audit Committee/Independent Director



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தேசிய கணக்காய்வு அலுவலகம்

NATIONAL AUDIT OFFICE



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எனது இல.
My No.

BAN/F/SMIB/IC/2024/40

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

28 February 2025

The Chairman,
State Mortgage & Investment Bank

Independent Assurance Report of the Auditor General to the Board of Directors on the Directors' Statement on Internal Control over Financial Reporting of State Mortgage & Investment Bank

Introduction

This report is to provide assurance on the Directors' Statement on Internal Control over Financial Reporting (the "Statement") of State Mortgage & Investment Bank (the "Bank") included in the annual report for the year ended 31 December 2024.

Management's Responsibility

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

My Responsibility and Compliance with SLSAE 3050 (Revised)

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

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

This standard requires that I plan and perform procedures to obtain limited assurance about whether management has prepared, in all material respects, the Statement on Internal Control.

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

Summary of work performed

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

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

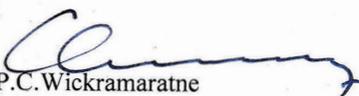
SLSAE 3050 (Revised) does not require me to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 (Revised) also does not require me to consider whether the processes described to deal with material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

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

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

Conclusion

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


W.P.C. Wickramaratne
Auditor General

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

Directors' Responsibility for Financial Reporting

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

The Board of Directors of the Bank confirm that the Financial Statements of the Bank will reflect a true and fair view of the state of affairs as at 31st December 2024, and the financial performance of the Bank for the financial year then ended. The Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report.

Financial Statements

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

The Financial Statements for the year 2024 prepared and presented in this Annual Report are consistent with the underlying books of accounts and are in conformity with the requirements of Generally Accepted Accounting Principles, Sri Lanka Accounting Standards' and Sri Lanka Financial Reporting Standards that give a true and fair view of the financial position of the Bank at the end of each financial year in compliance with the relevant statutory requirements.

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

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

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

The Board of Directors also approves the Interim Financial Statements prior to their release, following a review and recommendation by the Board Audit Committee. The Board Audit Committee report appears on Pages 54 to 55 of this annual report. The Board of Directors ensures that the Financial Statements comply with the prescribed format issued by the Central Bank for Licensed Specialized Banks.

Going Concern

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

Internal Controls and Risk Management

The Board of Directors of SMIB is responsible for taking reasonable measures and care to safeguard the assets of the Bank detect frauds and other irregularities and has also instituted an effective and comprehensive system of internal financial controls, an effective system of monitoring its effectiveness which includes the internal audit and risk management and places

considerable importance on maintaining a strong control environment to protect and safeguard the Bank's assets and prevent fraud and mismanagement.

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

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

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

A report by the Directors on the Bank's internal control mechanism is given on page 76 to page 77 of this Annual Report.

Compliance Report

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

Audit Report

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

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

The responsibilities of the Auditor in relation to the Financial Statements are set out in the Report of the Auditor General on pages 82 to 86 of this Annual Report.

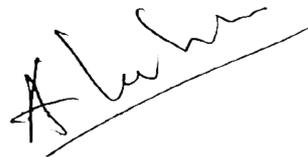
Directors' interests in contracts of significance

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

Statutory payments

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

By Order of the Board,



Dilani Alahakoon

Secretary to the Board

REPORT OF THE AUDITOR GENERAL



ජාතික විගණන කාර්යාලය தேசிய கணக்காய்வு அலுவலகம் NATIONAL AUDIT OFFICE



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எனது இல. }
My No. }

BAN/F/SMIB/FS/2024/39

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உமது இல. }
Your No. }

දිනය
திகதி }
Date }

28 February 2025

Chairman
State Mortgage and Investment Bank

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the State Mortgage and Investment Bank for the year ended 31 December 2024 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

1. Financial Statements

1.1 Opinion

The audit of the Financial Statements of the State Mortgage and Investment Bank (the “Bank”) for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the financial statements, including material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No.38 of 1971. My report to parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, the accompanying financial statements of the Bank give a true and fair view of the financial position of the Bank as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

REPORT OF THE AUDITOR GENERAL

1.2 Basis for Opinion

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

1.3 Other information included in the Bank's 2024 Annual Report

The other information comprises the information included in the Bank's 2024 Annual Report, but does not include the financial statements and my auditor's report thereon, which is expected to be made available to me after the date of this auditor's report. Management is responsible for the other information.

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

In connection with my audit of the financial statements, my responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

When I read the Bank's 2024 Annual Report, if I conclude that there are material misstatements therein, I am required to communicate that matter to those charged with governance for correction. If further material uncorrected misstatements are existed those will be included in my report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution that will be tabled in due course.

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

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as

REPORT OF THE AUDITOR GENERAL

management determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

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

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

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

1.5 Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

REPORT OF THE AUDITOR GENERAL

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Bank.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

2. Report on Other Legal and Regulatory Requirements

2.1 The section 39 of the Banking Act No.30 of 1988 (as amended by Banking Act No.24 of 2024) include specific provisions for following requirement.

2.1.1 The disclosures made in the accompanying financial statement are in accordance with the requirement of Circular No.05 of 2024 issued by Central Bank of Sri Lanka.

REPORT OF THE AUDITOR GENERAL

- 2.2 National Audit Act, No. 19 of 2018 includes specific provisions for following requirements;
- 2.2.1 I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Bank as per the requirement of section 12 (a) of the National Audit Act, No. 19 of 2018.
- 2.2.2 The Financial Statements presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- 2.2.3 The Financial Statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.
- 2.3 Based on the procedures performed and evidences obtained which were limited to matters that are material, nothing has come to my attention;
- 2.3.1 to state that any member of the governing body of the Bank has any direct or indirect interest in any contract entered into by the Bank which are out of the normal course of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018.
- 2.3.2 to state that the Bank has not complied with any applicable written law, general and special directions issued by the governing body of the Bank as per the requirement of section 12 (f) of the National Audit Act, No. 19 of 2018.
- 2.3.3 to state that the Bank has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018.
- 2.3.4 to state that the resources of the Bank had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018.


W.P.C. Wickramaratne
Auditor General

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2024

	Note	2024 Rs	2023 Rs
Assets			
Cash and Cash Equivalents	13	124,664,750	122,600,853
Placements with Banks	14	152,682,844	2,923,132,097
Financial Assets - FVPL	15	2,943,277,961	3,552,533,227
Financial Assets - AC			
- Loans and Advances	16.1	41,730,024,581	38,603,322,207
- Debt and Other Instruments	17	8,979,104,008	12,162,743,730
Financial Assets - FVOCI	18	5,379,078	5,379,078
Property, Plant and Equipment	19	404,644,985	171,651,164
Right-of-use Assets	33.1	99,174,660	156,519,188
Deferred Tax Assets	20	633,635,649	745,677,897
Other Assets	21	595,607,504	622,951,236
Total Assets		55,668,196,018	59,066,510,678
Liabilities			
Due to Banks	22	-	2,732,792
Financial Liabilities at Amortised Cost			
- Due to Depositors	23	48,160,520,558	52,138,134,453
- Due to Debt Securities Holders		-	-
- Due to Other Borrowers	23	140,800,069	178,986,770
Employee Benefit Liability	24	677,787,456	597,674,223
Income Tax Liability	25	-	-
Other Liabilities	25	1,268,890,469	694,813,406
Total Liabilities		50,247,998,551	53,612,341,643
Equity			
Stated Capital/Assigned Capital	26	889,812,899	889,812,899
Statutory Reserve Fund	27	306,650,839	306,650,839
Retained Earnings	28	3,145,924,725	3,179,896,294
Other Reserves	29	1,077,809,004	1,077,809,004
Total Equity		5,420,197,467	5,454,169,036
Total Equity and Liabilities		55,668,196,018	59,066,510,678

Certification:

These Financial Statements give a true and fair view of the state of affairs of the State Mortgage and Investment Bank as at 31 December 2024 and its profit for the year then ended.



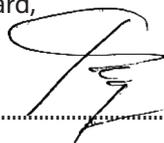
Mr. K.L.N.A. Perera

Deputy General Manager - Finance & Planning

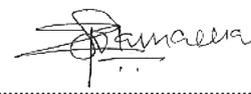
The Board of Directors is responsible for the preparation and presentation of these Financial Statements.
Approved and Signed for and on behalf of the board,



Mr. Maheel P. Kuragama
Chairman
28.02.2025



Mr. D.R.L. Wickramasinghe
Director



Mr. I.T. Asuramanna
General Manager / CEO

INCOME STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 2024

	Note	2024 Rs	2023 Rs
Interest Income	4	7,590,650,416	9,324,132,408
Interest Expenses	4	(5,392,222,204)	(8,732,594,619)
Net Interest Income	4	2,198,428,212	591,537,789
Fee and Commission Income	5	172,631,902	96,293,245
Fee and Commission Expenses		-	-
Net Fee and Commission Income	5	172,631,902	96,293,245
Net Fair Value Gains/(Losses) from FA at FVPL	6	377,996,544	157,533,227
Net Other Operating Income	7	31,145,845	21,943,478
Total Operating Income		2,780,202,503	867,307,739
Impairment Charges	8	(540,890,034)	(561,392,330)
Net Operating Income		2,239,312,470	305,915,409
Personnel Expenses	9	(1,229,142,717)	(1,015,292,893)
Depreciation and amortization expenses	10, 33.2	(126,686,733)	(99,608,144)
Other Expenses	10	(447,408,400)	(355,869,747)
Operating profit/(loss) before VAT, NBT & DRL		436,074,620	(1,164,855,374)
Value Added Tax (VAT) on Financial Services	34	(244,987,282)	(5,125,869)
Social Security Levy (SSCL)		(33,289,319)	5,200,577
Profit/(Loss) before Tax		157,798,019	(1,164,780,667)
Income tax expenses	11	(125,756,722)	161,649,247
Profit/(Loss) for the Year		32,041,296	(1,003,131,419)

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31ST DECEMBER 2024

	2024 Rs	2023 Rs
Profit/(Loss) for the Year	32,041,296	(1,003,131,419)
Items that will be reclassified to income statement		
Gains and Losses on Re-Measuring Financial Assets	-	-
Items that will not be reclassified to income statement		
Re-measurement of post-employment benefit obligations	(45,714,913)	(24,548,931)
Deferred Tax effect on Actuarial Gains Losses on defined benefit obligations	13,714,474	7,364,679
Total Comprehensive Income for the Year	40,857	(1,020,315,671)

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER 2024

	Assigned Capital	Statutory Reserve	Capital Reserve	General Reserve	Title Indemnity Fund	Retained Earnings	Total
Balance as at 31.12.2022	889,812,899	306,650,838	393,498,004	683,280,000	1,031,000	4,200,211,965	6,474,484,706
Prior Period Adjustments						-	-
Net Profit for the Year						(1,003,131,419)	(1,003,131,419)
Other Comprehensive Income						(17,184,252)	(17,184,252)
Transfer During the Year						-	-
Transfer to Consolidated Fund						-	-
Balance as at 31.12.2023	889,812,899	306,650,838	393,498,004	683,280,000	1,031,000	3,179,896,294	5,454,169,035
Prior Period Adjustments						(34,012,426)	(34,012,426)
Net Profit for the Year						32,041,296	32,041,296
Other Comprehensive Income						(32,000,439)	(32,000,439)
Transfer During the Year			-			-	-
Transfer to Consolidated Fund						-	-
Balance as at 31.12.2024	889,812,899	306,650,838	393,498,004	683,280,000	1,031,000	3,145,924,725	5,420,197,466

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31ST DECEMBER 2024

	From 01/01/2024 to 31/12/2024 Rs.	From 01/01/2023 to 31/12/2023 Rs.
Cash flows from operating activities		
Interest Received	4,934,027,163	8,921,615,611
Interest Payments	(6,732,425,069)	(9,337,465,140)
Net commission receipts	172,631,902	96,293,245
Payments to Employees	(1,119,439,181)	(846,574,251)
VAT, DLR & NBT ,ESC on financial services	(166,242,018)	(5,125,869)
Receipts from Other Operating Activities	2,368,345	5,250,254
Payments on Other Operating Activities	(467,871,894)	(302,958,619)
Operating profit before changes in Operating Assets & Liabilities	3,376,950,752	(1,468,964,770)
(Increase)/Decrease in Operating Assets		
Financial assets at amortised cost - loans & advances	(605,999,021)	448,871,346
Other Assets	27,650,831	473,203,052
	(578,348,190)	922,074,398
Increase/(Decrease) in Operating Liabilities		
Financial liabilities at amortised cost - due to depositors	(2,655,990,025)	3,607,292,902
Financial liabilities at amortised cost - due to other borrowers	(38,186,700)	(96,420,481)
Other liabilities	379,834,326	228,785,113
	(2,314,342,400)	3,739,657,534
Net cash generated from operating activities before Income Tax	(6,269,641,342)	3,192,767,162
Gratuity Paid	(73,719,634)	(62,358,388)
Income Taxes Paid	(15,564,251)	(78,507,801)
Net Cash from Operating Activities	(6,358,925,227)	3,051,900,973
Cash flows from investing activities		
Dividend Received	23,070,500	18,765,120
Proceeds from the sale of property, plant and equipment	5,707,000	885,920
Purchase of Property ,Plant & Equipment	(234,813,235)	(151,172,660)
Net Proceeds from the sale and maturity of financial investments	6,569,757,649	(2,903,610,343)
Net cash (used in)/from investing activities	6,363,721,915	(3,035,131,963)
Cash flows from financing activities		
Repayment of subordinated debt	-	-
Payments to Consolidated Fund	-	-
Net cash from financing activities	-	-
Net increase/(decrease) in cash & cash equivalents	4,796,688	16,769,010
Cash and cash equivalents at the beginning of the period	119,868,062	103,099,052
Cash and cash equivalents at the end of the period	124,664,750	119,868,062
Reconciliation of Cash and Cash Equivalents		
Cash and Short Term Funds	124,664,750	122,600,853
Borrowings from Banks (OD)	-	(2,732,792)
Cash and cash equivalents at the end of the period	124,664,750	119,868,062

ACCOUNTING POLICIES & NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

1. Corporate Information

1.1. General

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

1.2. Principal Activities and Nature of Operations

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

1.3. Directors' Responsibility Statement

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

1.4. Date of Authorization

These Audited Financial Statements of the Bank for the year ended 31st December 2024 were authorized for issue in accordance with the approval given by the Board of Directors of the Bank at the meeting.

The staff strength of the Bank as at December 31, 2024 was 353 (354 as at December 31, 2023)

2. Accounting Policies

The accounting policies set out below have been applied consistently in all periods when presenting the Financial Statements, unless otherwise indicated.

2.1 Basis of Preparation

2.1.1 Statements of compliance

These Financial Statements for the year ended 31 December 2024 were prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRS and LKAS) laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and are in compliance with the information required by the Banking Act No. 30 of 1988 and subsequent amendments thereto. These Financial Statements, except for the information in cash flow have been prepared following the accrual basis of accounting. The formats used in the preparation of Financial Statements and the disclosures made therein also comply with the specified formats prescribed by the Central Bank of Sri Lanka for the preparation, presentation and publication of Annual Audited Financial Statements of Licensed Banks.

2.1.2 Presentation of Financial Statements

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

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions is presented

separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard – LKAS 01 on 'Presentation of Financial Statements

2.1.3 Significant accounting Judgments, Estimates and Assumptions

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

2.1.3.1 Classification of financial assets and liabilities

As per SLFRS 9, the significant accounting policies of the bank provides scope for financial assets to be classified and measured into different categories, namely, at amortised cost, Fair Value Through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVPL) based on the following criteria; The entity's business model for managing the financial assets as set

2.1.3.2 Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, they are determined using the valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible.

2.1.3.3 Impairment losses on financial assets

The measurement of impairment losses both under SLFRS 9 and LKAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. Accordingly, the Bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be provided in the Income Statement. In particular, the Management's judgement is required in the estimation of the amount and timing of future cash flows when determining

the impairment loss. These estimates are based on assumptions about a number of factors and hence actual results may differ, resulting in future changes to the impairment allowance made. The individual impairment provision applies to financial assets evaluated individually for impairment and is based on Management's best estimate of the present value of the future cash flows that are expected to be received. In estimating these cash flows, Management makes judgements about a borrower's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable. A collective impairment provision is established for homogeneous loans and advances that are not considered individually significant; and groups of assets that are individually significant but that were not found to be individually impaired.

As per SLFRS 9, Expected Credit Loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include

- Criteria for qualitatively assessing whether there has been a significant increase in credit risk and if so allowances for financial assets measured on a Life Time Expected Credit Loss (LTECL) basis
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various statistical formulas and the choice of inputs
- Determination of associations between macro-economic inputs, such as GDP growth, inflation
- Interest rates, exchange rates and unemployment and the effect on Probability of Default (PDs)
- Exposure at Default (EAD) and Loss Given Default (LGD)
- Selection of forward-looking macro-economic scenarios and their probability weightings, to derive the economic inputs into the ECL models

2.1.4 Rounding

The amounts in the Financial Statements have been rounded-off to the nearest rupee, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard – LKAS 1 on “Presentation of Financial Statements” (LKAS 1).

2.1.5 Basis of measurement

Financial Statements have been prepared on a historical cost basis, except for the following material items in the Statement of Financial Position, which are measured at fair value.

- i. Financial assets measured at fair value through other comprehensive income
- ii. Financial assets and liabilities recognised through profit or loss
- iii. Financial assets and liabilities designated at fair value through profit or loss
- iv. Liability for employee defined benefits obligations are recognised at the present value of the defined benefit obligation less the fair value of the plan assets.

2.1.6 Going Concern

The Bank’s management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank’s ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis. In making this assessment, the Management has considered the potential downsides that the COVID-19 pandemic could bring to the business operations of the bank. Accordingly, the Management satisfied itself that the going concern basis is appropriate.

2.1.7 Materiality and aggregation

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

2.1.8 Comparative information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period’s Financial Statements and to enhance inter period comparability. The comparative information is reclassified where necessary for the better presentation and to conform to the current year’s presentation.

2.2 Significant accounting policies – Recognition of income and expenses for financial instrument**2.2.1 Interest Income and Expenses**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Details of “income and expenses” are given in Notes 03 & 4

The Effective Interest Rate Method

The interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost, financial instruments designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI under SLFRS 9, similarly to interest bearing financial assets classified as available-for-sale or held to maturity under LKAS 39 are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

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

If expectations regarding the cash flows on the financial asset are revised for reasons other

than credit risk. The adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the Statement of Financial Position with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest and similar income in the income statement.

2.2.2 Dividend Income

Dividend income is recognised when the Bank's right to receive the payment is established. Note number 7

2.2.3 Net Trading Income

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

2.2.4 Other Income

Other income is recognized on an accrual basis. Note Number 7

2.2.5 Other Expenses

All other expenses have been recognized in the Financial Statements as they are incurred in the period to which they relate. All expenditure incurred in the operation of the business and in maintaining the capital assets in a state of efficiency has been charged to revenue in arriving at the Bank's profit for the year. Details of the other expenses are given in the note number 10.

2.2.6 SLFRS 15 – Revenue from Contracts with Customers

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

2.3 Tax Expenses

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

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

2.3.1 IFRIC 23 – Uncertainty over income tax treatment

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of LKAS 12 "Income Taxes". It does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated within certain tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances The Bank determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty

The Bank applies significant judgement in identifying uncertainties over income tax treatments. Since the Bank operates in a

complex environment, it assessed Bank the interpretation had an impact on its Financial Statements. Upon adoption of the interpretation, the Bank considered whether it has any uncertain tax positions. The tax filings of the Bank in different jurisdictions taxation authorities may challenge those tax treatments. The Bank determined, based on its tax compliance, that it is probable that its tax treatments will be statements of the accepted by the taxation authorities. The interpretation did not have an impact on the Financial Statements of the Bank. Except for the changes mentioned above, the Bank has consistently applied the accounting policies for all periods presented in these Financial Statements.

2.3.2 Amendments to the Income Tax Law Announced by the Government

As per notice dated April 08, 2020 issued by the Inland Revenue Department on "Implementation of Proposed Changes to the Inland Revenue Act No. 24 of 2017", effective from January 01, 2020.

Corporate Income Tax rate was revised from 24% to 30% with effect from October 01, 2022.

Details of current income tax expenses are given in the note number 11

2.3.3 Deferred Tax Assets

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

Details of deferred tax disclosed in the note number 20

2.3.4 Value Added Tax on Financial Services (VAT)

VAT on financial services is calculated in accordance with Section 25A of Value Added Tax Act No. 14 of 2002 and subsequent amendments thereto. VAT on financial services is payable at 18% on operating profit before value added tax and nation building tax on financial services adjusted for emoluments of employees and economic depreciation.

Details of VAT liability is disclosed in the note number 34.

2.3.5 Social Security Contribution Levy (SSCL) on Financial Services

In accordance with Social Security Contribution Levy (SSCL) Act No. 25 of 2022, the Bank calculated and paid SSCL on financial services at 2.5% of the value addition used for the purpose of VAT on Financial Services with effect from 1 October 2022.

2.3.6 Debt Repayment Levy (DRL) on Financial Services

As per the Finance Act No. 35 of 2018, DRL shall be charged from every financial institution with effect from 1 October 2018. DRL is calculated at the rate of 7% on the value addition attributable to the financial services. As per Finance (Amendment) Act No. 2 of 2020 dated 12 October 2020, DRL was abolished with effect from 1 January 2020.

2.3.7 Economic Service Charge (ESC)

As per provisions of the Economic Service Charge (ESC) Act No.13 of 2006 and amendments thereafter, ESC is payable at 0.5% on Bank's liable turnover and is deductible from income tax payable. As per Economic Service Charge (Amendment) Act No. 4 of 2020 dated 12 October 2020, ESC was abolished with effect from 1 January 2020.

2.3.8 Crop Insurance Levy (CIL)

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

2.4 Significant accounting policies – Recognition of assets and liabilities

2.4.1 Employee Benefit Liability- Gratuity

All the employees of the Bank are eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983. Employees who have resigned or whose services are terminated other than by retirement are eligible to receive the terminal gratuity under the Payment of Gratuity Act No. 12 of 1983 at the rate of one half of the Gross Salary applicable to the last month of the financial year in which the employment is terminated or resigned, for each year of completed service, for those who have served

in excess of 5 years. The Bank measures the present value of the promised retirement benefits of gratuity which is a defined benefit plan using the actuarial valuation method.

Normal and Early Retirement

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

Interest Cost

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

Funding Arrangements

The Gratuity liability is not externally funded.

Actuarial Valuation

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

	2024	2023
Interest Rate	11.00%	13.00%
Rate of Annual Salary Increase	6.5% - 10%	10%
Retirement Age	55-60 years	55-60 years

The employment benefit obligation of gratuity provision is given in Note number 24.

2.4.2 Employee Benefit Liability - Medical Benefit

Details of Actuarial Valuation on medical benefit is disclosed in the note number 21 Permanent employees and their families and retirees of State Mortgage & Investment Bank are eligible for medical reimbursement provided that they have adopted to participate in the Scheme and have paid their membership dues. Family members of a retired member is only eligible for benefits under special treatment (either any one of retired member or his/her family member is eligible).

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

The assumptions used are as follows.

	2024	2023
Discount Rate	11%	13%
Medical Expense Escalation	12%	12%
Participant Data (Actives) census information	31.12.2024	31.12.2023

Recognition of Actuarial Losses/ Gains - Actuarial losses / gains are recognized in OCI.

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

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

Funding Arrangements - The Medical Benefit Scheme is not externally funded

2.4.3 Defined Contribution Plan

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

2.4.3.1 Employees' Provident Fund

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

2.4.3.2 Employees' Trust Fund

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

2.4.4 Leases

In these financial statements, the Bank has applied SLFRS 16 Leases, with effect from periods beginning on or after 1 January 2019, for the first time. The Bank has adopted SLFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank according to SLFRS 16 Leases.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease Incentives receivable
- Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- Amounts expected to be payable by the group under residual value guarantees
- The exercise price of a purchase option if the group is reasonably certain to exercise that option
- Payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2.4.4.1 Identifying a lease

A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Hence, at inception of a contract, Group assesses whether the contract is, or contains, a lease by considering following aspects. Availability of identified asset, right to control the use of the identified asset, right to obtain substantially all economic benefits from use of the identified asset, right to direct the use of the identified asset Accordingly, Bank identifies all the Rent Agreements (except short term agreements, less than twelve months and low value agreements) entered by the Group for operating a branch and for using machineries contain a lease under SLFRS 16: Leases

Right-of-use assets are measured at cost comprising the following

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Details of the cash and short-term funds are given in Note 33 to the Financial Statements.

2.4.5 Cash and Cash Equivalents

Cash and short-term funds include cash in hand, balances with banks, placements with banks and money at call and at short notice. Details of the cash and short-term funds are given in Note 13 to the Financial Statements.

2.4.6 Property, Plant and Equipment

Details of Property plant and equipment are given in the note number 16 Property, plant and equipment is stated at cost or valuation excluding the costs of day-to-day servicing, less accumulated depreciation and

accumulated impairment in value. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

2.4.6.1 Useful Life of the Property, Plant and Equipment and Intangible Assets

The Bank reviews the residual values, useful lives and methods of depreciation of Property, Plant and Equipment at each reporting date. Judgement of the Management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty. The details of the depreciation methods and rates used for each assets category are given in Note 2.4.6.4.

2.4.6.2 Basis of Recognition

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

2.4.6.3 Basis of Measurement

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

2.4.6.4 Depreciation

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

The estimated useful lives are as follows

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

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

2.4.6.5 Subsequent Cost

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

2.4.6.6 Restoration Cost

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

2.4.6.7 Capital Work-in-Progress

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

2.4.6.8 De-recognition

Property, Plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the income statement in the year the asset is derecognised. Details are disclosed in the note number 19

2.4.7 Intangible Assets

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

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

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

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

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

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

2.4.8 Impairment of Non-Financial Assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

2.4.9 Financial Guarantees

In the ordinary course of business, the Bank gives financial guarantees. Financial guarantees are initially recognised in the financial statements (within 'other liabilities') at fair value, being the premium received.

Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

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

2.4.10 Provisions

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

2.4.11 Financial Instruments - Initial Recognition

2.4.11.1. Date of Recognition

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

2.4.11.2 Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added

to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

2.4.11.3 Day 1 Profit or Loss

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

2.4.11.4 Measurement Categories of Financial Assets and Liabilities

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

- Amortised cost
- FVOCI
- FVPL

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

2.4.12 Financial Assets and Liabilities

2.4.12.1 Due from Banks, Loans and Advances to Customers, Financial Investments at Amortised Cost

From 1 January 2018, the Bank only measures Due from banks, Loans and advances to customers and other financial investments at amortised cost if both of the following conditions are met

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

The details of these conditions are outlined below.

2.4.12.2 Business Model Assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment

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

2.4.12.3 The SPPI Test

As a second step of its classification process the Bank assesses the contractual cash flow terms of financial instrument to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

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

In contrast, contractual terms that introduce a more than de minimise exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

2.4.12.4 Debt Instruments at FVOCI

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

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

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Where the Bank holds more than one investment in the same

security, they are deemed to be disposed of on a first-in first-out LKASs. On de-recognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss. Bank does not hold debt instrument measured at FVOCI for the year ended 2022.

2.4.12.5 Equity Instruments at FVOCI

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

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Bank hold unquoted equity instrument of Fitch rating company and Credit information Bureau for the year ended 2002. Note Number 18.

2.4.12.6 Debt Issued and Other Borrowed Funds

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

2.4.12.7 Financial Assets and Financial Liabilities at Fair Value through Profit or Loss

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

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.

Or

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

Financial assets and financial liabilities at FVPL are recorded in the statement of Financial Position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, considering any discount/premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using contractual interest rate, Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established. Unit trust hold as at 31 December, 2024 was measured at FVPL.

2.4.12.8 Reclassification of Financial Assets and Liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2023 & 2024.

2.4.12.9 De-recognition of Financial Assets and Liabilities

2.4.12.9.1 De-recognition due to Substantial Modification of Terms and Conditions

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

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

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

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

2.4.12.9.2 De-recognition Other than for Substantial Modification

Financial Assets

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

- The Bank has transferred its contractual rights to receive cash flows from the financial asset

or

- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement

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

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipient.
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay.

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

A transfer only qualifies for de recognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset

or

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

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

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

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

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

Financial liabilities

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

2.4.12.10 Impairment of Financial Assets

Provision for possible impairment losses is made on the basis of a continuous review of all loans and advances to customers in

accordance with the Sri Lanka Financial Reporting Standard (SLFRS) No. 09 on 'Financial Instruments: Recognition and measurement in the Financial Statements of the Banks. The following valuation techniques were used to calculate fair value of loans as it is necessary which are as follows. Details of the impairment of the financial assets are disclosed in the note number 16 & 17

2.4.12.10.1 Individual Impairment Method

- i. Individual Impairment is made for the loans excluding cash back loans including all loans over Rs 5 Mn or 0.1% of the capital base is considered as individually significant. Facilities for individual impairment test shall be selected based on availability of objective evidence of impairment.
- ii. Individually significant assessment and not impaired individually

Loans which are individually significant but not impaired will be assessed collectively for impairment either under Stage 1 or Stage 2 based on the criteria whether there has been significant credit deterioration since origination. In establishing significant credit deterioration for the facilities classified under individual impairment following criteria are considered.

Significant financial difficulty of the issuer or the borrower, it is becoming probable that the borrower will enter bankruptcy or other financial reorganization. The disappearance of an active market for that financial asset because of financial difficulties. It is evident or probable that borrower has submitted fraudulent documents and recovery of the outstanding balance is doubtful, significant increase in credit risk on other financial instruments of the same borrower.

2.4.12.10.2 Collective Impairment Method

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

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

2.4.12.10.2.1 Overview of the ECL Principles

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

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank's policy for grouping financial assets measured on a collective basis.

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

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

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

Stage 2 When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the

LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3 Loans considered credit-impaired (as outlined in Note 13). The bank records an allowance for the LTECLs.

POCI Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) de-recognition of the financial asset.

2.4.12.10.2.3 The Calculation of ECLs

The Bank calculates ECLs based on probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

PD The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously recognised and is still in the portfolio.

EAD The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, either scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

When estimating the ECLs, the Bank considers three scenarios base case, best case, and worst case. Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

2.4.12.10.2.4 The Mechanics of the ECL Method are Summarised Below:

Stage 1 The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected

12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the four scenarios, as explained above.

Stage 2 When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3 For loans considered credit-impaired, the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

POCI POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit adjusted EIR.

2.4.12.11 Debt Instruments Measured at Fair Value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon de-recognition of the assets.

2.4.12.12 Purchased or Originated Credit Impaired Financial Assets (POCI)

For POCI financial assets, the Bank only recognises the cumulative changes in LTECL since initial recognition in the loss allowance.

2.4.12.13 Forward Looking Information

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth Carrera
- Inflation rate
- Interest Rates
- Exchange Rate
- Unemployment rates

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Therefore, bank also considers the following qualitative factors,

- Average LTV
- Government Policies
- Status of the Industry Business
- Regulatory impact

2.4.12.14 Collateral Valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Bank's accounting policy for collateral assigned to it through its lending arrangements under SLFRS 9 is the same as it was under LKAS 39.

2.4.12.15 Collateral Repossessed

The Bank's accounting policy under SLFRS 9 remains the same as it was under LKAS 39. The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of

the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

In its normal course of business, the Bank does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the Statement of Financial Position.

2.4.12.16 Write-offs

The Bank's accounting policy under SLFRS 9 remains the same as it was under LKAS 39. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

2.4.13 Events after the Reporting Period

All material events after the reporting period have been considered where appropriate adjustments or disclosures are made in respective notes to the financial statements. Central Bank of Sri Lanka issued circular no 05 of 2021 in May 2021 with a view of facilitating to meet the challenges face by business & individuals due to COVID 19 pandemic third wave. It was further extended on September 2021 as per circular no 08 of 2021. Accordingly bank already offered the concessions in May 2021 and currently bank is in the process of assessing the requests send by eligible borrowers for the extended relief measure

Change in rate of VAT on financial services

As per provisions of the Government Bill issued on 7 January 2022 it has been proposed to increase the VAT on financial services.

New NPL Direction

New NPL Direction CBSL has recently issued a new set of directions pertaining to the classification, recognition and measurement of credit facilities to be effective from 1 January 2022. The classification of Non-Performing Loans (NPL), cessation of the interest in suspense, adoption of SLFRS 9 stage classification, changing the existing cross default rules, mandatory provisioning ratio for stage one loans, and new rules for moving the financial assets among the stages. However, the new direction is applicable only for the loans turn to NPL after 1 January 2022 while the old loans categorised as NPL under the earlier directions will remain as it is until it will get settled.

2.4.14 Related Party Transactions with Government and Government Related Entities

The Bank does not elect the disclosure exemption under para 32 of LKAS 24.

2.5 Significant accounting policies – Recognition of income and expenses for Financial Instruments

2.5.1 Interest Income

Details interest income are given in the note number 03

2.5.2 Interest and Similar Income

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

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

2.5.3 Fee and commission income

Details of "Commission income and expenses" are given in Note 5

2.6 Standards Issued but not yet Effective as at 31 December 2020

The amendments to the following existing Sri Lanka Accounting Standard which were effective from 1 January 2020 did not have a material impact on the Financial Statements of the Bank.

2.6.1 Amendments to LKAS 1 and LKAS 8 with effect from 01.01.2020

Definition of material Amendments to LKAS 1 "Presentation of Financial Statements" and LKAS 8 "Accounting policies, Changes in accounting Estimates and Errors" are made to align the definition of "material" across the standard and to clarify certain aspects of the definition. The new definition states that, "information is material if omitting or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments to the definition of material are not expected to have a significant impact on the Bank's Financial Statements.

2.6.2 Amendments to SLFRS 16-"Leases" - COVID-19 Related Rent Concessions

The amendments provide relief to lessees from applying SLFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 Pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting

from COVID-19 related rent concession the same way it would account for the change under SLFRS 16, if the change were not a lease modification. The amendment pronouncement is not expected to have a material impact on the Bank's financial statements.

2.7 Impact due to the COVID-19

COVID-19 pandemic situation has caused disruption to business and economic activities, and uncertainty to the global and local economy. Subsequent to the outbreak of COVID-19 in Sri Lanka, the Bank has strictly adhered to the guidelines and directions issued by both Government and Central Bank of Sri Lanka (CBSL) when conducting its business operations. Further, the Bank has provided reliefs for the affected businesses and individuals in line with the directions issued by the CBSL.

These relief measures include deferment of repayment terms of credit facilities, offering concessionary rates of interest to eligible loan products (debt moratorium) and waiving off certain fees and charges.

The impact of the COVID-19 on the loans and advances portfolio of the Bank has been assessed and adjusted in these Financial Statements based on the available Information and assumptions made as at reporting date in line with the guidelines issued by the CBSL and the CA Sri Lanka. However, the actual losses may differ depending on how borrowers avail the moratorium.

Details of day one difference and interest income are disclosed in the note number 16.3.2

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

03. Gross income

Accounting Policy

Gross revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be

reliably measured. The specific recognition criteria must also be met before revenue recognition.

	2024 Rs.	2023 Rs.
Interest Income	7,590,650,416	9,324,132,408
Fee and Commission Income	172,631,902	96,293,245
Net Fair Value Gains/(Losses) from FA at FVPL	377,996,544	157,533,227
Net Other Operating Income	31,145,845	21,943,478
Gross Income	8,172,424,707	9,599,902,358

04. Net Interest Income

Accounting Policy is disclosed in Note 2.2.1

	2024 Rs	2023 Rs
Interest Income		
Placements with Banks (Fixed+Savings Accounts)	207,957,256	1,975,533,930
Financial Assets at Amortised Cost		
- Loans and Advances	6,073,826,180	5,600,330,194
First Day Impact of Moratorium Loans	2,507,045	3,031,481
Deferred 7% interest Income on Moratorium interest on 5th wave	-	-
less - 7% moratorium bank charges of 1,3,4,5 waves recovered	(897,949)	(532,942)
- Debt and Other Instruments	1,307,257,884	1,745,769,745
Total Interest Income	7,590,650,416	9,324,132,408
Interest Expenses		
Due to Banks	-	51,052
Financial Liabilities at Amortised Cost		
- Due to Depositors	5,374,590,961	8,706,701,092
- Due to Other Borrowers	17,631,243	25,842,475
Total Interest Expenses	5,392,222,204	8,732,594,619
Net Interest Income	2,198,428,212	591,537,789
a. Net Income from Sri Lanka Government Securities		
Interest Income	973,039,690	1,286,407,489
(Less): Interest Expenses	-	-
Net Interest Income	973,039,690	1,286,407,489

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

05. Net Fee and Commission Income

Bank earns fee and commission income from range of services which are provided over the period of time,

	2024 Rs	2023 Rs
Fee and Commission Income	172,631,902	96,293,245
Net Fee and Commission Income	172,631,902	96,293,245
Comprising		
Bank Service Charges - Loans and Advances	160,872,603	84,074,511
Legal & Technical Fees - Loans and Advances	5,315,042	1,841,929
Other Charges	6,444,257	10,376,804
Net Fee and Commission Income	172,631,902	96,293,245

06. Net Fair Value Gains (Losses) From Financial Instruments at Fair Value Through Profit or Loss

Accounting Policy

Net trading income includes all gains and losses and related dividend for "financial

assets recognized through profit or loss" other than interest income

	2024 Rs	2024 Rs
Gains on financial assets at fair value through profit or loss	377,996,544	157,533,227
Losses on financial assets at fair value through profit or loss	-	-
Total	377,996,544	157,533,227

07. Other Operating Income (net)

Accounting Policy

Dividend earned from financial assets measured at fair value through other comprehensive income is recognized when

the Group's right to receive the payment is established

	2024 Rs	2024 Rs
Dividend Income	23,070,500	15,950,352
Sundry Income	8,075,345	5,993,126
Other Operating Income (net)	31,145,845	21,943,478

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

08. Impairment Charges (Reversal) for Loans and Other Losses

Accounting Policy

The Bank recognize the changes in the impairment provisions for all financial instruments, which are assessed as per Sri Lanka Financial Reporting Standard – SLFRS 9 on “Financial Instruments”. The measurement of impairment losses under SLFRS 9 on all categories of financial assets

requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. adopted for impairment is explained in Note 16 to the Financial Statements.

	2024 Rs	2023 Rs
Financial Assets at AC - Loans and Advances		
Stage 1	(25,466,851)	(34,814,940)
Stage 2	24,889,011	167,142,810
Stage 3	547,881,282	423,926,677
Other Financial assets at amortised cost		
Stage 1	(6,413,408)	5,137,783
Stage 2	-	-
Stage 3	-	-
Total	540,890,034	561,392,330

09. Personnel Expenses

Accounting Policy

01. Defined contribution plans

Bank operate under mentioned Defined Contribution plan during the financial year 2024. Contributions made were recorded as an expense under “Personnel expenses”. Unpaid contributions are recorded as a liability.

(a) Employees’ Provident Fund

Accounting policy is disclosed in the 2.4.1

(b) Employees’ Trust Fund

Accounting policy is disclosed in the 2.4.1

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

Staff Expenses	2024 Rs	2023 Rs
Salaries and Bonus	863,549,970	717,390,410
Defined Contribution Plan - EPF & ETF	145,930,461	126,556,908
Defined Benefits Plans - Gratuity Provision	61,445,114	59,542,589
Encashment of Sick Leave	38,815,577	29,964,922
Overtime and Out of Pocket Allowance	14,931,001	5,850,366
Staff Study and Training	2,248,850	1,944,205
Medical Scheme - Payments	60,086,208	62,874,231
Medical Scheme - Provision (IFRS)	46,672,840	54,114,387
Welfare	5,787,930	7,171,626
Insurance	486,579	469,387
Staff Loan day 1 Difference (IFRS)	(33,386,997)	(51,453,677)
Compensation	872,710	867,538
KPI Allowance	21,702,473	-
Total	1,229,142,717	1,015,292,893

Less - IFRS Provisions

Staff Loan day 1 Difference (IFRS)	33,386,997	51,453,677
Medical Scheme - Provision (IFRS)	(46,672,840)	(54,114,387)
Actual Total	1,215,856,873	1,012,632,183

09.1 Contribution - Retired staff medical scheme

	2024 Rs	2023 Rs
Amount recognized as expense	46,672,840	54,114,387

09.2 Retired staff medical scheme has been established for the all employees of the Bank. Actuarial valuation was carried out by Mr. M. Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries, on 31 December 2024. (Refer Note)

Contribution - Gratuity	2024 Rs	2023 Rs
Amount recognized as expense	61,445,114	59,542,589

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FOR THE YEAR ENDED 31ST DECEMBER 2024

10. Other Expenses

Accounting Policy

Other operating expenses are recognized in the Statement of Profit or Loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and maintaining the property, plant and equipment in a state of efficiency has been charged to the Statement of Profit or Loss in arriving at the profit of the year. Provisions in respect of other expenses are recognized

when the bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Expenses of depreciation and amortisation of property plant and equipment and intangible assets are separated from other expenses and disclosed in the face of income statement.

	2024 Rs	2023 Rs
Directors' Emoluments	4,017,257	1,998,974
Auditors' Remuneration	11,660,898	5,564,435
Professional and Legal Expenses	8,523,264	7,399,866
Office Administration and Establishment Expenses	185,346,169	156,567,575
Advertising and Promotional Expenses	40,986,467	9,359,051
Motor Vehicle Maintenance & Travelling	9,139,958	7,984,571
General Expense	23,046,704	11,690,094
Other Losses, Bad Debts and Write Offs	-	-
CBSL Deposit Insurance	50,198,203	51,678,387
Other Expenses	114,489,481	103,626,794
Total	447,408,400	355,869,747

Depreciation/Amortisation of Property, Plant and Equipment

Depreciation - Property, Plant and Equipment	49,185,811	21,007,983
Depreciation - Leased Assets	77,500,923	78,600,161
Other Operating Income (net)	126,686,733	99,608,144

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

11. Tax Expenses

Accounting Policy

Current Tax Expenses - Tax Rate 24% and 30%

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted at the reporting date. Accordingly, provision for taxation is made on the basis of the accounting profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 24 of 2017 and the amendment thereto, at the rates specified in Notes 2.3

Deferred taxation-Tax Rate 30%

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which they can be used.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax asset are reassessed at each reporting date and are recognize to the extent that is probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Bank's standard tax rate increased from 24.0% to 30.0% in the year 2022, and a newly implemented Social Security Contribution Levy of 2.5% came in to effect, while VAT on financial services increased from 15.0% to 18.0% w.e.f. 1st January 2022. Increase in deferred tax asset as a result of unused tax losses and substantial impairment charges recognized along with the reversal of previous years' tax provisions with the settlement of past tax assessments, the Bank recognized a tax credit of Rs 442 Mn for the current year.

	2024 Rs	2023 Rs
Current Tax Expense		
Current Year	-	(55,492,480)
Deferred Tax Expense/(Credit)	125,756,722	(106,156,767)
Total	125,756,722	(161,649,247)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

11.1 Reconciliation of Tax Expense

Profit/(Loss) before Tax	157,798,019	(1,164,780,667)
Adjustment in Respect of Current Income Tax of Prior Periods		
Add: Tax Effect of Expenses/income reductions that are not Deductible for Tax Purposes	952,658,272	615,883,520
(Less): Tax Effect of Expenses that are Deductible for Tax Purposes	804,527,551	(606,532,475)
Disposal of Assets	5,707,700	885,920
Dividends	23,070,500	15,950,352
Qualifying Payment - Tax Losses	-	-
Adjusted Profits for the Year	334,706,940	(1,138,593,349)
Taxation Based on Profit for the Year	-	-
Taxation based on dividend income at 14%	-	-
Transfer to/from Deferred Taxation	125,756,722	(106,156,767)
(Over)/Under Provision in Previous years	-	(55,492,480)
Tax Expense for the Period	125,756,722	(161,649,247)

11.2 The Deferred Tax (Credit)/Charge in the Income Statement and Other Comprehensive Income Comprises from the changes on the Following.

Deferred Tax Assets		
Property, Plant & Equipment	(21,377,623)	(35,613,577)
Employee Benefit Obligations	203,336,237	179,302,267
Impairment Provision	257,636,159	257,809,511
Right to use Assets	(1,813,934)	(1,552,645)
Moratorium First Day Impact	3,402,223	4,154,337
Unused Tax Losses	192,452,587	341,578,005
Deferred Tax Assets	633,635,650	745,677,898

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

12. Analysis of Financial Instruments by Measurement Basis - Bank - Current Year (2024)

Accounting Policy

The carrying amounts of financial instruments by category as defined in Sri Lanka Financial Reporting Standard – SLFRS 9 on “Financial

Instruments” under headings of the Statement of Financial Position are summarised below

In Rs.	AC	FVPL	FVOCI	Total
ASSETS				
Cash and cash equivalents	124,664,750	-	-	124,664,750
Placements with banks	152,682,844	-	-	152,682,844
Loans and advances	44,666,805,952	-	-	44,666,805,952
Debt instruments	694,208,564	-	-	694,208,564
Reverse Repos	2,256,431,869	-	-	2,256,431,869
Treasury Bills	5,607,545,953	-	-	5,607,545,953
Treasury Bonds	422,577,047	-	-	422,577,047
Unit Trusts	-	2,943,277,961	-	2,943,277,961
Unquoted Shares	-	-	5,379,078	5,379,078
Total financial assets	53,924,916,979	2,943,277,961	5,379,078	56,873,574,017
LIABILITIES				
Due to banks	-	-	-	-
Financial liabilities				
- Due to depositors	48,160,520,558	-	-	48,160,520,558
- Due to other borrowers	140,800,069	-	-	140,800,069
Total Financial Liabilities	48,301,320,627	-	-	48,301,320,627

AC - Financial assets/liabilities measured at amortised cost

FVPL - Financial assets/liabilities measured at fair value through profit or loss

FVOCI - Financial assets measured at fair value through other comprehensive income

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

Bank - Previous Year (2023)

In Rs.	AC	FVPL	FVOCI	Total
ASSETS				
Cash and cash equivalents	122,600,853	-	-	122,600,853
Placements with banks	2,923,132,097	-	-	2,923,132,097
Loans and advances	40,992,800,137	-	-	40,992,800,137
Debt instruments	781,224,416	-	-	781,224,416
Reverse Repos	970,572,268	-	-	970,572,268
Treasury Bills	9,840,233,022	-	-	9,840,233,022
Treasury Bonds	415,464,023	-	-	415,464,023
Commercial Papers	155,250,000	-	-	155,250,000
Unit Trusts	-	3,552,533,227	-	3,552,533,227
Unquoted Shares	-	-	5,379,078	5,379,078
Total financial assets	56,201,276,816	3,552,533,227	5,379,078	59,759,189,122
LIABILITIES				
Due to banks	2,732,792	-	-	2,732,792
Financial liabilities				
- Due to depositors	52,138,134,453	-	-	52,138,134,453
- Due to other borrowers	178,986,770	-	-	178,986,770
Total Financial Liabilities	52,319,854,014	-	-	52,319,854,014

13. Cash and Cash Equivalents

Accounting Policy

Cash and cash equivalents includes cash in hand, balances with banks, money at call and short notice that are subject to an insignificant risk of change in their value. Cash and cash equivalents are carried at amortised cost

less impairment in the Statement of Financial Position. Balances with banks, and money at call and short notice are subject to the impairment as per SLFRS 9 on "Financial Instrument

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

	2024 Rs	2023 Rs
Cash in hand	94,473,374	62,943,092
Balances with banks	30,191,375	59,657,762
Total	124,664,750	122,600,853

14. Placements with Banks

Accounting Policy

Placement with banks include short-term deposits placed in banks that are subjected to insignificant risk of changes in fair value, and are used by the Bank and the Group in the management of its short-term commitments.

They are recorded in the Financial Statements at their face values or the gross values less impairment, where appropriate. The Group has calculated impairment provision as per SLFRS 9 on "Financial Instrument" based on external rating of particular bank.

14.1

	2024 Rs	2023 Rs
Fixed Deposits		
NSB	-	-
PB	-	2,929,999,099
Call Deposit		
BOC	-	-
Savings Accounts-Investments		
SDB	1,252,059	1,213,045
NDB	1,360,802	4,770
Sampath	25,358	-
MCB	150,056,610	-
Gross Total	152,694,828	2,931,216,914

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FOR THE YEAR ENDED 31ST DECEMBER 2024

14.2

	2024 Rs	2023 Rs
Stage 1		
Opening balance as at 01/01/2024	8,084,817	2,947,034
Charge/(Write back) to income statement	(8,072,834)	5,137,783
Write-off during the year	-	-
Other movements	-	-
Closing balance at 31/12/2024	11,983	8,084,817
Stage 2		
Opening balance as at 01/01/2024	-	-
Charge/(Write back) to income statement	-	-
Write-off during the year	-	-
Other movements	-	-
Closing balance at 31/12/2024	-	-
Stage 3		
Opening balance as at 01/01/2024	-	-
Charge/(Write back) to income statement	-	-
Write-off during the year	-	-
Other movements	-	-
Closing balance at 31/12/2024	-	-
C. Net Placement with banks	152,682,844	2,923,132,097

15.

Financial Assets Recognized Through Profit or Loss

	2024 Rs	2023 Rs
Unit Trusts (NDB)	2,943,277,961	3,552,533,227
Total	2,943,277,961	3,552,533,227

a. Analysis

	2024 Rs	2023 Rs
By collateralisation		
Pledged as collateral	-	-
Unencumbered	2,943,277,961	3,552,533,227
Gross total	2,943,277,961	3,552,533,227

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

16. Financial Assets at Amortised Cost - Loans and Advances

Accounting Policy

Loans and advances include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than instrument which to sell immediately or in the near term and those that the bank, upon initial recognition, designates as at fair value through profit or loss. Those items, upon initial recognition, designates financial assets measured at fair value through other comprehensive income. Those item may not recover substantially all of its initial investment, other than due to credit deterioration.

Loans and advances" include amounts due from banks and other customers. After initial measurement, loans and advances are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in "Interest income" in the Income Statement. The losses arising from impairment are recognised in "Impairment charge for loans and other losses" in the Income Statement.

16.1

	2024 Rs	2023 Rs
Gross loans and advances	44,678,146,696	41,006,647,925
Stage 1	24,538,845,298	25,022,039,747
Stage 2	5,401,181,793	5,325,583,522
Stage 3	14,738,119,605	10,659,024,656
(Less): Accumulated impairment under:	2,936,781,371	2,389,477,929
Stage 1	402,669,086	428,135,938
Stage 2	456,118,112	431,229,101
Stage 3	2,077,994,173	1,530,112,891
Net Loans and Advances	41,741,365,325	38,617,169,996
Less - First Day impact of Moratorium Loans	11,340,744	13,847,789
Carrying Value of Loans and Advances	41,730,024,581	38,603,322,207

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FOR THE YEAR ENDED 31ST DECEMBER 2024

16.2 Analysis

	2024 Rs	2023 Rs
By product		
Mortgage	9,969,290,283	10,179,549,598
EPF	13,938,716,138	8,857,459,543
Vehicle	-	-
Staff loans	1,061,427,985	1,208,081,194
Personal Loans	17,669,137,783	19,295,356,966
Others	2,404,174,993	1,864,188,107
Less-		
Allowance for Day 1 Difference - Staff Loans	(364,600,486)	(397,987,482)
Gross Total	44,678,146,696	41,006,647,925
By collateralization		
Collateral held as Security	24,819,823,839	19,037,009,141
Other Credit Enhancements	19,858,322,857	21,969,638,784
Gross Total	44,678,146,696	41,006,647,925

16.3 Movements in impairment during the year

When objective evidence are available that an impairment loss has been incurred, the amount of the loss is measured based on difference between the assets' carrying amount and the present value of estimated future cash flows and carrying amount of the asset is reduced and charged to provision account and the amount of the loss is recognized in the Income Statement.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR, when The calculation of the present value of the estimated future cash flows of a collateralised financial asset cash flows from For sale value less any less costs of foreclosure is considered.

a Collective Assessment of Impairment

If bank is determined that no objective evidence of impairment exists for an individually assessed financial asset, base

on homogeneity of the product features of the asset and of financial assets with similar credit risk characteristics and collectively assesses them for impairment

b Individual assessment of impairment

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as financial assets at amortised cost – debt and other instruments), the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an impairment provision account and the amount of the loss is recognized in the Income Statement. Interest income continues to be accrued on the carrying amount at the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest and similar income"

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the bank reclassified trading assets to loans and receivables, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result

from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increased or decreased because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the "Credit loss expense"

Write-off of loans and advances

The Bank accounting policy for write-off under SLFRS 9 remains the same as it was under LKAS 39. Loans (and the related impairment allowance accounts) are normally written off, either partially or in entirety, when there is no realistic prospect of recovery and all possible steps have been exhausted in recovering dues. Where loans are secured, this is generally after receipt of any proceeds from the realization of security. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. If a write-off is later recovered, the recovery is credited to "other operating income"

NOTES TO THE FINANCIAL STATEMENTS

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	2024 Rs	2023 Rs
Stage 1		
Opening balance as at 01/01/2024	428,135,938	462,950,878
Charge/(Write back) to income statement	(25,466,851)	(34,814,940)
Write-off during the year	-	-
Closing balance at 31/12/2024	402,669,086	428,135,938
Stage 2		
Opening balance as at 01/01/2024	431,229,101	264,086,290
Charge/(Write back) to income statement	24,889,011	167,142,810
Write-off during the year	-	-
Closing balance at 31/12/2024	456,118,112	431,229,101
Stage 3		
Opening balance as at 01/01/2024	1,530,112,891	1,106,186,214
Charge/(Write back) to income statement	547,881,282	423,926,677
Write-off during the year	-	-
Closing balance at 31/12/2024	2,077,994,173	1,530,112,891
Total	2,936,781,371	2,389,477,929

17. Financial Assets at Amortised Cost - Debt and Other Instruments

Accounting Policy

Financial assets at amortised cost – debt and other instruments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the bank has the intention and ability to hold to maturity. After initial measurement, financial assets at amortised cost – debt and other instruments are subsequently measured at amortised cost using the EIR, less impairment. Amortised

cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in “Interest and similar income” in the Income Statement. The losses arising from impairment of such investments are recognized in the Income Statement line “Impairment charges

NOTES TO THE FINANCIAL STATEMENTS

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	2024 Rs	2023 Rs
Treasury Bills	5,607,545,953	9,840,233,022
Treasury Bonds	422,577,047	415,464,023
Debenture	694,208,564	781,224,416
Reverse Repos	2,256,431,869	970,572,268
Commercial Paper	-	155,250,000
Gross total	8,980,763,433	12,162,743,730

17.1 Analysis

By collateralization		
Pledged as collateral	-	-
Unencumbered	8,980,763,433	12,162,743,730
Gross total	8,980,763,433	12,162,743,730

17.2 Stage 3

Opening balance as at 01/01/2024	-	-
Charge/(Write back) to income statement	1,659,425	-
Write-off during the year	-	-
Other movements	-	-
Closing balance at 31/12/2024	1,659,425	-
C. Net Financial Assets at Amortized Cost	8,979,104,008	12,162,743,730

18. Financial Assets at Fair Value Through Other Comprehensive Income

Accounting Policy

Equity and debt securities are classified under Financial Assets Fair Value Through other Comprehensive income . Equity investments classified as Fair Value through Other Comprehensive Income are those which are held as strategic investment. Debt securities

in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

Equity instruments fair value through other comprehensive income

Bank has to classified some equity investments under FVOCI when they meet the definition of Equity under LKAS 32 on "Financial Instruments: Presentation" and

are not held for trading. Such classification is determined on an instrument-by-instrument basis

Financial Assets at Fair Value Through Other Comprehensive Income

	2024 Rs	2023 Rs
Unquoted Shares		
CRIB	4,754,078	4,754,078
Fitch Rating	625,000	625,000
Gross total	5,379,078	5,379,078

18.1 Analysis

By collateralization		
Pledged as collateral	-	-
Unencumbered	5,379,078	5,379,078
Gross total	5,379,078	5,379,078

19. Property, Plant and Equipment

Accounting Policy

Basis of Recognition

Property, plant and equipment are recognized if it is probable that future benefits associated with the asset will flow to the bank and cost of the asset can be reliably measured. Property, plant and equipment are initially measured at cost including costs directly attributable to the acquisition of the asset.

Basis of measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs. The self-constructed assets includes the cost of materials and direct labour, any other costs

directly attributable to bring the asset to a working condition for its intended use and the cost of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software which is integral to the functionality of the related equipment is capitalized as part of computer equipment.

Cost model

The Bank applies cost model to property, plant and equipment except for freehold land and buildings and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

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19.1

a. Property, Plant and Equipment

In Rs.	Vehicles	Furniture & Fittings & Office Equipment	Computer Equipment	Computer Software	WEB Site Development	Total
2024 (Current Year) Cost/Fair Value Opening Balance as at 01/01/2024	70,798,254	173,707,095	177,334,076	4,395,518	460,000	426,694,943
Additions	-	21,730,043	85,702,354	267,591,988	-	375,024,385
Disposals	(6,605,500)	(2,193,231)	(7,014,041)	-	-	(15,812,773)
Adjustments	-	-	-	460,000	(460,000)	-
Closing Balance as at 31/12/2024	64,192,754	193,243,906	256,022,389	272,447,506	-	785,906,556
(Less): Accumulated Depreciation Opening Balance as at 01/01/2024	70,798,254	128,581,991	144,037,784	4,395,518	74,986	347,888,533
Charge for the Year	-	11,845,426	24,872,265	12,468,119	-	49,185,810
Disposals	(6,605,500)	(2,193,231)	(7,014,041)	-	-	(15,812,773)
Adjustments	-	-	-	74,986	(74,986)	-
Closing Balance as at 31/12/2024	64,192,754	138,234,185	161,896,008	16,938,623	-	381,261,571
Net Book Value as at 31/12/2024	-	55,009,721	94,126,381	255,508,883	-	404,644,985

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FOR THE YEAR ENDED 31ST DECEMBER 2024

In Rs.	Vehicles	Furniture & Fittings & Office Equipment	Computer Equipment	Computer Software	WEB Site Development	Total
2023 (Previous Year) Cost/Fair Value Opening Balance as at 01/01/2023	70,798,254	168,969,165	167,010,505	4,395,518	460,000	411,633,442
Additions	-	9,022,113	12,722,520	-	92,844,755	114,589,387
Disposals/Adjustments	-	(4,284,184)	(2,398,948)	-	-	(6,683,132)
Adjustments	-	-	-	-	-	-
Closing Balance as at 31/12/2023	70,798,254	173,707,095	177,334,076	4,395,518	93,304,755	519,539,697
(Less): Accumulated Depreciation Opening Balance as at 01/01/2023	70,798,254	121,468,661	136,740,714	4,395,518	17,486	333,420,634
Charge for the Year	-	-	-	-	-	-
Disposals	-	11,254,465	9,696,018	-	57,500	21,007,983
Adjustments	-	(4,141,136)	(2,398,948)	-	-	(6,540,084)
Closing Balance as at 31/12/2023	70,798,254	128,581,991	144,037,784	4,395,518	74,986	347,888,533
Net Book Value as at 31/12/2023	-	45,125,104	33,296,292	-	93,229,768	171,651,164

19.2 Fully Depreciated Property Plant and Equipment

Fully Depreciated Property Plant and Equipment which still are in use as follows

As at 31 December	2024	2023
Vehicles	64,192,754	70,798,254
Furniture & Fittings & Office Equipment	99,079,756	93,852,701
Computer Equipment	126,114,757	120,030,133
Computer Software	4,395,518	4,395,518
Total	293,782,786	289,076,606

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

19.3 Temporarily Idle Property Plant and Equipment

There were no temporarily idle property plant and equipment as at reporting date

classified as held for sale in accordance with SLFRS 5 - Non current assets held for sale and discontinued operations.

19.4 Property Plant and Equipment Retired from Active Use

There were not property ,plan and equipment retired from active use which were not

20. Deferred Tax Assets/(Liabilities)

Accounting Policy

Accounting Policy on Deferred tax disclosed in the Note 11

	2024 Rs	2023 Rs
Opening Balance 01/01/2024	745,677,897	632,156,451
Charge for the year Recognized in		
- Profit/(Loss)	(125,756,722)	106,156,767
- Profit/(Loss) - Impact on changes in Tax Rate	-	-
- Other Comprehensive Income (30% taken)	13,714,474	7,364,679
Closing Balance 30/09/2024	633,635,649	745,677,897

21. Other Assets

	2024 Rs	2023 Rs
Stationary Stock	16,920,483	15,038,906
Deposits and Prepayments	3,758,799	35,210,838
Prepaid Staff Loans	364,600,486	397,987,482
VAT Receivable	35,812,671	27,952,433
NBT Receivable	-	3,603,588
DRL Receivable	-	15,591,023
WHT Receivable	164,429,777	113,160,349
SSCL Receivable	-	3,321,741
7% Interest Receivable on Moratorium Interest	5,311,931	6,209,879
Interest Receivable - Senior Citizens Fixed Deposits	-	-
Others	4,773,358	4,874,997
Total	595,607,504	622,951,236

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

22. Due to Banks

	2024 Rs	2023 Rs
Borrowings (ODs)	-	2,732,792
Repo agreements	-	-
Total	-	2,732,792

23. Financial liabilities at amortised cost

Accounting Policy

Due to depositors include savings deposits and term deposits. Subsequent to initial recognition deposits are measured at their

amortised cost using EIR method. Interest paid/payable on deposits are recognised in the Income Statement under interest expense.

	2024 Rs	2023 Rs
Due to depositors	48,160,520,558	52,138,134,453
Repo agreements	-	-
Other borrowings	140,800,069	178,986,770
Total	48,301,320,627	52,317,121,222

23.1 Analysis of amount due to depositors

	2024 Rs	2023 Rs
By Product		
Savings deposits	3,574,326,835	2,202,016,436
Fixed deposits	44,319,050,968	49,323,667,095
Other deposits (Schemes)	267,142,754	612,450,922
Total	48,160,520,558	52,138,134,453

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

23.2 Analysis of other borrowings

	2024 Rs	2023 Rs
Bank Loans	-	-
AHF	-	-
CBSL Refinance Loans	36,788,951	22,029,668
Lease Liability	104,011,119	156,957,101
Total	140,800,069	178,986,770

24. Employee Benefit

The Bank measures the Present Value of Defined Benefit Obligation (PVDBO) which is a defined benefit plan with the advice of an actuary using the Projected Unit Credit Method.

“The actuarial valuation involves making assumptions about discount rate, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature

of these plans, such estimates are subject to significant uncertainty. The employee benefit obligation as at 31st December 2024 is calculated based on the actuarial valuation report as of 31st December 2024, carried out by Actuarial & Management Consultants (Pvt) Ltd.”

The key assumptions used by the actuary include the following:

	2024 Rs	2023 Rs
Rate of Interest	11.00%	13.00%
Rate of Salary Increase	6.5% - 8%	10.00%
Retirement Age	55-60 years	55-60 years

Gratuity

	2024 Rs	2023 Rs
Provision for Gratuity		
Balance at the Beginning of the Year	291,878,533	245,562,689
Current Service Cost	37,944,209	15,341,305
Interest Cost	23,500,905	44,201,284
Benefit Paid	(57,161,366)	(45,509,997)
Actuarial (Gains)/Losses	60,781,879	32,283,252
Total	356,944,160	291,878,533

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

Sensitivity Analysis of Present Value of Defined Benefit Obligation

	2024 Rs	2023 Rs
Assumption changed (while all other assumptions remain unchanged)	PV-DBO (Rs.)	PV-DBO (Rs.)
A one percentage point increase (+1%) in the discount rate	336,260,853	275,457,498
A one percentage point decrease (-1%) in the discount rate	380,286,557	310,420,576
A one percentage point increase (+1%) in the salary/wage increment rate	382,503,514	312,316,801
A one percentage point decrease (-1%) in the salary/wage increment rate	333,977,441	273,530,916

Maturity Profile of the Gratuity Provision as at 31.12.2024

AGE GROUP	No-Emps	TOT-Basic Salary (Rs.)	TOT-COLA (Rs.)	AVG- Future Working Lifetime (years)	TOT-Provision (PV-DBO)(Rs.)
XV: 20 to 24	25	863,575	62,776	14.6	172,749
XV: 25 to 29	32	1,660,730	1,004,415	14.0	3,644,593
XV: 30 to 34	78	5,845,330	4,897,876	13.4	33,875,887
XV: 35 to 39	43	4,793,780	2,699,365	12.3	31,059,573
XV: 40 to 44	58	5,987,570	3,641,005	11.3	53,282,453
XV: 45 to 49	47	5,826,960	2,950,469	9.7	63,432,867
XV: 50 to 54	37	5,194,800	2,322,710	6.7	64,837,559
XV: 55 to 59	34	4,902,840	2,134,382	1.9	106,638,479
TOTAL	354	35,075,585	19,712,998	10.8	356,944,161

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

Medical

	2024 Rs	2023 Rs
Provision for Medical Benefit		
Balance at the Beginning of the Year	305,795,690	276,264,014
Current Service Cost	39,753,440	4,386,865
Interest Cost	6,919,400	49,727,522
Actuarial (Gain)/Losses	(15,066,966)	(7,734,321)
Benefit Paid	(16,558,269)	(16,848,390)
Total	320,843,296	305,795,690
Total Employee Benefit Liability	677,787,456	597,674,223

Sensitivity Analysis of Present Value of Benefit Obligation

Category	+1% Discount Rate PV-DBO (Rs.)	-1% Discount Rate PV-DBO (Rs.)
Active employees -Pensioner Medical benefits (Medical Fund)	99,937,988	143,656,110
Pensioners -Medical benefit (Medical Fund)	172,695,706	202,845,191
TOTAL	272,633,694	346,501,301

25. Other Liabilities

Accounting Policies

Other liabilities include provisions made in account of , fees and expenses, tax payable unappropriated customer receipt, leave

encashment and other expenses. These liabilities are recorded at amounts expected to be payable at reporting data.

	2024 Rs	2023 Rs
Taxes Payable	149,578,309	35,637,120
Accrued Expenditure	160,275,343	93,706,978
Other liabilities	30,667,357	72,562,152
Estate Refund Creditors	8,452,291	12,006,515
Margin Account-SP.Loan for ETF board (BETWEEN 2MN&3M)	910,984,285	467,485,793
Customer Refund-Closed Loan	8,932,884	13,414,849
Total	1,268,890,469	694,813,406

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

25.1 Taxes Payable

Payee Tax	10,151,925	7,161,290
WHT Payable	15,863,435	21,485,961
VAT Payable	113,691,536	6,989,869
SSCL Payable	9,871,413	-
Taxes Payable	149,578,309	35,637,120
Income Tax Payable		
Opening Balance	-	134,000,281
Provision for the year	-	-
over/(Under) Provision	-	(55,492,480)
Income Tax Paid	-	(78,507,801)
Closing Balance	-	-

26. Stated Capital/Assigned Capital

	2024 Rs	2023 Rs
Authorized Capital	2,000,000,000	2,000,000,000
Contributed Capital	889,812,899	889,812,899

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

The Government after the appointment date of 1st January 1979 made a contribution to the capital of the Bank so that the amounts of such contribution together with the amounts referred to the above paragraph amounted to RS.889,812,899 as at 31st December 2024.

Further, as per the provisions of the Act, SMIB may from time to time, raise such sums of money as further contribution to the capital of the Bank in such a manner as the Bank deems fit, from the Government or any other source what so ever in or outside of the Republic of Sri Lanka and where such sums of money raised from the Government which shall be charged on the consolidated fund.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

27. Statutory Reserve Fund

	2024 Rs	2023 Rs
Opening Balance as at 01st January	306,650,839	306,650,839
Transfer During the Period	-	-
Closing Balance as at 31st December	306,650,839	306,650,839

28. Retained Earnings

	2024 Rs	2023 Rs
Opening Balance as at 01st January	3,179,896,294	4,200,211,965
Prior Period Adjustments	(34,012,426)	-
Impairment 1st day Adjustment	-	-
OCI Reserve Transfer	-	-
Profit for the Year	32,041,296	(1,003,131,419)
Transfers to Other Reserves	-	-
Other Comprehensive Income	(32,000,439)	(17,184,252)
Deemed Dividend Tax	-	-
Closing Balance as at 31st December	3,145,924,725	3,179,896,294

Prior Period Adjustments		
Under provision of income tax expense	15,564,251	-
NBT Expense in year 2019	3,603,588	-
DRL Expense in year 2019	15,591,023	-
Excess Crop Insurance Levy	(746,436)	-
Total	34,012,426	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

29. Other Reserves

a. Bank - Current year (2024)

Reserve	Opening balance as at 01/01/2024	Movements/ Transfers	Closing Balance as at 31/12/2024
General Reserve	683,280,000	-	683,280,000
Capital Reserve	393,498,004	-	393,498,004
Title Indemnity Fund	1,031,000	-	1,031,000
Total	1,077,809,004	-	1,077,809,004

29.1

b. Bank - Previous year (2023)

Reserve	Opening balance as at 01/01/2023	Movements/ Transfers	Closing Balance as at 31/12/2023
General Reserve	683,280,000	-	683,280,000
Capital Reserve	393,498,004	-	393,498,004
Title Indemnity Fund	1,031,000	-	1,031,000
Total	1,077,809,004	-	1,077,809,004

30. Contingent Liabilities and Commitments

Accounting Policy

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future event or present obligation where the transfer of economic benefit is not

probable or cannot be reliably measured as defined in the Sri Lanka Accounting Standard – LKAS 37 on “Provisions, Contingent Liabilities and Contingent Assets”.

30.1 To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of finance guarantees and other undrawn commitments to lend.

	2024 Rs	2023 Rs
Guarantees issued	-	-
Other commitments	305,236,517	62,395,844
Total	305,236,517	62,395,844

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

30.2 Assessment received by the Bank

Following assessments were received by the Bank from the Department of Inland Revenue.

The information used for the income tax for the year of assessment 2020/2021 has

requested and discussions were going on for settlement. The following tax assessment is outstanding which, although currently is at a Court of Appeal stage, is also in the process of settlement:

Period / Tax Type	Charge No	Assessment Value	Current Status
2018/2019 - Income Tax	0201819002	(5,191,892.28)	Court of Appeal

As per the management evaluation there will not be any additional tax liability arise from the above mentioned assessments.

31. Related party disclosures

Accounting Policy

The Bank carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as related parties as per the Sri Lanka Accounting Standard - LKAS 24 on "Related Party Disclosures" i.e. Government of Sri Lanka, subsidiaries, post employment benefit plans for the Bank's employees, Key Management Personnel (KMPs). Those transactions include lending activities,

placements, off-balance sheet transactions and provision of other banking and financial services that are carried out in the ordinary course of business on an arm's length basis at commercial rates, other than, transactions that the Key Management Personnel (KMP) have availed under schemes uniformly applicable to all staff at concessionary rates. Particulars of transactions with related parties are tabulated below

31.1 Transactions with Government of Sri Lanka (Parent) and state controlled entities

As at 31 December	2024 Rs	2023 Rs
Investments made on Government Securities	6,030,123,000	10,255,697,045
Investments on state and state-controlled entities	694,208,564	3,711,223,515
Securities purchased under resale agreements	2,256,431,869	970,572,268
Other receivables from Government	-	-
Total	8,980,763,433	14,937,492,828
Tax paid		
Income tax	-	-
Value added tax & SSCL	152,807,634	18,000,000
Total	152,807,634	18,000,000

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

32. Transactions with Key Management Personnel (KMPs)

According to LKAS 24 - 'Related Party Disclosure', the Key Management Personnel includes those who are having authority and responsibility for planning, directing and controlling the activities of the Bank and its subsidiaries and Associates. The Board

of Directors, Members of the Corporate Management of the Bank, key employees and their Close Family Members(CFM) have been classified as Key Management Personnel of the Bank.

32.1 Compensation to Key Management Personnel

	2024 Rs	2023 Rs
Short - Term Employment Benefits	58,631,193	60,869,340
Post - Employment Benefits	17,239,585	9,653,878
Total	75,870,779	70,523,218

32.2

(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.

Income Statement		
Interest Earned (From Loans)	1,114,524	1,917,773
Interest Paid (To Deposits)	77,786	2,998,160
Payment made as shown in 33 (A)	75,870,779	70,523,218
Statement of Financial Position		
Assets		
Loans and Advances	15,560,840	28,345,975
Liabilities		
Deposits	12,735,423	18,527,716

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

33. Leases

Accounting Policy

Basis of Recognition

The Bank recognizes right-of-use assets at the commencement date of the lease (i.e. the date as specified in the Lease Agreement), which is the present value of lease payments to be made over the lease term

Basis of measurement

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities

recognized, and lease payments made at or before the commencement date less any lease incentives received

Useful economic life and amortisation

Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment

33.1 Amounts recognized in the balance sheet

The statement of financial position shows the following amounts relating to leases:

	2024 Rs	2023 Rs
Right-of-use Assets		
Cost		
Opening Balance	462,443,417	429,060,782
Additions- Buildings	20,156,395	33,382,636
Closing Balance	482,599,812	462,443,417
Accumulated Depreciation		
Opening Balance	305,924,229	227,324,068
During the year charge	77,500,923	78,600,161
Closing Balance	383,425,152	305,924,229
Net Book Value	99,174,660	156,519,188
Lease liabilities		
Opening Balance	156,957,101	198,102,485
Additions	18,508,495	19,367,336
Interest Charge	16,940,774	23,650,133
Payments	(88,395,251)	(84,162,852)
Closing Balance	104,011,119	156,957,101

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

33.2 Amounts recognized in the statement of profit or loss

The Income Statement shows the following amounts relating to leases:

	2024 Rs	2023 Rs
Depreciation charge of right-of-use assets		
Building	77,500,923	78,600,161
Interest Expense	16,940,774	23,650,133

33.3 Impact of income statements due to interest rate shock

	Impact to profitability
1%+ Scenario 01	(347)
1% - Scenario 01	431

34. Reconciliation of VAT Expense

	2024 Rs	2023 Rs
Profit/(Loss) before Tax	436,074,620	(1,164,855,374)
Adjustment in Respect of Current period		
Add: Expenses/income reductions that are not Deductible for VAT Purposes	1,280,583,989	1,036,435,632
(Less): Expenses that are Deductible for VAT Purposes	(112,113,442)	(23,973,307)
Adjusted Profits for the Year	1,604,545,167	(152,393,049)
VAT Based on Profit for the Year	239,683,095	-
(Over)/Under Provision in Previous years	5,304,187	5,125,869
Tax Expense for the Period	244,987,285	5,125,869

VAT Payable Reconciliation

	2024 Rs	2023 Rs
Opening VAT Payable	6,989,869	17,016,191
Payments made	(138,285,615)	(43,104,624)
Provision made	244,987,282	6,989,869
During the year tax addition to P&L	-	(1,864,000)
Transfer to VAT Receivable account	-	27,952,433
Closing VAT Payable	113,691,536	6,989,869

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

35. Events occurring after the Date of Statement of Financial Position Accounting policy

Events after the reporting period are those events that occur between the reporting date and the date when the Financial Statements are authorized for issue. There has been no material event after the date of Statement of Financial Position that requires adjustments or disclosure in the Financial Statement.

36. Fair Value of Financial Instruments

Determination of Fair Value and Fair Value Hierarchy

The bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation.

Technique

Level 1	Quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2	Valuation technique using observable inputs: quoted prices for similar assets and liabilities in active markets or quoted prices.
Level 3	Valuation techniques with significant unobservable inputs: assets and liabilities valued using valuation techniques where one or more significant

31st December 2024	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Financial investments FVPL				
Quoted investments - Unit Trust	2,943,277,961	-	-	2,943,277,961
Financial investments FVOCI				
CRIB	-	-	4,754,078	4,754,078
Fitch Rating	-	-	625,000	625,000
Total Financial Assets	2,943,277,961	-	5,379,078	2,948,657,039
Financial Liabilities	-	-	-	-

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FOR THE YEAR ENDED 31ST DECEMBER 2024

37. Fair Value of Financial Assets and Liabilities not carried at Fair Value

The following describes the methodologies and assumptions used to determine fair values of those financial assets and liabilities which are not already recorded at fair value in the Financial Statements.

Assets and Liability of which Fair Value Approximates Carrying Value

For financial assets and liabilities that have a short term maturity, it is assumed that the carrying amounts approximate their fair values such as placement with bank, other assets, due to customers and other liabilities. This assumption is also applied to demand deposits and savings deposits which do not have a specific maturity.

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognized with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing market interest rates for debts with similar credit risk and maturity. For quoted debt issued, the fair values are determined based on quoted market prices.

Variable Rate Financial Instruments

Variable rate is a fair measure which reflects market movements. Hence the carrying value represents the fair value of the variable rate instruments.

	2024		2023	
	Carrying Amount Rs	Fair Value Rs	Carrying Amount Rs	Fair Value Rs
Assets				
Cash and Cash Equivalents	124,664,750	124,664,750	122,600,853	122,600,853
Placements with Banks	152,682,844	152,682,844	2,923,132,097	2,923,132,097
Loans and receivables	41,730,024,581	42,909,082,684	38,603,322,207	37,660,523,528
Debt and Other Instruments	8,979,104,008	8,732,385,184	12,162,743,730	12,392,310,881
Financial Assets – FVPL	2,943,277,961	2,943,277,961	3,552,533,227	3,552,533,227
Financial Assets – FVOCI	5,379,078	5,379,078	5,379,078	5,379,078
Other assets	1,733,062,798	1,733,062,798	1,696,799,486	1,696,799,486
Total Financial Assets	55,668,196,019	56,600,535,298	59,066,510,678	58,353,279,150
Liabilities				
Due to banks	-	-	2,732,792	2,732,792
Due to customers	48,160,520,558	48,160,520,558	52,138,134,453	52,138,134,453
Other borrowings	140,800,069	140,800,069	178,986,770	178,986,770
Other liabilities	1,946,677,924	1,946,677,924	1,292,487,628	1,292,487,628
Total Financial Liabilities	50,247,998,551	50,247,998,551	53,612,341,643	53,612,341,643

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37.1 Determination of Fair value hierarchy

Level 1

Inputs that are quoted market prices (unadjusted) in an active market for identical instruments. When available, the Bank measures the fair value of an instrument using active quoted prices or dealer price quotations, without any deduction for transaction costs.

Level 2

Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.

Level 3

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

2024	Level 01	Level 02	Level 03	Total
Financial Assets				
Treasury Bills and Bonds	8,732,385,184	-	-	8,732,385,184
Unit Trust	2,943,277,961	-	-	2,943,277,961
Loans and Advances	-	-	42,909,082,684	42,909,082,684
Total	11,675,663,145	-	42,909,082,684	54,584,745,829
2023				
Treasury Bills and Bonds	12,392,310,881	-	-	12,392,310,881
Unit Trust	-	-	-	-
Loans and Advances	-	-	37,660,523,528	37,660,523,528
Total	12,392,310,881	-	37,660,523,528	50,052,834,409

38. Risk Management

Bank has established formal risk management practices to manage its inherent risk such process includes identification, measurement and monitoring subject to risk appetite and risk tolerance limits of the bank. The Bank is mainly exposed to Credit Risk, Liquidity Risk, Market Risk and Operational Risk.

38.1 Risk Management Structure

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. In discharging its governance responsibility, it operates through two key committees the Board Integrated Risk Management Committee and the Board Audit Committee. The Board and the BIRMC have delegated the risk management responsibility to the

NOTES TO THE FINANCIAL STATEMENTS

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following executive management committees in co-ordination of risk matters for each of the focused areas.

- Executive Integrated Risk Management Committee (EIRMC)
- Executive Credit Committee (ECC)
- Asset and Liability Committee (ALCO)

Board Integrated risk Management Committee

Board Integrated Risk Management Committee (BIRMC) which is responsible for developing and monitoring Bank's risk management policies. The Committee comprises four Non-Executive Directors.

Executive Integrated Risk Management Committee

EIRMC is chaired by General Manager/ CEO of the bank and committee is responsible for review and monitoring of the risk exposures of the bank and setting of the risk tolerance limits and recommending of development and revision of the risk management policy of the bank, the EIRMC 12 key managerial persons.

Credit Committee

Credit committee is chaired by GM/CEO of the bank and committee is responsible develop and periodical review of the credit policy, credit manual, monitoring and managing of the credit risk of the bank. The committee comprises seven Key managerial persons.

Asset/Liability Management Committee (ALCO)

ALCO is chaired by GM/CEO of the bank and the committee is responsible to manage and monitoring of the interest rate risk of the bank, monitoring and managing of the assets and liability of the Bank and monitoring and managing of the overall liquidity position of the bank.

38.2 Risk Management and reporting

Credit risk

Credit risk arises from the potential that an obligor is either unwilling to perform on an obligation or its ability to perform such obligation is impaired resulting in economic loss to the bank. This is the primary category of risk with which the bank must deal, since the major share of its assets consists of loans and advances.

The credit risk policy plays a central role in managing daily business activities. The Bank has developed a policy which defines the principles encompassing client selection, due diligence, early alert reporting, tolerable levels of concentration risk and portfolio monitoring in line with Bank's risk appetite. The policy is reviewed at least annually and approved by the Board of Directors ensuring consistency with the Bank's business strategy.

Consistent standards maintained in initial screening and credit appraisal process, independent risk recommendation, delegation of authority for loan sanction process are some of the methods used for credit risk mitigation. Collaterals obtained are valued periodically as per regulator's guidelines.

Loan review mechanism carried out by the risk management department of the bank ensures early identification of problem loans to safeguard the bank against possible losses.

38.2.1. Measurement of Expected Credit Losses (ECL)

Key assumptions, models and techniques used for estimating of ECL under SLFRS 9 is disclosed under Accounting Policies Note 2.4.12.10

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

Measurement of ECL

Stage 1: 12 - Months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognized. Bank determines 12 month ECL from customers whom are not significantly credit deteriorated (i.e. Less than 30 days past due).

Stage 2: Lifetime ECL - not credit impaired

For exposures where there has been a significant increase in credit risk since initial recognition but is not credit impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognized. In consistent with the policies of the bank, significant deterioration is measured through the rebuttable presumption of 30 days past due other than the credit facilities categorized under Stage 3, in line with the requirements of the standard. Bank also have considered all restructured loans, which are restructured up to two times, other than credit facilities/exposures upgraded credit facilities from a higher stage to a lower stage consider under stage 2 as per the guidance issued by the Central Bank.

Stage 3: Lifetime ECL - credit impaired

Exposures are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognized and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount. Bank determines credit facilities where contractual payments of a customer are more than

90 days past due which are subject to the rebuttable presumption as stated in SLFRS 9 together with all NPL classifications as per Central Bank classification, All restructured loans which are restructured more than twice and all rescheduled loans other than credit facilities/exposures upgraded credit facilities from a higher stage to a lower stage and all credit facilities/customers classified as non-performing as per CBSL Directions under stage 3.

PD estimation process

Probability of Default is the estimate of the likelihood of default over a given time horizon. PD estimation for loans and advances to other customers under SLFRS 9 is largely based on the Days Past Due(DPD) of the customers which is common for most Banks in the country at present. Accordingly, exposures are categorized among 5 groups based on the DPD as follows.

- Zero days past due
- 1-30 days past due
- 31-60 days past due
- 61-90 days past due
- Above 90 days past due

The exposure at default (EAD)

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. The Bank uses Credit Conversion Factors (CCF) which explains the historical utilization of defaulted facilities at the time of default to calculate the EAD of revolving facilities in which customers have the ability to increase their exposure. For non-revolving facilities, already utilized amount plus any accrued interest over same is considered as EAD.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

Loss given default (LGD)

Loss given default (LGD) is the magnitude of likely loss on exposure, and is expressed as a percentage of exposure. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realized from any collateral held.

Assessment of ECL model under multiple economic scenarios of the geographic region (EFA)

ECLs must reflect an unbiased and probability-weighted estimate of credit

losses over the expected life of the financial instrument. Considering of the every possible macro economic variable and seniors are not practicable hence the Bank used variable and senatios which are most likely to impact on ECL of the assets impairment. To ensure completeness and accuracy, the Bank obtained independent assurance from third party to validate the date used for EFA. Uncertainties in macro economic environment is being continued as of end of the 2021 resulting resilient negative outlook in the macro economic variable. Mangment overlay was used revised assumption of worst case scenario from 20% to 70% as at 31.12.2024.

38.2.2. Analysis of the total impairment for expected credit losses is as follows

As at 31 December	Note	2024				2023			
		Rs 000 State 1	Rs 000 Stage 2	Rs 000 Stage 3	Rs 000 Total	Rs 000 State 1	Rs 000 Stage 2	Rs 000 Stage 3	Rs 000 Total
Cash & cash equivalents		-	-	-	-	-	-	-	-
Placements with banks	14	11,983	-	-	11,983	8,084,817	-	-	8,084,817
Financial Assets at amortized cost									
Loans & Advances	16	402,669,086	456,118,112	2,077,994,173	2,936,781,371	428,135,938	431,229,101	1,530,112,891	2,389,477,929
Debt & Other instruments		-		1,659,425	1,659,425				
Total allowance for expected credit losses		402,681,069	456,118,112	2,079,653,598	2,938,452,780	436,220,755	431,229,101	1,530,112,891	2,397,562,746

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

Credit loss expense

The table below shows the Expected Credit Loss (ECL) charges on financial instruments for the year recorded in the income statement

31st December 2024	Stage 1	Stage 2	Stage 3	Total
Cash & cash Equivalents	-	-	-	-
Cash & Balances with Central Bank	-	-	-	-
Sri Lanka Government Securities	-	-	1,659,425	1,659,425
Placement with other Banks	(8,072,834)	-	-	(8,072,834)
Loans & Advances to Customers	(25,466,851)	24,889,011	547,881,282	547,303,442
Total Impairment Loss	(33,539,685)	24,889,011	549,540,707	540,890,034

31st December 2023	Stage 1	Stage 2	Stage 3	Total
Cash & cash Equivalents	-	-	-	-
Cash & Balances with Central Bank	-	-	-	-
Sri Lanka Government Securities	-	-	-	-
Placement with other Banks	5,137,783	-	-	5,137,783
Loans & Advances to Customers	(34,814,940)	167,142,810	423,926,677	556,254,547
Total Impairment Loss	(29,677,158)	167,142,810	423,926,677	561,392,330

Delinquency Status	Status	Description
Stage 1	Regular	Performing
	1 to 30 days	Performing
Stage 2	30 to 60 days	Under Performing
	61 to 90 days	Under Performing
Stage 3	Above 90 days	Non - Performing

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

As at 31 December	2024			2023		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Financial Assets at amortised cost - Loans and Advances						
Stage 0 to 2 - Performing loans	26,371,942,197	4,792,399,466	3,594,725,610	25,024,165,494	5,325,583,522	52,577,161
Stage 03: NPA - Special mentioned	152,834,250	127,422,780	1,693,639,384	-	-	1,671,924,623
Stage 04: NPA - Substandard	26,841,181	14,134,104	987,337,843	-	-	1,009,602,129
Stage 05: NPA - Doubtful	10,290,011	1,303,383	1,059,328,970	-	-	4,518,286,737
Stage 05: NPA - Loss	26,511,656	14,573,876	5,816,202,728	-	-	3,461,136,299
Total Loans and Advances	26,588,419,296	4,949,833,609	13,151,234,535	25,024,165,494	5,325,583,522	10,713,526,950
Expected Credit loss allowances	(402,669,086)	(456,118,112)	(2,077,994,173)	(428,135,938)	(431,229,101)	(1,530,112,891)
Net Loans and Advances	26,185,750,210	4,493,715,497	11,073,240,362	24,596,029,557	4,894,354,422	9,183,414,058
Financial Assets at amortised cost - Debt and other instruments						
Unit Trust and unquoted shares	2,948,657,039	-	-	3,557,912,305	-	-
Government Debt securities- Treasury bills and Bonds	6,030,123,000	-	-	10,255,697,045	-	-
Reverse Repos	2,256,431,869	-	-	970,572,268	-	-
Debentures	694,208,564	-	-	781,224,416	-	-
Commercial Papers	-	-	-	155,250,000	-	-
Placement with Banks	152,694,828	-	-	2,931,216,914	-	-
Total Debts and Other Instruments	12,082,115,299			18,651,872,949		
Expected Credit loss allowances	(1,671,409)	-	-	(8,084,817)	-	-
Net Debt and other instrument	12,080,443,891			18,643,788,132		

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

38.2.3 Analysis of Risk Concentration

The Bank's concentrations of risk are managed by industry sector. The following table shows

the risk concentration by industry for the components of the statement of financial position. Within the assets concentrated as "Other" include agricultural loans.

As at 31.12.2024	Financial Services	Government Securities	Construction and Housing	Consumers	Other	Total
Financial Assets						
Cash and cash equivalents	124,664,750					124,664,750
Placement with other banks	152,694,828					152,694,828
Loans and receivables to customers						
Mortgage			10,881,107,701			10,881,107,701
EPF			13,938,716,138			13,938,716,138
Staff loans			149,610,566			149,610,566
Personal Loans				17,669,137,783		17,669,137,783
Others					2,404,174,993	2,404,174,993
Financial investments – FVPL	2,943,277,961					2,943,277,961
Financial investments – AC	2,256,431,869	6,030,123,000				8,286,554,869
Financial investments – FVOCI	5,379,078					5,379,078
Total	5,482,448,485	6,030,123,000	24,969,434,406	17,669,137,783	2,404,174,993	56,555,318,667

As at 31.12.2023	Financial Services	Government Securities	Construction and Housing	Consumers	Other	Total
Financial Assets						
Cash and cash equivalents	122,600,853					122,600,853
Placement with other banks	2,931,216,914					2,931,216,914
Loans and receivables to customers						-
Mortgage			10,179,549,598			10,179,549,598
EPF			8,857,459,543			8,857,459,543
Staff loans			1,208,081,194			1,208,081,194
Personal Loans				19,295,356,966		19,295,356,966
Others					1,864,188,107	1,864,188,107
Financial investments – FVPL	3,552,533,227					3,552,533,227
Financial investments – AC	970,572,268	10,255,697,045				11,226,269,313
Financial investments – FVOCI	5,379,078					5,379,078
Total	7,582,302,340	10,255,697,045	20,245,090,335	19,295,356,966	1,864,188,107	59,247,624,950

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

38.3 Liquidity Risk and Funding Management

Liquidity risk is defined as the risk that the bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on

a daily basis. The bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

Liquidity Ratios

Liquid assets mainly consists of cash, balances with banks and government securities. The bank monitors the following liquidity ratios to assess funding requirement.

Liquid Asset Ratio

	2024	2023
Year - End	106.00%	175.14%
Maximum	220.00%	211.17%
Minimum	100.00%	88.94%
Average	160.00%	150.06%

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FOR THE YEAR ENDED 31ST DECEMBER 2024

38.4 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarises the maturity profile of the undiscouted cash flows of the bank's financial assets and liabilities as at 31 December 2024

Contractual maturities of undiscouted cash flows of financial assets and liabilities.

As at 31 December 2024	Less than 7 days	7-30 days	1-3 months	3-6 months	6-12 months	1-3 years	3-5 years	Over 5 years	Total
Total Assets	2,887,830,822	4,091,778,668	2,579,757,829	1,669,308,770	4,626,817,683	5,621,842,352	12,527,842,762	44,467,060,341	78,472,239,226
Cash and Cash Equivalents	124,664,750								124,664,750
Placement with Banks	152,682,844								152,682,844
Financial Assets - FVPL & FVOCI	735,819,490	735,819,490	735,819,490	735,819,490				5,379,078	2,948,657,039
Debt and Other Instruments	345,065,566	1,227,481,352	1,407,174,521	835,251,931	3,756,589,859	393,863,045	621,668,493	392,009,241	8,979,104,008
Loans and Advances	1,430,423,512	2,076,023,459	372,287,741	55,397,593	250,800,471	5,124,969,697	11,814,466,840	43,461,319,843	64,585,689,157
Other Assets	99,174,660	52,454,367	64,476,077	42,839,757	619,427,352	103,009,610	91,707,429	608,352,178	1,681,441,429
									-
Total Liabilities	926,512,614	2,368,048,515	6,836,560,540	19,935,550,877	17,885,257,638	2,547,094,505	1,912,405,723	7,409,981,573	55,710,772,837
Total Equity								5,445,702,706	5,445,702,706
Due to Banks	-								-
Due to Depositors	1,140,136,551	3,550,306,415	7,535,992,863	12,230,885,809	8,573,007,466	1,544,220,401	2,079,213,501	11,488,178,556	48,141,941,562
Due to Other Borrowers	9,752,176	-	-	2,703,678	2,703,678	10,814,710	10,814,710	104,011,119	140,800,070
Employee Benefit Liability	-	6,777,875	6,777,875	13,555,749	27,111,498	94,890,244	94,890,244	433,783,972	677,877,456
Other Liabilities	357,592,588	-	-	946,948,455	-	-	-	-	1,304,541,043
Maturity Gap	1,961,318,208	1,723,730,153	(4,256,802,712)	(18,266,242,107)	(13,258,439,956)	3,074,747,847	10,615,437,040	37,057,078,768	37,057,078,768
cumulative M.Gap		3,685,048,361	(571,754,350)	(18,837,996,457)	(32,096,436,413)	(29,021,688,566)	(18,406,251,526)	18,650,827,242	18,650,827,242

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

38.4.1 Maturity analysis

Following table shows the movement of the short term and long term maturities of the assets and liabilities of the Bank compared to last year

Assets or Liability (a)	2024			2023		
	Rs 000 Less than 12 months	Rs 000 More than 12 months	Rs 000 Total	Rs 000 Less than 12 months	Rs 000 More than 12 months	Rs 000 Total
Total Assets	15,029,081,272	40,639,114,747	55,668,196,019	21,289,263,109	37,777,247,568	59,066,510,677
Cash and Cash Equivalents	124,664,750	-	124,664,750	122,600,853	-	122,600,853
Placements with Banks	152,682,844	-	152,682,844	2,923,132,097	-	2,923,132,097
Financial Assets - FVPL & FVICI	2,943,277,961	-	2,943,277,961	-	3,552,533,227	3,552,533,227
Financial Assets - AC	-	-	-	-	-	-
Debt and Other Instruments	7,571,563,229	1,407,540,780	8,979,104,008	10,966,055,289	1,196,688,439	12,162,743,729
Loans & Advances	3,358,520,277	38,371,504,304	41,730,024,581	6,316,845,255	32,286,476,952	38,603,322,207
			-			-
Financial Assets - FVOCI	-	5,379,078	5,379,078	-	5,379,078	5,379,078
Property, Plant and Equipment	-	404,644,985	404,644,985	-	171,651,164	171,651,164
Right-of-use Assets	-	99,174,660	99,174,660	-	156,519,188	156,519,188
Deferred Tax Assets	633,635,649	-	633,635,649	745,677,898	-	745,677,898
Other Assets	244,736,563	350,870,941	595,607,504	214,951,718	407,999,518	622,951,236
Total Liabilities	34,368,602,098	21,299,593,922	55,668,196,020	47,710,868,394	11,355,642,282	59,066,510,677
Total Equity	-	5,420,197,467	5,420,197,467	-	5,454,169,036	5,454,169,036
Due to Banks	-	-	-	2,732,792	-	2,732,792
Financial Liabilities at Amortised Cost			-			-
Due to Depositors	33,030,329,104	15,130,191,456	48,160,520,560	46,873,161,238	5,264,973,215	52,138,134,453
Due to Other Borrowers	15,159,531	125,640,539	140,800,070	92,347,023	86,639,746	178,986,770
Employee Benefit Liability	54,222,996	623,564,460	677,787,456	47,813,938	549,860,285	597,674,223
Other Liabilities	1,268,890,467	-	1,268,890,467	694,813,404	-	694,813,404
Maturity Gap	(19,339,520,826)	19,339,520,826		(26,421,605,285)	26,421,605,286	

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38.5 Capital Management

38.5.1 Minimum Regulatory capital

"The minimum regulatory capital requirement Rs 5 Billion compiled by the Bank as at 01/01/2018 (as per the letter dated on 12/07/2016 by CBSL). This has further been enhanced to Rs 7.5 Billion with effect from 31.12.2020 as per the direction No 5 of 2017 dated on 26 October 2017 and subsequently which was extended until 31.12.2024 as per the Governor of Central Bank of direction number 04 of 2022. Accordingly, The Bank expects to complied with the 7.5 Billion through the internally generated funds via expanding the business as per the provisions in the State mortgage Act no 13 of 1975 in next two years."

i. Capital Base

Capital Adequacy Item	Rs.000 31.12.2024	Rs.000 31.12.2023
Common Equity Capital after adjustment	4,786,562	4,751,353
Total Tier I Capital	4,786,562	4,730,033
Minimum regulatory capital to be fulfilled as at 31.12.2024	7,500,000	7,500,000
Capital shortfall	2,713,438	2,748,647
Total Tier I capital shortfall	2,713,438	2,769,967

Capital Adequacy ratio		
Common Equity Tier I Capital Ratio	19.28%	18.89%
Total Capital Ratio	19.28%	18.98%

38.5.2 Capital Adequacy Ratio and Regulatory Capital of the bank

All license specialised bank shall maintain, at all time, minimum Tier I capital including capital conservation buffer of 8.5% and total capital ratio of 12.5% with effect from 01 January 2019. Detail of the regulatory capital and capital adequacy ratio of the bank are given below.

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ii. Risk Adjusted on Balance Sheet Exposures

	Principal Amount of On-Balance Sheet Items	Risk Weighted Assets Amount	Principal Amount of On-Balance Sheet Items	Risk Weighted Assets Amount
	2024		2023	
Exposures				
Claims on Central Bank of Sri Lanka	8,286,555	-	11,226,269	-
Claims on Public Sector Entities (PSEs)	-	-	3,534	3,534
Claims on Banks Exposures				
Due From local Banks Less Than 03 Months (AAA to BBB)	179,966	35,993	56,968	11,394
Due From local Banks More than 03 Months (A+ to BBB)	1,252	626	2,921,914	1,460,957
A to BBB	-	-	1,213	607
Claims in Financial Institutions Regulated by CBSL	-	-	155,250	77,625
Claims on Other Financial Institutions	5,380	5,380	5,380	5,380
Retail Claims				
Individual exposures	14,762,705	11,072,029	16,650,956	12,488,217
Claims Secured by Residential Property	7,765,733	2,718,007	8,878,131	3,107,346
Claims Secured by Residential Property				
Claims that qualify for regulatory capital purposes	-	-	-	-
Non-Performing Assets (NPAs)				
Specific Provisions are equal to or more than 20%	2,089,837	2,089,837	1,881,288	1,881,288
Specific Provisions are less than 20%	131,433	197,149	108,710	163,064
Non-Performing Assets Secured by Residential Property				
Specific Provisions are more than 20%	18,842	9,421	124,134	62,067
Specific Provisions are less than 20%	2,371,487	2,371,487	1,399,493	1,399,493
Cash Items and Other Assets				
Notes and Coins in own vault	94,473	-	62,941	-
Property Plant and Equipment	503,820	503,820	334,572	334,572
Other Assets/Exposures	595,608	595,608	622,951	622,951
Risk Weighted Amount for Credit Risk	36,807,090	19,599,356	44,433,705	21,618,495

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FOR THE YEAR ENDED 31ST DECEMBER 2024

38.6 Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The bank does not possess any trading portfolios at present and hence the Bank's portfolio is mainly none trading.

flows or the fair values of financial instruments. The bank's policy is to monitor positions on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

Sensitivity of the income statements of the bank for the year ended 2024 in response to reasonable changes in the interest rates of the rate sensitive assets and liabilities of the bank are summarised below

38.6.1. Market risk - none trading

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash

As at 31 December	2024 Rs 000	2023 Rs 000
Rate Sensitive Assets - RSA	12,128,736	20,140,558
Rate Sensitive Liabilities RLA	33,051,162	46,880,001
RSA - RLA	(20,922,426)	(26,739,443)
Impact of income statements due to interest rate shock		

As at 31 December	2024 Rs 000	2023 Rs 000
0.50%	(66,065)	(57,299)
1%	(131,708)	(113,841)
-0.50%	65,854	56,920
-1%	131,708	113,841

Prepayment Risk

Prepayment risk is the risk that the bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

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FOR THE YEAR ENDED 31ST DECEMBER 2024

38.7 Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The bank cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective 0-segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

39 The Events Occurring After the Balance Sheet Date

Central Bank of Sri Lanka issued circular no 05 of 2021 in May 2021 with a view of facilitating to meet the challenges face by business & individuals due to COVID 19 pandemic third wave. It was further extended on September 2021 as per circular no 08 of 2021. Accordingly bank already offered the concessions in May 2021 and currently bank is in the process of assessing the requests send by eligible borrowers for the extended relief measures.

40 Assets Pledged

No assets have been pledged as security for liability.

41 Related Party Transactions

State Mortgage and Investment Bank is a state controlled enterprise. In the normal course of business it engages in transactions with other state controlled enterprises which are disclosed in line with paragraph 4(d) of Sri Lanka Accounting Standard No.30 Related Parties.

42 Directors' Interest in Contracts and Proposed Contracts

As per the State Mortgage and Investment Bank law, No 13 of 1975, a Director who, or whose spouse or dependent child is directly or indirectly interested in any business transacted or proposed to be transacted by the Board shall disclose the nature of such interest discussed. The disclosure shall be recorded in the minutes of the Board, and such Director shall not take part in any deliberation or decision of the Board with respected with 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 dependent 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 in note number 32 in the Financial Statements. The Directors of SMIB were not directly or indirectly interested.

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43 Value Added Statement

For the Year Ended 31 December	2024 Rs	2023 Rs
Interest Income	7,590,650,416	9,324,132,408
Other Income	581,774,291	275,769,950
Total Revenue	8,172,424,707	9,599,902,358
Interest Expenses	(5,392,222,204)	(8,732,594,619)
Cost of Services	(725,685,001)	(355,795,039)
Impairment Provision	(540,890,034)	(561,392,330)
Total Distribution of Value Added	1,513,627,469	(49,879,630)

For the Year Ended 31 December	2024 Rs	2023 Rs
To Employees		
Salaries and other benefits	1,229,142,716	1,015,292,893
To Government		
Corporate Tax	125,756,722	(161,649,247)
Depreciation	126,686,733	99,608,144
Retained Profit	32,041,296	(1,003,131,419)
Total	1,513,627,469	(49,879,630)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2024

44 Source of Utilization

For the Year Ended 31 December	2024 Rs	2023 Rs
Sources of Income		
Loans and Advances	6,075,435,276	5,602,828,733
Government Securities & Other Investments	1,515,215,140	3,721,303,675
Fee and Commission Income	172,631,902	96,293,245
Other Income	409,142,389	179,476,705
Total	8,172,424,707	9,599,902,358

Utilization of Income		
Employees		
Salaries and other payment to staff	1,229,142,717	1,015,292,893
Suppliers		
Interest paid	5,392,222,204	8,732,594,619
Other Expenses	1,393,261,768	1,016,795,513
Government		
Corporate Taxes	125,756,722	(161,649,247)
Retained Profit	32,041,296	(1,003,131,419)
Total	8,172,424,707	9,599,902,358

NOTES TO THE FINANCIAL STATEMENTS

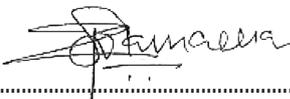
FOR THE YEAR ENDED 31ST DECEMBER 2024

Ratio Analysis as at 31/12/2024	31/12/2024	31/12/2023
Regulatory Capital Adequacy (LKR 'Mn)-Basel III		
Common Equity Tier-I	4,787	5,532
Tier-I Capital	4,787	5,532
Total Capital	4,787	5,532
Regulatory Capital Ratios (%)		
Common Equity Tier I Capital Ratio (Minimum Requirement 7%)	19.28%	23.47%
Tier I Capital Ratio (Minimum Requirement 8.5%)	19.28%	23.47%
Total Capital Ratio (Minimum Requirement 12.5%)	19.28%	23.47%
Basel III Leverage Ratio (Minimum Requirement 3%)	8.40%	9.33%
Regulatory Liquidity Requirement		
Liquidity Coverage Ratio (LCR) (Minimum req-100%)	104.79%	175.14%
Total Stock of High Quality Liquid Assets Rs.Mn	7,167	12,740
Net Stable Funding Ratio (Minimum req-100%)	108.00%	129%
Assets Quality		
Impaired Loan (stage 3) to Total Loan ratio %	33%	26%
impairment (stage 3) to stage 3 loans ratio %	14.10%	13.70%
Income & Profitability		
Interest Margin	3.83%	1.22%
Return on Assets	0.28%	-2.15%
Return on Equity	0.59%	-20.21%
Cost to Income Ratio	84.32%	234.31%
Memorandum Information		
Credit Rating	BBB	BBB
Number of Branches	25	25
Number of Employees	353	354

Certification:

We, the undersigned, being the Chief Executive Officer and the Chief Financial Officer of the Bank jointly certify that:

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



Mr. I.T. Asuramanna
General Manager / CEO
28.02.2025



Mr. K.L.N.A. Perera
Deputy General Manager - Finance & Planning
28.02.2025

TEN YEAR STATISTICAL SUMMARY

Year ended 31st December (Rs. Million)	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Income Statement										
Interest Income	7,591	9,324	7,402	5,254	6,082	5,982	5,524	4,745	4,241	3,879
Interest Expenditure	5,392	8,733	5,463	2,951	3,960	3,952	3,577	3,102	2,425	2,057
Net Interest Income	2,199	591	1,939	2,302	2,122	2,030	1,947	1,643	1,815	1,822
Other Operating Income	581	276	115	172	178	142	134	171	131	120
Total Operating Income	2,780	867	2,054	2,474	2,300	2,172	2,081	1,814	1,947	1,941
Non Interest Expenses	2,622	2,032	2,143	2,069	1,728	1,672	1,602	1,435	1,241	1,260
Net Profit before tax	158	(1,165)	(89)	405	572	500	479	379	706	681
Taxation	(126)	162	291	(152)	(216)	(81)	(235)	(200)	(270)	(271)
Net Profit after tax	32	(1,003)	202	253	356	419	244	179	436	410
Assets										
Investment Securities	3	4	-	25	21	19	18	18	17	432
Loans and Advances	41,730	38,603	39,267	38,103	36,857	35,893	34,225	32,987	28,164	26,523
Other Assets	596	623	1,076	891	1,104	1,178	932	8,946	7,073	7,201
Property, Plant and Equipment	405	172	78	56	52	56	64	71	94	74
Total Assets	55,668	59,067	56,965	53,323	52,802	47,311	42,597	42,022	35,347	34,232
Fund Employed										
Capital Contributed	890	890	890	890	890	890	890	890	890	890
Reserves	4,530	4,564	5,585	5,394	5,130	4,769	4,297	4,067	4,028	3,373
Total Equity	5,420	5,454	6,475	6,284	6,020	5,659	5,187	4,957	4,918	4,263
Liabilities										
Deposits	48,161	52,138	49,140	45,738	45,388	38,872	34,272	33,620	28,845	27,836
Debentures	-	-	-	-	-	110	110	110	110	110
Other Liabilities	2,087	1,474	1,350	1,301	1,394	2,670	3,028	3,336	1,474	2,022
Total Liabilities	50,248	53,612	50,490	47,039	46,782	47,311	42,597	42,022	35,347	34,232
Ratio										
Return on Average Assets - NPBT% (ROA)	0.06	-1.73	0.37	0.48	0.71	0.93	0.58	0.46	1.25	1.27
Return on Average Funds Employed% (ROE)	0.59	-16.82	3.17	4.11	6.10	7.73	4.81	3.63	9.50	9.90
Number of Employees (no.)	353	354	387	365	369	378	385	392	392	392
Net Profit per Employee (Rs. Mn)	0.09	(2.83)	0.52	0.69	0.96	1.11	0.63	0.46	1.11	1.05
Statutory Reserve Fund	306.65	306.65	306.65	296.56	283.91	270.92	261.67	246.64	231.36	203.05
Advances to Deposits (Times)	0.87	0.74	0.80	0.83	0.81	0.92	1.00	0.98	0.98	0.95
Equity Assets Ratio (Times)	0.10	0.09	0.11	0.12	0.11	0.12	0.12	0.12	0.14	0.12
Total Assets per Rupee Contributed	62.55	66.37	64.01	59.91	59.34	53.17	47.87	47.22	39.72	38.46
Effective deemed dividend Rate %	-	-	-	-	59.34	-	25.00	25.00	25.00	25.00
Deemed Dividend Cover	-	-	-	-	-	-	-	1.91	2.52	2.44
Our Contribution to the Nation										
Deemed Dividend Tax	-	-	-	-	-	-	(40.36)	93.27	173.35	167.86
Payments to Consolidated Fund	-	-	-	-	-	-	-	10.00	10.00	10.00

CORPORATE INFORMATION

NAME OF THE BANK

State Mortgage & Investment Bank

LEGAL FORM

A Body Corporate Incorporated under the State Mortgage & Investment Bank Law No.13 of 1975.

REGISTERED OFFICE

No.269,Galle Road,Colombo 03, Sri Lanka.

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Web:www.smib.lk

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