



*Building from  
Strength to strength*





## Building from Strength to strength

*Our most important asset has always been our valuable customers from diverse sections of our society. Our approach of engaging with our customers and other stakeholders to understand our common challenges and work together to build more sustainable businesses that would contribute positively to our economy, society and environment has paid off. Our focus throughout the year has been on achieving sustainable growth instead of pursuing growth for its own sake.*

*We succeeded in transforming threats and weaknesses faced by the bank into opportunities and strengths respectively through our strategic planning process. We are proud to note that with our new strategies and approaches we have achieved much and grown from strength to strength.*

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# Vision

*To be the nation's valued partner in development banking with market leadership in consumer finance*

# Mission

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

- Customer** : *We are committed to serve all our customer with attractive financial solutions to suit their housing and development financial needs through superior customer service, innovation, quality and state of art technology.*
- Business Partners** : *We will offer best returns for investments with solid security and flexibility.*
- 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 interests.*
- 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 of the decision making process.*
- Society** : *Being a partner in national development we acknowledge to serve in enhancing the life style of our community.*

# Corporate Values

*What we stand for*

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

# Financial Highlights

| Financial Statement Analysis        | 2017<br>Rs.Mn | 2016<br>Rs.Mn | Change<br>% |
|-------------------------------------|---------------|---------------|-------------|
| Interest Income                     | 4,745         | 4,241         | 11.89       |
| Interest Expenses                   | (3,102)       | (2,425)       | 27.90       |
| Net Interest Income                 | 1,643         | 1,815         | (9.49)      |
| Profit before Tax                   | 379           | 706           | (46.33)     |
| Taxation                            | 200           | 270           | (25.79)     |
| Profit after Tax                    | 179           | 436           | (59.06)     |
| Investment in Government Securities | 1,035         | 668           | 55.04       |
| Loans and Advance                   | 32,987        | 28,164        | 17.13       |
| Total Assets                        | 42,022        | 35,347        | 18.88       |
| Customer Deposits                   | 33,620        | 28,845        | 16.55       |
| Borrowings                          | 2,497         | 503           | 396.55      |
| Stakeholders' Fund                  | 4,956         | 4,918         | 0.78        |
| <b>Ratio Analysis</b>               |               |               |             |
| <b>Profitability Level</b>          | <b>%</b>      | <b>%</b>      |             |
| Net Interest Margin                 | 4.25          | 5.22          | (18.60)     |
| Return on Equity (ROE)              | 3.62          | 9.50          | (61.93)     |
| Return on Assets (ROA)              | 0.98          | 2.03          | (51.74)     |
| <b>Capital Adequacy</b>             |               |               |             |
| Equity / Total Assets               | 11.79         | 13.91         | (15.23)     |
| Equity / Loans & Advances           | 15.03         | 17.46         | (13.96)     |
| Tier 1                              | 23.74         | 22.96         | 3.40        |
| Tier 1 & 11                         | 24.29         | 23.47         | 3.49        |
| <b>Liquidity</b>                    |               |               |             |
| Liquid Asset Ratio                  | 22.10         | 22.82         | (3.16)      |
| Deposit/Loans and Advances          | 101.92        | 102.42        | (0.49)      |
| Borrowings/Loans and Advances       | 7.57          | 1.79          | 323.94      |
| <b>Rating</b>                       |               |               |             |
| <b>Asset Quality</b>                |               |               |             |
| NPL/Loans and Advances              | 22.93         | 25.17         | (8.90)      |
| Loans and Advance to Total Assets   | 78.50         | 79.68         | (1.48)      |

# Rs. 11.19 Billion

## Loan Disbursements

# Financial Review

## Financial Review

State Mortgage and Investment Bank carried on its progression throughout the year 2017, regardless of the competitive interest rates in the market as a result of comprehensive asset management procedures in the financial environment.

### Profitability

SMIB remarked a Profit before VAT Rs. 566 Mn by 2017. Nevertheless, Pre-Tax Profit has shown slight downturn when compare with 2016 due to adverse economic condition of the country.

### Interest Income

Interest income mainly via loans and advances has been particularly enhanced by 11.90% throughout the year 2017, and also this rapid growth was supported by the bank's strategic loan portfolio. We have achieved this while keeping up sufficient liquid assets which are great accomplishments of the bank for 2017.

| Interest Income       | 2017<br>Rs. Mn | 2016<br>Rs. Mn |
|-----------------------|----------------|----------------|
| Total Interest Income | 4,745.59       | 4,240.77       |

### Interest Expenditure

By reason of competitive interest rates existing in the market, the Bank's interest expenses has been amplified expressively by 27.90% in the year 2017 compared to the year of 2016.

| Interest Expenditure | 2017<br>Rs. Mn | 2016<br>Rs. Mn |
|----------------------|----------------|----------------|
| Deposits             | 33,620.23      | 28,845.16      |

### Revenue, Expenses and Profit comparison (Rs. Mn)

Total revenue of the bank has been raised by 12.44% for the period of 2017 and this demonstrates 4916 Million.

| Revenue, Expenses and Profit Comparison | 2017<br>Rs. Mn | 2016<br>Rs. Mn |
|---|----------------|----------------|
| Revenue                                 | 4,916          | 4,372          |
| Expenditure                             | 4,537          | 3,666          |
| Profit Before Tax                       | 379            | 706            |

### Loans and Advances, Deposits and Assets

The average increment of loans and advances by 17%, deposits by 16.55%, total assets by 18.88% and for the total equity base by 0.8% that demonstrates an advancement in all the below mentioned sectors.

| Loans and Advances, Deposits and Assets | 2015<br>Rs. Mn | 2016<br>Rs. Mn | 2017<br>Rs. Mn |
|---|----------------|----------------|----------------|
| Loans and Advances                      | 26,523         | 28,164         | 32,987         |
| Total Assets                            | 34,232         | 35,347         | 42,022         |
| Deposits                                | 27,836         | 28,845         | 33,620         |
| Total Equity                            | 4,263          | 4,918          | 4,957          |

### Contribution to National Economy

State Mortgage and Investment Bank as an accountable corporate citizen, remained to make a remarkable contribution to the national economy in 2017 by numerous ways. In 2017 our contribution to national economy by taxes and other levies paid to the government calculated to Rs. (490.71) Million in comparison to Rs. 664.85 Million in 2016. We are proud to mention that all we have done these contributions to our economy by maintaining compulsory liquidity and capital sufficiency ratios prescribed by the Central Bank of Sri Lanka.





# Sustainability

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“ SMIB’s own capital adequacy ratio recorded 24.61% during the year as funding structures improved and the State Mortgage & Investment Bank has delivered Total Asset growth of 18.88 %.”

# Chairman's Message

State Mortgage and Investment Bank (SMIB) is one of the oldest banks in Sri Lanka serving national economic purposes, especially as nation's housing bank over the last eight decades. The bank played a leading role in providing financial assistance to the housing needs of the citizens of Sri Lanka irrespective of their income category in order to uplift the living standards of the citizens.

The bank sets its direction and scope under the macroeconomic and development policies of the government of Sri Lanka, financing housing, agricultural and industrial needs of the economic persons in the system. The limited scope of activities defined from the SMIB Act of incorporation has laid certain restriction to the bank in market penetration and increasing market share, but the bank has displayed stable financial performance amid both domestic and global uncertainties and severe competitiveness.

The terminus of our journey can be expressed as a maintainable advancement. Our most important asset is our valuable customers from various societies of the country. As a responsible state bank, our attempt is to uplift the living standards of Sri Lankans by accomplishing their housing dream a reality.

The State Mortgage & Investment Bank was established in 1931, being one of the oldest banks of the nation. And also, it was inaugurated as the Ceylon State Mortgage Bank (CSMB) on 6th December 1931 by Ordinance No. 16 of 1931. By integrating the Ceylon State Mortgage Bank and the Agricultural and Industrial Credit Corporation, which was established in 1943, this bank was preceded as the State Mortgage & Investment Bank by the Act No. 13 of 1975.

Our Bank initiated its operations on 1st January 1979. The Central Bank of Sri Lanka, on 27th April 1998 recognized SMIB as a Licensed Specialized Bank. Since then, SMIB paid much attention on the housing needs of the country. Then gradually it intensified its monetary base by accepting deposits from customers. This remarkable circumstance occurred in 1991 and Subsequently, Passbook savings products were introduced in 2001.

Currently, we have 25 branches throughout the country. We are proud to say that our bank is the "Housing Bank to the nation"

The Bank was established to fulfill Housing Needs through an equitable and sustainable development of the Sri Lankan community. We are on the journey of success with our capable and adroit Board of Directors and the corporate Management. Our main concern is to provide equal and sufficient service to our customers.

The Board of Directors distinguished the utmost importance must be placed on Quality of service, consistency and team work in order to realize the strategic plan effortlessly.

The Board was sharpened to encourage a spirit of professionalism and team work. With managerial changes, more focus was given to the reformation of operational systems with properly arranged and delegated authority, to establish flawless accountability and responsibility.

## RISK MANAGEMENT

Risk management of SMIB is paid much attention and keeping a vigilant eye on it as shifting from familiar platforms to new business areas may contain new and complex threats. Therefore, the Board of Directors has obviously recongized risk management as an area that needs important attention. So, the Bank has already initiated a risk management system and framework. The Key Management Personnel has been appointed to monitor these significant areas. Thus, the Board has paved the way for them to gain much knowledge regarding new Risk Management trends. Depositing cash and disbursing loans

are products that must be handled with much attention. In 2017, we have achieved a remarkable conquest on those two products. It is an achievement of all the employees who have contributed to make this goal a reality.

## A WELL-GOVERNED BANK

Our commitment to strong and effective governance is the fundamental part of the way we run our business. There exists a clear delineation between the Board of directors and the Management. The Board as the ultimate authority provides a strict oversight for the proper management of the business.

In line with the Banking Act Directions issued by the Central Bank of Sri Lanka, on Corporate Governance for Licensed Specialized Banks and the Code of Best Practice for Corporate Governance, we have made sure that our Corporate Governance Framework is both forward looking and ethical and places a heavy emphasis on compliance.

At the same time, we are always looking for ways to improve and strengthen our governance practices and make every effort to subscribe to global best practices for Corporate Governance.

## CHALLENGING ECONOMIC LANDSCAPE

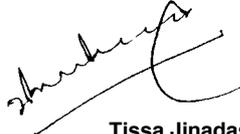
State Mortgage & Investment Bank's (SMIB) performance is commendable considering the challenging macro environment that prevailed in 2017. The effects of climate change on agriculture and agriculture based industries with knock-on effects on other industries, are reflected in GDP growth which moderated to 3.3% in the third quarter of 2017. A relatively range of products across all customer segments.

The Bank's approach has been to engage with its customers and other stakeholders to understand the challenges and work together to build more sustainable businesses that contribute positively to our economy, society and environment. Our focus throughout the year has been on achieving sustainable growth without pursuing growth for its own sake. Slow economic activity in the first half of the year somewhat restrained the growth opportunities for the Bank. Despite this, the Bank achieved a profit before tax Rs. Mn. 378.92. SMIB's own capital adequacy ratio recorded 24.61% during the year as funding structures improved and the State Mortgage & Investment Bank has delivered Total Asset growth of 18.88 %.

In conclusion, 2017 was another year of good performance, in reaching the journey towards prosperity. I, as your Chairman and the Board of Directors assure a strong performance in the year ahead.

Further, to conclude on a note of appreciation, I offer my sincere thanks to the Board of Directors, Chief executive officer and the management team for their insight, support and the dedication. SMIB staff and business teams deserves very special commendation for the dedication and commitment they have displayed to achieve results.

Finally I would like to thank the H.E. the President Maithreepala Sirisena, Honorable Prime Minister, Honorable Minister of Finance, Honorable State Minister of Finance, the Secretary to the Treasury, officials of Central Bank, Departments of Attorney General and Auditor General, and heads of regulatory bodies for their corporation, guidance and assistance extended in discharging my responsibilities as the Chairman of the bank.



**Tissa Jinadasa**  
Chairman



“ Loans and advances were increased from Rs. 28,164 Mn. to Rs. 32,987 Mn. resulting to 17.13 % growth.

Annual gross loans and advances growth exceeded significantly, driven by increase in housing finance lending, mainly to high-growth sectors, while the SME and Retail books too grew ”

# General Manager’s Review

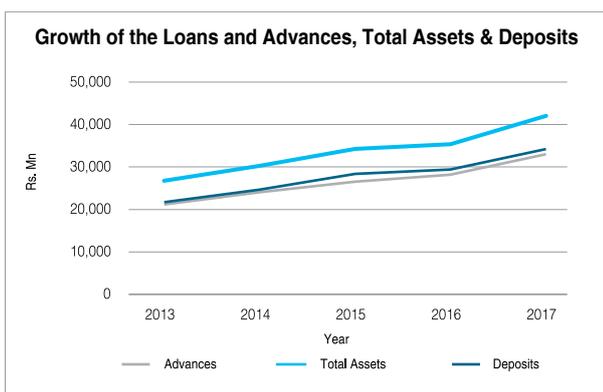
Year 2017 is recorded as yet another year of success in the history of SMIB during which remarkable initiatives were taken by the management to improve the profitability, liquidity and asset base of the bank by sound strategical practices, relocation of the branches, proper human resource management, continuous and analytical progress review mechanism and improved risk management framework.

As a result of that it was able to transform the threats and weaknesses faced by the bank into opportunities and strengths respectively via its strategic planning process. During the year performance of the business activities of the bank was accelerated and managed to recover certain poor and unsatisfactory status of affairs experienced before.

Notwithstanding the challenges what so ever seen in the way forward the bank very strongly established its journey towards reaching its goals and objectives in the competitive atmosphere. Among the several success stories the bank has achieved significant percentage increases in credit growth, deposit growth and even asset growth in comparison with the results of the past few years, with all respect to the stakeholder who has contributed and scarified in many more ways to uplift the performance of the bank.

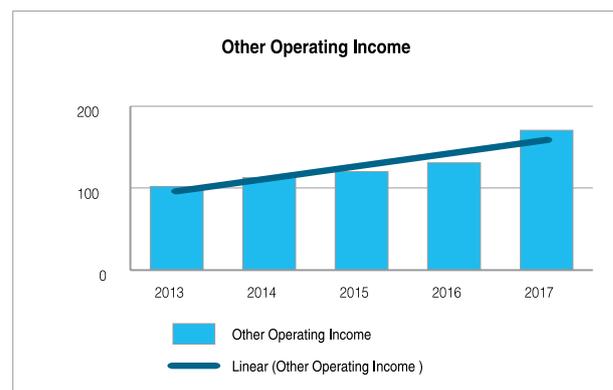
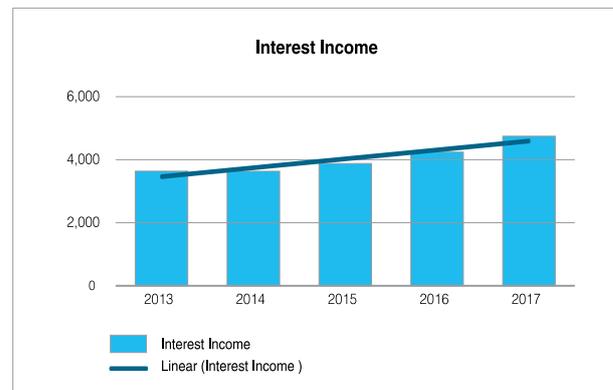
## OPERATIONAL UPSHOTS

Fueled by credit demand, our Loans and advances portfolio grew at a cumulative average of 17.13 %, a much faster pace than the industry growth average of 16.1% for 2017. For the first time, annual gross loans growth exceeded significantly, driven by increase in housing finance lending, mainly to high-growth sectors, while the SME and Retail books too grew. Loans and advances were increased from Rs. Mn. 28,163.70 to Rs. Mn. 32,987.16 resulting to 17.13 % growth.



In the financial year 2017, the annual credit growth was recorded significant increment while providing its services to make its valuable customers dream houses into reality with the financial assistance of SMIB, the Housing Bank to the Nation. Further, I am happy to report that, despite the growth in the credit portfolio, credit quality remained strong, with SMIB recording Justifiable NPL ratio.

The bank has won the trust and faith of the customers who wish to invest their hardly earned money with SMIB for better prospects. Accordingly the bank has been able to embark on the deposit growth of 16.55% in the year 2017 when compared with previous year that was a significant achievement. Our market share too edged up at end December 2017, Strategic re-positioning towards mobilizing larger volumes of low-cost deposits enabled mitigate the impact on low-cost deposits in a high interest rate environment. That was resulted to total deposit portfolio registered an increase of Rs 4,775.07 Mn to reach Rs 33,620.24 Mn as at 31st December 2017.



The bank has been able to maintain the capital adequacy ratio well above the statutory requirement and it indicates the ability of the bank to take various types of risk levels. Further Bank emphasized to improve the infrastructure especially in the Head Office and initiated action to refurbish the Head Office building to enhance the work place security and to provide a pleasing working environment. Nevertheless the Bank has recorded 18.88 % increase in its Asset base in the year under review compared to that of with the year 2016.

## General Manager's Review Contd...

### STRATEGIC FRAMEWORK, OUTLOOK AND PROSPECTS

Development of human resources activities were undertaken with a view to enhance competency and skills of staff, their career development and advancement improving result orientation with reward link to performance, retention of staff and achieving a greater productivity. Based on current indications, the global economy is expected to remain stable, and the Sri Lankan economy is projected to grow positively in 2018 and beyond. I am optimistic that we are in a strong position to capitalize on opportunities that could improve scalability and enhance value created for all stakeholders.

We will execute our strategy by placing our customers at the center of everything we do, working to earn their trust by doing the right business the right way, right time and producing a strong suite of financial products to enhance the customer experience.

### APPRECIATIONS

I wish to extend my sincere gratitude to the Chairman and the Board of Directors in retaining their confidence in my abilities to share the responsibilities in, raising SMIB towards its vision. Also my appreciation is rendered to each and every member of SMIB team for their untiring efforts, dedication, loyalty and commitment to the journey of SMIB through out the year 2017, we have embarked upon. Further I wish to acknowledge the valuable contribution made by our team members who retired during the year 2017 after long years of committed service to the Bank.



**W. M. Dayasinghe**  
General Manager | CEO

# The Oldest Government Bank

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# Board Of Directors



## 01. Mr. Tissa Jinadasa - Chairman

Mr. Tissa Jinadasa was appointed as the Chairman of SMIB on 09th February 2015. He holds a Bachelor of Arts Degree from the University of Sri Jayawardhenapura. He has over 32 years' experience in Public Sector as well as private sector. He has served as a Working Director of the Cooperative Wholesale Establishment since 2000-2002. He has served as the Private Secretary to the Hon. Deputy Speaker Mr. Gamini Fonseka since 1989-1994 and as a Secretary to the Governor (North - East) since 1995 - 1998. He has experience as the Group Personnel Manager/Director Administration of Maharaja Organization Ltd. since 1985 -1989.

## 02. Dr. C. N. S. Gamage - Director

Dr. Niroshan Gamage has been a Director of the Board of SMIB since 06.03.2015. He holds a Bachelor's Degree in Veterinary Medicine from the University of Peradeniya and a Masters in Economics and

Molecular Biology & Bio Technology. He also holds a Post Graduate Diploma in Public Management. He serves as the Deputy Director (Livestock Development) in the Ministry of Social Services Welfare & Livestock Development at present. He is a Director of the Council for Agriculture Research Policy (CARP) and Milco Pvt. Ltd. as well. He is a fellow of Royal College of Veterinary Surgeons and Sri Lanka Association of Advancement of Science.

## 03. Mr. M. S. D. Ranasiri - Director

Mr. M. S. D. Ranasiri, was appointed as a Director to the Board of Directors of SMIB on 25.11.2013 , reappointed on 24.02.2015. He served the bank as a director till he retired on 31.01.2017. He holds a Bachelor's Degree in Commerce (Special) and is a member of Sri Lanka Accountant Service (Class 01). He served as the Director General of Treasury Operations of the Ministry of Finance and Planning till the retirement. He has over 31years' experience in the Government Service.

## Board of Directors Contd...

### 04. Mr. Rajitha Halwela - Director

Mr. Rajitha Halwela was appointed to the Board of SMIB on 02nd November 2015. He is a qualified Management Accountant with a degree in International Business and Finance. Having worked for a leading global bank, he is experienced in Institutional Banking and Public Sector Financing in Sri Lanka, Malaysia and Singapore. Rajitha currently serves as a Consultant at the Office of the Ministry of Public Enterprise Development. He has also worked as a Senior Associate Vice President for a leading equity research company in Sri Lanka. Areas of specialization are; financial marketing, operations risk management and international trade finance.

### 05. Mr. Roshan Hettiaratchi - Director

Mr. Roshan Hettiaratchi was appointed to the Board of SMIB on 02nd November 2015. He is an Attorney-at-Law and holds a Master's degree in Intellectual Property and Information Technology Law.

Counting over 16 years of experience as an Attorney at Law he is engaged in an active practice concentrating on Commercial Law, Intellectual Property Law and various aspects of Public Law. He further provides Professional legal services to multinational companies engaged in the IT industry. He also serves as Director in several unlisted companies.

### 06. Ms. W. K. K. Athukorala - Director

Mrs.W.K.K.Athukorala was appointed as a Director to the Board of Directors of SMIB on 04.01.2016. she is the Secretary of the Ministry of Housing and Construction. She served the bank as a director till she retired on 05.12.2017.

Mrs. Athukorala is a senior special grade officer in the Sri Lanka Administrative Service and maintains over 33 years of experience earned from the key positions of the country. Starting the carrier in Public Sector, as an Assistant Commissioner of Co-operatives in 1985, she has also served as a Divisional Secretary (Weligama, Hakmana and Matara) from 1991 to 2006, an Additional District Secretary (Matara) from 2006-2008, a District Secretary/Government Agent (Matara district) from 2008-2013 and as a Chief Secretary (Southern Province) from 2013 to 2015. She holds a B.A. (Hons) (Econ Special) degree from University of Sri Jayewardenepura. She has a Diploma in Business Studies from Maradana Technical College.

### 07. Mr P.A. Kulasuriya - Director

Mr P.A. Kulasuriya was appointed as a Director to the Board of Directors of SMIB on 06th February 2017. Mr. Kulasuriya is an Attorney-at- Law and a Notary Public. He holds a Bachelor of Arts (Special) degree in Economics, Bachelor of Law and a Post Graduate Diploma in Medical Records.

### 08. Mr P.S.K.R. Weerakon - Director

Mr. P.S.K.R. Weerakon was appointed as a Director to the Board of Directors of SMIB on 01st March 2017. He holds a Bachelor of Art (General) degree from University of Kelaniya and successfully completed Master of Art (Sociology) degree from University of Kelaniya. He has over Thirty years' experience in the Government Service. He serves presently as an Additional Secretary of the Ministry of Agriculture.

### 09. Mr E.A.L. Edirisinghe - Director

Mr. E. A. L. Edirisinghe was appointed as a Director to the Board of Directors of SMIB on 15.02.2017.

He has 31 years of experience in National Insurance Corporation out of which 11 years as a Senior Executive. He has served as the Chairman, Regional Rural Development Bank, Gampaha District, Member of Board of Trustee of Lady Lachore Loan Fund, Director/Vice Chairman of Attanagalla MPCs Limited, and President of Employees Welfare Society of NIC.

### 10. Mr S.G. Senarathna - Director

Mr. S. G. Senarathna was appointed as a Director to the Board of Directors of SMIB on 21.04.2017. He holds a B.Com (Special) Degree from Sri Jayewardenepura University, Diploma in Public Financial Management, and a post graduate diploma in Business and Financial Administration from the Institute of Chartered Accountants of Sri Lanka. He is a Chartered Public Finance Accountant (CPFA). He is a Fellow member of FCA, FCMA, FPPA and AAT. Mr. S.G. Senarathna is the Director General of Department of State Accounts of the Ministry of Finance and Planning. He has over 28 Years' experience in the Government Service as well as a visiting lecturer in universities etc. He presently serves as a member of the Boards of Association of Public Finance Accountants of Sri Lanka, Vehicular Emission Test Trust Fund and Judicial Infrastructure Maintenance Trust Fund.

# Corporate Management



## 01. Mr.W.M.Dayasinghe - General Manager / CEO

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

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

He started his career as an Accountant in 1984. Since then he has provided professional services to many reputed organizations such as Thorton Pandithrathna Chartered Accountancy firm, Shirley Ganegoda Chartered Accountancy firm, Industrial Development Board, Auditor General Department and Grayline Group of Companies. Presently he has been performing as a General Manager / CEO of the Bank.

## 02. Mr.T.M.J.Wickramasekara - Assistant General Manager (Credit – EPF/Estate/SME & Micro)

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

Mr.T.M.J.Wickramasekara joined the bank on 01st August 1986 as a Management Trainee. Throughout his career at State Mortgage & Investment Bank he has held positions such as Credit Officer (Gr.II), Senior Credit Officer/Chief Manager (Credit), and Assistant General Manager in Loan Administration, EPF – Credit, Special Recoveries and Credit fields.

## 03. Mr.A.D.N.Dharmarathne - Assistant General Manager (Valuation/Head of Marketing)

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

## Corporate Management Contd...



Institution of Chartered Surveyors (England), Fellow Member of Institute of Valuers of Sri Lanka, Member of Associate Member of Professional Bankers (APB) and Member of Associate of Accounting Technicians of Sri Lanka (MAAT).

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

Mr.A.D.N.Dharamarathne joined the bank on 04th November 1986, as a Valuation Inspector. Throughout his career at State Mortgage & Investment Bank he has held positions such as Valuation Inspector, Senior Valuation Inspector, and Assistant Valuation Officer (Assistant Manager – Valuation), Deputy Manager (Valuation), Manager (Valuation), Chief Manager (Valuation) and presently holding the post of Assistant General Manager (Valuation). In addition to the Assistant General Manager (Valuation) position he is presently overseeing Credit Unit – B, Special Recovery Unit and Marketing Division.

#### 04. Mr.K.L.N.A.Perera - Assistant General Manager (Finance)

Mr.K.L.N.A.Perera is a holder of MBA in Finance from University of Colombo, Degree of Bachelor in Commerce (Special), Higher National Diploma in Accountancy, Diploma in Banking Integrated

Risk Management, and he is an Associate member of Institute of Chartered Accountant of Sri Lanka (ACA). He started his career as Audit Examiner (II) in 1995.

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

#### 05. Mrs.N.P.K.Lokuge - Assistant General Manager (Legal)

Mrs. N. P. K. Lokuge joined the State Mortgage and Investment Bank in October 1995. She has over 30 years' experience in Legal profession and over 22 years' experience in banking field. During her period of service in SMIB, she has held responsible positions in addition to the main stream in the capacity of Assistant General Manager (Legal).

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

## Corporate Management Contd...

Presently in addition to the main stream in the capacity of Assistant General Manager (Legal). During her banking carrier, she has also followed various international exposure programmes regarding legal systems of Asian Countries attending international conferences held in various countries.

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

### 06. **Mr.B.M.D.P.B.Basanayake – Assistant General Manager (IT)**

Mr.B.M.D.P.B.Basnayaka is a holder of Master of Science in Management & Information Technology, Degree in Management Information Systems and he is a Certified Member of British Computer Society (BCS). He started his career as Computer Trainee Programmer in 1997. He has been working at Commercial Bank from 2002 to 2017. He held the post of Manager - IT when he left the bank.

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

### 07. **Mrs.W.G.S.S.K.Abeywickrama - Acting Assistant General Manager (Risk Manager) /Chief Manager (Compliance)**

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

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

### 08. **Mr.L.W.Samarawickrama - Acting Assistant General Manager (Credit) / Chief Manager (Credit)**

Mr.L.W.Samarawickrama is a holder of Degree in Bachelor of Science Estate Management & Valuation (Special) and Advance Certificate in Banking and Finance. He started his career as a Filed Investigator in 1993. Since then he has been working in National Building Research Organization and Valuation Department.

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

### 09. **Mrs.W.K.Perera - Acting Assistant General Manager (Recoveries) / Chief Manager (Legal)**

Mrs.W.K.Perera is a holder of Bachelor of Law University of Colombo (Internal) Degree and she is an Attorney – at – Law, and Company Secretary. She started her career as an Attorney – at – Law in the year 1991.

Mrs.W.K.Perera joined the bank on 15th March 2000 as a Law Officer (Gr. II)/ Deputy Manager (Legal). Throughout her career at State Mortgage & Investment Bank she has held positions such as Manager (Legal), and Chief Manager (Legal), while holding the post of Chief Manager (Legal), presently she is acting as the Assistant General Manager (Recoveries) and she is holding the post of Secretary to the Board of Directors of the Bank.

### 10. **Mr.D.M.R.Dissanayaka - Chief Manager (Branch Operations)**

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

Mr.D.M.R.Dissanayaka joined the bank on 16th February 1996 as a Valuation Inspector. Throughout his career at State Mortgage & Investment Bank he has held positions such as Assistant Manager (Credit), Branch Manager, Chief Manger (Credit), Chief Manager (Branch Operations), Chief Manager (Regional Office) and presently he is holding the post of Chief Manager (Branch Operations).

### 11. **Mr.S.Wickramasinghe - Chief Manager (Credit) Administration & Logistics Division**

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

Mr.S.Wickramasinghe joined the bank on 16th February 1996 as a Valuation Inspector. Throughout his career at State Mortgage & Investment Bank he has held positions such as Senior Valuation Inspector, Assistant Manager (Credit), Branch Manager, Act. Chief Manager (Branch Operations), Chief Manager (Regional Branch – Rathnapura) and presently he is holding the post of Chief Manager (Credit) attached to Administration & Logistics Department.

## Corporate Management Contd...

### 12. Mr.K.G.Karunaratne - Chief Manager (Valuation)

Mr.K.G.Karunathilaka a Degree in Bachelor of Science Estate Management & Valuation (Special). He started his career in 1984. Since then he has been working in Municipal Council – Kadugannawa and Department of National Housing.

Mr.K.G.Karunathilaka joined the bank on 16th October 1986 as a Valuation Inspector. Throughout his career at State Mortgage & Investment Bank he has held positions such as Senior Valuation Officer, Assistant Manager (Valuation), Deputy Manager (Valuation) and presently holding the position of Chief Manager (Valuation).

### 13. Mr.D.B.P.Willarachchi - Internal Auditor

Mr.D.B.P.Willarachchi is a holder of Master of Business Studies, Post Graduate Diploma in Business and Finance, Special Degree in Commerce (B.Com), ICDL Certificate, Member of Association of Accounting Technicians of Sri Lanka (SL) and Certified Business Accountant (CBA) of Institute of Chartered Accountants of Sri Lanka. He started his career as Audit Senior in 1995. Since then he has been working in Hulugalla Samarasinghe & Company, Pramuka Savings and Development Bank Limited, Tea Trends Exports (Pvt) Ltd, Ministry of Agriculture, Irrigation and Mahaweli Development, Sri Lanka Institute of Advance Technological Education (SLIATE) and National Lottery Board.

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

14. Mr. R.M.Abeyratne - Senior Accountant  
(Retired on 03.06.2017)

15. Mrs. K.P.K.H.D.Perera - Assistant General Manager (Recoveries)  
(Retired on 20.10.2017)

16. Mr. R.P.U.Pathirana - Deputy General Manager (Credit)  
(Retired on 16.02.2017)

17. Mr. J.A.D.P. Priyalal - Chief Manager (Recoveries)  
(Retired on 19.09.2017)

#### Not in Picture

1. Mr.S.S.Wijeduru - Assistant General Manager  
(Human Resource & Logistics)

2. Mr.I.K.Gamini - Chief Manager (Credit)

3. Mrs.D.K.Hidellearachchi - Assistant General Manager  
(Credit, Disbursement & Monitoring).

# Corporate Governance

As a Licensed specialized Bank in the country, the State Mortgage and Investment Bank strives for best practice in Corporate Governance. The Board continued to strengthen its oversight responsibilities on the affairs of the Bank. 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. Accordingly the Board reviews the adequacy of the bank's internal control systems.

The Board has an active combination of professionals with practical experience in banking, finance, economics, business management, human resource management, law, marketing, etc. They have necessary skills and experience needed to achieve independent, impartial and direct decisions regarding issues of strategy, performance and resources.

The Banks' governing principles and structure, strengthens effective decision making, which encourages greater transparency and endorses accountability across all aspects of the business.

## Accountability

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

The Board 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 stake holders and to the general public in a transparent and diligent manner. The Bank has complied with the requirements imposed by all regulatory authorities concerning matters relevant to the Bank's business.

## Fairness

The bank treats all its stakeholders fairly. The Bank makes things worth for 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 a last resort and has always being with the customers whenever they face with unforeseen complications.

## Transparency and disclosure

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

The bank 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.

During the year 2017 there wasn't any related party transactions in the bank.

## Board of Directors

The Board of Directors of SMIB has been appointed by the Ministry of Finance and the Ministry of Public Enterprises Development as per the provisions of the SMIB Law and it consists of nine fit and proper independent and non-executive directors having knowledge in diverse areas.

Since the purpose of the Bank is to assist in the development of agriculture, industry and housing, by providing financial and other assistance, three of the directors out of the said nine members are the representatives of Ministry of Social Services, Welfare & Livestock Development, Ministry of Housing & Construction and Ministry of Irrigation & Agriculture. The composition of the Board ensures that there is a sufficient balance of power and continuation of contribution guides in 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 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, serve 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, manages the bank ahead.

The Board of Directors meet at least once a month and in the year 2017, 13 meetings have been held.

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

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

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

## Corporate Governance Contd...

Composition of the Board:

| Directors Name                | Date of Appointment | Date Retired / ceased to be a Director | Category of Director               |
|-------------------------------|---------------------|--|------------------------------------|
| Mr. Tissa Jinadasa (Chairman) | 13.02.2015          | -                                      | Independent non-executive director |
| Dr. Niroshan Gamage           | 06.03.2015          | -                                      | Independent non-executive director |
| Mr. M. S. D. Ranasiri         | 24.02.2015          | Retired on 31.01.2017                  | Independent non-executive director |
| Mr. Roshan Hettiaratchi       | 02.11.2015          | -                                      | Independent non-executive director |
| Mr. Rajitha Nuwan Halwala     | 02.11.2015          | -                                      | Independent non-executive director |
| Mr. W.K.K. Athukorala         | 04.01.2016          | Retired on 05.12.2017                  | Independent non-executive director |
| Mr. P. A. Kulasooriya         | 06.02.2017          | -                                      | Independent non-executive director |
| Mr E.A. Lesly Edirisinghe     | 15.02.2017          | -                                      | Independent non-executive director |
| Mr. P.S.K.R. Weerakoon        | 01.03.2017          | -                                      | Independent non-executive director |
| Mr. S.G. Senaratne            | 21.04.2017          | -                                      | Independent non-executive director |
| Mr. S.G. Senarathna           | 21.04.2017          | -                                      | Independent non-executive director |

Directors' attendance at Meetings in the Year 2017 is being given in the Directors Report of this annual report.

### Appraisal of Board Performance

The Board adopts a scheme of self-assessment of each director annually and board bi- annually appraises their own performances to ensure that they are discharging their responsibilities satisfactorily in accordance with the State Mortgage and Investment Bank Law and the Banking Act Direction No.11 of 2007 etc. These processes require each Director to fill a Self-Evaluation Form and a questionnaire to assess the effectiveness of the Board Directors' own governance practices. The responses are assembled by the Board Secretary and submitted to the BNC for discussion and evaluation and thereafter submit the committee report to the board.

### Functions of the General Manager

The Board appoints the General Manager who is the chief executive officer of the Bank. The managerial and operational activities of the bank has 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.

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

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 Board sub committees which shall directly report to the Board. These subcommittees namely Board Audit Committee (BAC), Board Human Resources and Remuneration Committee (BHRRC), Board Nomination Committee (BNC) and Board Integrated Risk Management Committee (BIRMC). Scopes of these committees detailed in the various subcommittee reports which mentioned in this annual report . These Committees are chaired by non- executive directors who have expertise in the relevant field.

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.

### Risk Management

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

## Corporate Governance Contd...

### Management Committees

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

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

- Executive Credit Committee
- Asset/Liability Management Committee
- Marketing Committee
- Product Development Committee
- Recovery Committee
- Executive Integrated Risk Management Committee
- Senior Management Committee
- Management Committee

## Corporate Governance Contd...



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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்  
**AUDITOR GENERAL'S DEPARTMENT**



මගේ අංකය  
எனது இல  
My No.

BAF/G/SMIB/CG/2017/16

ඔබේ අංකය  
உமது இல  
Your No.

දිනය  
திகதி  
Date

05<sup>th</sup> December 2018

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

[Auditor General's Report of Factual Findings of State Mortgage & Investment Bank to the Board of Directors of the State Mortgage & Investment Bank on the compliance requirement of the corporate Governance Direction issued by the Central Bank of Sri Lanka -31 December 2017.](#)

I have performed the procedures enumerated in the 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 Direction issued by the Central Bank of Sri Lanka (CBSL). This engagement has been performed in accordance with the principles set out in the Sri Lanka Standard 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 directive directives of Corporate Governance 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 meetings 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 item specified above and does not extended to any financial Statements of State Mortgage and Investment Bank, taken as a Whole.

H.M. Gamini Wijesinghe  
Auditor General



## Corporate Governance Contd...

| 3(1)    | The responsibilities of the board   | Complied | Not Complied | N/A | Reference  | Audit observations   |
|---------|---|----------|--------------|-----|--|--|
| 3(1)(i) | Procedures to be carried out to ensure the board have strengthened the safety and soundness of the bank.  | Complied |              |     |  |  |
|         | <p>a) Check the board approval of the bank's strategic objectives and corporate values.</p> <p>Check whether the bank has communicated the bank's strategic objectives and corporate values throughout the bank.</p>  | Complied |              |     | <p>Corporate Plan for the period 2017-2021 and Action Plan for 2017 was presented to the board under the board paper No.17/05/40 at the meeting held on 31.05.2017</p> <p>Corporate Plan for the period 2018-2022, was presented to the board under the board paper No.17/12/28 at the meeting held on 29/12/2017</p> <p>strategic objectives and corporate values are communicated through heads of departments at each division the monthly Meeting held during the year 2017.</p> | <p>Complied. Corporate Plan for the period 2017-2021 and Action Plan for 2017 was presented to the board under the board paper No.17/05/40 at the meeting held on 31.05.2017</p> <p>Corporate Plan for the period 2018-2022, was presented to the board under the board paper No.17/12/28 at the meeting held on 29/12/2017</p> <p>Strategic objectives and corporate values are communicated through heads of departments at monthly progress meetings held during the year 2017.</p> |
|         | <p>b) Check the board approval of the overall business strategy of the bank.</p> <p>Check that the overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented.</p> <p>Check that the overall business strategy contains measurable goals, for at least the next three years.</p> | Complied |              |     | <p>Overall business strategy (Cooperate vision, mission and the objectives) included in the corporate plan and it was approved by the Board at the meetings held on 31.05. .2017.</p> <p>The bank has documented goals to improve the risk management of the bank</p> <p>The measurable goals for 2017-2021 are included in the corporate plan.</p>  | <p>Overall business strategy included in the corporate plan and it was approved by the Board at the meetings held on 31.05. .2017.</p> <p>The bank has documented goals to improve the risk management of the bank</p> <p>The measurable goals for 2017-2021 are included in the corporate plan.</p> <p>Compiled. The bank has documented goals to improve the risk management of the bank The measurable goals for 2017-2021 are included in the corporate plan.</p>                  |

## Corporate Governance Contd...

|  |    |   |          |  |  |  |  |
|--|----|---|----------|--|--|--|--|
|  | c) | Check that the appropriate systems to manage the risks identified by the board are prudent and are properly implemented.  | Complied |  |  | The Board Integrated Risk Management Committee is addressing the risk identified periodically. Therefore, board reviews Risk Assessment Report of the BIRMC meetings and ensure that the bank has appropriate systems to manage the risks. Further board has given approval for the BIRMC Charter, Board Integrated Risk Management Framework, Risk and Self-Assessment Process, Operational Risk Management System and for Stress Testing Policy. BOD review KRIs and Stress testing results submitted to the board in quarterly basis.                   | Boards IRMC charter risk and self assessment process, operational risk management system and stress testing policy were observed by the board on 20.09.2017  |
|  | d) | Check that the board has approved and implemented a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers; | Complied |  |  | The customer charter is used for the purpose of effective communication between customers and banks.<br><br>Further, Government has 100% ownership of the bank and all directors are appointed by the minister of public enterprise development and ministry of finance. Therefore, effective communication between government/ shareholders and the bank is maintained.<br><br>The Policy of communication has been approved by the board minutes No.15.11.155.01 in the board paper No. 15/11/08 in Dec 2015.  | The Policy of communication has been approved by the board; minutes No.15.11.155.01 in the board paper No. 15/11/08<br>SMIB board has a representative from General Treasury and communication with government is in place, Further all directors are appointed by the minister.   |
|  | e) | Check that the board has reviewed the adequacy and the integrity of the bank's internal control systems and management information systems;                     | Complied |  |  | The adequacy and integrity of the internal controls and management information system had been reviewed by the Board Audit Committee, the board reviewed the respective Board audit committee and BIRMC Papers/minutes at the board meeting No.17/04/35 in the minutes of the board meeting held on 28/04/2017. Board Paper No. 17/04/37 in the minutes of the board meeting held on 28/04/2017, Board Paper No.17/09/30 board meeting held on 27 <sup>th</sup> September 2017 Board Paper No.18/01/39 board meeting held on 26 <sup>th</sup> January 2018 | Board carries out this function through the BAC which oversee the internal audit function of the bank. We observed the meeting minutes of No.17/04/35 in the minutes of the board meeting held on 28/04/2017. Board Paper No. 17/04/37 in the minutes of the board meeting held on 28/04/2017, Board Paper No.17/09/30 board meeting held on 27 <sup>th</sup> September 2017 Board Paper No.18/01/39 board meeting held on 26 <sup>th</sup> January 2018 |

## Corporate Governance Contd...

|    |   |          |  |  |   |   |
|----|---|----------|--|--|---|---|
| f) | Check that the board has identified and designated key management personnel, as defined in the Sri Lanka Accounting Standards, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;   | Complied |  |  | The board has identified and designated KMP'S as defined by LKAS 24. Observed the 15.11.149.26 (Board Paper No.15/10/57) of the board meeting held on 11/12/2015.   | The bank has designated the KMP in the board paper No.15.11.149.26 (15.10.145.02) in the minute of the board meeting held on 29/12/2015.  |
| 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 |  |  | The board has exercised appropriate oversight of the affairs of the bank by key management personnel.   | Board has carried out meetings with CEO by reviewing the progress of stress testing results have seen board paper No17/09/30 and dated 25.09.2017   |
| 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 |  |  | Director's powers and authority defined in SMIB Law No.13 of 1975 under the Section 07. Directors were allocated to sub committees by the Board of Directors and charter of each committee defines responsibilities. KMPs authorities and responsibilities are listed in Job Descriptions.  | It was observed that Director's powers and authority had been defined in section 07 of the SMIB Law No.13 of 1975 .<br><br>Directors were allocated to sub committees by the Board of Directors and charter of each committee defines responsibilities. KMPs authorities and responsibilities are listed in Job Descriptions. |
| 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 |  |  | Selections, nominations and election of the board of directors are done by the minister according to the SMIB Law No.13 of 1975. Directors confirmed in their self-evaluation forms that the board has undertaken an annual evaluation of its own governance practices.<br><br>The effectiveness of the BODs is assessed through a questionnaire. | The directors are appointed by the minister according to the section 7 of the SMIB Law No.13 of 1975.<br><br>Directors confirmed in their self-evaluation forms that the board has undertaken an annual evaluation of its own governance practices.   |

## Corporate Governance Contd...

|  |    |  |          |  |  |   |
|--|----|--|----------|--|--|---|
|  | j) | Check that the board has a succession plan for key management personnel.   | Complied |  | Succession plan for key management personnel for the year 2016 is available. 17.04.52.04 (Board Paper No.17.04.21) in the minutes of the board meeting held on 28/04/2017.   | It was observed in Succession plan for key management personnel in No.17.04.21of the board meeting held on 28 April 2017 Succession plan is not relevant for the board members since they are appointed by the minister .CEO of the bank is appointed by the board under the section 20 of SMIB act 13 of 1975  |
|  | 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 |  | In each meeting the board has invited the General Manager to be present at the board meeting and through that the board has established communication lines and monitor progress towards corporate objectives. Further, the board has directed to hold management committee meeting and senior management meeting every month to ensure that management is working towards corporate objectives.                   | In each meeting the board has invited the General Manager to be present at the board meeting and through that the board has established communication lines and monitor progress towards corporate objectives. In addition, the KMP are summoned to the Board meetings as and when necessary.<br><br>Further, the board has directed to hold management committee meeting and senior management meetings every month to ensure that management is working towards corporate objectives.<br><br>Though board had directed to hold senior management meeting, every month. Only 6 meeting was held during the year. |
|  | 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 |  | Compliance Officer has been appointed to maintain regular contact relationship with regulators based upon clear and timely communication and a mutual understanding of the regulators objectives. Compliance division reports to the Board on Quarterly basis and Board review the progress. The board audit committee assists the bank in this regards as per the charter of audit committee Terms of References. | The Compliance Officer has been appointed in general manager letter No P/F 466. Regulatory compliance report are submitted to CBSL on a weekly, monthly, quarterly and annual basic. Compliance division has reported to the board on annual basis. Ex: " Statutory examination report-2017, action plan to address the supervisory concerns".  |

## Corporate Governance Contd...

|                  |    |  |          |  |     |   |   |
|------------------|----|--|----------|--|-----|---|---|
|                  | m) | Check that the board has a process in place for hiring and oversight of external auditors.   |          |  | N/A | Auditor General has been appointed as per the provision contained in the State Mortgage and Investment Bank Law No.13 of 1975. As per such provisions Auditor General is the external auditor.  | This is not applied to SMIB. Auditor General is the external auditor as per the SMIB Law.   |
| <b>3(1)(ii)</b>  |    | Check that the board has appointed the chairman and the Chief Executive Officer (CEO).<br><br>Check that the functions and responsibilities of the chairman and the CEO are in line with Direction 3(5) of these Directions.   | Complied |  |     | According to the SMIB Law No.13 of 1975, The chairman has been appointed by the Finance Minister and General Manager/CEO has been appointed by the board.<br><br>Checked and ensured the functions and responsibilities of the chairman and the CEO which are in line with the above said directions.   | According to the SMIB Law No.13 of 1975, The chairman has been appointed by the Finance Minister and General Manager/ CEO has been appointed by the board paper No 10/10/29 The functions and responsibilities of CEO is as per SMIB Law no 13 of 1975. |
| <b>3(1)(iii)</b> |    | Check that the board has met regularly and held board meetings at least twelve times a year at approximately monthly intervals.  | Complied |  |     | The board has met 13 times during the year 2017 at approximately monthly intervals. Observed board minutes and directors' attendance register.  | The board has met 12 times during the year  |
| <b>3(1)(iv)</b>  |    | 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 |  |     | The agenda prepared under the authority of the board secretary and it is Check by the CEO/ GM.<br><br>The notice of the meeting and agenda for the meeting circulated to all directors at least 7 days prior to the meeting to provide reasonable time to study and make any proposals.<br><br>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. | It was observed the agenda prepared under the authority of the board secretary with the approval of the Chairman.   |
| <b>3(1)(v)</b>   |    | 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 |  |     | According to the board secretary, prepared agenda was sent to each directors of the board which is signed and approved by the secretary by post or by hand at least 7 days prior to the meeting.  | It was observed according to the board secretary, dates of Board Meetings are informed to each director of the board more than 7 days prior to the meeting at least.  |
| <b>3(1)(vi)</b>  |    | 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 |  | N/A | The directors have attended the meetings as required and hence, no such requirement.<br><br>Observed the Directors' Attendance Register and Board Minutes.  | The directors have attended the meetings as required and hence, no such action needed to be taken in the year 2017  |

## Corporate Governance Contd...

|                   |  |          |  |   |  |
|-------------------|--|----------|--|---|--|
| <b>3(1)(vii)</b>  | 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 |  | The board has appointed Mrs.W.K.Perera(Attorney at law) as a secretary to the board in accordance with the section 43 of the Banking Act No. 30 of 1988 and the Companies Act No 7 of 2007.<br><br>Secretary to the board is responsible for handling the secretariat services to the board meetings and carry out other functions specified in the statutes and other regulations.   | Board secretary is an attorney at law which complies with section 43 of the banking act No 30 of 1988.   |
| <b>3(1)(viii)</b> | Check the process to enable all directors to have access to advice and services of the company secretary.  | Complied |  | As per the secretary to the board, all directors have access to advice and obtain the service of the Company Secretary.   | As per the board secretary all directors shall have unlimited assess to advise and obtain the service of the board secretary   |
| <b>3(1)(ix)</b>   | 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 secretaries' authority. At any time any director shall have access to any information regarding the board meetings.<br>Observed board meetings' minutes.  | It was observed that the all minutes of the board meetings are filed sequentially and kept under the board. As per secretary at any time any director has access to any information regarding the board meetings.  |
| <b>3(1)(x)</b>    | Check that the minutes of a board meeting contain or refer to the following:<br><br>(a) a summary of data and information used by the board in its deliberations<br>(b) the matters considered by the board<br>(c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the board was carrying out its duties with due care and prudence;<br>(d) the matters which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations;<br>(e) the understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted; and<br>(g) the decisions and board resolutions. | Complied |  | Checked the board minutes and ensured that minutes are recorded in sufficient detail includes all the facts referred above. Generally, followings are included in the contents of the board minutes.<br>i) Confirmation minutes of the previous meeting<br>ii) Matters arising out of the minutes of the previous meetings.<br>iii) Differed from the previous meeting<br>iv) Recovery matters<br>v) Financial matters<br>vi) Marketing and publication matters<br>vii) Administration and personal matters.<br>viii) Credit matters<br>ix) Risk Matters<br>x) Legal Matters and,<br>xi) Any Other Matters.<br><br>Observed minutes of the board meeting. | Checked the board minutes and ensured that minutes are recorded in sufficient detail.<br><br>i) Confirmation minutes of the previous meeting<br>ii) Matters arising out of the minutes of the previous meetings.<br>iii) Deferred from the previous meeting<br>iv) Credit matters<br>v) Financial matters<br>vi) Marketing and publication matters<br>vii) Administration and personal matters.<br>viii) Recovery matters<br>ix) Risk Matters<br>x) Legal Matters and,<br>xi) Any Other Matters.<br>Observed minutes of the board meeting. |

## Corporate Governance Contd...

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| <b>3(1)(xi)</b>   | <p>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.</p>   | Complied |          | <p>Board paper is presented and approval is obtained enabling directors to seek independent professional advice whenever necessary while carrying out duties and making decisions, at the bank's expense. Generally, for this, bank follows Government approved tender procedures.</p>   | <p>It was observed in board paper of 'Supervisory concerns on Statutory Examination' No 14/14/19 dated 30.04.2014.</p>   |
| <b>3(1)(xii)</b>  | <p>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.</p> <p>Check that a director has abstained from voting on any board resolution in relation to which he/she or any of his/her close relation or a concern in which a director has substantial interest, is interested.</p> <p>Check that has he/she been counted in the quorum for the relevant agenda item at the board meeting</p> | Complied | Complied | <p>For this it followed the SMIB Law No.13 of 1975 section 17. Related Party Transaction Policy is approved by the Board. (Board Paper No 16/08/35) Board minute no 16.08.95.02 held on 26.08.2016</p> <p>Further the act provides that, 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.</p> <p>There's no disclosure of interest made in minutes during the year 2016 as it is required by the SMIB Law No. 13 of 1975section 17 to disclose the interest in the minutes if any.</p> <p>Further, Directors' Report" of Annual Report disclosed that "no director was directly or indirectly interested in any contract with bank for the year ended 31 December 2017. Such a matter has not arisen during the year 2017 and therefore this section is not applicable.</p> <p>N/A</p> | <p>Related Party Transaction Policy was approved by the Board Paper No 16/08/35 &amp; Board minute No 16.08.95.02</p> <p>According to the section 28 of the SMIB law No 13 of 1975, no loan shall be granted by the bank to any director 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.</p> |
| <b>3(1)(xiii)</b> | <p>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.</p>  | Complied |          | <p>As per the secretary to the board, the board maintain schedule of matters specifically reserved to it for decision to identify the direction and control of the bank is firmly under its authority. Observed Board Paper No.16/10/40 in the minutes of 16.10.122.02</p>   | <p>There is a formal schedule of matters reserved to the board as per the board paper No.16.10.40 &amp; minute No. 16.10.122.02 dated 24 October 2016</p>  |

## Corporate Governance Contd...

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| <b>3(1)<br/>(xiv)</b>               | Check that the board has forthwith informed the Director of Bank Supervision of the situation of the bank prior to taking any decision or action, if it considers that the procedures to identify when the bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors. |          |  | N/A | Such situation has not been evident through the review of the board minutes.  | Such incident has not taken place during the year 2017  |
| <b>3(1)<br/>(xv)</b>                | Check that the board has the bank capitalized at levels as required by the Monetary board.  | Complied |  |     | The required capital adequacy ratio as per the CBSL is 5% (Tier 1) and 10% (Tier 11) and as at 31/12/2017 the SMIB shows capital adequacy (Tier 1) as 23.74% and Total capital ratio (Tier11) as 24.29%.  | It was in "financial information network" report. The required capital adequacy ratio as per the CBSL IS 5% (Tier 1) and 10% (Tier 11) and as at 31/12/2017 the SMIB shows capital adequacy (Tier 1) as 23.74% and Total capital ratio (Tier11) as 24.29%. Based on the financial statements. |
| <b>3(1)<br/>(xvi)</b>               | Check that the board publishes, in the bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.   | Complied |  |     | The board has published annual corporate governance report setting out the compliance with direction 3 of these directions in the annual report-2017.   | There was a corporate governances report publish as per the bank graft annual report 2016.  |
| <b>3(1)<br/>(xvii)</b>              | 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 2017.   | Board secretary has obtained the evaluation forms from all the directors.   |
| <b>3(2) The board's Composition</b> |   |          |  |     |   |   |
| <b>3(2)(i)</b>                      | Check that the board comprise of not less than 7 and not more than 13 directors.  | Complied |  |     | According to the section 7 of SMIB act Board of Directors consisting of nine fit and proper persons appointed by the Minister. But the board consists of 8 directors as at 31 December 2017 due to the delay of appointment of the person as a representative from the Ministry of the Housing. Representative from Housing and Constructions has been appointed as a Director of SMIB on 01 <sup>st</sup> February 2018. | According to the section 7 of SMIB Act, Board of Directors consists of nine fit and proper persons appointed by the Minister.   |

## Corporate Governance Contd...

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| <b>3(2)(ii)</b>  | (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.<br>Observed the directors' appointment and resignation File.   | It was observed that no directors has exceeded 9 years of service  |
|                  | (B) | In the event of any director serving more than 9 years, check that the transitional provisions have been applied with.   |          |  | N/A | No directors have exceeded 9 years in the capacity of directors.  |  |
| <b>3(2)(iii)</b> |     | Check that the number of executive directors, including the CEO does not exceed one-third of the number of directors of the board.   | Complied |  |     | In accordance with the provisions of the SMIB Law No.13 of 1975 the board consists of nine directors and appointed by the Minister of Finance and Minister of Public Enterprise Development and all are non-executive directors.  | In accordance with the provisions of the SMIB. Act No .29 of 1984, Amendment of section 7 of Law No.13 of 1975 and board consists of nine directors appointed by the Minister of Finance and Minister of Public Enterprise Development and all are non-executive directors |
| <b>3(2)(iv)</b>  |     | Check that the board has at least three independent non-executive directors or one third of the total number of directors, whichever is higher.<br><br>Check if non-executive directors can be considered independent if he/she:                       | Complied |  |     | Directors are appointed by the Minister of Finance and Minister of Public Enterprises Development and all are independent non-executive directors.  | All of directors are non executive and independent   |
|                  | a)  | Holds a direct and indirect shareholding of more than 1 per cent of the bank;  |          |  | N/A | There's no any shareholding by the director as the bank fully owned by the Government. Check the declarations made by the directors and ensured that no, such situations evidenced.   | The bank is fully owned by the government therefore no any shareholding by the directors   |
|                  | b)  | currently has or had during the period of two years immediately preceding his/her appointment as director, any business transactions with the bank as described in Direction 3(7) hereof, exceeding 10 per cent of the regulatory capital of the bank. |          |  | N/A | According to the directors' statements in the 2017 annual report "no director was directly or indirectly interested in any contract with the bank for the year ended 2017. Check the declarations made by the directors and ensured that no, such situations evidenced. | According to final account 2017, note 27 this transaction no occurred in the year.   |
|                  | c)  | has been employed by the bank during the two-year period immediately preceding the appointment as director.  |          |  | N/A | There are no such non-executive directors who were employed by the bank. Checked the declarations made by the directors and ensured that no, such situations evidenced.   | No such non-executive directors were employed by the bank.   |

## Corporate Governance Contd...

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|                 | d) | has had a close relation; who is a director, CEO, a member of key management personnel, a material shareholder of the bank or another bank. (For this purpose, a "close relation" means the spouse or a financially dependent child)  |          |  | N/A                       | Appointments of directors are done by minister of Public Enterprises Development and minister of Finance.<br><br>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.   | Appointments of directors are done by minister of Public Enterprises( PED) and we did not observe such matters based on the declaration to be submitted in terms of section 42 of the banking act which were provided by each of directors |
|                 | e) | represents a specific stakeholder of the bank   |          |  | N/A                       | No such a director represents a specific stakeholder of the bank since the bank is fully owned by the government.   | No director own share of the bank since bank is fully owned by the government.   |
|                 | f) | is an employee or a director or a material shareholder in a company or business organization:<br><br>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<br><br>II. in which any of the other directors of the bank are employed or are directors or are material shareholders; or<br><br>III. in which any of the other directors of the bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10 per cent of regulatory capital in the bank. |          |  | N/A<br><br>N/A<br><br>N/A | According to the directors' report in the annual report "no director was directly or indirectly interested in any contract with the bank for the year ended 2017."<br><br>Checked the declarations made by the directors and ensured that no, such situations evidenced.<br><br>No incident was observed in this regard.<br><br>According to the directors' report in the 2016 annual report "no director was directly or indirectly interested in any contract with the bank for the year ended 2017." | There is no business transaction with any of the present directors with the bank.  |
| <b>3(2)(v)</b>  |    | In the event an alternate director was appointed to represent an independent director, Check the person so appointed meet the criteria that applies to the independent director.  |          |  | N/A                       | No alternative directors were appointed during the year, as per the board secretary's explanations.   | As for discussion, No alternative directors were appointed during the year as per the former board secretary's explanations.   |
| <b>3(2)(vi)</b> |    | Check that the bank has a process for appointing independent directors.   | Complied |  |                           | Directors are appointed by the Minister of Finance and Minister of Public Enterprises Development according to the section 7 of SMIB Law No.13 of 1975.   | Appointments of directors are done by the minister under the SMIB Law No.13 of 1975.(Section 07)   |

## Corporate Governance Contd...

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| <b>3(2)(vii)</b>  | 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 |  |     | As per the section 16 of SMIB Law the quorum of the Board is three members, which is less than 50% of directors.<br>More than five directors which is 50 % of the directors had been participated for the meetings and all directors are non –executives.  | It was observed that all the directors are non-executive directors.   |
| <b>3(2)(viii)</b> | 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 executive directors, non-executive directors and independent non-executive directors of the annual report.   | It was disclosed in Director's report in annual report in 2016  |
| <b>3(2)(ix)</b>   | Check the procedure for the appointment of new directors to the board.  | Complied |  |     | The appointment of directors is done by the Minister of Public Enterprises Development and Minister of finance in accordance with the SMIB Act No.13 of 1975.  | According to SMIB Act No.13 of 1975 the appointment of directors is done by the Minister of Public Enterprises Development and Minister of finance. |
| <b>3(2)(x)</b>    | Check that all directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after their appointment.  |          |  | N/A | The directors are appointed by the Minister of Finance and the minister of Public Enterprises Development in accordance with the SMIB Law No.13 of 1975.   | The directors are appointed by relevant ministries in compliance with the Act.  |
| <b>3(2)(xi)</b>   | Check if a director resigns or is removed from office, the board:<br><br>(a) 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<br><br>(b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders. | Complied |  |     | The removal of the directors will be done by the minister of Public Enterprises Development and minister of Finance in accordance with the SMIB Law No.13 of 1975.<br><br>The removal of the directors will be done by the minister of Public Enterprises Development in accordance with the SMIB Law No.13 of 1975. | Not relevant to bank .Directors are appointed by the minister and Board does not role in this regard.   |

## Corporate Governance Contd...

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| <b>3(2)(xii)</b>  | 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 |  |     | There's no any director or employee elected or nominated as a director of another bank. The directors are appointed by the minister of Finance and the minister of Public Enterprises Development in accordance with the SMIB Law No.13 of 1975. Further, observed the declaration provided by the directors in term of section 42 of the banking act. | There's no any director or employee elected or nominated as a director of another bank. Directors are required to disclose in their annual declaration submitted to the bank. if they are in the board of any other bank. |
| <b>3(3) Criteria to assess the fitness and propriety of directors</b> |  |          |  |     |  |   |
| <b>3(3)(i)</b>  | Check that the age of a person who serves as director does not exceed 70 years.  | Complied |  |     | Checked and ensured through the declarations that all other directors are below the age of 70.   | Directors had not exceed age 70.  |
|   | (A) Check that the transitional provisions have been complied with.  |          |  | N/A | Since no directors exceed age of 70 years, this section does not apply.  | Directors had not exceed age 70.  |
| <b>3(3)(ii)</b>   | 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. Checked and ensured through the declaration No. 42; No director hold such directorships.  | As per the annual declaration. It was observed that no directors holds office as a director of more than 20 companies/entities/ institutions.   |
| <b>3(4) Management functions delegated by the board</b>               |  |          |  |     |  |   |
| <b>3(4)(i)</b>  | Check that the delegation arrangements have been approved by the board.  | Complied |  |     | Power delegation by the BOD to manage the business to the General Manager done according to the SMIB Law -section 20, 21.<br><br>Further - more the board appointed sub committees and delegate powers accordingly.  | As per the section 20 and 21 of the act. It was observed that the Power delegation by the BOD to manage the business to the General Manager done  |
| <b>3(4)(ii)</b>   | Check that the board has taken responsibility for the matters in 3 (1) (i) even in the instances such actions are delegated.                                 | Complied |  |     | As per the secretary to the board explanation, 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.  | 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.                                    |



## Corporate Governance Contd...

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| <b>3(5)(iv)</b>   | Check that the board has a self-evaluation process where the chairman:<br>(a) provides leadership to the board;<br>(b) ensures that the board works effectively and discharges its responsibilities; and<br>(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.   | It was observed that a self-evaluation process has been carried out  |
| <b>3(5)(v)</b>    | Check that a formal agenda is circulated by the company secretary approved by the chairman.  | Complied |  |  | The agenda was circulated to each and every director by the board secretary with the approval of the chairman. Observed agenda for the board meeting.  | It was observed that the agenda was circulated to each and every directors.  |
| <b>3(5)(vi)</b>   | 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. Observed the board minutes and the board papers.   | Adequate information is provided to all directors in advance to the meeting and board papers are submitted to them to prepare early.   |
| <b>3(5)(vii)</b>  | 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 by the board in 2017 and it encourages directors to make a full and active contribution to the board's affairs. Observed the self-evaluation forms. | The directors had been carried out self-evaluation process.<br>Ex: Mr. K.K Tissa Jinadasa provide his self-evaluation form in 2017/1/5 |
| <b>3(5)(viii)</b> | 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 2017 and it assesses the contribution of non-executive directors. Observed the self-evaluation forms.                               | The directors had been carried out self-evaluation process .<br>Ex: C.N.S Gamage provide his Self-Evolution forms on 2017/01/01        |
| <b>3(5)(ix)</b>   | Check that the chairman engages in activities involving direct supervision of key management personnel or any other executive duties whatsoever.   | Complied |  |  | The chairman does not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.  | According to discussion with the secretary chairman had not engaged in activities involving direct supervision of KMP.                 |

## Corporate Governance Contd...

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| <b>3(5)(x)</b>                         | Check that there is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the board.      |          |  | N/A | Government has the 100% ownership of the bank and all directors are appointed by the minister of finance and minister of Public Enterprise Development.   | Government has the 100% ownership of the bank. Directors are appointed by the minister of finance and minister of Public Enterprise Development.  |
| <b>3(5)(xi)</b>                        | 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 |  |     | CEO/ GM participate to the day to day management of the bank operations as an apex executive in charge.   | As per the organization chart, General Manager functions as the highest executive on charge of the day to day management of the bank's operation and business   |
| <b>3(6) Board appointed committees</b> |  |          |  |     |   |   |
| <b>3(6)(i)</b>                         | Check that the bank has established at least four board committees as set out in Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions. | Complied |  |     | Bank has established following board sub committees; <ul style="list-style-type: none"> <li>• Audit Committee</li> <li>• Human Resources, and Remuneration Committee</li> <li>• Nomination Committee</li> <li>• Board Integrated Risk Management Committee (BIRMC)</li> </ul> | Observed the Board Paper No.15/10/56 – Appointment of Directors to the Board sub Committees namely, Audit Committee Human Resources, and Remuneration Committee, Nomination Committee, 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. Nomination committee had not met during the year under review.   | Observed the Board minutes and Board papers of each sub committees to confirm that each Board Committee report was addressed directly to the board.   |
|  | Check that the board presents in its annual report, a report on each committee on its duties, roles and performance.                                       | Complied |  |     | Observed the board papers and minutes. The bank has disclosed details of BIRMC Board, Nomination Committee BAC in the 2016 annual report.   | Ex: Board Paper No:17/04/35 Observed that BIRMC and BAC report in the annual report 2016.   |
| <b>3(6)(ii)</b>                        | <b>Audit Committee:</b>  |          |  |     |   |   |

## Corporate Governance Contd...

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|  | a) | Check that the chairman of the committee is an independent non-executive director and possesses qualifications and related experience. | Complied |  | <p>The chairman is an independent non-executive director. The chairman of the board Audit committee has necessary qualifications and experience. Mr. S.G. Senarathna holds a B.Com (Special) Degree from Sri Jaywardenepura University, Diploma in Public Financial Management, and a post graduate diploma in Business and Financial Administration from the Institute of Chartered Accountants of Sri Lanka. He is a Chartered Public Finance Accountant (CPFA). He is a Fellow member of FCA, FCMA, FPFA and AAT. Mr. S.G. Senarathna is serving as the</p> <p>Director General of Department of State Accounts of the Ministry of Finance and Planning</p> | <p>Observed that List of independent non-executive director's schedule given by the Board secretary. (page212) and accordingly chairman is an independent non-executive director</p> <p>According to the CV of the chairman of BAC , The chairman of the board audit committee has necessary qualifications and experience. He holds a Bachelor degree in commerce (special) and has over 31 years' experience in public sector and he is a member of Sri Lanka Accountant Service (Class 01). He is currently serving as the Director General of Treasury operations of the ministry of finance.</p> |
|  | b) | Check that all members of the committee are non-executive directors.   | Complied |  | Board Audit committee consists of 3 members and all the members are independent nonexecutive directors.  | All members of the committee are non executive .  |



## Corporate Governance Contd...

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|  | e) | Check that the committee has implemented a policy on the engagement of an external auditor to provide non-audit services in accordance with relevant regulations.   |          |  | N/A | Not relevant. According to the SMIB Law No.13 of 1975, Auditor General is the external Auditor of the SMIB.   | Not relevant as Auditor General is to be the auditor as per the SMIB Law.   |
|  | f) | Check that the committee has discussed and finalized, the nature and scope of the audit, with the external auditors in accordance with SLAUS before the audit commences.  |          |  | N/A | Checked the minutes and ensured that the Audit committee has discussed the nature and scope of the audit with the external auditor. Audit Report States that the audit was conducted in accordance with SLAUS.  | Auditor General is the auditor as per the SMIB Law. Auditor General 's representative is in presence at the Audit Committee meetings (BAC). |
|  | g) | <p>d) Check that the committee has a process to review the financial information of the bank, in order to monitor the integrity of the financial statements of the bank, its annual report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following;</p> <p>(i) major judgmental areas;</p> <p>(ii) any changes in accounting policies and practices;</p> <p>(iii) the going concern assumption; and</p> <p>(iv) the compliance with relevant accounting standards and other legal requirements, and;</p> <p>(v) in respect of the annual financial statements the significant adjustments arising from the audit.</p> | Complied |  |     | <p>The board audit committee has reviewed the financial information of the bank through following audit committee meetings.</p> <p>Meeting Date 20 / 02 / 2017<br/>Meeting Date- 29 / 05 / 2017<br/>Meeting Date- 28 / 08 / 2017<br/>Meeting Date- 27 / 12 / 2017</p> | It is observed that the board audit committee (BAC) has quarterly reviewed the financial information of the bank.                           |
|  | h) | Check that the committee has met the external auditors relating to any issue in the absence of the executive management with relation to the audit.   |          |  | N/A | As per the given explanation, board audit committee has not met the external auditor because there are no such matters arisen during the year.  | Auditor General is the auditor as per the SMIB Law. Auditor General's representative is in presence at the Audit Committee meetings (BAC).  |

## Corporate Governance Contd...

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|  | i) | Check that the committee has reviewed the external auditor's management letter and the management's response thereto.   | Complied                                 |  |  | The BAC reviewed the audit related issues/ queries and management's response there to.. Reviewed the Auditor General's Report for the year 2016 issued under the Section 14 (2) (c) and the management response hereon on meeting held on 23.02.2018   | Observed that board audit committee (BAC) review reports regarding the Auditor General's 14 (2) (c) report and audit queries.   |
|  | j) | Check that the committee shall take the following steps with regard to the internal audit function of the bank:<br><br>I. 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;<br><br>II. Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;<br><br>III. Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department | Complied<br><br>Complied<br><br>Complied |  |  | Internal Audit Plan – 2017 was approved by BAC Paper No.03 (23/11/2016)<br><br>Checked and ensured that the Audit committee has reviewed the internal audit program and the results of the internal audit process and taken the appropriate actions where those were necessary.<br><br>On performance matters, BAC chairman evaluates the internal auditor. Assessment of the performance of senior staff members of the internal audit division are assessed by the internal auditor. | Internal audit plan was approved by board audit committee (BAC) Paper No: 03 (2016/11/23). Chief Internal Auditor position is vacant from 01 January 2015<br><br>Observed the appraisal documents of head as well Observed the minutes of the Board Audit Committee dated 20/02/2017 – progress of the risk based internal audit plan 2017 1 <sup>st</sup> quarter .<br><br>On performance matters, board audit committee (BAC) chairman evaluates the internal auditor. Assessment of the performance of senior staff members of the internal audit division are assessed by the internal auditor.<br><br>Chief Internal Auditor position is vacant from 01 January 2015 |

## Corporate Governance Contd...

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|    | IV. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function.  | Complied |  | Either any appointment or resignation have not been occurred during the year 2017.   | Either any appointment or resignation have not been occurred during the year 2017.   |
|    | V. Check that the committee is appraised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning; | Complied |  | No appointments or resignations occurred during the year in terms of confirmation of the HR.   | Complied. No appointments or resignations occurred during the year in terms of confirmation of the HR.   |
|    | VI. Check that the internal audit function is independent of the activities it audits  | Complied |  | The Charter of board audit committee mentioned, BAC ensures that internal audit functions carried out independently of audits. Internal audit function is independent of the activities it audits. | The Charter of board audit committee mentioned, the internal auditor reported to the board.  |
| k) | Check the minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto   | Complied |  | Checked the minutes and ensured that the committee has reviewed major findings and Management responses thereto during the period under review. The report was observed                            | Audit findings of internal investigations are included in the board audit committee (BAC) minutes.   |
| l) | Check whether the committee has had at least two meetings with the external auditors without the executive directors being present.  | Complied |  | A representative of AG is present at all BAC meetings except one on invitation the BAC members do not include any executive directors.   | A representative of Auditor General was presented at all board audit committee (BAC) meeting on invitation. The BAC members do not include any executive directors |

## Corporate Governance Contd...

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|  | m) | <p>Check the terms of reference of the committee to ensure that there is;</p> <p>(i) explicit authority to investigate into any matter within its terms of reference;</p> <p>(ii) the resources which it needs to do so;</p> <p>(iii) full access to information; and</p> <p>(iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary</p> | Complied  |  | <p>Terms of References the board audit committee includes required terms.</p> <p>Checked and ensured that as per the BAC Charter the Committee has been empowered to investigate any matter, access to information, authority to obtain professional advice, resources to carry out its functions etc.</p> | <p>We observed the charter of the Internal audit and it contains these.</p>  |
|  | n) | <p>Check that the committee has met, at least four times and maintained minutes</p>   | Complied  |  | <p>The committee has met four times for the period of 2017 and maintains minutes of those meetings.</p> <p>Check the audit committee attendance register and minutes.</p>  | <p>Committee had met four times during the year and minutes maintained.</p>  |
|  | o) | <p>Check that the board has disclosed in the annual report,</p> <p>(i) details of the activities of the audit committee;</p> <p>(ii) the number of audit committee meetings held in the year; and</p> <p>(iii) details of attendance of each individual director at such meetings</p>   | <p>Complied</p> <p>Complied</p> <p>Complied</p> |  | <p>The annual report – 2017 contains a board audit committee report and it includes the required details.</p>  | <p>The annual report – 2016 contains a board audit committee report and it includes details of the task and responsibility of committee, meetings, attendance.</p> |
|  | p) | <p>Check that the secretary of the committee is the company secretary or the head of the internal audit function.</p>   | Complied  |  | <p>The Secretary of the committee is the secretary to the Board of Directors.</p>  | <p>According to the central bank direction Secretary of the committee is the Secretary to the Board of Directors for the year.</p>                                 |

## Corporate Governance Contd...

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|                  | q) | Check that the "whistle blower" policy covers the process of dealing with;<br><br>a) The improprieties in financial reporting, internal control or other matters.<br>ii) In relation to (i) the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters, and iii) Appropriate follow-up action. | Complied |  |  | The Whistle Blower policy has been introduced and reviewed by the BAC dated 28.08.2017  | We observed the Whistle blower policy and it contains matters like scope of the policy, objective of the policy, Employee right, Untrue Allegations, Procedures for making a disclosure, Timescales and Investigating procedure.   |
| <b>3(6)(iii)</b> |    | Does the following rules apply in relation to the Human Resources and Remuneration Committee  |          |  |  |   |  |
|                  | 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.<br>Circular of the Public Enterprises No .PED 3/2015-Directors and Chairman.<br>The remuneration of the KMPs are decided by a committee comprising the top management<br><br>of the 3 state banks and then approved by the board of the bank. | TOR for the Human Resources and Remuneration Committee shall determine the remuneration policy. The committee has approved the TOR in the year 2013 and the same TOR has been used without any changes for the year 2016. Presently remunerations are decided as follows. Circular of the Public Enterprises No .PED 3/2015 determines allowance for Directors and Chairman.<br><br>The remuneration of the KMPs are decided by a committee comprising the top management of the 3 state banks and then approved by the board of the bank. ( As per the collective agreements. |
|                  | 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 corporate plan and action plan 2017- 2021.   | Goals and target for the directors, CEO /GM and for the key management personnel are documented in the corporate plan and action plan 2017- 2021.  |

## Corporate Governance Contd...

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|                 | 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. | Partially Complied |  |  | The Board of directors evaluate the performance of the CEO and key management personnel quarterly and remunerations of the CEO and key management personnel are decided as per collective Agreement | Observed the TOR of the Nomination Committee. According to the scope of work mentioned in the TOR the committee has considered evaluations of the performance of the CEO and key management personnel against the set targets and goals periodically . The committee has not considered the periodical evaluation of the performance of the CEO and the key management personnel. |
|                 | 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.                                    | 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.   |
| <b>3(6)(iv)</b> | Does the following rules apply in relation to the Nomination Committee: |   |                    |  |  |   |   |
|                 | 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.   | The directors are being appointed by the Ministry as per provisions in the SMIB Law No13 of 1975.CEO is appointed by the board .KMP are selected as per scheme of recruitment (SOR) The approval for the SOR was not presented to audit.  |
|                 | b)  | Check that the committee has considered and recommended (or not recommended) the re-election of current directors.  | Complied           |  |  | The Committee has recommended to re-elect of 2 directors when their appointed period is over.   | Not relevant to SMIB as The directors are appointed by minister according to the SMIB Law No.13 of 1975.  |
|                 | c)  | Check that the committee has set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the key management personnel, by review of job descriptions.               | Complied           |  |  | SOR contains the qualifications and experience required for appointment of CEO and KMPs.  | SOR contains the qualifications and experience required for appointment of CEO and KMPs. The approval for the SOR was not presented to audit  |

## Corporate Governance Contd...

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|                | d)   | Check that the committee has obtained from the directors, CEO and key management personnel signed declarations that they are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes.  | Complied           |  |  | All completed declarations of directors have been obtained by Board secretary and forwarded to CBSL with the approval of the Nomination Committee. Completed declaration of CEO and Key Management Personnel have been obtained by HR division and forwarded to CBSL. | All the signed declaration of directors had been obtained by Board secretary. CEO and key management personnel signed declaration had been obtained by HR division. Directors' Declarations were placed before the committee for evaluation. |
|                | e)   | Check that the committee has considered a formal succession plan for the retiring directors and key management personnel.  | Partially Complied |  |  | Formal succession plan of KMPs is considered by the BNC. Directors' appointment is done by the Ministry.  | Directors are appointed by the Minister. Formal succession plan of KMPs had been considered by the committee in the 2nd quarter of 2017 .  |
|                | f)   | Check that the Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.   | Complied           |  |  | All the directors (including chairman) are independent non -executive directors who are appointed by the Minister. The CEO presented meetings by invitation. The Board of Directors have appointed members to Board Nomination Committee.                             | All the directors (including chairman) are independent non -executive directors who are appointed by the Minister. The Board of Directors have appointed members to Board Nomination Committee.  |
| <b>3(6)(v)</b> | Does the following rules apply in relation to the Integrated Risk Management Committee (IRMC): |  |                    |  |  |   |  |
|                | a)   | The committee shall consist of at least three non- executive directors, CEO and key management personnel supervising broad risk categories, <i>i.e.</i> , credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.  | Complied           |  |  | BIRMC consist from three Non – Executive Directors, CEO /GM, AGM-Risk Management, BIRMC - secretary   | BIRMC consist from three Non – Executive Directors, CEO /GM and other key management personnel on invitation. Board minute dated 24 march 2017 evidence the composition of the Committee   |
|                | b)   | Check that the committee has a process to assess all risks, <i>i.e.</i> , 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 submit reports to the committee on quarterly basis, In addition RMD uses RCSA mechanism to let the risk owners identify their own risk.     | Risk management Division (RMD) assesses the credit, market, operational risk and submit reports to the committee on quarterly basis. We observed the BIRMC board minutes dated 26 April 2017 .   |

## Corporate Governance Contd...

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|  | c) | Check that the committee has reviewed specific quantitative and qualitative risk limits for all management level committees such as the credit committee and the asset-liability committees, and report any risk indicators periodically | Complied |  | BIRMC had discussed in the committee meeting regarding the quantitative and qualitative risk of credit, liquidity, operational, strategic and compliance.<br><br>KRIs depicts 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.                                  | BIRMC had discussed in the committee meeting regarding the quantitative and qualitative risk of credit, liquidity, operational, strategic and compliance. We observed the 3 <sup>rd</sup> quarterly reports submitted on 20 <sup>th</sup> September 2017. |
|  | d) | Check that the committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.  | Complied |  | Committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits. In the summary paper of KRIs submitted to the BIRMC (covering behavior of the KRIs for last six quarters), the committee has given special attention for the risk indicators which have gone beyond the prudential limits and has given due directions. | The risk report submitted to BRIMC included risk indicators which are complied. We observed BRIMC paper dated 19 <sup>th</sup> December 2017.   |
|  | e) | Check how many times the committee has met at least quarterly.   | Complied |  | BIRMC has met four times during the year 2017.   | As per the attendance ,BIRMC has met 4 times during the year 2017.  |
|  | 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 management and committee is informed the events where such actions need to be initiated. As the committee meets on quarterly basis such events are initially informed to GM (the Disciplinary authority) and disciplinary actions are initiated.)  | We observed all disciplinary actions are governed by the SMIB rules in disciplinary management and committee is informed the events where such actions need to be initiated.  |
|  | g) | Check that the committee submits a risk assessment report within a week of each meeting to the board seeking the board's views, concurrence and/or specific directions.  | complied |  | The committee submitted the risk assessment report to the next immediate board meeting   | The committee submitted the risk assessment report to the next immediate board meeting. Ex: Board meeting held on 20 September 2017 discussed the risk assessment report of the BIRMC meeting held on 12 December 2017.                                   |

## Corporate Governance Contd...

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|  | h) | Check that the committee has establish a compliance function to assess the bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations and that there is a dedicated compliance officer selected from key management personnel to carry out the compliance function a report to the committee periodically.  |          |  | The board has appointed Chief manager compliance for the compliance function. The Chief Manager compliance reports the compliance functions to the board periodically.  | The board has appointed Chief Manager-Compliance selected from Key Management Personnel to carry out the compliance functions to the board quarterly. Board paper No. 17 th july 2017  |
| <b>3(7) Related party transactions</b> |    |   |          |  |   |  |
| <b>3(7)(i)</b>                         |    | 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:<br><br>a. Any of the bank's subsidiary companies;<br>b. Any of the bank's associate companies;<br>c. Any of the directors of the bank;<br>d. Any of the bank's key management personnel;<br>e. A close relation of any of the bank's directors or key management personnel;<br>f. A shareholder owning a material interest in the bank;<br>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. | Complied |  | An established process is available to identify related parties prior carrying out transactions to avoid conflict of interest, Related Party Transaction Policy is approved by the Board. Board Paper No 16/08/35 Board minute No 16.08.95.02 dated 16/08/2016. | It was observed that the related party transaction policy had approved by the board in board paper No 16/08/35 in board minute No 16.08.95.02 & dated 16 august 2016. It speaks on related parties, types of related party transactions, any conflict of interest etc. |
| <b>3(7)(ii)</b>                        |    | 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 |  | Related Party Transaction Policy is approved by the Board. Board Paper No 16/08/35 Board minute no 16.08.95.02 dated 16/08/2016.  | It was observed that the related party transaction policy which includes this had been approved by the board in board paper No 16/08/35 in board minutes dated 16th August 2016  |

Corporate Governance Contd...

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|                  | a) | The grant of any type of accommodation as defined in the Monetary board' Directions on maximum amount of accommodation.   |          |  |   |  |
|                  | b) | The creation of any liabilities of the bank in the form of deposits, borrowings and investments.  |          |  |   |  |
|                  | c) | The provision of any services of a financial or non- financial nature provided to the bank or received from the bank.   |          |  |   |  |
|                  | d) | The creation or maintenance of reporting lines and information flows between the bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.                                   |          |  |   |  |
| <b>3(7)(iii)</b> |    | 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 |  | An established process is available to identify related parties prior carrying out transactions to avoid conflict of interest, even though the same has not been documented. No facilities have been granted to Directors. Facilities (EHL) obtained by KMPs are within allowed accommodation limits. | Please refer 3(7)(i) above. Refer the board paper No 16/08/35 in board minutes 16.08.95.02 dated 16 august 2016. |

## Corporate Governance Contd...

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|  | a) | <p>Granting of "total net accommodation" to related parties, exceeding a prudent percentage of the bank's regulatory capital, as determined by the board. For purposes of this sub-direction:</p> <p>I. "Accommodation" shall mean accommodation as defined in the Banking Act Directions, No.7 of 2007 on Maximum Amount of Accommodation.</p> <p>II. 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> |  |  |  |  |  |  |  |
|  | 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   |  |  |  |  |  |  |  |
|  | 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;   |  |  |  |  |  |  |  |
|  | d) | Providing services to or receiving services from related-party without an evaluation procedure;   |  |  |  |  |  |  |  |
|  | 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.  |  |  |  |  |  |  |  |

## Corporate Governance Contd...

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| <b>3(7)(iv)</b> | <p>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.</p>                     |  |  | N/A | As per the secretary to the board explanation, no such incident was reported  | <p>Granting loans to directors and their related parties are prohibited by section 17 of SMIB Act in 1975. It was observed that no loan had been granted to the directors according to the loan schedule submitted by the IT division.</p> |
| <b>3(7)(v)</b>  | <p>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.</p> |  |  | N/A | As per the secretary to the board explanation, no such incident was reported. | It was observed no director of the this nature was appointed to the Board in 2017 as per the secretary to the board explanation.   |

## Corporate Governance Contd...

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|  | <p>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.</p> |  |  | N/A | As per the secretary to the board explanation, no such incident was reported. |  |
|  | <p>c) Check that there is a process to identify any director who fails to comply with the above sub-directions be deemed to have vacated the office of director and has the bank disclose such fact to the public</p>  |  |  | N/A | As per the secretary to the board explanation, no such incident was reported. |  |

## Corporate Governance Contd...

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|                         | 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 accommodation was an employee of the bank and the accommodation was granted under a scheme applicable to all employees of such bank  |  |  | N/A | As per the secretary to the board explanation, no such incident was reported.  |  |
| <b>3(7)(vi)</b>         |    | 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. |  |  | N/A | Bank does not grant 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. | It was observed no director of the this nature was appointed to the Board in 2017 as per the secretary to the board explanation. |
| <b>3(7)(vii)</b>        |    | Check that there is a process to obtain prior approval from the Monetary board for any accommodation granted by a bank under Direction 3(7)(v) and 3(7)(vi) above, nor any part of such accommodation, nor any interest due thereon been remitted without the prior approval of the Monetary board and any remission without such approval is void and has no effect  |  |  | N/A | Bank does not grant any accommodation or "more favorable treatment" to any employee or a close relation of such employee.  | Not applicable   |
| <b>3(8) Disclosures</b> |    |   |  |  |     |  |  |



## Corporate Governance Contd...

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|  | <p>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.</p> <p>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</p> <p>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.</p> <p>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</p> | <p>Complied</p> <p>Complied</p> |  | N/A | <p>Directors' profile has been disclosed in pages No.10-13 of the annual report of 2016.</p> <p>Directors' remuneration disclosed in page No.93 of the 2016 annual report.</p> <p>No accommodation provided to related parties as per the explanation of the board secretary.</p> <p>Auditor General report on a compliance with corporate governance directions is included in page No. 72 of the annual report - 2016.</p> <p>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. (Page No. 64 in the annual report - 2016). As per the explanation given by Chief Manager (Compliance), Director of Bank Supervision has not sent any reports highlighting the non-compliances during the year 2017.</p> | <p>Director's statement on Bank's internal control systems included in the 2016 annual report.(page no.57 of the annual report.</p> <p>Directors' profile has been disclosed in pages No.10-13 of the annual report of 2016.</p> <p>Directors' remuneration disclosed in page No.93 of the 2016 annual report.</p> <p>Transactions with Key Management Personnel are disclosed in page no 64 of the 2016 annual report.</p> <p>Auditor General's report on a compliance with corporate governance directions is included in page no. 72 of the annual report - 2016.</p> <p>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. (Page No. 64 in the annual report - 2016.</p> <p>As per the explanation given by Chief Manager (Compliance), Director of Bank Supervision has not sent any reports highlighting the non-compliances during the year 2017.</p> |
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## Corporate Governance Contd...

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| 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 |  | N/A |  | Auditor General's report on a compliance with corporate governance directions is included in page no. 72 of the annual report - 2016.   |
| 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 |  |     |  | 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.<br>(Page No. 64 in the annual report – 2016. |
| g) Check that the board has obtained the external auditor's report on the compliance with Corporate Governance Directions.   |          |  |     |  | As per the explanation given by Chief Manager (Compliance), Director of Bank Supervision has not sent any reports highlighting the non-compliances during the year 2017.  |
| h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances.  |          |  | N/A |  |   |
| 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 |          |  |     |  |   |

# Board Audit Committee Report

## Chairman's Overview 2017

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

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

## The Composition of the Committee

The Board Audit Committee has comprised three non-executive Directors and one alternative non-executive Director, CEO and another senior official may normally participate in the meeting on the invitation.

## Attendance

| Member              | Status of BAC | Committee Member |               | Attendance of Meeting During the Year 2017 |
|---------------------|---------------|------------------|---------------|--|
|                     |               | since            | to            |  |
| Mr S.G. Senarathna  | Chairman      | 2017 January     | 2017 December | 02   |
| Dr. Niroshan Gamage | Member        | 2017 January     | 2017 December | 02   |
| Mr Rajitha Halwela  | Member        | 2017 January     | 2017 December | 03   |

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

## Internal Audit and Board Audit Charter

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

audit.

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

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

## Internal Audit Manual

The Internal Audit Manual of the Bank summarizes the operations of the internal audit functions and delineates the policies, standards and procedures which will generally govern the internal audit functions.

## Task & Responsibility of the Committee

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

- Monitor the integrity, compliance with the LKAS of financial reporting of the bank.
- Review the soundness of the operational and financial control system.
- Monitor and review of the scope and performance appraisal of the internal audit.
- Review the adequacy of internal arrangements and control system to avoid/ minimize risks faced by the bank.
- Monitor and review the compliance with all regulatory respect.
- Liaison with external auditors in respect of their audit scope and reports.
- The committee ensures that the Board is aware of all matters which significantly impact on financial status and affairs of the business.

## Meetings

The committee met on Four (04) occasions during the year 2017. The Superintendent of the Government Audit as the representative of the Auditor General attended the BAC meetings by invitation. A brief overview of the matters taken up at the meetings are listed below,

## Board Audit Committee Report Contd...

### Board Audit Committee Activities during the year 2017

The Committee attended to the following actions:

01. Reviewed and approved the risk based internal audit plan for implementation of the year 2017 by the BAC.
02. Reviewed Auditor General's Report under section 14 (2) (C) for the year ended 31st December 2016 in terms of Finance Act No. 38 of 1971.
03. Committee reviewed the progress of achievement in budgetary targets of the branches quarterly, the committee has made special attention for the achievement of the anticipated targets and records & registers maintain by the Branches.
04. Reviewed the Financial Statements of the Bank for the year ended 31 December 2016 and quarters ended 31st March, 30th June, 30th September 2017 before publication and recommended to submit the same to the Board of Directors.
05. The quarterly review has been performed by the committee to ensure that financial and operational activities of the bank are conducted in line with all regulatory requirements.
06. The committee has reviewed the performance of the risk division to ensure that, Risk Division has time identifies risk faced by the bank.
07. Quarterly reviewed the performance of the Internal Audit Division.
08. Reviewed the Performance Appraisal of Senior Staff members of the Internal Audit Division.
09. Reviewed and corrective actions taken for the Central Bank Examination Report.
10. Reviewed the Internal Audit Findings.
11. In response to the recommendation made by the committee, the board of directors has approved the Internal Audit Manual prepared by the Internal Audit Division.
12. The committee has monitored and reviewed the management responses for the internal audit reports on financial, administration and operational activities of the bank. Committee also reviewed the effectiveness of the performance of internal audit division and monitors the adequacy of the internal audit assignments were carried out in line with the approved audit plan.

### External Audit Reports

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

### The system of Internal Controls

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

### Reporting

The Committee is of the view that the terms of reference of the Committee were compiled within all material aspects. The committee directly reported to the Board of Directors about its activities along with the minutes of the meetings.



**S.G. Senarathna**

*Chairman - Board Audit Committee/Director*

# Board Integrated Risk Management Committee Report

## • Composition of the Board Integrated Risk Management Committee

The Board Integrated Risk Management Committee comprised of three Non-Executive Directors, General Manager/CEO and the AGM - Risk Management, during the year 2017.

### The Committee, during the first two quarter of the year 2017 was composed of the following members;

|                         |  |
|-------------------------|--|
| Mr. Roshan Hettiaratchi | - Non-Executive Director<br>(Chairman to the Committee)  |
| Dr. Nirosan Gamage      | - Non-Executive Director                                 |
| Mr. Rajitha N. Halwela  | - Non-Executive Director                                 |
| Mr.W.M.Dayasinghe       | - General Manger   |
| Mrs.J.I.Senanayake      | - AGM-Risk Management Division                           |
| Ms.Nishani Lokuge       | - Head of Legal Division -<br>Secretary to the Committee |

### The Committee for the 3rd and 4th quarters of 2017 comprised of the following members.

|                             |  |
|-----------------------------|--|
| Mr. S.G.Senarathna          | - Non-Executive Director<br>(Chairman to the Committee)  |
| Dr. Nirosan Gamage          | - Non-Executive Director                                 |
| Mr. Rajitha N. Halwela      | - Non-Executive Director                                 |
| Mr.W.M.Dayasinghe           | - General Manger   |
| Ms. W.G.S.S.K. Abeywickrema | - Acting AGM-Risk<br>Management Division                 |
| Ms.Nishani Lokuge           | - Head of Legal Division -<br>Secretary to the Committee |

## Charter of the BIRMC

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

The Charter of the BIRMC was approved by the Board of Directors which was held on 27.03.2012 and reviewed periodically. Approved charter stipulates its authority, structure and responsibilities.

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

- Review bank's risk appetite.
- Review and approve bank's key risk policies on the establishment of risk limits and receive reports on bank's adherence to significant limits.
- 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 metrics used to monitor the exposures and Management's views on the acceptable and appropriate levels of those risk exposures.
- 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.
- 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.
- 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.
- Evaluate the adequacy of risk management function, and the qualifications and background of selected risk officers.
- Review the independence and authority of the risk management function.
- Review bank's Risk Capital Framework (credit, market, liquidity and operational risks), including significant inputs and assumptions.
- 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.

## Board Integrated Risk Management Committee Report Contd...

- Review reports from management concerning bank's liquidity, deposit raising, and funding activities.
- Review reports from management concerning bank's regulatory capital level and capital structure.
- Review bank's capital assessment framework, including its capital goals.
- Receive information from the AGM-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.
- Monitor the actions initiated by senior management to test the effectiveness of the measures taken by the respective committees referred to above.
- 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.
- Maintain continues dialogue with the Management Committees directly or indirectly dealing with specific risks, so that the BIRMC is immediately informed of any hindrance, obstacle, discouragement or constraint in the performance of their functions and / or the implementation of their decisions.
- 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.
- 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.

### BIRMC meetings

BIRMC meets on quarterly basis. During the year the bank convened four BIRMC meetings. The attendance of the members of BIRMC is as follows.

| Name of the Director                                   | "No of Meetings Attended" /<br>(No of Meetings Held ) |
|--|---|
| Mr. Roshan Hettiaratchi<br>(Chairman-1st two quarters) | 2/4   |
| Mr.S.G.Senarathna<br>(Chairman-2nd two quarters)       | 2/4   |
| Dr. Niroshan Gamage                                    | 1/4   |
| Mr. Rajitha N. Halwela                                 | 4/4   |

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

### Reporting

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



**S.G.Senarathna**

*Chairman-Board Integrated Risk Management Committee*

31st December 2017

# Board Nomination Committee Report

## Composition of the Committee

The Committee comprises of four Directors of the Bank one being an alternative director appointed by the Board of Directors. All of the members of the Committee are independent Non-Executive Directors. Appointments to the Committee shall be for a period of up to three years

The members of the Board Nomination Committee (BNC), as at the end of the year 2017, comprised of the following Independent Non-Executive Directors of the Bank:

Members in the year 2017.

|                            |   |                    |
|----------------------------|---|--------------------|
| Mr Tissa Jinadasa          | - | Chairman           |
| Dr. Niroshan Gamage        | - | Member             |
| Mr. P.A. Kulasuriya        | - | Member             |
| Mr. E.A. Lesly Edirisinghe | - | Alternative Member |

## Scope of the Committee

The scope of the Nomination Committee is to review the contributions made and make recommendations (or not recommend) regarding the re-election of current Board Directors, succession planning for Key Management Personnel, and evaluation of Board Directors, CEO and Key Management Personnel regarding their fit and propriety to hold office as specified in the criteria given in Direction 3(3) made under the Banking Act, etc., set the criteria required for eligibility to be considered for appointment or promotion to the post of CEO and key management positions.

## Main Duties of the Committee

- Implement a procedure to select/appoint CEO and Key management Personnel, decide the 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, succession planning and reviewing the contribution to the Bank by the Key Management Personnel, with a view to ensuring the continued capacity of the Bank to compete effectively in the marketplace, ensuring that there is appropriate oversight of the affairs of the bank by key management personnel.
- Evaluate the fit and propriety of Directors, their own governance practices
- Evaluate the fit and propriety of CEO and Key Management Personnel.
- The Committee shall consider and recommend from time to time, the requirements of additional/ new expertise to the bank.

## Meetings of Committee

The Committee shall meet at least twice a year. Meetings can be convened as and when a need arises. Three Committee meetings were held in the year 2017

The quorum is two members both of whom must be independent Non-Executive Directors present throughout the meeting in person. Proceedings of the Committee meetings are regularly reported to the Board of Directors.

## Attendance of the Committee members at the meetings

| Name of the Director  | Status in BNC      | Number of meetings eligible to attend | Number of Meetings attended |
|-----------------------|--------------------|---------------------------------------|-----------------------------|
| Mr. Tissa Jinadasa    | Chairman           | 03                                    | 03                          |
| Dr. Niroshan Gamage   | Member             | 02                                    | 02                          |
| Mr. P.A. Kulasuriya   | Member             | 02                                    | 02                          |
| Mr. Lesly Edirisinghe | Alternative member | 02                                    | 02                          |

Mr. W. M. Dayasinghe, CEO and Mr. S. Wijedoru AGM (HR & L) attended meetings of the Committee by invitation.

The Board Secretary of the Bank, functions as the Secretary of the Committee.



Tissa Jinaadasa  
Chairman of the Committee

# Integrated Risk Management

## Risk Culture and Vision

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

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

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

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

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

## Integrated Risk Management Framework

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

- Risk Governance and Management Structure
- Risk Appetite
- Risk Management Tools
- A culture of Risk Awareness

Integrated risk management process of the bank is consisted of



interrelated elements of risk management, risk governance, internal controls, risk appetite, risk management tools and risk based culture. Those elements are interlinked and interrelated emphasizing having an integrated risk management based culture of the bank.

Risk management is a central part of the strategic management of any organization. It is the process whereby organizations methodically address the risks attached to their activities. A successful risk management initiative should be proportionate to the level of risk in the organization, aligned with other corporate activities, comprehensive in its scope, embedded into routine activities and dynamic by being responsive to changing circumstances. The focus of risk management is the assessment of significant risks and the implementation of suitable risk responses. The objective is to achieve maximum sustainable value from all the activities of the organization. Risk management enhances the understanding of the potential upside and downside of the factors that can affect an organization. It increases the probability of success and reduces both the probability of failure and the level of uncertainty associated with achieving the objectives of the organization.

## Integrated Risk Management Contd...

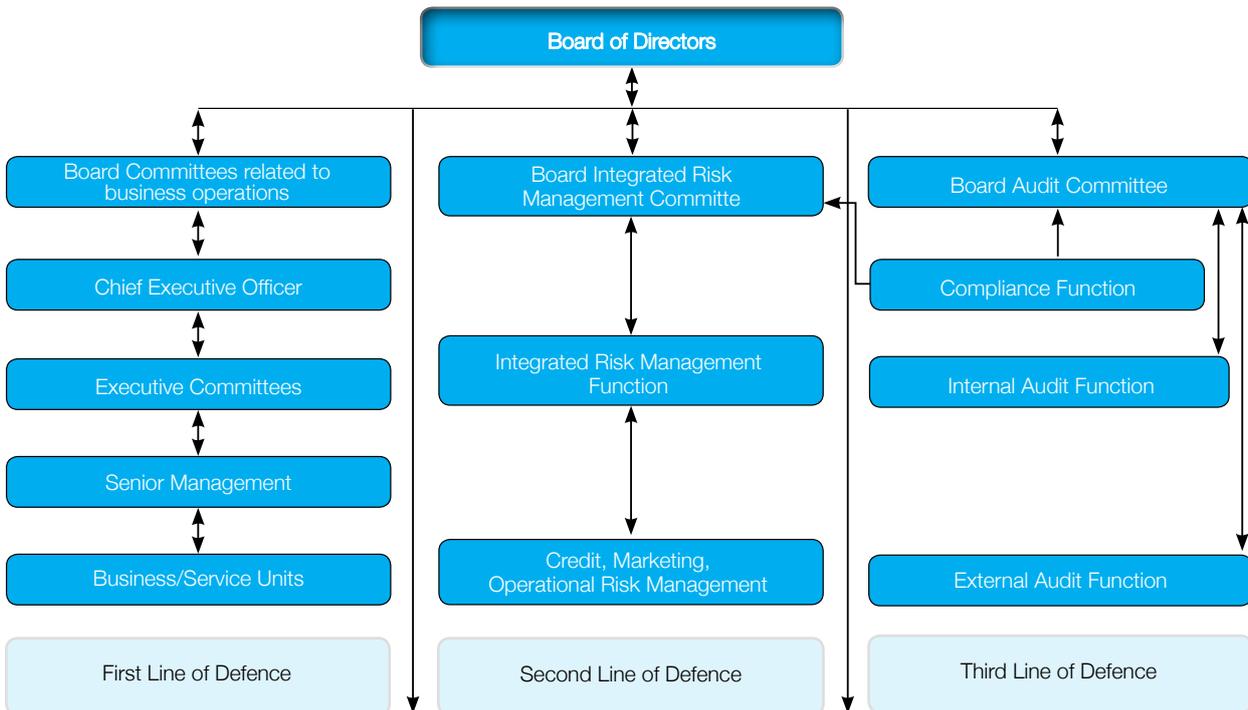
### • Risk Governance and Management Structure of the bank

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

SMIB has defined risk management policies and procedures with respect to the credit, market and operational risks faced by the bank.

The policies and the systems are reviewed periodically to ensure the compliance. Bank's organizational structure clearly defines roles and responsibilities of individuals involved in risk taking and managing activities. Efforts are being taken to internalize the risk management concepts within the bank through capacity building and review mechanisms.

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



## Integrated Risk Management Contd...

### Role of the Board and Board Sub Committees

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

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

The Board Audit Committee ensures that operational controls are in place and that operations are carried out as per the relevant policies, procedures and guidelines. In particular, it carries out credit audits in line with the prevailing operational controls.

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

### Evolving Risk Management Function of SMIB

Integrated Risk Management Division (IRMD) of the bank was established in 2012.

Board Integrated Risk Management Committee (BIRMC), Executive Integrated Risk Management Committee (EIRMC) and sub committees to the EIRMC like Credit and Operational Risk Management Committees were formed and terms of references applicable to each committee was finalized.

Risk Management Policy, Credit Policy, Assets and Liability Management Policy, Liquidity Management Policy and Operational Risk Management Policy were introduced with relevant limits for the management of credit, liquidity and concentration risk.

Credit manual of the bank was reassessed and comprehensive manual was internalized among operational staff to direct the risk taking function.

Credit risk of exposures above a specific threshold are independently reviewed by IRMD prior to approval.

A risk rating model was developed internally to categorize the facility based on the risk profile of the customer and the model is implemented throughout the bank in accessing new customers. Loan review mechanism is being carried out to re-assess problem credit and identify early warning signals.

Stress Testing has been developed to assess and monitor credit, capital and liquidity position of the bank under different scenarios. Risk Matrix has been introduced to assess the customers and to categorize them into low, medium and high risk categories at the time of entering into the initial transaction.

Risk Control Self-Assessment policy has been introduced to departments.

Integrated Risk Management Framework has been developed as a document including all the risk based practices and risk appetite statement of the bank.

Surveys on minimum security features have been carried out in order to strengthen the operational risk mitigation process of the bank. Income Source Verification Model (ISVM) was developed to mitigate the credit risk of the bank.

Improved Risk matrix Version 2 was implemented incorporating FIU directions and statutory guidelines.

Credit Risk Culture was further strengthened by implementing Risk Rating for SME loans.

### • Risk Appetite

Risk Appetite of the bank defines bank's willingness to assume aggregate quantum of risk in different areas of the business in achieving its strategic goals. Regulatory requirements, Strategic goals, Capital Adequacy and other prudential factors have been considered by the board in drawing up the risk appetite statement.

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

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

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

To keep these policies in line with significant changes in internal and external environment, Board of Directors periodically review these policies and make appropriate changes as and when deemed necessary. These risk appetite limits are monitored monthly and

## Integrated Risk Management Contd...

quarterly and risk appetite limits are reviewed at least annually in line with risk management capacities, business opportunities, business strategy of the bank and regulatory specifications.

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

### • Risk Management Tools

Risk management tools facilitate identification, measurement, evaluation, monitoring and management of risk. Risk Management Tools consist of Policies, Limits and Stress Testing. Risk measurement, monitoring and reporting is the responsibility of the risk management function. Regular and ad-hoc reports are provided for review by the management committees and the board in taking strategic decisions. The provided reports which contain information on aggregate measures of risk across products and portfolios are compared with agreed policy limits providing a clear picture of the amounts, types and sensitivities of the risks identified.



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

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

### Capital Adequacy Management

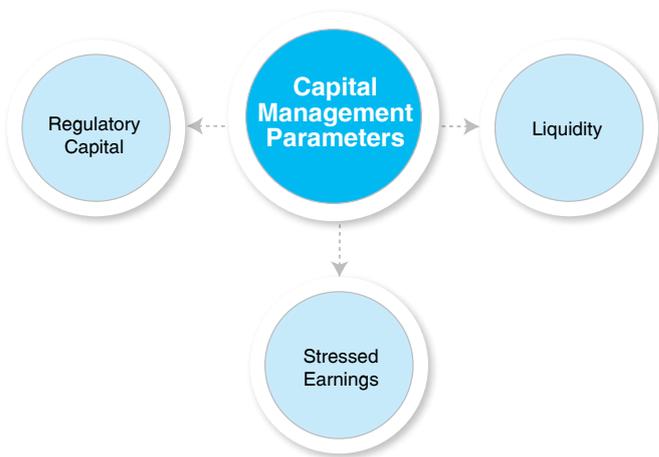
Capital adequacy measures the adequacy of the group's aggregate capital in relation to the risk it assumes. SMIB computes capital adequacy as per the regulator's direction where risk (pillar I) is quantified using the Basel II and III frameworks as follows.

Moreover under the Pillar II requirement of Basel II and as per the Direction No 05.of 2013 issued by Central Bank of Sri Lanka under Regulatory Framework on Supervisory Review Process (Pillar 2 of Basel II) together with the Banking Act Direction no 1 of 2016 of Capital requirement under Basel III, it is required to develop and maintain the Internal Capital Adequacy Assessment Process (ICAAP).

- Standard Approach for Credit Risk
- Standard Approach for market risk
- Basic Indicator Approach for operational risk.

Tier I capital ratio of SMIB is 23.74% and total capital ratio is 24.29% as at 31.12.2017. These ratios are well above the industry average and indicate a stronger capacity for risk absorption.

Capital Management Parameters are shown in the following diagrams.



## Integrated Risk Management Contd...

### Managing Key Risks

#### Credit Risk

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

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

The bank has developed a credit policy and a credit manual which defines the principles encompassing client selection, due diligence, risk tolerance, review and recovery procedures, portfolio monitoring and management according to the board approved risk appetite levels. These documents guide to identify, measure, monitor and control credit risk through establishing an appropriate credit risk environment, operating under a sound credit-granting process, maintaining an appropriate credit administration, measurement and monitoring process, and ensuring adequate controls over credit risk.

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

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

#### Credit Risk Management

SMIB focuses on following module when managing credit risk.

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

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

Internal risk rating module has been developed by the Risk Management Department of the bank. The rating model will be applied to rate the clients based on various evaluation criteria. The rating model will be used to assist the risk assessment, credit decision process as well as a tool to be used for risk based pricing.

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

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

Pre Disbursement unit monitors the quality of the loans and the compliance with the circulars.

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

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

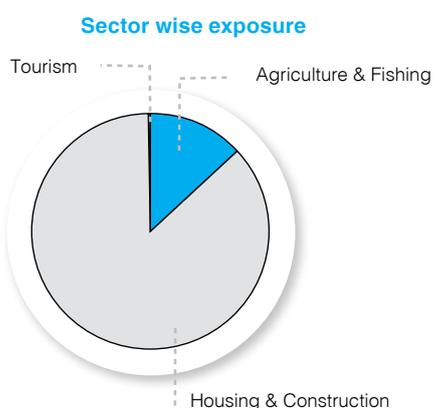
#### Credit Concentration Risk

This is the risk of incurring loss due to the excessive exposure on a counterparty or a counterparty segment. The bank is measuring concentration risk as per the board approved limits under sector wise exposure, product exposure and geographical exposure.

## Integrated Risk Management Contd...

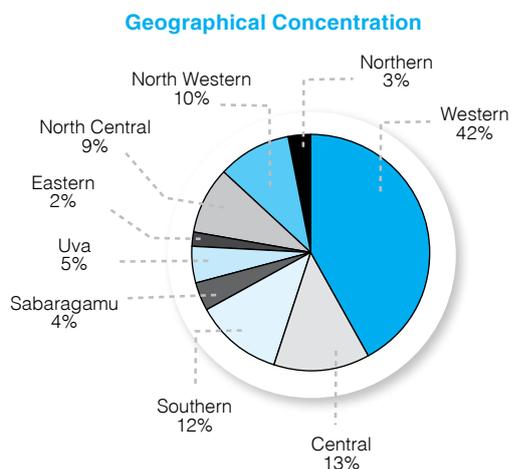
### Sector wise Exposure as at 31.12.2017

| Sectors                | Amount (Rs.)  |
|------------------------|---------------|
| Agriculture & Fishing  | 4,460         |
| Housing & Construction | 29,033        |
| Tourism                | 84            |
| <b>Total</b>           | <b>33,577</b> |



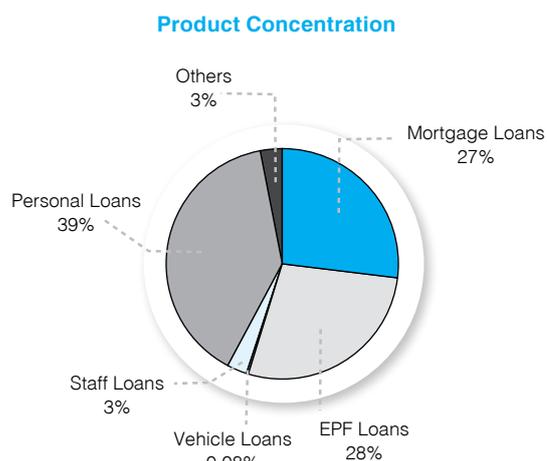
### Geographical Concentration as at 31.12.2017

| Province      | Amount (Rs.)  |
|---------------|---------------|
| Western       | 13,984.56     |
| Central       | 4,210.12      |
| Southern      | 4,039.90      |
| Sabaragamu    | 1,472.00      |
| Uva           | 1,567.95      |
| Eastern       | 751.72        |
| North Central | 3,113.55      |
| North Western | 3,503.02      |
| Northern      | 934.18        |
| <b>Total</b>  | <b>33,577</b> |



### Product Concentration

| Product        | Amount (Rs.)  |
|----------------|---------------|
| Mortgage Loans | 9,180         |
| EPF Loans      | 9,313         |
| Vehicle Loans  | 27            |
| Staff Loans    | 882           |
| Personal Loans | 13,194        |
| Others         | 981           |
| <b>Total</b>   | <b>33,577</b> |



### Movement of Gross & Net Non - Performing Advances Ratios during the year 2017



High Non Performing Allowance (NPA) ratio is due to the NPA position of EPF Loans 66.43% as at 31/12/2017 which is being recovered annually from EPF balances of customers held in Central Bank of Sri Lanka.

## Integrated Risk Management Contd...

### Market Risk

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

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

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

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

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

### Interest Rate Risk

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

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

Several new assets and liability products were introduced during the year to match the mismatches and to be aligned with customer needs and market conditions.

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

### Maturity Mismatch Analysis as at 31/12/2017 (Rs.Mn)

| Rs. Mn            | less than 7 Days | 7-30 Days | 1-3 Months | 3-6 Months | 6-12 Months | 1-3 years | 3-5 years | Over 5 years | Unclassified | Total  |
|-------------------|------------------|-----------|------------|------------|-------------|-----------|-----------|--------------|--------------|--------|
| Total Assets      | 1,668            | 4,320     | 606        | 1,890      | 2,915       | 6,263     | 5,786     | 9,781        | 8,860        | 42,090 |
| Total Liabilities | 2,479            | 1,733     | 6,368      | 5,743      | 12,065      | 3,872     | 4,206     | 9            | 5,614        | 42,090 |
| Gap               | (811)            | 2,587     | (5,762)    | (3,853)    | (9,150)     | 2,391     | 1,580     | 9,772        | 3,246        | -      |

### Liquidity Risk

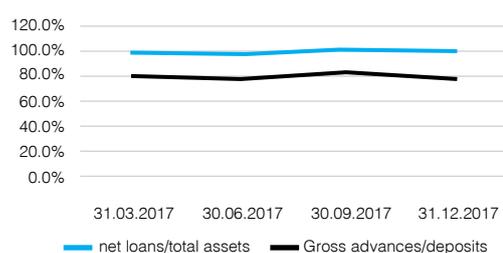
Liquidity risk is the potential for loss to an institution arising from either its inability to meet its obligations or to fund increases in assets as they fall due without incurring unacceptable cost or losses. Liquidity risk cannot be seen in isolation, because it is often triggered by consequence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

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

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

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

### Liquidity Related Ratios



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

## Integrated Risk Management Contd...

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

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

### Operational Risk

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

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

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

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

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

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

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

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

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

### Legal Risk

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

### Strategic Risk Management

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

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

### Compliance Risk

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

### • A culture of Risk Awareness

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

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

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



# Value Creation

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# Human Resource

Edwin Flippo defines- Human Resource Management as "Planning, organizing, directing, controlling of procurement, development, compensation, integration, maintenance and separation of human resources to the end that individual, organizational and social objectives are achieved. Thus, HRM can be defined as a process of procuring, developing and maintaining competent human resources in the organization so that the goals of an organization are achieved in an effective and efficient manner. In short, HRM is an art of managing people at work in such a manner that they give their best to the organization for achieving its set goals.

At State Mortgage & Investment Bank, the purpose of HRM is to maximize the productivity of the bank by optimizing the effectiveness of its employees. Having considered Human Resource as the most valuable asset, bank believes that in creating a brighter future, the key players are its employees. Through their collective participation bank gets the strength to face the hurdles and turbulent times as we are in a highly competitive business environment. It is believed that the secret of obtaining competitive advantage is through developing the potentials of employees.

## Human Resource Management Approach

Bank will be committed towards identifying the ideal human capital requirements. Human resource management approach is based on alignment of organizational objective identification of the human capital through development of business case based on future organizational need.

## Staff Strength

The total number of staff for the year accounted as 365 which was comparatively small but they have contributed to the bank performance at greater extent. During the year, 22 staff members left the bank of which 16 retired from the bank and 6 staff members left the bank on other grounds. We recruited 12 new staff members to the Bank during the year. 15 employees were promoted internally based on their experience and performance. Filling vacancies were carried out as per our recruitment policy both internal and external.

## Staff Variance

| Management Level            | Variance  |                 |                      |                     |
|-----------------------------|-----------|-----------------|----------------------|---------------------|
|                             | Retired   | Resigned/ Other | Externally Recruited | Internally Promoted |
| Corporate Management        | 2         | 2               | 1                    |                     |
| Senior Executive Management | 2         |                 | 1                    |                     |
| Executive                   | 4         | 4               | 10                   | 10                  |
| Non Executives              | 8         |                 |                      | 05                  |
| <b>Total</b>                | <b>16</b> | <b>6</b>        | <b>12</b>            | <b>15</b>           |

## Staff Strength by Tier Wise

| Management Level            | No: of Employees as at 31.12.2017 | Percentage |
|-----------------------------|-----------------------------------|------------|
| Corporate Management        | 8                                 | 2          |
| Senior Executive Management | 9                                 | 2          |
| Executive                   | 119                               | 33         |
| Non Executives              | 229                               | 63         |
| <b>Total</b>                | <b>365</b>                        | <b>100</b> |

## Gender Profile

As an equal employee opportunity provider SMI bank provided employment for both males & females in an equal manner. Gender profile of the SMI bank accounted as 48% male and 52% female in the year of 2017.

## Employee Age Profile

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

| Age category | No: of Employees as at 31.12.2017 | Percentage |
|--------------|-----------------------------------|------------|
| 50 or Above  | 97                                | 27         |
| 40 - 49      | 75                                | 21         |
| 30 - 39      | 125                               | 34         |
| 29 or below  | 68                                | 18         |
| <b>Total</b> | <b>365</b>                        | <b>100</b> |

## Training and Development

Training & Development is any attempt to improve current or future employee performance by increasing an employee's ability to perform through learning, usually by changing the employee's attitude or increasing his or her skills and knowledge. Bank believes that training and development is definitely a vital part of the human resource development. Good training and development programs help to keep the right people and grow profit. As the battle for top talent becomes more competitive, employee training and development programs are more important than ever.

Programs such as tuition assistance and tuition reimbursement programs often are within the purview of the HR training and development area. Below table summarizes the employee participation in different categories of training granted during 2017.

## Human Resource Contd...

| Key Area  | Number of Participants |
|---|------------------------|
| Knowledge and Skill Development Training                | 140                    |
| Attitude Development Training / Motivational Training   | 23                     |
| Technical Competency and IT Training                    | 14                     |
| Overseas Training                                       | 3                      |
| Seminars, Workshops, Membership Fees, Quiz Competitions | 97                     |

Training and Development (T & D) function of the bank is considered vital as the development of the employees is the key path of success for any organization. In the HR policy and procedure manual amended in 2017, the area of T & D has been fully reviewed with the aim of utilizing the maximum output through T & D. The Budgeted training plan for year 2017 had 50 distinct training programs planned to be held. But 93 programmes were actually conducted during the year which is a 186% achievement in that regard.

### Employee Service

| Service category (Years) | No. of Employees as at 31.12.2017 | Percentage |
|--------------------------|-----------------------------------|------------|
| 0-4                      | 130                               | 36         |
| 5-9                      | 48                                | 13         |
| 10-14                    | 52                                | 14         |
| 15-19                    | 45                                | 12         |
| Above 20                 | 90                                | 25         |
| <b>Total</b>             | <b>365</b>                        | <b>100</b> |

51% of the employees have been working more than 10 years in the bank and contribute their service to bank development. Not only the providing financial benefits but also non-financial benefits to the staff increased their job satisfaction.

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



New Year Function at Credit Department



While CEO Addressing the Staff



Corporate plan discussion

### Human Resource Contd...



Winners of the Corporate Cricket Bash - Gampha



Runners of the Seylan Bank Badminton Tournament



Winners of the Athletic meet  
- Nationalised Service Athletics Association



Runners of the Seylan Bank Badminton Tournament



Winners of the Masters Athletic meet - Thailand



Nationalized Services Knockout Badminton Tournament  
"C" Division Champions

# Corporate Social Responsibility

Humans "organized" themselves from their beginnings in a methodical manner. One of the main objectives in getting organized, is to control the human actions which challenge each other in the community. It is expected to socialize the concept of collectiveness through organization.

The notion of collectivity and giving opportunities for others is prevalent even in the notion of 'selection'. The modern world centered around capital too expects collective development to occur in every aspect. Human community does not approve the black market or illegal and undisciplined trade systems, even though the market based on profit is accepted.

However, customer attraction is a must when it comes to profit. Profit is possible only when the customer purchases. In this transaction the buyer gets the benefit and the seller gets the profit. The seller can be in public or private sector. Nevertheless, the trend in the modern world is to utilize the profit earned by the public or private sector, in the society to make it a better place. When the profit is utilized for the betterment of the general public no financial benefit is expected in return. Instead it cultivates the 'reputation' of the relevant supplier.

It can be observed that the service providers utilize a part of their profit for the betterment of the society. The scenario in Sri Lanka is the same that both public and private sectors follow this path.

State Mortgage and Investment Bank, as a state bank, has been reinvesting part of its profit in the society from the past. This is done in various fields like, education, sports, culture and commodities. Through this effort the bank was able to bring about a positive consequence in the society. In 2016 and 2017 this has been done in a policy bound manner. At present the bank is proud to have a CSR policy of its own. This has enabled the bank to utilize a considerable percentage of the profit of the bank in the social development process, which is a fair expectation of the human society.



Workshop of Grade V Scholarship Examination



Blood Donation Campaign 2017



Alms giving programme at Somawathi Temple



Blood Donation Campaign 2017

# Our Products

We believe that each and every effort of the bank should be citizen friendly. The general public is the end beneficiary of all the services. It is important to provide one stop services to the customer in the service delivery. It is not an easy task to satisfy every customer who comes with diverse financial requirements. Our output as well as the services we provide should be in the highest quality. This will lead to customer satisfaction.

It can be observed that the staff of the bank eager to comply with this principle. The progress achieved by our bank in year 2016 is one of the examples to prove this fact. It is a must to mention the progress achieved by the branch network which are being operated to provide service throughout the country.

We have been able to introduce number of products suitable to all ranging to the general public. We have the feasibility of fulfilling every housing financial requirement. Further, we have become an important contributor to the agricultural sector which represents the highest percentage of the Gross Domestic Production. In addition, we are working towards providing a financial strength to the modern Tourism industry as well. Number of financial services are being implemented targeting traditional gem industry and other industrial sectors.

Financial support is provided to the small and medium scale enterprises with the aim of encouraging the low income earning groups, and the micro financial services are also carried out island wide. These efforts have paved way for us to make the lives of the majority, prosperous.

A huge service diversification has been carried out aiming the officials in the public service. 2016 was the Planning Year of this task. Further, we have kept the promises of the customers 100%, who come to us with trust which is an asset we have earned as a State Bank. We have introduced an attractive interest for such customers in year 2017. Not



Introducing Micro Finance Loan

only that, but also we have been able to implement various savings systems for senior citizens as well as for the children.

The bank has been playing its role in the government Projects "An Account for all" and "A house for All" successfully. Our network system is in action to activate the people who are not coming under the financial sector as identified at national level. Efficient and experienced service delivery together with empowerment of the communities through explanations are also some of the strategies used under this objective. Targeted recipient groups are also addressed along with media involvement.

2017 is comparatively a year with a higher progress. The support of the entire staff and the product diversification play an important role in this success. Further, the far sighted financial policy of the State Mortgage and investment Bank has secured a stable and continuous growth throughout the year.



# Financial Information

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# Directors' Report

The Board of Directors of the State Mortgage & Investment Bank has pleasure in presenting their report on the affairs of the Bank together with the Audited consolidated financial statements for the year ended 31st December 2017, in conformity with the Sri Lanka Accounting Standards.

## DIRECTORS

The Board comprises of nine non-executive independent directors. The Minister of the Ministry of Public Enterprises Development has appointed the Chairman of the Board among the directors. There are no executive directors in the bank.

Directors were appointed by the Ministry of Public Enterprise Development (PED) in compliance with section 7 of the State Mortgage and Investment Bank Act No. 13 of 1975 as amended, three of the directors so appointed are representatives of;

- (a) The Ministry of Agriculture,
  - (b) The Ministry of Housing & Construction, and
  - (c) The Ministry of Social Services, Welfare & Livestock Development.
- One Director is appointed as the Treasury Representative. Three members constitute a quorum at any meeting of the Board. Meetings of the Board of Directors should be held at least once a month as per the State Mortgage and Investment Bank Law and the Banking Act.

### Directors' attendance at the Board meetings:

13 meetings were held in the year 2017.

| Name of the Director                             | Number of meetings eligible to attend | Number of Meetings attended |
|--|---------------------------------------|-----------------------------|
| Mr. Tissa Jinadasa (Chairman)                    | 13                                    | 12                          |
| Dr. Niroshan Gamage                              | 13                                    | 10                          |
| Mr. M. S. D. Ranasiri<br>(Retired on 31.01.2017) | 01                                    | 01                          |
| Mr. Roshan Hettiaratchi                          | 13                                    | 11                          |
| Mr. Rajitha Nuwan Halwala                        | 13                                    | 10                          |
| Mr. W.K.K. Athukorala<br>(Retired on 05.12.2017) | 12                                    | 12                          |
| Mr. P. A. Kulasooriya                            | 12                                    | 07                          |
| Mr E.A. Lesly Edirisinghe                        | 12                                    | 10                          |
| Mr. P.S.K.R. Weerakoon                           | 11                                    | 10                          |
| Mr. S.G. Senaratne                               | 10                                    | 10                          |

### Principal Activities of the Bank

Promoting housing, agricultural and industrial development finance and savings mobilizations are the principal activities of the bank.

### Review of Operations and Future Developments

An overview of the financial and operational performance and future Developments of the Bank during the financial year 2017 and results of those operations are contained in the Chairman's Report, General Manager's Report and Financial Review appearing in this annual report. These reports form an integral part of this annual report.

### Directors' interests in contracts

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. This is followed according to 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. There weren't any Related Party business transactions in the year 2017.

### Capital Adequacy Ratio (CAR)

Capital Adequacy Ratio is properly monitored regularly by the Assets and Liability Management Committee. The Bank has always maintained the minimum capital adequacy requirement.

### Chief Executive Officer (CEO)

The General Manager is the Chief Executive Officer of the Bank and is appointed by the Board of Directors. 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.

### Vision, Mission and Values

The Bank's Vision, Mission and Values are given on pages 04 and 05 of this Annual Report. The business activities of the bank are conducted at a high level of ethical standards to achieve its vision.

### Corporate Governance

The Board of Directors is committed towards 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 22 to 59 of this annual Report.

### BOARD SUB COMMITTEES

The Board has formed four sub committees complying with the Banking Act Direction No 12 of 2007 to ensure control over affairs of the Bank.

## Directors' Report Contd...

### • Board Audit Committee

The Board Audit Committee of the bank performs its functions in a professional manner. The scope of the BAC is principally to assist the Board of Directors in fulfilling its oversight responsibilities which are to: maintain the integrity of the Bank's Financial Statements by reviewing financial information of the bank accounts and quarterly reports prepared for disclosure, review significant financial reporting judgements contained in them, oversee the risk management system of the bank, 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.

It comprises of 3 Independent, non –executive Directors, another Director has been appointed as an alternative member The Chairman of the Committee is an independent director who possesses qualifications in accountancy and audit. He is a director representing the Treasury. Members for all the Subcommittees including the BAC members are being appointed out of the Board members who possess necessary qualifications, skills and experience.

Board Secretary functions as the secretary of the Board Audit Committee. The General Manager, AGM Finance, AGM Risk AGM-Credit and AGM (HR &L) attended Meetings as invitees whilst the Superintendent of Government Audit attended all the meetings as an observer. Four Board Audit Committee meetings were held in the year 2017. The Committee met once in the year 2017 with the superintendent of the government audit and without the Chief Executive Officer is being present.

Members in the year 2017

|                          |   |                           |
|--------------------------|---|---------------------------|
| Mr. S.G. Senaratne       | - | Chairman (Since May 2017) |
| Dr. Niroshan Gamage      | - | Member                    |
| Mr. Rajitha Halwela      | - | Member                    |
| Mrs. W. K. K. Athukorala | - | Alternative Member        |

### • Board Human Resources & Remuneration Committee

The Committee reviews HR development strategies on behalf of the Bank and maintain a consultative role with the other Board Subcommittees on all human resource issues.

The General Manager/CEO attends all meetings of the Committee except when matters relating to the General Manager/CEO are being discussed. AGM (Legal) functions as the Secretary to BHRRC. The Committee is responsible for determining the remuneration policy relating to the General Manager/CEO and Key Management Personnel of the Bank.

The Committee reviews all significant Human Resource Policies, salary structures and terms and conditions relating to staff at senior executive level. In this process, necessary information and recommendations are obtained from the General Manager/CEO and the Senior Management of the Bank. The Committee meetings are held quarterly however based on the needs, meetings can be fixed even more than this. Four Board Human Resources & Remuneration Committee meetings were held in the year 2017.

Members in the year 2017

|                         |   |                    |
|-------------------------|---|--------------------|
| Mrs. W.K. K. Athukorala | - | Chairperson        |
| Dr. Noroshan Gamage     | - | Member             |
| Mr. Rajitha Halwela     | - | Member             |
| Mr. P.S.K.R. Weerakoon  | - | Alternative Member |

### • Board Integrated Risk Management Committee (BIRMC)

BIRMC assesses all risks, i.e. credit, market, liquidity, operational and strategic risks through appropriate risk indicators and management information. The Board of Directors of the Bank has established the BIRMC in compliance with the Banking Act Direction No. 11 of 2007, under corporate governance for licensed specialised banks in Sri Lanka.

BIRMC comprises of three Non-Executive Directors, and General Manager/CEO and the Head of Risk Management. AGM (Legal) functions as the Secretary to the Committee.

The Committee 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. The Committee takes 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 on the basis of the Bank's policies and regulatory and supervisory requirements.

BIRMC ensures submission of a risk assessment report to the Board seeking the Board's views, concurrence and/or specific directions on a regular basis. The Committee 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.

Four Committee meetings were held in the year 2017.  
Directors of the BIRMC in the year 2017

## Directors' Report Contd...

Mr. Roshan Hettiaratchi - Chairman (Upto April 2017)  
 Mr. S.G. Senaratne - Member - (chaired committee after 2017)  
 Dr. Niroshan Gamage - Member  
 Mr. Rajitha Halwela - Alternative Member

### • Board Nomination Committee (BNC)

The BNC reports to the Board in respect of its activities and decisions. Secretary to the Board of Directors, functions as the Secretary to the BNC.

The 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.

The Committee considering the performance and contribution recommends (or not recommends) the re-election of current directors. It ensures the fit and propriety of Directors Chief Executive Officer and Key Management Personnel.

Members in the year 2017

Mr Tissa Jinadasa - Chairman  
 Dr. Niroshan Gamage - Member  
 Mr. P.A. Kulasuriya - Member  
 Mr. E.A. Lesly Edirisinghe - Alternative Member

Three Committee meetings were held in the year 2017

### 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 65 of this Annual Report.

### Internal Control

The Board of Directors has ensured the implementation of an effective and comprehensive system of internal controls in the Bank which is a guide to Corporate Management in the day-to-day management of the business. The Directors Report on Internal Control appears on Pages 84 & 85 in this annual report.

### Profit and Appropriations

The Total Income of the Bank for the year 2017 was Rs.4,907.23 Mn

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

|                                    | 2016<br>Rs. 000 | 2017<br>Rs.000 |
|------------------------------------|-----------------|----------------|
| Gross Income                       | 4,371,871       | 4,916,232      |
| Interest Income                    | 4,240,771       | 4,745,059      |
| Interest Expenses                  | 2,425,330       | 3,101,891      |
| Net Interest Income                | 1,815,441       | 1,643,168      |
| Other Income                       | 131,100         | 171,172        |
| Net Income                         | 1,946,541       | 1,814,341      |
| Less: Operating expenses           | 1,020,018       | 1,248,379      |
| VAT & NBT                          | 220,454         | 187,033        |
| Operating Profit before Tax        | 706,069         | 378,929        |
| Less: Provision for Taxation       | 270,051         | 200,404        |
| Profit for the Year                | 436,018         | 178,524        |
| Retained Profits                   | 2,449,406       | 2,706,976      |
| Profit available for appropriation | 2,885,424       | 2,885,500      |
| Appropriations                     | -               | -              |
| Prior Period Adjustments           | 1,846           | 27,885         |
| Deemed Dividend Tax                | 173,347         | 93,266         |
| Payments to consolidated Fund      | 10,000          | 25,000         |
| Transfers to Reserve Fund          | 28,305          | 15,278         |
| Transfers to Investment Fund       | -               | -              |
| Other Comprehensive Income         | 31,357          | 5,207          |
| Balance carried forward            | 2,706,976       | 2,729,278      |

### Deemed Dividend & Reserves

Deemed dividend tax for the year 2017 has been provided at 25% on the net profit for the year after taxation in accordance with provisions of the Inland Revenue Act.

### Reserves

Total reserves as at 31st December 2017 amounted to Rs. 4,067 Mn (2016 – 4,028 Mn) movement of which are given on page 103 in the statement of Changes in Equity.

### Capital Expenditure

The details of Property, Plant, and Equipment and Motor Vehicles of the Bank are shown in Note 14 on page 123.

### Market Value of Immovable Properties

SMIB did not own tangible immovable properties as at 31st December 2017.

## Directors' Report Contd...

### Contributed Capital

Sri Lankan Government has contributed the capital amounting to Rs. 889,812,899.00

### Substantial Shareholding and Share Information

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

### Payments to the Consolidated Fund

The payments made to the Consolidated Fund for the period of year 2008 to 2017 totaled to Rs. 155 Mn.

### Statutory Payments

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

### Taxation

Income tax for 2017 has been provided at 28 % on taxable income arising from the operations of the Bank.

### Events Occurring after the Balance Sheet Date

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

### Post Balance Sheet Events

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

### Going Concern

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

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

### Compliance with Applicable Laws, Rules and Regulations

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

### 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 Loan to the nation at an affordable cost. The Bank has taken 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

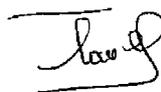
The Auditor General is the Auditor of the State Mortgage & Investment Bank. The audit of accounts of the State Mortgage & Investment Bank for the year ended 31st December 2017 was carried out under the Auditor General's directions in pursuance of provisions in Article 154(1) of the Constitution of the 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, 2016 is given on page 87 of this Annual Report.

### Acknowledgment

Your Directors take this opportunity to express their deep and sincere gratitude to the customers of the Bank for their confidence and patronage Regulatory Authorities for their cooperation, support and guidance. Your Directors would like to express a deep sense of appreciation for the commitment shown by the employees in supporting the Bank in its continued robust performance on all fronts.

By order of the Board,



**W. K. Perera**  
Secretary to the Board

# Director's Statement on Internal Control over Financial Reporting

The report has been issued in line with the Banking Act Directions No 12 of 2007 section 3 (8) 11 (b), and prepared based on the guidelines issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), the Board of Directors (The Board) present this report on Internal control system of State Mortgage & Investment Bank.

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

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

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

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

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 sub committees to ensure the adequacy and integrity of the internal control system within the bank and delegated the authority of the board among the layers of corporate management, senior management and managers of the bank in order to assist the board in implementation of policies

and procedures for assessing and management of risk faced by the bank.

- Board Integrated Risk Management Committee consists of independent non-executive directors. The committee is responsible for reviewing the risk profile of the bank, identifies the principal risk faced by the bank and prepares the policies based on the risk management of the bank.
- The Internal Audit Division of the Bank performs the tests on a sample basis to ensure whether the financial, administrative and operational activities of the bank are in agreement with the laid down internal control procedures. Audits are carried out on all units and branches frequently of which is determined based on the level of risk associated with the functional units and the products of the bank. Head of internal audit is responsible for submitting an independent objective report to the Chairman of the Board Audit Committee in respect of the audit observations on irregularities, misstatements, frauds in financial, administration and operational affairs of the bank.
- In general, the Board Audit Committee reviews the overall effectiveness of the internal control system in place and report to the Board of directors regularly in respect of the specific observations on internal control weaknesses. In this respect, the mechanism used by the committee includes; review of the Auditor General's report, Internal Audit reports, regulatory reports, annual/monthly financial statements and progress reports.
- 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 design and effectiveness of bank's internal control over financial reporting has been carried out. The Board has already approved that the documentation of the internal control system of the bank which would facilitate review of the effectiveness of the internal controls.

## Director's Statement on Internal Control over Financial Reporting Contd...

- The Board has realized that there are additional control procedures to be designed and implemented over the financial reporting process in order to ensure more effective internal control system of the bank.

### Confirmation

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

The External Auditor will review the above Directors' Statement on Internal Control over financial reporting for the year ended 31st December 2017.



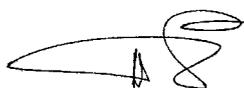
**S.G. Senarathna**

*Chairman - Board Audit Committee/Director*



**Niroshan Gamage**

*Director*



**Rajitha Halwela**

*Director*

# Directors' Responsibility for Financial Reporting

This Statement sets out the responsibility of the Board of Directors in relation to the financial statements of the State Mortgage and Investment Bank.

The Directors confirm that the Financial Statements of the Bank gives a true and fair view of the financial position of the Bank as at December 31, 2017; and 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

In terms of the provisions of the State Mortgage and Investment Bank Law No. 13 of 1975 and its amendments read with the Banking Act No. 30 of 1988 and its amendments and Directions issued by the Central Bank of Sri Lanka, the Directors of the Bank are responsible for ensuring that the Bank maintains proper books of accounts which disclose with reasonable accuracy at any time the financial position of the Bank, and prepares proper Financial Statements for each financial year giving a true and fair view of the state of affairs of the Bank.

The Financial Statements for the year 2017 presented in this Annual Report are in conformity with the requirements of

- i. the State Mortgage and Investment Bank Law No. 13 of 1975 and its amendments,
- ii. Banking Act No. 30 of 1988 and its amendments and Directions issued under it,
- iii. the Sri Lanka Accounting Standards and other regulatory requirements.
- iv. Public Corporations (Financial Control) Act

The Directors acknowledge that in preparing the Financial Statements for the year 2017 presented in this Annual Report, the most appropriate accounting policies have been used and applied. Material departures, if any, have been disclosed and explained.

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 in the bank's websites.

The Board of Directors also approves the quarterly Financial Statements prior to their release, following a review and recommendation by the Board Audit Committee. The Board Audit Committee report appears on Page 60 of this annual report.

## Going concern

The Directors are of the view that the Bank has adequate resources to continue in business for the foreseeable future. Accordingly, they have

continued to adopt the going concern basis in preparing the 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.

## Internal controls, risk management and compliance

The Directors are also responsible for the system of internal financial controls and risk management and place considerable importance on maintaining a strong control environment to protect and safeguard the Bank's assets and prevent fraud and mismanagement.

A report by the Directors on the Bank's internal control mechanism is given on pages 84 and 85 of this Annual Report.

## Audit report

Pursuant to provisions of Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka, the Auditor General is the Auditor of the Bank and issues the final opinion on the Financial Statements of the Bank. The responsibilities of the Auditor in relation to the Financial Statements are set out in the Report of the Auditor General on page 87 of this Annual Report.

Directors' interests in contracts of significance

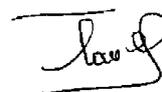
There wasn't any contract of significance to which the bank was a party and in which a director of the bank had a material interest, whether directly or indirectly, subsisted at any time during the year.

## 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



**W. K. Perera**  
Board Secretary

# Report of the Auditor General



**ජාතික විගණන කාර්යාලය**  
**தேசிய கணக்காய்வு அலுவலகம்**  
**NATIONAL AUDIT OFFICE**



මගේ අංකය  
எனது இல.  
My No. }

BAF/G/SMIB/1/17/1

ඔබේ අංකය  
உமது இல.  
Your No. }

දිනය  
திகதி  
Date }

14 January 2019

The Chairman  
 State Mortgage and Investment Bank

**Report of the Auditor General on the Financial Statements of the State Mortgage and Investment Bank for the year ended 31 December 2017 in terms of Section 14(2) (c) of the Finance Act, No.38 of 1971.**

The audit of financial statements of the State Mortgage and Investment Bank for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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 Section 13(1) of the Finance Act, No.38 of 1971 and Section 65(2) of the State Mortgage and Investment Bank Law No.13 of 1975. My comments and observations which I consider should be published with the Annual Report of the Bank in terms of Section 14 (2) (c) of the Finance Act appear in this report.

## 1.2 Board's Responsibility for the Financial Statements

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



## Report of the Auditor General Contd...



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### 1.3 Auditor's Responsibility

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit

### 1.4 Basis for qualified Opinion

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## Report of the Auditor General Contd...



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### 2 Financial Statements

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#### 2.1 Qualified Opinion

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In my opinion, except for the effect of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the State Mortgage and Investment Bank as at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### 2.2 Comments on Financial Statements

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#### 2.2.1 Accounting Deficiencies

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The following observations are made.

- (a) Loan releases and loan recovery of Rs.420,000 and Rs.1,112,305 respectively under the WayabaDiriya project relating to the month of December 2017 had not been posted to the margin account whilst loan release of Rs.2,040,000 and capital recovery of Rs.1,100,658 for December 2016 had been posted to the margin account for the year 2017.
- (b) A total sum of Rs.2,436,835 directly received to a Bank current account in the year 2017 and the previous year had not been taken in to accounts even up to the end of the year under review.

### 2.2 Unexplained Differences

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The following observations are made.

- (a) A net difference of Rs.6,975,092 was observed between the loan balances as per the system generated schedules of loan portfolio and the balances in the financial statements in respect of Mortgage, EPF, and Personal loans. These differences had not been reconciled.

## Report of the Auditor General Contd...



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- (b) A net difference of Rs.234,228 was observed between the loan balances shown in the schedule used for impairment calculation, and balances shown in the financial statements in respect of Mortgage, EPF, Personal and Microfinance loans, as at 31 December 2017.
- (c) A difference of Rs 4,268,346 was observed in inter branch accounts .
- (d) A difference of Rs 2,923,635 was observed between the amount shown in the remittance forms, and the bank contribution to EPF and ETF accounts shown in the financial statements for the year under review.
- (e) A balance of Rs. 493,558 had been shown as unidentified differences under the prior period adjustment of the statement of changes in equity
- (f) A total difference of Rs.250,867 was observed between the system balances of savings scheme deposits and balances in the financial statement.
- (g) A difference of Rs.2,632,245 was observed between the balance appearing in the financial statements and the balances appearing in the records of marketing division relating to Advertising & Promotional expenses.
- (h) Difference of Rs. 28,883,653 had been observed between the balance of an appropriated account shown in the financial statements and the relevant system generated schedule.

### 2.2.3 Account receivables and Payables

-----  
 The following observations are made.

- (a) A balance of Rs.2,917,537 brought forward before the year 2016 which was included in the balance of advance of Rs.5,362,744 under the deposits and pre payments in the financial statement had not been identified even up to the end of the year under review. Hence, the reliability and recoverability of this balance could not be ascertained in audit.

## Report of the Auditor General Contd...



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- (b) According to the accounting method maintained by the Bank, the balance of the branch advice account should be a credit balance. However an unsettled debit balance of Rs. 7,529,740 was observed in branch advice account as at 31 December 2017.
- (c) Although a debit balance should be shown in the claim voucher account normally, an abnormal credit balance of Rs. 23,590,021 had been shown in the said account as at 31 December 2017.
- (d) Balances of six accounts amounting to Rs. 1,513,448 had been carried forward under the other debtors for more than a period of two years without being identified the recoverability of those balances was uncertain.
- (e) A debit balance of Rs.1,512,882 and Rs.6,696 had been shown in accrued assistant to provident fund account and debit tax account respectively under the other debtors as at 31 December 2017. Since this balance was not confirmed by the respective parties the recoverability of this balance could not be conformed.
- (f) A sum of Rs.139,936 had been included in the sundry debtor balance since the year 1988 – 2014, Actions had not been taken to settle this balance even up to the end of the year under review.
- (g) An abnormal debit balance of Rs. 14,265,463 had been shown in Cheques on Realization account under the other debtors as at 31 December 2017 and thus, the other debtors shown in the financial statements had been overstated by similar amount.
- (h) An unidentified debit balance of Rs.3,005,380 had been shown in the withholding tax payable account as at 31 December 2017 . Actions had not been taken to identify and settle the said balance even up to the end of the year under review.
- (i) According to the methodology followed by the bank, processing fees for mortgage loan granted on the balance of the employees provident fund, should be paid to the Assistant commissioner of Labours within 20 days of the following month of which the loan was granted. However an unidentified debit balance of Rs.179,500 had been shown in the payable ACL charges account and a sum of Rs 216,500 had been remained more than one year as creditors as 31 December 2017 without being settled.

## Report of the Auditor General Contd...



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### 2.2.4 Lack of evidence for Audit

Although a debit balance of Rs. 22,350,414 had been shown under other assets in the Financial Statements for the year under review, the recoverability of this amount was uncertain due to lack of adequate information.

### 2.3 Non-compliances with Laws, Rules, Regulations, and Management Decisions

Instances of non-compliance with following Laws, Rules, Regulations and Management Decisions observed during the course of audit are given below.

| Reference to Laws, Rules,<br>Regulations and Management<br>Decisions                         | Non-compliance   |
|--|--|
| (a) Treasury circular No IAI/2002/02 dated 28 November 2002                                  | Even though, a fixed assets register for computer should be maintained in accordance with the given format. such a register had not been maintained by the bank relating to computers valued at Rs.127,189,798 . |
| (b) Financial Regulation of the Democratic Republic of Sri Lanka Financial Regulation No 396 | Actions had not been taken as per the regulation in connection with cheques not presented for payment more than 6 months aggregating Rs.1,792,650.   |

### 2.4 Transactions not Supported by Adequate Authority

As per the Board Decision 16.07.83.07 dated 29 July 2016, estimates valued more than Rs.200,000 should be approved by the Assistant General Manager. Contrary to this requirement estimate valued at of Rs.314,145 for relocating the Kiribathgoda branch, had been approved by the chief manager.

## Report of the Auditor General Contd...



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### 3. Financial Review

#### 3.1 Financial Results

(a) According to the financial statements presented, the financial result of the Bank during the year under review was a pre-tax net profit of Rs.379, million as compared with the corresponding pre-tax net profit of Rs.706 million in the preceding year, thus showing a decrease of Rs.327 million, in the financial result. The increase of impairment charge for the year by Rs 190,115,588 was mainly by affected to this decrease.

(b) Although the financial result of the Bank for the year under review had decreased to Rs 173, 457,667, after taking into account the personal emolument, depreciation and tax payable to the government the value addition of the Bank had gradually increased from Rs.933,770,458 for the year 2013 to Rs 1,662,254,618 for the year 2016. However it had decreased by Rs 344,599,816 or 21 per cent for the year under review against to the previous year.

#### 3.2 Analytical Financial Review

##### 3.2.1 Significant financial ratios

According to the information made available, some of the important accounting ratios of the Bank for the year under review and the preceding year are given below.

|                                    | 2017 |                                     | 2016 |                                     |
|------------------------------------|------|-------------------------------------|------|-------------------------------------|
|                                    | SMIB | Licensed specialized banking sector | SMIB | Licensed specialized banking sector |
| <b><u>Profitability Ratios</u></b> |      |                                     |      |                                     |
| i. Net Interest Margin             | 4.35 | 3.2                                 | 5.36 | 3.5                                 |
| ii. Return on Average Equity       | 3.52 | 19.2                                | 9.50 | 18.3                                |
| iii. Return on Average Assets      | 0.97 | 1.5                                 | 2.03 | 1.5                                 |

## Report of the Auditor General Contd...



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**Capital Adequacy Ratios**

|        |       |      |       |      |
|--------|-------|------|-------|------|
| Tier I | 23.74 | 12.8 | 22.96 | 13.5 |
|--------|-------|------|-------|------|

**Liquidity Ratios**

|                            |       |      |       |    |
|----------------------------|-------|------|-------|----|
| i. Liquid Assets/ Deposits | 22.10 | 61.6 | 22.82 | 61 |
|----------------------------|-------|------|-------|----|

Though the net interest margin was higher than licensed specialized banking sector by 1.15 per cent, Return on average equity was below by 15.68 per cent. Further liquidity of the bank was below the licensed specialized banking sector both in year 2016 and 2017.

#### 4 Operating Review

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##### 4.1 Performance

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##### 4.1.1 Operating and Review

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- (a) According to the Goal 5 of the Action Plan for the year 2017, targets of the non-performing loan ratio for the personal loans and Mortgage loans shall be reduced to 3 per cent and 5 per cent respectively at the end of year 2017. However, it was observed that 4 branches had failed to achieve the personal loan target and 12 branches had failed to achieve mortgage loan target.
- (b) According to the loan disbursement targets given by the Branch Operation Division of the Bank, 6 out of 24 branches had not achieved 75 percent of the targets as at the end of the year 2017.
- (c) Marketing department had prepared its marketing plan for year 2016/2017 with the main target of achieving Rs. 2 billion profit by 2020. However, the profit after tax of the Bank had decreased by Rs.257,493,476 or 59 per cent in year 2017 as compared with 2016.

## Report of the Auditor General Contd...



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- (d) The Child banking concept which was implemented in the year 2016, was at the basic level even up to 31 December 2017.
- (e) According to the Section 2 (2) of the State Mortgage and Investment Bank Law No.30 of 1975, the purpose of the Bank is to assist in the development of agriculture, industry and housing, by providing financial and other assistance in accordance with the provisions of this Law. Accordingly as per the information provided to Central Bank as at 31 December 2017, The bank had provided 99.9 per cent of its loan portfolio as agricultural and housing loan to the customers.
- (f) The Bank had obtained a loan of Rs. 2 billion from the National Savings Bank at the interest of AWPLR+1.2 % per annum as variable rate. If the AWPLR was 10%, the Bank requires to pay nearly 224 million as interest per annum Ignoring the semiannual revision of interest rate as per the agreement However Bank had reported non performing loan ratio at 22 per cent as at 31 December 2017. After considering these backgrounds it was doubt whether the Bank can yield an optimum return by utilization of this loan funds.

### 4.2 Management Activities

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- (a) An amount of Rs.2,400,000 had been shown as fraud account in other debtors in the financial Statements, in respect of the fraud occurred in 1996, Nevertheless action had not been taken to clear up the incident and recover the loss even up to 31 December 2017.
- (b) According to the financial statements, fixed assets valued at Rs. 9,613,360 had been disposed by the bank in the year 2017. However the cost of oldest items had been removed from books instead of being identified the items disposed and removed from books.

## Report of the Auditor General Contd...



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### 4.3 Operating Activities

- (a) According to the information made available, the value of the loan disbursement had been increased by Rs.2,381 million or 29 per cent and the number of loans had been decreased by 429 or 3 per cent during the year under review as compared with the preceding year. Further, out of total disbursement during the year compared with the previous year, Small and Medium Enterprise and micro finance loans had increased by 2,975 per cent and personal loans had increased by 79 per cent respectively.
- (b) Bank had granted loan facilities amounting to Rs.32,540 million and out of that Rs.7,466 million or 23 per cent had shown as non- performing as at 31 December 2017. Further Out of total EPF loans, a sum of Rs.5,894 million or 18 per cent had reported as non performing as at 31 December 2017.
- (c) The following observations are made in respect of the age analysis of non performing loans
- (i) Total amount of non- performing loans as at 31 December 2017 was Rs.7,460 million and out of that, Rs.4,106 million or 55 per cent was remained outstanding for more than 1 year and out of the said value a sum of Rs.3,670 million represented EPF loans.
  - (ii) Out of the value of non- performing loans over 3 years, a sum of Rs.66 million represented vested properties
  - (iii) Out of the total non- performing loan balances, 07 Major non- performing mortgage loans amounting to Rs.48 million had remained outstanding for more than 3 years and out of that legal actions had not been taken for 04 loans aggregating Rs. 46 million.
  - (iv) Out of the total non performing loan balances of Major non performing personal loans, Rs. 18 million had remained outstanding for more than 3 years.

## Report of the Auditor General Contd...



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### 4.4 Transactions of Contentious Nature

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According to the Public Enterprises Circular No.PED 03/2016 dated 29 April 2016 PAYE tax should be deducted from the employee's salary. Contrary to that PAYE tax amounting to Rs. 20,122,583 had been paid by the bank, without deducting from the employees salary.

### 4.5 Apparent Irregularities

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Total value of loans amounting to Rs.68.34 million had been obtained by 47 individuals providing fraud documents and fraud information and the total amount of above loan was included in the non performing balance at 31 December 2017.

### 4.6 Staff Administration

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Following observations are made.

- (a) According to the cadre position of the Bank, Approved cadre and actual cadre was 471 and 365 respectively thus there were 106 vacancies.
- (b) Three posts of Deputy General Managers, Three post of Assistant General Managers and four post of chief Managers had been included in the above vacant positions which may affect the smooth function of the bank operations.

### 4.7 Market Share

---

Market share based on deposits of the Bank compared with the licensed specialized banking sector had increased by 2 basis points from the year 2013 to 2017. Further market share based on assets of the bank compared with licensed specialized banking sector had increased by 17 basis points from year 2013 to 2017.

## Report of the Auditor General Contd...



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### 5. Accountability and Good Governance

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#### 5.1 Internal Audit

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The post of Chief Internal Auditor of the Bank had remained vacant from 1 January 2016.

### 5.2 Procurement and contract process

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#### 5.2.1 Procurements

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- (a) According to the procurement plan for the year 2017 sums of Rs.1,300 million and Rs.62 million had been estimated for purchasing of new building for Head Office and a land and building for Horana Branch respectively. However according to the information furnished to audit, It was observed that the procurement of new building was in primary stage and bank had failed to purchase the land for Horana branch.
- (b) According to the chapter 4.2.1.(e) of the Government Procurement Guideline, Master Procurement Plan shall be regularly updated at intervals not exceeding six months. The bank had not adhered to that guidance.
- (c) According to the procurement plan for the year 2017 the bank had expected capacity expansion in five branches. However, the bank had totally failed to achieve the aforesaid targets.
- (d) According to the chapter 2.3.2 (c) of the procurement guideline ,staff of a procurement action shall responsible in preparation of the draft bidding documents including the specifications and the submission of same to the TECs for review and approval, However actions had not been taken accordingly by the bank in respect of partition of 8 branches and head office incurring a sum of Rs. 2,370,878 as at December of 2017.

## Report of the Auditor General Contd...



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Further the chapter 6.3.2 of the procurement guideline Bids shall be closed at the time specified in the bidding documents and late Bids shall not be accepted and shall be returned unopened. Contrary to this requirement procurement relating to the above mentioned Contract had been awarded to a contractor who had submitted the bid after the due date.

- (e) According to the paragraph 5.1.1. (a) of the Government procurement guideline 2006 the Procurement Entity should initiate the drafting of bidding documents including Technical specifications, drawings, etc. The bank had not submitted technical specification when drafting of bidding documents for purchasing of computer accessories valued at Rs 2,112,357.

### 5.3 Budgetary Control

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 Significant variations were observed between the budgeted and actual figures, in respect of loan related expenses, expenditure of staff study & training, fixed assets and borrowings, thus indicating that the budget had not made use of as an effective instrument of management control .

### 6. System and Control

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 Differences observed in the course of audit were brought to the notice of the chairman of the Bank from time to time, special attention is needed in respect following areas of control.

| Areas of systems and control<br>----- | Observation<br>-----   |
|---------------------------------------|--|
| a)Accounting                          | General ledger not being updated.  |
| b)Presentation of financial statement | Attention not being paid to rectify the accounting deficiencies and unexplained differences. |

## Report of the Auditor General Contd...



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c)Maintaining market share

Acceptable growth of the market share not being achieved.

c)Maintenance of Registers

Inventory numbers not being mentioned. Detail not being mentioned in the fixed assets register. Registers not being updated.

H. M. Gamini wijesinghe

Auditor General

# Income Statement

| As at 31 <sup>st</sup> December 2017                        | Note | 2017<br>Rs.     | 2016<br>Rs.     |
|---|------|-----------------|-----------------|
| Interest Income   |      | 4,745,059,385   | 4,240,771,159   |
| Interest Expenses   |      | (3,101,891,268) | (2,425,330,442) |
| <b>Net Interest Income</b>                                  | 1    | 1,643,168,117   | 1,815,440,717   |
| Fee and Commission Income                                   |      | 149,313,983     | 121,154,693     |
| Fee and Commission Expenses                                 |      | -               | -               |
| <b>Net Fee and Commission Income</b>                        | 2    | 149,313,983     | 121,154,693     |
| Other Operating Income (net)                                | 3    | 21,858,420      | 9,945,623       |
| <b>Total Operating Income</b>                               |      | 1,814,340,520   | 1,946,541,033   |
| Impairment Charge for Loans and Other Losses                | 4    | (225,391,986)   | (35,276,398)    |
| <b>Net Operating Income</b>                                 |      | 1,588,948,534   | 1,911,264,636   |
| Personnel Expenses  | 5    | (725,129,018)   | (698,204,774)   |
| Other Expenses  | 6    | (297,858,463)   | (286,537,111)   |
| <b>Operating Profit/(Loss) before Value Added Tax (VAT)</b> |      | 565,961,053     | 926,522,751     |
| Value Added Tax (VAT) on Financial Services                 |      | (165,028,588)   | (189,618,676)   |
| NBT on Financial Services                                   |      | (22,003,812)    | (30,835,193)    |
| <b>Profit/(Loss) before Tax</b>                             |      | 378,928,654     | 706,068,883     |
| Tax Expenses  | 7    | (200,404,345)   | (270,051,098)   |
| <b>Profit/(Loss) for the Year</b>                           |      | 178,524,309     | 436,017,785     |

# Statement of Comprehensive Income

| As at 31 <sup>st</sup> December 2017                                 | Note | 2017<br>Rs. | 2016<br>Rs. |
|--|------|-------------|-------------|
| <b>Profit/(Loss) for the Year</b>                                    |      | 178,524,309 | 436,017,785 |
| <b>Other Comprehensive Income, net of Tax</b>                        |      |             |             |
| Gains and Losses on Re-Measuring Available-for-Sale Financial Assets |      | 655,000     | (530,000)   |
| Actuarial Gains/(Losses) on Defined Benefit Plans (+/-)              |      | 5,206,601   | 31,357,418  |
| <b>Total Comprehensive Income for the Year</b>                       |      | 184,385,910 | 466,845,203 |

# Statement of Financial Position

| As at 31 <sup>st</sup> December 2017           | Note | 2017<br>Rs.           | 2016<br>Rs.           |
|--|------|-----------------------|-----------------------|
| <b>ASSETS</b>                                  |      |                       |                       |
| Cash and Cash Equivalents                      | 09   | 104,191,042           | 98,024,536            |
| Placements with Banks & Financial Institutions | 10   | 7,070,477,026         | 5,700,335,444         |
| Loans and Receivables to Customers             | 11   | 32,987,158,106        | 28,163,700,935        |
| Financial Investments - Available for Sale     | 12   | 23,274,078            | 22,619,078            |
| Financial Investments - Held to Maturity       | 13   | 1,035,368,792         | 667,814,030           |
| Property, Plant and Equipment                  | 14   | 71,381,532            | 93,575,951            |
| Deferred Tax Assets                            | 15   | 95,801,007            | 95,858,266            |
| Other Assets                                   | 16   | 634,770,231           | 505,230,283           |
| <b>Total Assets</b>                            |      | <b>42,022,421,815</b> | <b>35,347,158,523</b> |
| <b>Liabilities</b>                             |      |                       |                       |
| Due to Banks                                   | 17   | 32,047,664            | 19,056,864            |
| Due to Customers                               | 18   | 33,620,237,411        | 28,845,169,193        |
| Other Borrowings                               | 19   | 2,497,188,501         | 502,912,396           |
| Employee Benefit Liability                     | 20   | 336,544,991           | 322,682,597           |
| Other Liabilities                              | 21   | 579,972,958           | 739,142,216           |
| <b>Total Liabilities</b>                       |      | <b>37,065,991,525</b> | <b>30,428,963,265</b> |
| <b>Equity</b>                                  |      |                       |                       |
| Stated Capital/Assigned Capital                | 22   | 889,812,899           | 889,812,899           |
| Statutory Reserve Fund                         | 23   | 246,635,734           | 231,357,505           |
| Retained Earnings                              | 24   | 2,729,277,654         | 2,706,975,850         |
| Other Reserves                                 | 25   | 1,090,704,004         | 1,090,049,004         |
| <b>Total Equity</b>                            |      | <b>4,956,430,290</b>  | <b>4,918,195,257</b>  |
| <b>Total Equity and Liabilities</b>            |      | <b>42,022,421,815</b> | <b>35,347,158,523</b> |
| <b>Contingent Liabilities and Commitments</b>  | 26   | -                     | -                     |

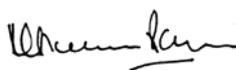
Certification:

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



**K.L.N.A Perera**  
Assistant General Manager  
(Finance)

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



**Mr. Niroskana Perera**  
Chairman



**Mrs. K.D.R. Olga**  
Director



**Mr. W.M. Dayasinghe**  
CEO/General Manager

# Statement of Changes in Equity

## For the year ended 31st December 2017

|                                 | Contributed<br>Capital | Statutory<br>Reserve | Capital<br>Reserve | General<br>Reserve | Title Indemnity<br>Fund | Retained<br>Earnings | AFS Reserve  | Total         |
|---------------------------------|------------------------|----------------------|--------------------|--------------------|-------------------------|----------------------|--------------|---------------|
| <b>Balance as at 31.12.2015</b> | 889,812,899            | 203,052,939          | 9,176,000          | 683,280,000        | 1,031,000               | 2,449,406,437        | 27,363,822   | 4,263,123,097 |
| Prior Period Adjustments        |                        |                      |                    |                    |                         | 1,845,834            |              | 1,845,834     |
| Net Profit for the Year         |                        |                      |                    |                    |                         | 436,017,785          |              | 436,017,785   |
| Deemed Dividend Tax             |                        |                      |                    |                    |                         | (173,347,059)        |              | (173,347,059) |
| Government Loan Transfer        |                        |                      | 384,322,004        |                    |                         | -                    |              | 384,322,004   |
| Other Comprehensive Income      |                        |                      |                    |                    |                         | 31,357,418           | (15,123,822) | 16,233,595    |
| Transfer During the Year        |                        | 28,304,566           |                    |                    |                         | (28,304,566)         |              | -             |
| Transfer to Consolidated Fund   |                        |                      |                    |                    |                         | (10,000,000)         |              | (10,000,000)  |
| <b>Balance as at 31.12.2016</b> | 889,812,899            | 231,357,505          | 393,498,004        | 683,280,000        | 1,031,000               | 2,706,975,850        | 12,240,000   | 4,918,195,257 |
| Prior Period Adjustments        |                        |                      |                    |                    |                         | (27,884,783)         |              | (27,884,783)  |
| Net Profit for the Year         |                        |                      |                    |                    |                         | 178,524,309          |              | 178,524,309   |
| Deemed Dividend Tax             |                        |                      |                    |                    |                         | (93,266,093)         |              | (93,266,093)  |
| Other Comprehensive Income      |                        |                      |                    |                    |                         | 5,206,601            | 655,000      | 5,861,601     |
| Transfer During the Year        |                        | 15,278,229           |                    |                    |                         | (15,278,229)         |              | -             |
| Transfer to Consolidated Fund   |                        |                      |                    |                    |                         | (25,000,000)         |              | (25,000,000)  |
| <b>Balance as at 31.12.2017</b> | 889,812,899            | 246,635,734          | 393,498,004        | 683,280,000        | 1,031,000               | 2,729,277,654        | 12,895,000   | 4,956,430,290 |

# Statement of Cash Flows

For the year ended 31st December 2017

|   | Note | 2017<br>Rs.            | 2016<br>Rs.            |
|---|------|------------------------|------------------------|
| <b>Cash Flows from Operating Activities</b>                 |      |                        |                        |
| Interest Received   |      | 3,700,799,179          | 3,512,102,483          |
| Interest Payments   |      | (2,188,853,183)        | (1,827,279,478)        |
| Payments to Employees                                       |      | (687,458,688)          | (648,946,375)          |
| Receipts from Other Operating Activities                    |      | 151,964,903            | 125,012,566            |
| Payments on Other Operating Activities                      |      | (295,331,973)          | (286,104,056)          |
| <b>Operating Profit before Changes in Operating Assets</b>  |      | <b>681,120,237</b>     | <b>874,785,139</b>     |
| <b>(Increase)/Decrease in Operating Assets:</b>             |      |                        |                        |
| Funds Advanced to Customers (net)                           |      | (5,000,603,645)        | (1,758,233,406)        |
| Other Short-Term Securities                                 |      | (1,756,102,303)        | 741,830,982            |
|   |      | <b>(6,756,705,948)</b> | <b>(1,016,402,424)</b> |
| <b>Increase /(Decrease) in Operating Liabilities:</b>       |      |                        |                        |
| Deposits from Customers (net)                               |      | 3,866,183,753          | 276,337,326            |
| Others  |      | -                      | -                      |
|   |      | <b>3,866,183,753</b>   | <b>276,337,326</b>     |
| <b>Net Cash from Operating Activities before Income Tax</b> |      | <b>(2,209,401,958)</b> | <b>134,720,041</b>     |
| Taxes Paid  |      | (530,114,582)          | (678,620,779)          |
| <b>Net Cash from Operating Activities</b>                   |      | <b>(2,739,516,540)</b> | <b>(543,900,738)</b>   |
| <b>Cash Flows from Investing Activities</b>                 |      |                        |                        |
| Dividends Received  |      | 19,207,500             | 6,087,750              |
| Proceeds from Sales of Property, Plant & Equipment          |      | 214,300                | -                      |
| Purchase of Property, Plant & Equipment                     |      | (11,116,587)           | (56,687,346)           |
| Interest Received from Deposits with Other Banks            |      | 569,376,251            | 408,206,582            |
| Interest Received from Government Securities                |      | 189,888,295            | 251,561,432            |
| Net Cash from Investing Activities                          |      | <b>767,569,760</b>     | <b>609,168,418</b>     |
| <b>Cash Flows from Financing Activities</b>                 |      |                        |                        |
| Repayment of Debentures                                     |      | -                      | -                      |
| Repayment of Loans  |      | (218,897,514)          | (72,701,054)           |
| Proceeds from Borrowings                                    |      | 2,209,020,000          | -                      |
| Payment to the Consolidated Fund                            |      | (25,000,000)           | (10,000,000)           |
| Net Cash from Financing Activities                          |      | <b>1,965,122,486</b>   | <b>(82,701,054)</b>    |
| <b>Net Increase in Cash and Cash Equivalents</b>            |      | <b>(6,824,294)</b>     | <b>(17,433,375)</b>    |
| Cash and Cash Equivalents at the beginning of the Year      |      | 78,967,672             | 96,401,047             |
| Cash and Cash Equivalents at the end of the Year            |      | <b>72,143,378</b>      | <b>78,967,672</b>      |
| <b>Reconciliation of Cash and Cash Equivalents</b>          |      |                        |                        |
| Cash and Short Term Funds                                   |      | 104,191,042            | 98,024,536             |
| Borrowings from Banks                                       |      | (32,047,664)           | (19,056,864)           |
|   |      | <b>72,143,378</b>      | <b>78,967,672</b>      |

# Accounting Policies

## 1. Corporate Information

### 1.1 General

State Mortgage & Investment Bank was incorporated as the Ceylon State Mortgage Bank on 6th December 1931. The Bank was established by the State Mortgage & Investment Bank Law No 13 of 1975, amalgamating the Ceylon State Mortgage and Agriculture and Industrial and Credit Corporation established in 1943.

### 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 Companies Act No.07 of 2007 and the 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 2017 were authorized for issue in accordance with the approval given by the Board of Directors of the Bank at the meeting held on 25.09.2018

The staff strength of the Bank as at December 31, 2017 was 365 (375 as at December 31, 2016)

## 2. Summary of Significant Accounting Policies

### 2.1. Basis of Preparation

These Financial Statements for the year ended 31 December 2017 were prepared in accordance with Sri Lanka Financial Reporting Standards (SLFRS and LKAS).

The Financial Statements of the State Mortgage and Investments Bank is prepared in Sri Lanka Rupees on a historical cost basis except for available for sale investment which has been measured at fair value. No adjustments have been made for inflationary factors.

#### 2.1.1. Statement of compliance

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

#### 2.1.2. Presentation of Financial Statements

The Bank presents its statement of financial position broadly in order of liquidity. Contractual maturities of assets and liabilities of the bank is presented in note 30.

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

### 2.2. 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.

#### 2.2.1. Judgements

##### Taxation

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

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

#### 2.2.2. Estimates and Assumptions

##### 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.

##### Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be

## Accounting Policies Contd...

derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values.

### Impairment losses on loans and advances

#### Individually assessed Loans and Advances

For financial assets carried at amortised cost (such as loans and advances to customers as well as held to maturity investments), 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.

#### Impairment of Available For Sale Investments

The Bank reviews its investments classified as available for sale investments at each reporting date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

The Bank also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

#### 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.

#### Employee Benefit Liability- Gratuity

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

|                                | 2017        | 2016        |
|--------------------------------|-------------|-------------|
| Interest Rate                  | 11.50%      | 10.00%      |
| Rate of Annual Salary Increase | 7.50%       | 8.50%       |
| Retirement Age                 | 55-60 years | 55-60 years |

The employment benefit obligation of gratuity provision is given in Note 20

#### Employee Benefit Liability - Medical Benefit

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

The assumptions used are as follows.

|  | 2017       | 2016       |
|--|------------|------------|
| Discount Rate                                    | 11.50%     | 10.00%     |
| Medical Expense Escalation                       | 10.00%     | 10.00%     |
| Participant Data (Actives) census information at | 31.12.2017 | 31.12.2016 |

Description of employee benefits is given in Note 20.

### 2.3. Summary of Significant Accounting Policies

#### 2.3.1. Financial Instruments – Initial Recognition and Subsequent Measurement

##### a. Date of Recognition

Regular way purchases of financial assets are recognised using settlement date accounting. The settlement date is the date that an asset is delivered to an entity. Settlement date accounting refers to the recognition of an asset on the day it is received by the entity. When settlement date accounting is applied an entity accounts for any change in the fair value of the assets to be received during the period between the trade date and settlement date in the way as it accounts for the acquired asset.

Non-regular way purchases of financial assets and liabilities are recognised on the trade date, i.e., the date that the bank becomes a party to the contractual provisions of the instrument.

A regular way purchase is a purchase of a financial asset under a contract whose terms require delivery of the assets within the time frame established generally by a regulation or convention in the market place concerned.

## Accounting Policies Contd...

### b. Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus significant transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

### c. Available for sale investments

Available for sale investments include investment in unit trust. Investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

The Bank has not designated any loans or receivables as available for sale. After initial measurement, available for sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in equity (Other comprehensive income) in the 'Available for sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement in 'Other operating income'. Dividends earned whilst holding available for sale financial investments are recognised in the income statement as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the income statement in 'Impairment losses on financial investments' and removed from the 'Available for Sale Reserve'.

### d. Held to Maturity Financial Investments

Held to maturity financial investments 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, held to maturity financial investments 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 recognised in the income statement line 'Impairment expense'.

If the Bank were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available for sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

### e. Other Financial Liabilities

Financial instruments issued by the Bank that are not designated at fair value through profit or loss, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset.

Other financial liabilities include, deposits from customers, amount due from banks, borrowings from bank and others and debentures. After initial measurement, other financial liabilities are subsequently measured at amortised cost using the EIR. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

### f. Financial Assets classified as Loans and Receivables

Financial Assets classified as Loans and Receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the bank intends 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 that the bank, upon initial recognition, designates as available for sale
- Those for which the bank may not recover substantially all of its initial investment, other than because of credit deterioration

After initial measurement, amounts 'Due from banks' and 'Loans and advances to customers' 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 and similar income' in the income statement. The losses arising from impairment are recognised in the income statement in 'Impairment expense'.

### g. Day 1' Difference for staff loan

All staff loans granted at below Market interest rate are recognised at fair value. The difference between the fair value and the amount disbursed are treated as day 1 difference and amortised as staff cost over the loan period by using effective rate. The staff loans are subsequently measured at amortised cost.

### h. Reclassification of financial assets

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

## Accounting Policies Contd...

For a financial asset reclassified out of the 'available for sale' category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the income statement.

The Bank may reclassify a non-derivative trading asset out of the 'held for trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Bank does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition. An analysis of reclassified financial assets is disclosed in Note 08.

### 2.3.2. De-Recognition of Financial Assets and Financial Liabilities

#### a) Financial assets

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

- The rights to receive cash flows from the asset have expired
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement
- The Bank has transferred substantially all the risks and rewards of the asset
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

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

#### b) Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or 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.

### 2.3.3. Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'Due to Banks', reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within 'Placements with Banks', reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in 'Net interest income' and is accrued over the life of the agreement using the EIR.

### 2.3.4. Determination of Fair Value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exist, and other relevant valuation models.

## Accounting Policies Contd...

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Bank's best estimate of the most appropriate model assumptions.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 28

### 2.3.5. Impairment of Financial Assets

#### a) Loans and Advances

The Bank assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter Bankruptcy or other financial reorganisation; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The criteria used to determine that there is such objective evidence includes:

- Known cash flow difficulties experienced by the borrower
- Past due contractual payments of either principal or interest
- Breach of loan covenants or conditions
- The probability that the borrower will enter bankruptcy or other financial realisation

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the assets 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 allowance account and the amount of the loss is recognised in the income statement.

The impairment allowances on individually significant accounts are reviewed more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

#### Collectively assessed loans and advances

Impairment is assessed on a collective basis in two circumstances:

- To cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and
- For homogeneous groups of loans that is not considered individually significant.

#### Incurred but not yet identified impairment

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Bank has incurred as a result of events occurring before the balance sheet date, which the Bank is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account:

- Historical loss experience in portfolios of similar credit risk; and
- Management's experienced judgment as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience.

#### Homogeneous groups of loans and advances

Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of loans. Losses in these groups of loans are recorded on an individual basis when individual loans are written off, at which point they are removed from the group.

## Accounting Policies Contd...

The following method is used to calculate historical loss experience on a collective basis:

When the group of loan by nature is long term, the Bank uses Probability of default method (Risk Migration)

Under this methodology the movement in number of customers in to bad categories over the periods are used to estimate the amount of loans that will eventually be written off as a result of the events occurring before the balance sheet date which the Bank is not able to identify on an individual loan basis, and that can be reliably estimated.

Under this methodology, loans are grouped into ranges according to the number of days in arrears and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency, and ultimately prove irrecoverable.

Current economic conditions and portfolio risk factors are also evaluated when calculating the appropriate level of allowance required covering inherent loss.

These additional macro and portfolio risk factors may include:

- Recent loan portfolio growth and product mix,
- Unemployment rates, gross domestic production (GDP) growth, inflation
- Interest rates
- Changes in government laws and regulations

The impairment loss on loans and advances is disclosed in more detail in Note 11.

### b) Financial Assets Carried at Amortised Cost

For financial assets carried at amortised cost (such as amounts due from Banks and loans and advances to customers), 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 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 allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using 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'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Impairment expense'.

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. 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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as asset type, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

## Accounting Policies Contd...

### c) Available for Sale Financial Investments

For available for sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of equity investments classified as available for sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The Bank treats 'significant' generally as 20% and 'prolonged' generally as greater than six months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised in other comprehensive income.

### d) Renegotiated Loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

### e) Collateral Valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and other credit enhancements

### 2.3.6. Offsetting Financial Instruments

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

### 2.3.7. Leasing

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

### 2.3.8. Recognition of income and expenses

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

#### a) Interest and Similar Income and Expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

#### b) Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

#### Fee Income Earned from Services that are provided over a Certain Period of Time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Credit related fees are deferred and recognised as an adjustment to the EIR of the loan.

#### Fee Income from Providing Transaction Services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the

## Accounting Policies Contd...

underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

### c) Dividend income

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

### d) Net trading income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities 'held for trading'. This includes any ineffectiveness recorded in hedging transactions.

### e) Other Income

Other income is recognized on an accrual basis.

### f) Other Expenses

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

### 2.3.9. 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 9 to the Financial Statements.

### 2.3.10. Property, Plant and equipment

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

#### a) Cost Model

Plant & Equipment are stated at cost, excluding the cost of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the Plant & Equipment when the cost is incurred, if the recognition criteria are met.

#### b) 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.

#### c) Restoration Cost

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

#### d) 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.

#### e) 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. The estimated useful lives are as follows:

| Category of Asset      | Period of Depreciation |
|------------------------|------------------------|
| Motor Vehicles         | 25.00% p.a.            |
| Furniture and Fittings | 12.50% p.a.            |
| Office Equipment       | 12.50% p.a.            |
| Calculators            | 25.00% 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. Computer Software is amortised over 4 years.

#### f) De-recognition

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

### 2.3.11. 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

## Accounting Policies Contd...

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 |

### 2.3.12. 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.

### 2.3.13. Financial Guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. 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.

### 2.3.14. Retirement Benefit Obligation

#### a) 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 projected unit credit actuarial valuation method.

The method of calculation of retirement benefit obligation has changed to actuarial valuation method and changes in accounting policy have been retrospectively accounted.

#### Recognition of Actuarial Losses / Gains

Actuarial losses / gains are recognized in OCI.

#### Expected Return on Assets

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

#### Interest Cost

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

#### Funding Arrangements

The Gratuity liability is not externally funded.

#### b) 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.

## Accounting Policies Contd...

The Bank contributes to the following schemes:

### 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.

### 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.

### c) Medical Benefit

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

The method of calculation of retirement benefit obligation has changed to actuarial valuation method and changes in accounting policy have been retrospectively accounted. The Bank uses Projected Unit Credit method for actuarial valuations. Under this method, Actuarial Gains /Losses as they occur, generally reduce /increase the Unfunded Actuarial Accrued Liability.

### Normal and Early Retirement

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

### Recognition of Actuarial Losses / Gains

Actuarial losses / gains are recognized in OCI.

### Expected Return on Assets

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

### Interest Cost

Interest Cost is the 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

### 2.3.15. 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.

### 2.3.16. Taxes

#### a) Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted by the Balance Sheet date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 10 of 2006 and the amendment thereto, at the rates specified in Note 08 to the Financial Statements.

#### b) Deferred Taxation

Deferred tax is provided using the liability method on temporary differences at the Balance Sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose. Deferred tax liabilities are recognised for all temporary differences, except:

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

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

- Where deferred tax assets relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor the taxable profit or losses; and

## Accounting Policies Contd...

- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognized only to the extent it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which temporary differences can be utilised

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

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

### c) Value Added Tax on Financial Services (VAT)

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

### 2.3.17. Events after the Balance Sheet Date

All material events after the Balance Sheet events have been considered where appropriate adjustments or disclosures are made in respective notes to the financial statements.

### 2.3.18. Related Party Transactions with Government and Government Related Entities

The Bank does not elect the disclosure exemption under para 25 of LKAS 24.

### 2.3.19. Standards Issued but not yet Effective

The following SLFRS have been issued by the Institute of Chartered Accountants of Sri Lanka that have an effective date in the future. Those SLFRS will have an effect on the accounting policies currently adopted by the Bank and may have an impact on the future financial statements.

- SLFRS 9 -Financial Instruments: Classification and Measurement  
SLFRS 9, as issued reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities.
- SLFRS 13 -Fair Value Measurement SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 provides guidance on all fair value measurements under SLFRS.

## Notes to the Financial Statements

|   | 2017<br>Rs.          | 2016<br>Rs.          |
|---|----------------------|----------------------|
| <b>1. Net Interest Income</b>                             |                      |                      |
| Interest Income   |                      |                      |
| Sri Lanka Government Securities                           | 188,195,405          | 268,883,451          |
| Loans and Advances  | 4,000,991,626        | 3,507,069,283        |
| Financial Investments                                     | 555,872,354          | 464,818,425          |
| <b>Total Interest Income</b>                              | <b>4,745,059,385</b> | <b>4,240,771,159</b> |
| <b>Interest Expenses</b>                                  |                      |                      |
| Due to Banks  | 511,984              | 191,425              |
| Due to Customers  | 3,065,753,523        | 2,403,891,658        |
| Other Borrowings  | 32,875,761           | 18,497,360           |
| Debt Securities Issued                                    | 2,750,000            | 2,750,000            |
| <b>Total Interest Expenses</b>                            | <b>3,101,891,268</b> | <b>2,425,330,442</b> |
| <b>Net Interest Income</b>                                | <b>1,643,168,117</b> | <b>1,815,440,717</b> |
| <br>  |                      |                      |
| <b>a. Net Income from Sri Lanka Government Securities</b> |                      |                      |
|   | <b>2017<br/>Rs.</b>  | <b>2016<br/>Rs.</b>  |
| Interest Income   | 188,195,405          | 268,883,451          |
| (Less): Interest Expenses                                 | -                    | -                    |
| <b>Net Interest Income</b>                                | <b>188,195,405</b>   | <b>268,883,451</b>   |
| <br>  |                      |                      |
| <b>2. Net Fee and Commission Income</b>                   |                      |                      |
|   | <b>2017<br/>Rs.</b>  | <b>2016<br/>Rs.</b>  |
| Fee and Commission Income                                 | 149,313,983          | 121,154,693          |
| Fee and Commission Expenses                               | -                    | -                    |
| <b>Net Fee and Commission Income</b>                      | <b>149,313,983</b>   | <b>121,154,693</b>   |
| <b>Comprising</b>   |                      |                      |
| Bank Service Charges                                      | 138,023,927          | 104,804,828          |
| Legal & Technical Fees                                    | 398,371              | 484,395              |
| Other Loan Charges  | 10,891,685           | 15,865,470           |
| <b>Net Fee and Commission Income</b>                      | <b>149,313,983</b>   | <b>121,154,693</b>   |
| <br>  |                      |                      |
| <b>3. Other Operating Income (net)</b>                    |                      |                      |
|   | <b>2017<br/>Rs.</b>  | <b>2016<br/>Rs.</b>  |
| Dividend Income   | 19,207,500           | 6,087,750            |
| Sundry Income   | 2,650,920            | 3,857,873            |
| <b>Other Operating Income (net)</b>                       | <b>21,858,420</b>    | <b>9,945,623</b>     |

## Notes to the Financial Statements Contd...

|   | 2017<br>Rs.        | 2016<br>Rs.        |
|---|--------------------|--------------------|
| <b>4. Impairment Charges/ (Reversal) for Loans and Other Losses</b> |                    |                    |
| Individual Impairment   | 110,780,644        | 3,503,255          |
| Collective Impairment   | 114,611,342        | 31,773,143         |
| Total   | <u>225,391,986</u> | <u>35,276,398</u>  |
| <b>5. Personnel Expenses</b>  |                    |                    |
|   | 2017<br>Rs.        | 2016<br>Rs.        |
| Salaries and Bonus  | 494,652,203        | 470,891,369        |
| Contribution to Defined Contribution Plans                          | 66,084,826         | 67,867,961         |
| Contribution to Defined Benefit Plans                               | 83,268,905         | 75,821,856         |
| Other Staff Expenses  | 81,123,083         | 83,623,588         |
| Total   | <u>725,129,018</u> | <u>698,204,774</u> |
| <b>6. Other Expenses</b>  |                    |                    |
|   | 2017<br>Rs.        | 2016<br>Rs.        |
| Directors' Emoluments   | 2,880,056          | 2,684,224          |
| Auditors' Remuneration  | 1,400,000          | 1,400,000          |
| Professional and Legal Expenses                                     | 840,563            | 1,445,635          |
| Depreciation/Amortisation of Property, Plant and Equipment          | 33,105,203         | 37,527,092         |
| Office Administration and Establishment Expenses                    | 159,335,029        | 145,141,277        |
| Advertising and Promotional Expenses                                | 10,918,122         | 14,278,436         |
| Motor Vehicle Maintenance & Travelling                              | 8,461,708          | 7,523,141          |
| General Expense   | 13,419,948         | 11,893,478         |
| District Rep's Commission   | 4,250              | 16,750             |
| Other Losses, Bad Debts and Write Offs                              | -                  | 23,898             |
| CBSL Deposit Insurance  | 26,867,288         | 25,302,525         |
| Other Expenses  | 40,626,295         | 39,300,654         |
| Total   | <u>297,858,463</u> | <u>286,537,111</u> |

## Notes to the Financial Statements Contd...

|   | 2017<br>Rs.         | 2016<br>Rs.         |
|---|---------------------|---------------------|
| <b>7. Tax Expenses</b>  |                     |                     |
| <b>Current Year</b>   | 200,347,087         | 275,142,167         |
| Deferred Tax Expense/(Credit)   | 57,258              | (5,091,070)         |
| <b>Total</b>  | <b>200,404,345</b>  | <b>270,051,098</b>  |
| <b>a. Reconciliation of Tax Expenses</b>  |                     |                     |
| Profit/(Loss) before Tax  | 565,961,053         | 926,522,751         |
| Adjustment in Respect of Current Income Tax of Prior Periods                                  |                     |                     |
| Add: Tax Effect of Expenses that are not Deductible for Tax Purposes                          | 222,959,074         | 143,472,133         |
| (Less): Tax Effect of Expenses that are Deductible for Tax Purposes                           | (65,411,333)        | (58,856,031)        |
| Disposal of Assets  | -                   | -                   |
| Capita Gains & Dividends  | (19,207,500)        | (41,317,087)        |
| Adjusted Profits for the Year   | 704,301,294         | 969,821,765         |
| Taxation Based on Profit for the Year   | 197,204,362         | 271,550,094         |
| Transfer to/from Deffered Taxation  | 57,258              | (5,091,070)         |
| (Over)/Under Provision in Previous years  | 3,142,724           | 3,592,073           |
| <b>Tax Expense for the Period</b>   | <b>200,404,345</b>  | <b>270,051,098</b>  |
| <b>b. The Deferred Tax (Credit)/Charge in the Income Statement Comprise of the Following.</b> |                     |                     |
| <b>Deferred Tax Assets</b>  |                     |                     |
| Property, Plant & Equipment   | (1,568,410)         | (5,507,139)         |
| Employee Benefit Obligations  | (94,232,597)        | (90,351,127)        |
| <b>Deferred Tax (Credit)/Charge to Income Statement</b>                                       | <b>(95,801,007)</b> | <b>(95,858,266)</b> |

## Notes to the Financial Statements Contd...

8. Analysis of Financial Instruments by Measurement Basis  
Bank - Current Year (2017)

| In Rs.   | HTM                  | Loans & Receivables   | AFS               | Total                 |
|--|----------------------|-----------------------|-------------------|-----------------------|
| <b>ASSETS</b>  |                      |                       |                   |                       |
| Cash and Balances with Central Banks                             |                      | 104,191,042           |                   | 104,191,042           |
| Sri Lanka Government Securities                                  | 1,035,368,792        |                       |                   | 1,035,368,792         |
| Balances with Banks  |                      |                       |                   | -                     |
| Investment Securities  |                      |                       | 5,379,078         | 5,379,078             |
| Placement with and Loans to Other Banks & Financial Institutions |                      |                       |                   | -                     |
| Commercial Papers  |                      | 0.02                  |                   | -                     |
| Treasury Bills Held Under Resale Agreement                       |                      | 1,017,022,848         |                   | 1,017,022,848         |
| Fixed Deposits   |                      | 5,987,564,588         |                   | 5,987,564,588         |
| Debentures   |                      | 65,889,590            |                   | 65,889,590            |
| Loans and Receivables to Other Customers                         |                      | 32,987,158,106        |                   | 32,987,158,106        |
| Financial Investments - Pyramid Trust                            |                      |                       | 17,895,000        | 17,895,000            |
| Other Assets -Prepaid Staff Loans                                |                      | 290,496,356           |                   | 290,496,356           |
| <b>Total financial assets</b>                                    | <b>1,035,368,792</b> | <b>40,452,322,530</b> | <b>23,274,078</b> | <b>41,510,965,401</b> |
| <b>LIABILITIES</b>   |                      |                       |                   |                       |
| Due to Banks   |                      | 32,047,664            |                   | 32,047,664            |
| Due to Customers   |                      |                       |                   | -                     |
| Deposits   |                      | 20,541,237,021        |                   | 20,541,237,021        |
| Institutional Deposits   |                      | 12,004,035,662        |                   | 12,004,035,662        |
| Scheme Deposits  |                      | 1,074,964,727         |                   | 1,074,964,727         |
| Debt Securities Issued   |                      | 110,180,822           |                   | 110,180,822           |
| Other Borrowings   |                      |                       |                   | -                     |
| Bank Loans   |                      | 2,056,658,089         |                   | 2,056,658,089         |
| AHF  |                      | 20,840,226            |                   | 20,840,226            |
| Refinance Borrowing  |                      | 309,509,365           |                   | 309,509,365           |
| Other Liabilities  |                      | 233,164,395           |                   | 233,164,395           |
| <b>Total Financial Liabilities</b>                               | <b>-</b>             | <b>36,382,637,972</b> | <b>-</b>          | <b>36,382,637,972</b> |

Held-to-Maturity - HTM

Available-for-Sale – AFS

Loans and Receivables/Deposits at Amortised Cost - Amortised Cost

## Notes to the Financial Statements Contd...

## Bank - Previous Year (2016)

| In Rs.   | HTM                | Loans & Receivables   | AFS               | Total                 |
|--|--------------------|-----------------------|-------------------|-----------------------|
| <b>ASSETS</b>  |                    |                       |                   |                       |
| Cash and Balances with Central Banks                             |                    | 98,024,536            |                   | 98,024,536            |
| Sri Lanka Government Securities                                  | 667,814,030        |                       |                   | 667,814,030           |
| Balances with Banks  |                    |                       |                   | -                     |
| Investment Securities  |                    |                       | 5,379,078         | 5,379,078             |
| Placement with and Loans to Other Banks & Financial Institutions |                    |                       |                   | -                     |
| Commercial Papers  |                    | 291,436,924           |                   | 291,436,924           |
| Treasury Bills Held Under Resale Agreement                       |                    | 940,400,465           |                   | 940,400,465           |
| Fixed Deposits   |                    | 4,402,498,884         |                   | 4,402,498,884         |
| Debentures   |                    | 65,999,171            |                   | 65,999,171            |
| Loans and Receivables to Other Customers                         |                    | 28,163,700,935        |                   | 28,163,700,935        |
| Financial Investments - Pyramid Trust                            |                    |                       | 17,240,000        | 17,240,000            |
| Other Assets -Prepaid Staff Loans                                |                    | 275,456,318           |                   | 275,456,318           |
| <b>Total financial assets</b>                                    | <b>667,814,030</b> | <b>34,237,517,233</b> | <b>22,619,078</b> | <b>34,927,950,341</b> |
| <b>LIABILITIES</b>   |                    |                       |                   |                       |
| Due to Banks   |                    | 19,056,864            |                   | 19,056,864            |
| Due to Customers   |                    |                       |                   | -                     |
| Deposits   |                    | 17,814,278,697        |                   | 17,814,278,697        |
| Institutional Deposits   |                    | 9,982,831,015         |                   | 9,982,831,015         |
| Scheme Deposits  |                    | 1,048,059,480         |                   | 1,048,059,480         |
| Debt Securities Issued   |                    | 110,180,822           |                   | 110,180,822           |
| Other Borrowings   |                    |                       |                   | -                     |
| Government of Sri Lanka  |                    | -                     |                   | -                     |
| AHF  |                    | 29,320,659            |                   | 29,320,659            |
| Refinance Borrowing  |                    | 363,410,915           |                   | 363,410,915           |
| Other Liabilities  |                    | 273,522,635           |                   | 273,522,635           |
| <b>Total Financial Liabilities</b>                               | <b>-</b>           | <b>29,640,661,087</b> | <b>-</b>          | <b>29,640,661,087</b> |

## Notes to the Financial Statements Contd...

|  | 2017<br>Rs.           | 2016<br>Rs.           |
|--|-----------------------|-----------------------|
| <b>09. Cash and Cash Equivalents</b>                         |                       |                       |
| Cash and Balances with banks                                 | 104,191,042           | 98,024,536            |
| Total  | 104,191,042           | 98,024,536            |
|  |                       |                       |
|  | 2017<br>Rs.           | 2016<br>Rs.           |
| <b>10. Placements with Banks &amp; Financial Institution</b> |                       |                       |
| Commercial Paper   | 0.02                  | 291,436,924           |
| Treasury Bills Held under Resale Agreement                   | 1,017,022,848         | 940,400,465           |
| Debentures   | 65,889,590            | 65,999,171            |
| Fixed Deposits   | 5,987,564,588         | 4,402,498,884         |
| Total  | 7,070,477,026         | 5,700,335,444         |
|  |                       |                       |
|  | 2017<br>Rs.           | 2016<br>Rs.           |
| <b>11. Loans and Receivables to Customers</b>                |                       |                       |
| Gross Loans and Receivables                                  | 33,579,344,566        | 28,530,495,410        |
| Individual Impairment  | (123,673,707)         | (12,893,063)          |
| Collective Impairment  | (468,512,753)         | (353,901,411)         |
| <b>Net Loans and Receivables</b>                             | <b>32,987,158,106</b> | <b>28,163,700,935</b> |
|  |                       |                       |
|  | 2017<br>Rs            | 2016<br>Rs            |
| <b>a. Analysis</b>   |                       |                       |
| <b>By product</b>  |                       |                       |
| Mortgage   | 9,179,939,734         | 9,076,121,011         |
| EPF  | 9,312,656,134         | 10,343,697,912        |
| Vehicle  | 27,482,737            | 40,344,555            |
| Staff loans  | 884,353,343           | 841,704,479           |
| Personal Loans   | 13,193,612,739        | 7,430,006,373         |
| Others   | 981,299,878           | 798,621,080           |
| <b>Staff loans</b>   | <b>33,579,344,566</b> | <b>28,530,495,410</b> |
| <b>By Security</b>   |                       |                       |
| Collateral held as a Security                                | 19,404,431,950        | 20,301,867,957        |
| Other Credit Enhancements                                    | 14,174,912,617        | 8,228,627,453         |
|  | <b>33,579,344,566</b> | <b>28,530,495,410</b> |

## Notes to the Financial Statements Contd...

|   | 2017<br>Rs         | 2016<br>Rs         |
|---|--------------------|--------------------|
| <b>b. Movements in Individual and Collective Impairment</b> |                    |                    |
| <b>Individual Impairment</b>                                |                    |                    |
| Opening Balance as at 1st January                           | 12,893,063         | 9,389,808          |
| Charge/(Write back) to income statement                     | 110,780,644        | 3,503,255          |
| <b>Closing Balance</b>                                      | <b>123,673,707</b> | <b>12,893,063</b>  |
| <b>Collective Impairment</b>                                |                    |                    |
| Opening Balance as at 1st January                           | 353,901,411        | 322,128,268        |
| Charge/(Write Back) to Income Statement                     | 114,611,342        | 31,773,143         |
| <b>Closing Balance</b>                                      | <b>468,512,753</b> | <b>353,901,411</b> |
| <b>Total</b>  | <b>592,186,460</b> | <b>366,794,474</b> |

|   | 2017<br>Rs        | 2016<br>Rs        |
|---|-------------------|-------------------|
| <b>12. Financial Investments-Available-for-Sale (Excluding Sri Lanka Government Securities)</b> |                   |                   |
| Equity Securities- Unit Trust   | 17,895,000        | 17,240,000        |
| Unquoted Shares   | 5,379,078         | 5,379,078         |
| (Less): Impairment Charges  | -                 | -                 |
| <b>Net Available-for-sale Investments</b>   | <b>23,274,078</b> | <b>22,619,078</b> |

Equity securities- Unit Trust includes a 500,000 units in Eagle Growth & Income Fund. These investments were recorded at fair value based on the market prices as at the date of the financial statements. Unquoted shares represent the shares in Fitch Rating Lanka Ltd and Credit Information Bureau the values of which cannot be reliably measured. These are carried at cost.

|   | 2017<br>Rs           | 2016<br>Rs         |
|---|----------------------|--------------------|
| <b>13. Financial Investments-Held to Maturity</b> |                      |                    |
| Treasury Bills and Bonds                          | 1,035,368,792        | 667,814,030        |
| (Less): Impairment Charges                        | -                    | -                  |
| <b>Net Held to Maturity Investments</b>           | <b>1,035,368,792</b> | <b>667,814,030</b> |

## Notes to the Financial Statements Contd...

## 14. Property, Plant and Equipment

## a. Property, Plant and Equipment

| In Rs.                                  | Vehicles   | Furniture and Equipment | Total       |
|---|------------|-------------------------|-------------|
| <b>2017 (Current Year)</b>              |            |                         |             |
| <b>Cost/Fair Value</b>                  |            |                         |             |
| <b>Opening Balance as at 01/01/2017</b> | 70,903,939 | 247,167,718             | 318,071,657 |
| Additions                               | -          | 11,116,587              | 11,116,587  |
| Disposals                               | (105,685)  | (9,507,675)             | (9,613,360) |
| Adjustments                             | -          | -                       | -           |
| <b>Closing Balance as at 31/12/2017</b> | 70,798,254 | 248,776,629             | 319,574,883 |
| <b>(Less): Accumulated Depreciation</b> |            |                         |             |
| <b>Opening Balance as at 01/01/2017</b> | 66,794,514 | 157,701,192             | 224,495,705 |
| Charge for the Year                     | 4,109,425  | 28,995,778              | 33,105,203  |
| Additions                               | -          | -                       | -           |
| Disposals                               | (105,685)  | (9,301,873)             | (9,407,558) |
| Adjustments                             | -          | -                       | -           |
| <b>Closing Balance as at 31/12/2017</b> | 70,798,254 | 177,395,097             | 248,193,351 |
| (Less): Impairment Charges              | -          | -                       | -           |
| <b>Net Book Value as at 31/12/2017</b>  | -          | 71,381,532              | 71,381,532  |
| <b>2016 (Previous Year)</b>             |            |                         |             |
| <b>Cost/Fair Value</b>                  |            |                         |             |
| <b>Opening Balance as at 01/01/2016</b> | 70,903,939 | 190,480,371             | 261,384,310 |
| Additions                               | -          | 56,687,346              | 56,687,346  |
| Disposals                               | -          | -                       | -           |
| Adjustments                             | -          | -                       | -           |
| <b>Closing Balance as at 31/12/2016</b> | 70,903,939 | 247,167,718             | 318,071,657 |
| <b>(Less): Accumulated Depreciation</b> |            |                         |             |
| <b>Opening Balance as at 01/01/2016</b> | 58,552,689 | 128,415,925             | 186,968,613 |
| Charge for the Year                     | 8,241,825  | 29,285,267              | 37,527,092  |
| Additions                               | -          | -                       | -           |
| Disposals                               | -          | -                       | -           |
| Adjustments                             | -          | -                       | -           |
| <b>Closing Balance as at 31/12/2016</b> | 66,794,514 | 157,701,192             | 224,495,705 |
| (Less): Impairment Charges              | -          | -                       | -           |
| <b>Net Book Value as at 31/12/2016</b>  | 4,109,426  | 89,466,526              | 93,575,951  |

## Notes to the Financial Statements Contd...

## 15. Deferred Tax Assets/(Liabilities)

|                              | Statement of Financial Position |                   | Income Statement |                  |
|------------------------------|---------------------------------|-------------------|------------------|------------------|
|                              | 2017                            | 2016              | 2017             | 2016             |
| Property, Plant & Equipment  | 1,568,410                       | 5,507,139         | (3,938,729)      | 5,298,274        |
| Employee Benefit Obligations | 94,232,597                      | 90,351,127        | 3,881,470        | (207,204)        |
| <b>Net Total</b>             | <b>95,801,007</b>               | <b>95,858,266</b> | <b>(57,258)</b>  | <b>5,091,070</b> |

Deferred tax has been determined based on the effective tax rate of 28%.

|                          | 2017<br>Rs.        | 2016<br>Rs.        |
|--------------------------|--------------------|--------------------|
| <b>16. Other Assets</b>  |                    |                    |
| Stationary Stock         | 10,815,198         | 10,062,368         |
| Deposits and Prepayments | 31,512,850         | 34,042,465         |
| Prepaid Staff Loans      | 290,496,356        | 275,456,318        |
| Others                   | 301,945,826        | 185,669,131        |
| <b>Total</b>             | <b>634,770,231</b> | <b>505,230,283</b> |

## 17. Due to Banks

|                | 2017<br>Rs.       | 2016<br>Rs.       |
|----------------|-------------------|-------------------|
| Bank Overdraft | 32,047,664        | 19,056,864        |
| <b>Total</b>   | <b>32,047,664</b> | <b>19,056,864</b> |

## 18. Due to Customers

|                               | 2017<br>Rs.           | 2016<br>Rs.           |
|-------------------------------|-----------------------|-----------------------|
| Total Amount Due to Customers | 33,620,237,411        | 28,845,169,193        |
| <b>Total</b>                  | <b>33,620,237,411</b> | <b>28,845,169,193</b> |
| <b>Analysis</b>               |                       |                       |
| By Product                    |                       |                       |
| Deposits                      | 20,541,237,021        | 17,814,278,697        |
| Institutional Deposits        | 12,004,035,662        | 9,982,831,015         |
| Scheme Deposits               | 1,074,964,727         | 1,048,059,480         |
| <b>Total</b>                  | <b>33,620,237,411</b> | <b>28,845,169,193</b> |

## 19. Other Borrowings

|                      | 2017<br>Rs.          | 2016<br>Rs.        |
|----------------------|----------------------|--------------------|
| Debentures           | 110,180,822          | 110,180,822        |
| Bank Loans           | 2,056,658,089        | -                  |
| AHF                  | 20,840,226           | 29,320,659         |
| CBSL Refinance Loans | 309,509,365          | 363,410,915        |
| <b>Total</b>         | <b>2,497,188,501</b> | <b>502,912,396</b> |

## Notes to the Financial Statements Contd...

### 20. 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 2017 is calculated based on the actuarial valuation report as of 31st December 2017, carried out by Management Consultants (Pvt) Ltd.

The key assumptions used by the actuary include the following:

|                         | 2017<br>Rs. | 2016<br>Rs. |
|-------------------------|-------------|-------------|
| Rate of Interest        | 11.50%      | 10.00%      |
| Rate of Salary Increase | 7.50%       | 8.50%       |
| Retirement Age          | 55-60 years | 55-60 years |

### Gratuity

|   | 2017<br>Rs.        | 2016<br>Rs.        |
|---|--------------------|--------------------|
| <b>Provision for Gratuity</b>           |                    |                    |
| Balance at the Beginning of the Year    | 141,313,199        | 159,681,831        |
| Current Service Cost                    | 16,957,584         | 6,333,716          |
| Interest Cost                           | 5,923,541          | 14,371,365         |
| Actuarial (Gain)/Losses                 | 16,554,312         | (34,819,070)       |
| Benefit Paid                            | (5,854,754)        | (4,254,643)        |
| <b>Total</b>                            | <b>174,893,882</b> | <b>141,313,199</b> |
| <b>Total Employee Benefit Liability</b> | <b>336,544,991</b> | <b>322,682,597</b> |

### 21. Other Liabilities

|  | 2017<br>Rs         | 2016<br>Rs         |
|--|--------------------|--------------------|
| Taxes Payable                                | 9,359,678          | 143,370,993        |
| Accrued Expenditure                          | 46,952,528         | 46,792,271         |
| Others                                       | 233,164,395        | 273,522,635        |
| Allowance for Day 1 Difference - Staff Loans | 290,496,356        | 275,456,318        |
| <b>Total</b>                                 | <b>579,972,958</b> | <b>739,142,216</b> |

## Notes to the Financial Statements Contd...

## 22. Stated Capital/Assigned Capital

|                     | 2017<br>Rs    | 2016<br>Rs    |
|---------------------|---------------|---------------|
| Authorised Capital  | 2,000,000,000 | 2,000,000,000 |
| Contributed Capital | 889,812,899   | 889,812,899   |

As per the provisions of the State Mortgage and Investment Bank Law No.13 of 1975 and amendments thereto, the authorised capital is Rs.2 Billion. Contributed capital consists of the amounts outstanding on 1st January 1979 of the sums advanced to the Agricultural and Industrial Credit Corporation in terms of section 22 of the Agricultural and Industrial Credit Corporation Ordinance together with the amount of the reserves of the Agricultural and Industrial Credit Corporation and the amounts standing to the credit reserve fund of the Ceylon State Mortgage Bank on 1st January 1979 formed part of the capital of the Bank and all such amounts are deemed to be contributions to the capital of the Bank by the Government.

The Government after the appointment date of 1st January 1979 made a contribution to the capital of the Bank so that the amounts of such contribution together with the amounts referred to the above paragraph amounted to RS.889,812,899 as at 31st Decemebr 2017.

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.

## 23. Statutory Reserve Fund

|  | 2017<br>Rs         | 2016<br>Rs         |
|--|--------------------|--------------------|
| Opening Balance as at 01st January         | 231,357,505        | 203,052,939        |
| Transfer During the Period                 | 15,278,229         | 28,304,566         |
| <b>Closing Balance as at 31st December</b> | <b>246,635,734</b> | <b>231,357,505</b> |

## 24. Retained Earnings

|   | 2017<br>Rs           | 2016<br>Rs           |
|---|----------------------|----------------------|
| Opening Balance as at 01st January                      | 2,706,975,850        | 2,449,406,437        |
| Prior Period Adjustments                                | (27,884,783)         | 1,845,834            |
| Profit for the Year                                     | 178,524,309          | 436,017,785          |
| Transfers to Other Reserves                             | (40,278,229)         | (38,304,566)         |
| Other Comprehensive Income                              | 5,206,601            | 31,357,418           |
| Deemed Dividend Tax                                     | (93,266,093)         | (173,347,059)        |
| <b>Closing Balance as at 31st December</b>              | <b>2,729,277,654</b> | <b>2,706,975,850</b> |
| Prior Period Adjustments                                |                      |                      |
| Opening retained earning adjustments of following years |                      |                      |
| Prior year adjustment-2015                              | (16,011,659)         |                      |
| Prior year adjustment-2014                              | 7,147,459            |                      |
| Prior year adjustment-2013                              | 11,705,046           |                      |
| Prior year adjustment-2012                              | (31,219,187)         |                      |
| Unidentified difference                                 | 493,558              |                      |
| <b>Difference B/F as at 31.12.2016</b>                  | <b>(27,884,783)</b>  |                      |

## Notes to the Financial Statements Contd...

## 25. Other Reserves

## a. Bank - Current year (2016)

|                      | Opening balance<br>as at 01/01/2017 | Movements/<br>Transfers | Closing Balance<br>as at 31/12/2017 |
|----------------------|-------------------------------------|-------------------------|-------------------------------------|
| General reserve      | 683,280,000                         | -                       | 683,280,000                         |
| Capital Reserve      | 393,498,004                         | -                       | 393,498,004                         |
| Title Indemnity Fund | 1,031,000                           | -                       | 1,031,000                           |
| AFS Reserve          | 12,240,000                          | 655,000                 | 12,895,000                          |
| <b>Total</b>         | <b>1,090,049,004</b>                | <b>655,000</b>          | <b>1,090,704,004</b>                |

## b. Bank – Previous year (2015)

|                      | Opening balance<br>as at 01/01/2016 | Movements/<br>Transfers | Closing Balance<br>as at 31/12/2016 |
|----------------------|-------------------------------------|-------------------------|-------------------------------------|
| General reserve      | 683,280,000                         | -                       | 683,280,000                         |
| Capital Reserve      | 9,176,000                           | -                       | 9,176,000                           |
| Title Indemnity Fund | 1,031,000                           | -                       | 1,031,000                           |
| AFS Reserve          | 13,840,000                          | 13,523,822              | 27,363,822                          |
| <b>Total</b>         | <b>12707,327,000</b>                | <b>13,523,822</b>       | <b>720,850,822</b>                  |

2017  
Rs.2016  
Rs.

## 26. Contingent Liabilities and Commitments

|                   |          |          |
|-------------------|----------|----------|
| Guarantees issued | -        | -        |
| Other commitments | -        | -        |
| <b>Total</b>      | <b>-</b> | <b>-</b> |

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.

## 27. 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.

|  | 2017<br>Rs.       | 2016<br>Rs.       |
|--|-------------------|-------------------|
| <b>27.1 (A) Compensation to Key Management Personnel</b> |                   |                   |
| Short - Term Employment Benefits                         | 20,218,526        | 26,000,080        |
| Post - Employment Benefits                               | 4,284,574         | 7,621,383         |
| <b>Total</b>   | <b>24,503,100</b> | <b>33,621,463</b> |

## Notes to the Financial Statements Contd...

27.1 (B) Transactions, arrangements and agreements involving Key Management Personnel, their Close Family Members (CFMs) and entities that are controlled, significantly influenced by the KMPs or their CFMs.

|  | 2017<br>Rs. | 2016<br>Rs. |
|--|-------------|-------------|
| <b>Income Statement</b>                |             |             |
| Interest Earned (From Loans)           | 2,149,477   | 2,180,715   |
| Interest Paid (To Deposits)            | 423,112     | 4,528,358   |
| Payment made as shown in 27.1 (A)      | 24,503,100  | 33,621,463  |
| <b>Statement of Financial Position</b> |             |             |
| <b>Assets</b>                          |             |             |
| Loans and Advances                     | 24,694,468  | 29,096,056  |
| <b>Liabilities</b>                     |             |             |
| Deposits                               | 11,548,808  | 24,027,895  |

### 28. Fair Value of Financial Instruments

Financial Instruments Recorded at Fair Value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the bank's estimate of assumptions that a market participant would make when valuing the instruments.

#### Financial Investments – Available For sale

Available for sale financial assets include an investment unit trust which has been valued using the market data.

### 28.1 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: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

| 31st December 2017                              | Level 1<br>Rs | Level 2<br>Rs | Level 3<br>Rs | Total<br>Rs |
|---|---------------|---------------|---------------|-------------|
| <b>Financial Assets</b>                         |               |               |               |             |
| <b>Financial investments available for sale</b> |               |               |               |             |
| Quoted investments - Unit Trust                 | 17,895,000    | -             | -             | 17,895,000  |
| <b>Total Financial Assets</b>                   | 17,895,000    | -             | -             | 17,895,000  |
| <b>Financial Liabilities</b>                    |               |               |               |             |
|   | -             | -             | -             | -           |
| <b>Total Financial Liabilities</b>              | -             | -             | -             | -           |

#### Determination of fair value and fair value hierarchy - continued

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities

## Notes to the Financial Statements Contd...

|  | 2017                  |                       |
|--|-----------------------|-----------------------|
|  | Carrying Amount<br>Rs | Fair Value<br>Rs      |
| <b>Assets</b>                              |                       |                       |
| Cash and cash equivalents                  | 104,191,042           | 104,191,042           |
| Placements with banks                      | 7,070,477,026         | 7,070,477,026         |
| Loans and receivables to customers         | 32,987,158,106        | 32,987,158,106        |
| Financial investments – Available-for-Sale | 5,379,078             | 5,379,078             |
| Financial investments – Held-to-maturity   | 1,035,368,792         | 1,035,368,792         |
| Other assets                               | 290,496,356           | 290,496,356           |
| <b>Total Financial Assets</b>              | <b>41,493,070,401</b> | <b>41,493,070,401</b> |
| <b>Liabilities</b>                         |                       |                       |
| Due to banks                               | 32,047,664            | 32,047,664            |
| Due to customers                           | 33,620,237,411        | 33,620,237,411        |
| Other borrowings                           | 2,497,188,501         | 2,497,188,501         |
| Other liabilities                          | 233,164,395           | 233,164,395           |
| <b>Total Financial Liabilities</b>         | <b>36,382,637,972</b> | <b>36,382,637,972</b> |

**Fair Value of Financial Assets and Liabilities not Carried at Fair Value**

The following describes the methodologies and assumptions used to determine the fair values for those financial instruments which are not already recorded at fair value in the Financial Statements

**Assets for which Fair Value Approximates Carrying Value**

For financial assets and financial liabilities that have a short term maturity (original maturities less than a year), it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to savings deposits without a specific maturity. Long term deposits accepted from customers for which periodical interest is paid and loans and advances granted to customers with a variable rate are also considered to be approximately carried at fair value in the books.

**Fixed Rate Financial Instruments**

Carrying amounts are considered as fair values for short term credit facilities. The Placement with Banks includes Repurchase agreements, commercial Papers with tenors less than one year. In fair valuing held to maturity securities, rates published by the CBSL for similar trading securities were used. The Bank grants Loans and Receivables with the right of revision of the interest rate at its discretion. Conversely, fixed deposits with original tenures above one year and interest paid at maturity were discounted using current market rates offered to customers during the fourth quarter of the reporting year. Loans and advances since they are granted with the option of repricing are considered as carrying value equals the fair value.

## Notes to the Financial Statements Contd...

### 29. RISK MANAGEMENT

#### 29.1 Introduction and Overview

The bank is exposed to the following risks from business operation.

- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

The bank's exposure to the above risk categories are discussed in detail in the management discussion on Risk Management of SMIB. Following facts are highlighted in the notes to the account.

#### Risk Management Structure

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. In discharging its governance responsibility, it operates through two key committees the Board Integrated Risk Management Committee and the Audit Committee. The board and the BIRMC have delegated the risk management responsibility to the following executive management committees in co-ordination of risk matters for each of the focused areas.

- Executive Integrated Risk Management Committee
- Credit Committee
- Asset and Liability Committee (ALCO)
- IT Steering Committee

Bank Treasury is responsible for managing the bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the bank.

#### 29.2 Credit risk

Credit risk arises from the potential that an obligor is either unwilling to perform on an obligation or its ability to perform such obligation is impaired resulting in economic loss to the bank. This is the primary category of risk with which the bank must deal, since the major share of its assets consists of loans and advances.

The credit risk policy plays a central role in managing daily business activities. The Bank has developed a policy which defines the principles encompassing client selection, due diligence, early alert reporting, tolerable levels of concentration risk and portfolio monitoring in line with Bank's risk appetite. The policy is reviewed at least annually and approved by the Board of Directors ensuring consistency with the Bank's business strategy.

Consistent standards maintained in initial screening and credit appraisal process, independent risk recommendation, delegation of authority for loan sanction process are some of the methods used for credit risk mitigation. Collaterals obtained are valued periodically as per regulator's guidelines. Loan review mechanism carried out by the risk management department of the bank ensures early identification of problem loans to safeguard the bank against possible losses.

#### Impairment Assessment

For accounting purposes, the Bank uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed. Triggering events include the following,

- Significant financial difficulty of the customer
- A breach of contract such as a default of payment
- Where the bank grants the customer a concession due to the customer experiencing financial difficulty
- It becomes probable that the customer will enter bankruptcy or other financial reorganisation
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans

## Notes to the Financial Statements Contd...

### Individually Assessed Allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis, including any overdue payments of interests, credit rating downgrades, or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

### Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including credit cards, residential mortgages, leases and unsecured consumer lending) and for individually significant loans and advances that have been assessed individually and found not to be impaired.

The Bank generally bases its analyses on historical experience. However, when there are significant market developments, the Bank would include macro- economic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, levels of bad debts and delinquency trends, Inflation, movements in Gross Domestic Product (GDP), macro environment stability in Financial industry, revisions in the Interest rates, changes in Regulatory Environment and other consumer data. The Bank may use the aforementioned factors as appropriate to adjust the impairment allowances.

### Allowances are evaluated separately at each reporting date with each portfolio.

The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilisation, loan, to collateral ratios and expected receipts and recoveries once impaired) or economic data (such as current economic conditions, unemployment levels and local or industry-specific problems). The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. Local management is responsible for deciding the length of this period, which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the bank's overall policy.

The loans are impaired using risk migration method.

### Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are as follows

The Bank obtains mortgages over residential properties for lending.

It is the bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the bank does not occupy repossessed properties for business use.

### Analysis of Risk Concentration

The Bank's concentrations of risk are managed by industry sector. The following table shows the risk concentration by industry for the components of the statement of financial position. Within the assets concentrated as "Other" include agricultural loans.

## Notes to the Financial Statements Contd...

### Industry analysis

| As at 31.12.2017                           | Financial Services | Government Securities | Construction and Housing | Consumers      | Other       | Total Rs.      |
|--|--------------------|-----------------------|--------------------------|----------------|-------------|----------------|
| Cash and cash equivalents                  | 104,191,042        |                       |                          |                |             | 104,191,042    |
| Placement with other banks                 | 7,070,477,026      |                       |                          |                |             | 7,070,477,026  |
| Loans and receivables to customers         |                    |                       |                          |                |             | -              |
| Mortgage                                   |                    |                       | 8,295,586,391            |                |             | 8,295,586,391  |
| EPF  |                    |                       | 9,312,656,134            |                |             | 9,312,656,134  |
| Vehicle                                    |                    |                       |                          | 27,482,737     |             | 27,482,737     |
| Staff loans                                |                    |                       | 884,353,343              |                |             | 884,353,343    |
| Personal Loans                             |                    |                       |                          | 13,193,612,739 |             | 13,193,612,739 |
| Others                                     |                    |                       |                          |                | 981,299,878 | 981,299,878    |
| Impairment Charge                          |                    |                       |                          |                |             | -              |
| Net Loans and Advances                     |                    |                       |                          |                |             | -              |
| Financial investments – Available-for-sale | 23,274,078         |                       |                          |                |             | 23,274,078     |
| Financial investments – Held-to-maturity   |                    | 1,035,368,792         |                          |                |             | 1,035,368,792  |
|  | 7,197,942,146      | 1,035,368,792         | 18,492,595,869           | 13,221,095,476 | 981,299,878 | 40,928,302,161 |

### 29.3 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. (Statutory Requirement 20%)

|                        | 2017  | 2016  |
|------------------------|-------|-------|
| Liquid Asset Ratio (%) |       |       |
| Year - End             | 22.10 | 22.82 |
| Maximum                | 27.23 | 26.68 |
| Minimum                | 20.09 | 22.82 |
| Average                | 23.20 | 24.56 |

Refer to the note on Risk Management in Page 23.

The bank stresses the importance of savings accounts as sources of funds to finance lending to customers. They are monitored using the advances to deposit ratio, which compares loans and advances to customers as a percentage of customer savings accounts, together with term funding .

## Notes to the Financial Statements Contd...

**Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities**

The table below summarises the maturity profile of the undiscounted cash flows of the bank's financial assets and liabilities as at 31 December 2017

**Contractual maturities of undiscounted cash flows of financial assets and liabilities**

The table below summarizes the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 2012.

**As at 31 December 2017**

|                           | 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          | Unclassified         | Total                 |
|---------------------------|----------------------|----------------------|----------------------|----------------------|-----------------------|----------------------|----------------------|-----------------------|----------------------|-----------------------|
| Cash                      | 40,981,718           | -                    | -                    | -                    | -                     | -                    | -                    | -                     | -                    | 40,981,718            |
| Due from Banks            | 1,580,122,913        | 391,863,676          | 1,373,919,784        | 1,832,144,344        | 425,929,519           | -                    | -                    | 446,793,676           | -                    | 6,050,773,913         |
| Investment Currents       | -                    | 80,760,005           | 318,404,322          | 496,697,930          | 815,889,105           | -                    | 174,563,038          | 255,240,908           | -                    | 2,141,555,308         |
| Investment Non performing | -                    | -                    | -                    | -                    | -                     | -                    | -                    | -                     | -                    | -                     |
| Loan & Advances Current   | -                    | 361,363,064          | 658,264,750          | 825,479,551          | 1,637,000,855         | 6,274,312,453        | 5,197,400,894        | 9,864,236,102         | -                    | 24,818,057,670        |
| Loan & Advances NPL       | -                    | -                    | -                    | -                    | -                     | -                    | -                    | -                     | 8,169,100,436        | 8,169,100,436         |
| Fixed Assets              | -                    | -                    | -                    | -                    | -                     | -                    | -                    | -                     | 71,381,532           | 71,381,532            |
| Other Assets              | 134,752,661          | 420,322,052          | 2,002,738            | 55,996,297           | 81,911,994            | 28,166,142           | 7,419,355            | -                     | -                    | 730,571,238           |
| <b>Total Assets</b>       | <b>1,755,857,292</b> | <b>1,254,308,797</b> | <b>2,352,591,595</b> | <b>3,210,318,123</b> | <b>2,960,731,472</b>  | <b>6,302,478,595</b> | <b>5,379,383,287</b> | <b>10,566,270,687</b> | <b>8,240,481,968</b> | <b>42,022,421,815</b> |
| Total Capital Fund        | -                    | -                    | -                    | -                    | -                     | -                    | -                    | -                     | 4,956,430,290        | 4,956,430,290         |
| Deposits                  | 2,331,895,742        | 1,338,958,600        | 6,599,892,103        | 6,366,655,161        | 9,628,202,282         | 3,619,995,216        | 2,230,789,272        | 1,269,850,593         | 233,998,441          | 33,620,237,411        |
| Borrowings                | 44,509,402           | 18,166,842           | 35,492,398           | 33,173,206           | 428,798,667           | 1,028,018,112        | 907,224,309          | 1,805,565             | -                    | 2,497,188,501         |
| Other Liabilities         | 101,480,898          | 60,202,534           | 147,312,167          | 148,461,595          | 258,605,823           | 159,321,259          | 50,985,433           | 22,195,902            | -                    | 948,565,613           |
| <b>Total Liabilities</b>  | <b>2,477,886,042</b> | <b>1,417,327,976</b> | <b>6,782,696,668</b> | <b>6,548,289,962</b> | <b>10,315,606,773</b> | <b>4,807,334,588</b> | <b>3,188,999,014</b> | <b>1,293,852,061</b>  | <b>5,190,428,732</b> | <b>42,022,421,815</b> |

## Notes to the Financial Statements Contd...

### 29.4 Market Risk and Operational Risk

As discussed in the Risk Management - Management discussion

### 29.5 Capital Management

#### Regulatory Capital

Licensed Specialised banks in Sri Lanka need to maintain a minimum Capital Adequacy Ratios, Common Equity Tier 1 Capital Ratio of 5.75%, Tier 1 Capital Ratio of 7.25% and Total Capital Ratio of 11.25%

#### Capital Adequacy

The bank computes CAR as a ratio of its capital to its risk weighted assets. Calculations of the risk weightings defined under credit risk and market risk are based on the standardised approach whereas operational risk is computed by using the basic indicator approach.

As of 31st December 2017, SMIB reported Common Equity Tier 1 Capital Ratio of 24.04%, Tier 1 Capital Ratio of 24.04% and Total Capital Ratio of 24.61% those are remain comfortably above the CBSL's capital requirements.

### 29.6 Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The bank does not possess any trading portfolios at present and hence the Bank's portfolio is mainly non trading.

#### 29.6.1 Market risk – non–trading

##### Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The bank's policy is to monitor positions on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

##### Prepayment Risk

Prepayment risk is the risk that the bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

### 29.7 Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The bank cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks.

Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

## Notes to the Financial Statements Contd...

|                           | 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    | Unclassified  | Total          |
|---------------------------|------------------|---------------|-----------------|-----------------|------------------|------------------|------------------|-----------------|---------------|----------------|
| <b>Total Assets</b>       | 1,755,857,292    | 1,254,308,797 | 2,352,591,595   | 3,210,318,123   | 2,960,731,472    | 6,302,478,595    | 5,379,383,287    | 10,566,270,687  | 8,240,481,968 | 42,022,421,815 |
| Cash                      | 40,981,718       | -             | -               | -               | -                | -                | -                | -               | -             | 40,981,718     |
| Due from Banks            | 1,580,122,913    | 391,863,676   | 1,373,919,784   | 1,832,144,344   | 425,929,519      | -                | -                | 446,793,676     | -             | 6,050,773,913  |
| Investment Currents       | -                | 80,760,005    | 318,404,322     | 496,697,930     | 815,889,105      | -                | 174,563,038      | 255,240,908     | -             | 2,141,555,308  |
| Investment Non performing | -                | -             | -               | -               | -                | -                | -                | -               | -             | -              |
| Loan & Advances Current   | -                | 361,363,064   | 658,264,750     | 825,479,551     | 1,637,000,855    | 6,274,312,453    | 5,197,400,894    | 9,864,236,102   | 8,169,100,436 | 24,818,057,670 |
| Loan & Advances NPL       | -                | -             | -               | -               | -                | -                | -                | -               | 71,381,532    | 71,381,532     |
| Fixed Assets              | -                | -             | -               | -               | -                | -                | -                | -               | -             | -              |
| Other Assets              | 134,752,661      | 420,322,052   | 2,002,738       | 55,996,297      | 81,911,994       | 28,166,142       | 7,419,355        | -               | -             | 730,571,238    |
| <b>Total Liabilities</b>  | 2,477,886,042    | 1,417,327,976 | 6,782,696,668   | 6,548,289,962   | 10,315,606,773   | 4,807,334,588    | 3,188,999,014    | 1,293,852,061   | 5,190,428,732 | 42,022,421,815 |
| Total Capital Fund        | -                | -             | -               | -               | -                | -                | -                | -               | 4,956,430,290 | 4,956,430,290  |
| Deposits                  | 2,331,895,742    | 1,338,958,600 | 6,599,892,103   | 6,366,655,161   | 9,628,202,282    | 3,619,995,216    | 2,230,789,272    | 1,269,850,593   | 233,998,441   | 33,620,237,411 |
| Borrowings                | 44,509,402       | 18,166,842    | 35,492,398      | 33,173,206      | 428,798,667      | 1,028,018,112    | 907,224,309      | 1,805,565       | -             | 2,497,188,501  |
| Other Liabilities         | 101,480,898      | 60,202,534    | 147,312,167     | 148,461,595     | 258,605,823      | 159,321,259      | 50,985,433       | 22,195,902      | -             | 948,565,613    |
| <b>Maturity Gap</b>       | (722,028,750)    | (163,019,179) | (4,430,105,073) | (3,337,971,840) | (7,354,875,300)  | 1,495,144,007    | 2,190,384,273    | 9,272,418,626   | 3,050,053,237 | -              |
| <b>Cumulative M. Gap</b>  | (722,028,750)    | (885,047,929) | (5,315,153,003) | (8,653,124,842) | (16,008,000,143) | (14,512,856,136) | (12,322,471,863) | (3,050,053,237) | -             | -              |

## Notes to the Financial Statements Contd...

### 31. The Events Occuring After the Balance Sheet Date

There are no material events occurred after the balance sheet date that require adjustments to or disclosure in the Financial Statements.

### 32. Assets Pledged

No assets have been pledged as security for liability.

### 33. Related Party Transactions

State Mortgage and Investment Bank is a state controlled enterprise. In the normal course of business it engages in transactions with other state controlled enterprises which are not disclosed in line with paragraph 4(d) of Sri Lanka Accounting Standard No.30 Related Parties.

### 34. Directors' Interest in Contracts and Proposed Contracts

As per the State Mortgage and Investment Bank law, No 13 of 1975, a Director who, or whose spouse or dependent child, is directly or indirectly interested in any business transacted or proposed to be transacted by the Board shall disclose the nature of such interest discussed. The disclosure shall be recorded in the minutes of the Board, and such Director shall not take part in any deliberation or decision of the Board with respect to that business, and shall withdraw from such meeting while such deliberation is in progress or decision is being made.

As per the Act, No loan shall be granted by the bank to any Director or employee of the bank or to the spouse or a dependant child of a Director or employee or to any company or firm in which a Director or employee has a substantial interest: " Provided however that the bank may grant to its employees loans for the purchase of any land for the construction of a dwelling house or for the purchase, construction, repair, renovation of or any extension to, a dwelling house or for any other purpose prescribed by the rules made under this law. Outstanding balance of loans given to employees as per this paragraph is disclosed on page xx of this report under Note- 10 Loans and advances. The Directors of SMIB were not directly or indirectly interested

# Value added Statement

| For the year ended at 31 st December | 2017<br>Rs.          | 2016<br>Rs.          |
|--------------------------------------|----------------------|----------------------|
| Interest Income                      | 4,745,059,385        | 4,240,771,159        |
| Other Income                         | 171,172,403          | 131,100,316          |
| <b>Total Revenue</b>                 | <b>4,916,231,788</b> | <b>4,371,871,476</b> |
| Interest Expenses                    | (3,101,891,268)      | (2,425,330,442)      |
| Cost of Services                     | (451,785,659)        | (469,463,887)        |
| Impairment Provision                 | (225,391,986)        | (35,276,398)         |
| <b>Total</b>                         | <b>1,137,162,875</b> | <b>1,441,800,748</b> |
| <b>Distribution of Value Added</b>   |                      |                      |
| For the year ended at 31 st December | 2017<br>Rs.          | 2016<br>Rs.          |
| <b>To Employees</b>                  |                      |                      |
| Salaries and other benefits          | 725,129,018          | 698,204,774          |
| <b>To Government</b>                 |                      |                      |
| Corporate Tax                        | 200,404,345          | 270,051,098          |
| Deemed Dividends                     | 93,266,093           | 173,347,059          |
| Payment to Consolidated Fund         | 10,000,000           | 10,000,000           |
| <b>To Expansion and Growth</b>       |                      |                      |
| Depreciation                         | 33,105,203           | 37,527,092           |
| Retained Profit                      | 75,258,216           | 252,670,726          |
| <b>Total</b>                         | <b>1,137,162,875</b> | <b>1,441,800,748</b> |

## Capital Adequacy

| Rs. 000'   |                   |                   | Risk Weighted Balance |                   |
|--|-------------------|-------------------|-----------------------|-------------------|
|  | 2017              | 2016              | 2017                  | 2016              |
| Cash   | 35,321            | 35,270            | -                     | -                 |
| Treasury Bill and other securities eligible for Re-discounting with Central Bank | 2,025,744         | 1,580,166         | -                     | -                 |
| Securities purchased under Resale Agreement                                      | -                 | -                 | -                     | -                 |
| Claims on Financial Institutions   | 73,169            | 340,686           | 22,937                | 290,454           |
| Claims on Central Bank of Sri Lanka  | -                 | -                 | -                     | -                 |
| Claims on Public Sector entities   | 206,815           | 249,520           | 206,815               | 249,520           |
| Claims on Banks exposures  | 5,903,978         | 4,313,257         | 1,664,628             | 1,778,056         |
| Loans against Cash Deposits  | 384,278           | 337,341           | -                     | -                 |
| Loans guaranteed by CBSL   | 8,566,122         | 9,618,650         | -                     | -                 |
| Secured by Primary Mortgage over Residential Property                            | 9,730,160         | 9,472,649         | 5,029,878             | 5,060,372         |
| Other Loans and Advances   | 13,557,502        | 7,757,270         | 10,347,633            | 4,599,882         |
| Due from Local Banks   | -                 | -                 | -                     | -                 |
| Property, Plant and Equipment  | 66,271            | 81,003            | 66,271                | 81,003            |
| Other Assets   | 552,108           | 441,415           | 552,108               | 441,415           |
| <b>Total</b>   | <b>41,101,468</b> | <b>34,227,227</b> | <b>17,890,270</b>     | <b>12,500,702</b> |

### Basis of Computation

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

|   | 2017         | 2016         |
|---|--------------|--------------|
| Total Risk Weighted Assets for Credit Risk      | 13,765,674   | 12,448,938   |
| Total Risk Weighted Assets for Operational Risk | 2,837,430    | 2,178,970    |
| Total Risk Weighted Assets                      | 16,603,104   | 14,627,908   |
| <b>Core Capital Ratio %</b>                     | <b>22.96</b> | <b>22.17</b> |
| <b>Total Risk Weighted Capital Ratio %</b>      | <b>23.47</b> | <b>22.65</b> |

## Sources and Utilisation of Income

| For the year ended at 31 st December      | 2017<br>Rs.          | 2016<br>Rs.          |
|---|----------------------|----------------------|
| <b>Sources of Income</b>                  |                      |                      |
| Loans and Advances                        | 4,000,991,626        | 3,507,069,283        |
| Government Securities & Other Investments | 744,067,759          | 733,701,877          |
| Fee and Commission Income                 | 149,313,983          | 121,154,693          |
| Other Income                              | 21,858,420           | 9,945,623            |
| <b>Total</b>                              | <b>4,916,231,788</b> | <b>4,371,871,476</b> |
| <b>Utilisation of Income</b>              |                      |                      |
| Employees                                 |                      |                      |
| Salaries and other payment to staff       | 725,129,018          | 698,204,774          |
| <b>Suppliers</b>                          |                      |                      |
| Interest paid                             | 3,101,891,268        | 2,425,330,442        |
| Other Expenses                            | 710,282,848          | 542,267,377          |
| <b>Government</b>                         |                      |                      |
| Corporate Taxes                           | 200,404,345          | 270,051,098          |
| Deemed Dividends                          | 93,266,093           | 173,347,059          |
| Payment to consolidated Fund              | 10,000,000           | 10,000,000           |
| <b>Retained Profit</b>                    |                      |                      |
|   | 75,258,216           | 252,670,726          |
| <b>Total</b>                              | <b>4,916,231,788</b> | <b>4,371,871,476</b> |

## Ten Year Statistical Summary – Bank

| Year ended 31st December<br>(Rs.Million) | 2017          | 2016          | 2015          | 2014          | 2013          | 2012          | 2011          | 2010          | 2009          | 2008          |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Income Statement</b>                  |               |               |               |               |               |               |               |               |               |               |
| Interest Income                          | 4,745         | 4,241         | 3,879         | 3,633         | 3,635         | 2,879         | 2,611         | 2,709         | 2,636         | 2,102         |
| Interest Expenditure                     | 3,102         | 2,425         | 2,057         | 2,214         | 2,459         | 1,725         | 1,214         | 1,368         | 1,939         | 1,636         |
| Net Interest Income                      | 1,643.17      | 1,815.44      | 1,821.69      | 1,419.29      | 1,176.04      | 1,154.00      | 1,397.28      | 1,341.00      | 697.00        | 466.00        |
| Other Operating Income                   | 171           | 131           | 120           | 113           | 102           | 79            | 76            | 41            | 36            | 120           |
| <b>Total Operating Income</b>            | <b>1,814</b>  | <b>1,947</b>  | <b>1,941</b>  | <b>1,532</b>  | <b>1,278</b>  | <b>1,233</b>  | <b>1,473</b>  | <b>1,382</b>  | <b>733</b>    | <b>586</b>    |
| <b>Non Interest Expenses</b>             |               |               |               |               |               |               |               |               |               |               |
| Net Profit before Tax                    | 1,435         | 1,240         | 1,260         | 1,119         | 935           | 803           | 785           | 740           | 612           | 535           |
| Taxation                                 | 379           | 706           | 681           | 413           | 343           | 430           | 689           | 642           | 120           | 51            |
| <b>Net Profit after Tax</b>              | <b>200</b>    | <b>270</b>    | <b>271</b>    | <b>140</b>    | <b>110</b>    | <b>158</b>    | <b>178</b>    | <b>179</b>    | <b>46</b>     | <b>30</b>     |
| <b>Net Profit after Tax</b>              | <b>179</b>    | <b>436</b>    | <b>410</b>    | <b>273</b>    | <b>232</b>    | <b>272</b>    | <b>510</b>    | <b>463</b>    | <b>74</b>     | <b>21</b>     |
| <b>Assets</b>                            |               |               |               |               |               |               |               |               |               |               |
| Investment Securities                    | 18            | 17            | 432           | 19            | 17            | 14            | 5             | 5             | 5             | 1             |
| Loans and Advances                       | 32,987        | 28,164        | 26,523        | 24,038        | 21,186        | 18,550        | 16,170        | 13,670        | 13,433        | 13,142        |
| Other Assets                             | 8,946         | 7,073         | 7,201         | 6,148         | 5,556         | 3,928         | 4,276         | 3,531         | 3,369         | 1,336         |
| Property, Plant and Equipment            | 71            | 94            | 74            | 96            | 67            | 51            | 58            | 39            | 40            | 37            |
| <b>Total Assets</b>                      | <b>42,022</b> | <b>35,347</b> | <b>34,232</b> | <b>30,301</b> | <b>26,825</b> | <b>22,543</b> | <b>20,509</b> | <b>17,245</b> | <b>16,847</b> | <b>14,516</b> |
| <b>Fund Employed</b>                     |               |               |               |               |               |               |               |               |               |               |
| Capital Contributed                      | 890           | 890           | 890           | 890           | 890           | 890           | 890           | 890           | 890           | 890           |
| Reserves                                 | 4,067         | 4,028         | 3,373         | 3,128         | 3,040         | 2,920         | 2,753         | 1,763         | 1,480         | 1,507         |
| <b>Total Equity</b>                      | <b>4,957</b>  | <b>4,918</b>  | <b>4,263</b>  | <b>4,018</b>  | <b>3,930</b>  | <b>3,810</b>  | <b>3,643</b>  | <b>2,653</b>  | <b>2,370</b>  | <b>2,397</b>  |
| <b>Liabilities</b>                       |               |               |               |               |               |               |               |               |               |               |
| Deposits                                 | 33,620        | 28,845        | 27,836        | 24,146        | 21,201        | 17,237        | 15,088        | 12,506        | 12,350        | 10,174        |
| Debentures                               | 110           | 110           | 110           | 195           | 195           | 195           | 195           | 195           | 250           | 250           |
| Other Liabilities                        | 3,336         | 1,474         | 2,022         | 1,942         | 1,499         | 1,301         | 1,583         | 1,891         | 1,877         | 1,695         |
| <b>Total Liabilities</b>                 | <b>42,022</b> | <b>35,347</b> | <b>34,232</b> | <b>30,301</b> | <b>26,825</b> | <b>22,543</b> | <b>20,509</b> | <b>17,245</b> | <b>16,847</b> | <b>14,516</b> |
| <b>Ratio</b>                             |               |               |               |               |               |               |               |               |               |               |
| Return on Average Assets-NPBT% (ROA)     | 0.98          | 2.03          | 2.11          | 1.44          | 1.39          | 2.01          | 3.65          | 3.77          | 0.77          | 0.38          |
| Return on Average Funds Employed% (ROE)  | 3.62          | 9.50          | 9.90          | 6.87          | 6.00          | 7.31          | 16.21         | 18.46         | 3.06          | 0.88          |
| Number of Employees(no.)                 | 392           | 392           | 392.00        | 407.00        | 334.00        | 323.00        | 302.00        | 308.00        | 320.00        | 328.00        |
| Net Profit per Employee (Rs. Mn)         | 0.46          | 1.11          | 1.05          | 0.67          | 0.70          | 0.84          | 1.69          | 2.08          | 0.38          | 0.16          |
| Statutory Reserve Fund                   | 246.64        | 231.36        | 203.05        | 191.36        | 181.15        | 172.98        | 163.19        | 135.44        | 112.26        | 108.59        |
| Advances to Deposits(Times)              | 0.98          | 0.98          | 0.95          | 1.00          | 1.00          | 1.08          | 1.07          | 1.09          | 1.29          | 1.36          |
| Interest Cover(Times)                    | 1.12          | 1.29          | 1.33          | 1.19          | 1.14          | 1.25          | 1.60          | 1.47          | 1.26          | 1.03          |
| Debt to Equity Ratio(Times)              | 0.50          | 0.10          | 0.23          | 0.28          | 0.23          | 0.19          | 0.18          | 0.21          | 0.28          | 0.30          |
| Equity Assets Ratio(Times)               | 0.12          | 0.14          | 0.12          | 0.13          | 0.15          | 0.17          | 0.18          | 0.15          | 0.14          | 0.17          |
| Total Assets per Rupee Contributed       | 47.22         | 39.72         | 38.46         | 34.05         | 30.14         | 25.33         | 23.04         | 19.38         | 18.93         | 16.31         |
| Effective Deemed Dividend Rate%          | 25.00         | 25.00         | 25.00         | 25.00         | 25.00         | 20.00         | 19.84         | 20.22         | 5.74          | 3.33          |
| Deemed Dividend Cover                    | 1.91          | 2.52          | 2.44          | 3.57          | 3.16          | 3.46          | 3.14          | 2.58          | 1.44          | 0.71          |
| <b>Our Contribution to the Nation</b>    |               |               |               |               |               |               |               |               |               |               |
| Deemed Dividend Tax                      | 93.27         | 173.35        | 167.86        | 76.42         | 73.60         | 79.00         | 177.00        | 180.00        | 52.12         | 29.65         |
| Payments to Consolidated Fund            | 10.00         | 10.00         | 10.00         | 10.00         | 40.00         | 25.00         | -             | -             | 50.00         | -             |

# 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 3, Sri Lanka.

## Head Office

269, Galle Road, Colombo 03.  
Tel. 011-2573561, 011-7722722-3  
Fax.011-2573346  
E-Mail: gm@smib.lk  
Web: www.smib.lk

## Kandy Branch

No. 61, 1st Floor, King's Street, Kandy.  
Tel: 081 -7722722/3, 081- 2222819  
kandy.mgr@smib.lk

## Gampaha Branch

No.232,Colombo Rd, Gampaha.  
Tel: 033 -7722722/3, 033 -2221317  
gampaha.mgr@smib.lk

## Galle Branch

No.119,Wakwella Road, Galle.  
Tel: 091 -7722722/3, 091 -2246788  
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## Kurunegala Branch

No.46/1,Mihindu Mw,Kurunegala  
Tel: 037- 7722722/3, 037 -2231234  
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## Matugama Branch

No.141/1, Agalawatta Road, Mathugama.  
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## Matara Branch

No.45A/1/1 1st Floor,  
Dharmapala Mw, Matara.  
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## Chilaw Branch

No.15A,Bishop Edmand Peiris Mw, Chilaw.  
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## Kegalle Branch

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## Kiribathgoda Branch

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## Battaramulla Branch

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## Horana Branch

No. 45, Rathnapura Rd, Horana.  
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## Ambalantota Branch

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## Batticaloa Branch

No.44, Station Rd, Batticaloa.  
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## Jaffna Branch

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## Vavuniya Branch

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## Ampara Branch

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## Rathnapura Branch

No.101,Main Street,Rathnapura  
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## Kaduruwela Branch

No.892, Batticaloa Rd,Sawmill  
Junction,Kaduruwela  
Tel:027-7722722/3, 027-2227427  
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## Hatton Branch

No.62/1/2,Main Street, Hatton  
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hatton.mgr@smib.lk

## Badulla Branch

No.38, Bank Road,Badulla  
Tel:055-7722722/3 , 055-2228666  
badulla.mgr@smib.lk

## Monaragala Branch

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Tel:055-7722733/4 , 055-2055430  
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## Anuradhapura Branch

No.521/7, New Town,Anuradhapura  
Tel:025-7722722/3 , 025-2237476  
anuradhapura.mgr@smib.lk

## Matale Branch

No.341 & 343 ,Trincomalee Street,Matale  
Tel:066-7722722/3 , 066-2227878  
mathale.mgr@smib.lk

## Panadura Branch

26, Susantha Mawatha, Panadura  
Tel : 038 77 22 722 /3, 038-2243293  
Panadura.mgr@smib.lk

## Board of Directors

|                         |   |   |
|-------------------------|---|---|
| Mr.Tissa Jinadasa       | - | Chairman  |
| Dr. C. N. S. Gamage     | - | Independent Non-Executive Director                            |
| Mr. M. S. D. Ranasiri   | - | Independent Non-Executive Director<br>(Retired on 31.01.2017) |
| Mr. Rajitha Halwela     | - | Independent Non-Executive Director                            |
| Mr. Roshan Hettiaratchi | - | Independent Non-Executive Director                            |
| Ms. W. K. K. Athukorala | - | Independent Non-Executive Director<br>(Retired on 05.12.2017) |
| Mr P.A. Kulasuriya      | - | Independent Non-Executive Director                            |
| Mr P.S.K.R. Weerakon    | - | Independent Non-Executive Director                            |
| Mr E.A.L. Edirisinghe   | - | Independent Non-Executive Director                            |
| Mr S.G. Senarathna      | - | Independent Non-Executive Director                            |

## General Manager

Mr. W.M Dayasinghe

## Board Secretary

Ms. W.K Perera

## Audit Committee

|                          |   |                           |
|--------------------------|---|---------------------------|
| Mr. S.G. Senaratne       | - | Chairman (Since May 2017) |
| Dr. Niroshan Gamage      | - | Member                    |
| Mr. Rajitha Halwela      | - | Member                    |
| Mrs. W. K. K. Athukorala | - | Alternative Member        |

## Auditors

Auditor General  
Auditor General's Department,  
Colombo 07.

## Principal Lines of Business

Provision of Housing Finance, Agriculture and Industrial Credit, Mobilizing terms and saving deposits, corporate Investments



## **State Mortgage & Investment Bank**

No. 269, Galle Road, Colombo 03,

Visit : [www.smib.lk](http://www.smib.lk) | E Mail : [info@smib.lk](mailto:info@smib.lk) | Dial : 011 - 7722722