



STATE MORTGAGE & INVESTMENT BANK

*Annual Report 2018*

# OUR STORY OF SUCCESS



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# OUR STORY OF SUCCESS

*We have weathered many storms in our journey of 86 years of serving the nation as the housing bank to the nation. Our performance this year is a reflection of our invincibility. Despite the country's troubled economy which had an adverse impact on the banking sector, SMIB pulled through with an overall profitable performance. We are proud of our most valuable asset our human capital and equally value our loyal customers with whom our staff at all levels have forged an unshakable bond of confidence in their excellent customer service which has steered the bank to a steady performance throughout the years. Finally, it has been the continuous investments made in our human capital, our excellent customer relationships and overall quality of service as a Licensed Specialized Bank that has been the path to our sustained success.*



# 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	2018 Rs.Mn	2017 Rs.Mn	Change %
Interest Income	5,524	4,745	16.42%
Interest Expenses	(3,577)	(3,102)	15.31%
Net Interest Income	1,947	1,643	18.50%
Profit before Tax	480	379	26.65%
Taxation	(235)	(200)	17.50%
Profit after Tax	244	179	36.31%
Investment in Government Securities	1,149	1,035	11.01%
Loans and Advance	34,225	32,987	3.75%
Total Assets	42,597	42,022	1.37%
Customer Deposits	34,272	33,620	1.94%
Borrowings	1,983	2,497	(20.59%)
Stakeholders' Fund	5,187	4,956	4.66%
<b>Ratio Analysis</b>			
<b>Profitability Level</b>			
	%	%	
Net Interest Margin	4.60	4.25	8.24%
Return on Equity (ROE)	4.82	3.62	33.15%
Return on Assets (ROA)	1.13	0.98	15.31%
<b>Capital Adequacy</b>			
Equity / Total Assets	12.18	11.79	3.28%
Equity / Loans & Advances	15.16	15.03	0.83%
	Basel (III)	Basel (II)	
Tier 1	21.69%	23.74%	(8.65%)
Tier 1 & 11	22.24%	24.29%	(8.46%)
<b>Liquidity</b>			
Liquid Asset Ratio	22.34	22.10	1.09%
Deposit/Loans and Advances	100.14	101.92	(1.75%)
Borrowings/Loans and Advances	5.79	7.57	(23.47%)
<b>Rating</b>			
<b>Asset Quality</b>			
NPL/Loans and Advances	21.76	22.93	(5.10%)
Loans and Advance to Total Assets	80.35	78.50	2.35%



# Financial Review

Financial capital is essentially a pool of funds used to create value through conversion into other forms of capital. This capital is raised through financing (equity and debt), and operations (Deposits). Funds so generated are in turn utilized for operations and capital investment projects, to create sustainable returns within the approved risk appetite and to meet regulatory minimum requirements.

## Overview

The year 2018 was a momentous year for the State Mortgage & Investment Bank, with the Bank ending the year with a stellar financial performance recording another significant amount in Operating profit(before VAT,DRL & NBT) of Rs. 732 Mn. and Profit After Tax at Rs. 244.47 Mn. Which is 29.29% growth in Operating profit (before VAT, DRL & NBT) & 36.94% growth in Profit after Tax compared to the previous year. The Bank witnessed an all-round growth in core business areas. A significant growth in business volumes due to implementation of sound business plans, investments on strengthening the brand, and prudent management of risk facilitated these achievements.

The impact of the substantial increase in interest cost and the resulting change in the net interest margin was offset by a substantial increase in business volumes. Consequently, the interest income stood at Rs. 5,525 Mn. State Mortgage & Investment Bank also became the licensed specialized bank to amass an asset base of Rs 42.6 Bn which is another significant landmark. Demonstrating the sound management of its credit portfolio, and excellent asset quality.

## Analysis of Income Statement

Income statement summary

	2017 Rs (Mn.)	2018 Rs (Mn.)	Increase
Interest Income	4,745.06	5,524.86	16.43%
Total Operating Income	1,814.34	2,080.68	14.68%
Operating profit/(loss) before VAT, NBT & DRL	565.96	731.72	29.29%
Profit/(Loss) before Tax	378.93	479.73	26.60%
Income Tax expenses	(200.40)	(235.26)	17.39%
Profit/(Loss) for the Year	178.52	244.47	36.94%

## Net interest income

Interest income has increased by 16.43% to Rs. 5,524.86 Mn. against the Rs. 4,745.06 Mn. reported in the last year. This is mainly driven by broad-based growth in loans and advances portfolio and interest income on Securities.

## Non-interest income

Non-interest income comprised fee and commission income and other operating income. However during the financial year 2018 the SMIB couldn't be able to record remarkable progress in the all aforesaid components except in other operating income due to adverse financial situation of the country.

## Total operating income

Subsequently, even though fee and commission income were deteriorated, increase in Net Interest Income & other operating income were mainly contributed for the growth of Total Operating Income. Total operating income increased by 14.68% to Rs. 2,080.68 Mn. up from Rs. 1,814.34 Mn. in 2018.

## Impairment charges

In order to enhance quality of the asset base following sound steps had been taken by SMIB during the financial year 2018.

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

Impairment provision decreased by Rs. 40.43 Mn. consequent to the growth in the lending portfolio & the improvement in asset quality resulting from proactive risk management approach applied. This improved the provision cover of the Bank enabling it to have a buffer for unexpected losses.

## Profitability

This year, the Bank imprinted its Profit before tax (PBT) in Rs. 479.73 Mn. in 2018, growing by 26.6 % from Rs. 378.93 Mn. in 2017. Notwithstanding the improvement in Profit after Tax grew significantly by 36.94% from Rs. 178.52Mn. to Rs. 244.47 Mn. in 2018, despite being limited by higher percentage of income taxes.



## Financial Review Contd...

Growth in interest income resulted from expansion in loans and advances portfolio combined with the slight change of the non-interest income allowed the Bank to impress with the remarkable profit record amidst a change in the net interest margin and a change in impairment charge and taxes.

Return on Assets (before Tax) maintained at same level of 1.13% consequent to asset growth. The return on equity ratio closed at 4.82 % when compared with the 3.62% reported in previous year.

### Contribution to the Nation

As the State Mortgage and Investment Bank, the Bank continues its contribution towards the Nation's development in form of various taxes & levies.

The Bank's contribution to the Government in the form of direct and indirect taxes increased by 25.76 % to Rs. 487.24 Mn. during 2018 from Rs. 387.44 Mn. previous year. This encompasses Income Tax of Rs. 34.86 Mn. and VAT, DRL and NBT on financial services of Rs. 64.95 Mn. VAT on financial services has been increased from 11% to 15% effective from November 2016 where the full impact was felt in 2017 and 2018. And also DRL has been introduced by government with effect from 01st of October 2018. These all actions help to achieve sustainable growth of the country. 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

Analysis of financial position

### Asset

The Bank reached the landmark in assets at the end of this year, it has been shown 1.37% growth when compared with 2017. Financial Statements has been reflected as it was Rs. 42.6 Bn as at 31 December 2018. Reflecting robustness of the focus on core business activities, the interest earning loan portfolio and financial investments accounted the total asset base.

### Loans and receivables

Remarkable 3.75% growth in loans and advances have recorded by SMIB, in 2018 to reach Rs. 34,225 Mn. when compared with the previous year of Rs. 32,987 Mn that was significant achievement. That was totally backed by increased credit demand from the retail credit lines of Housing Loans,

Personal loans and Refinance loans & other loans were enabled the Bank to improve the position of the industry. The loans and receivables portfolio was diversified across several industry sectors concentrating on Agriculture, Tourism, SME and Micro finance and housing finance sectors.

### Liabilities

Total liabilities at the end 2018, increased to Rs. 344.29 Mn., recording a notable growth compared with the last year, led by expansion in customer deposits as well as institutional deposits. The funding composition remained relatively unchanged with the total assets base largely funded by customer deposits.

### Deposits

The Bank's deposit base increased by Rs. 652 Mn. to Rs. 34,272 Mn in 2018, a 2% growth over the previous year. The growth registered in savings deposits in comparison with the rise in fixed deposits.

These funds were mainly utilized for disbursing loans rather than investment thereby bringing down the investment to deposit ratio significantly at the end of year 2018 & this resulted in enhanced loans to deposit.

### Liquidity Coverage

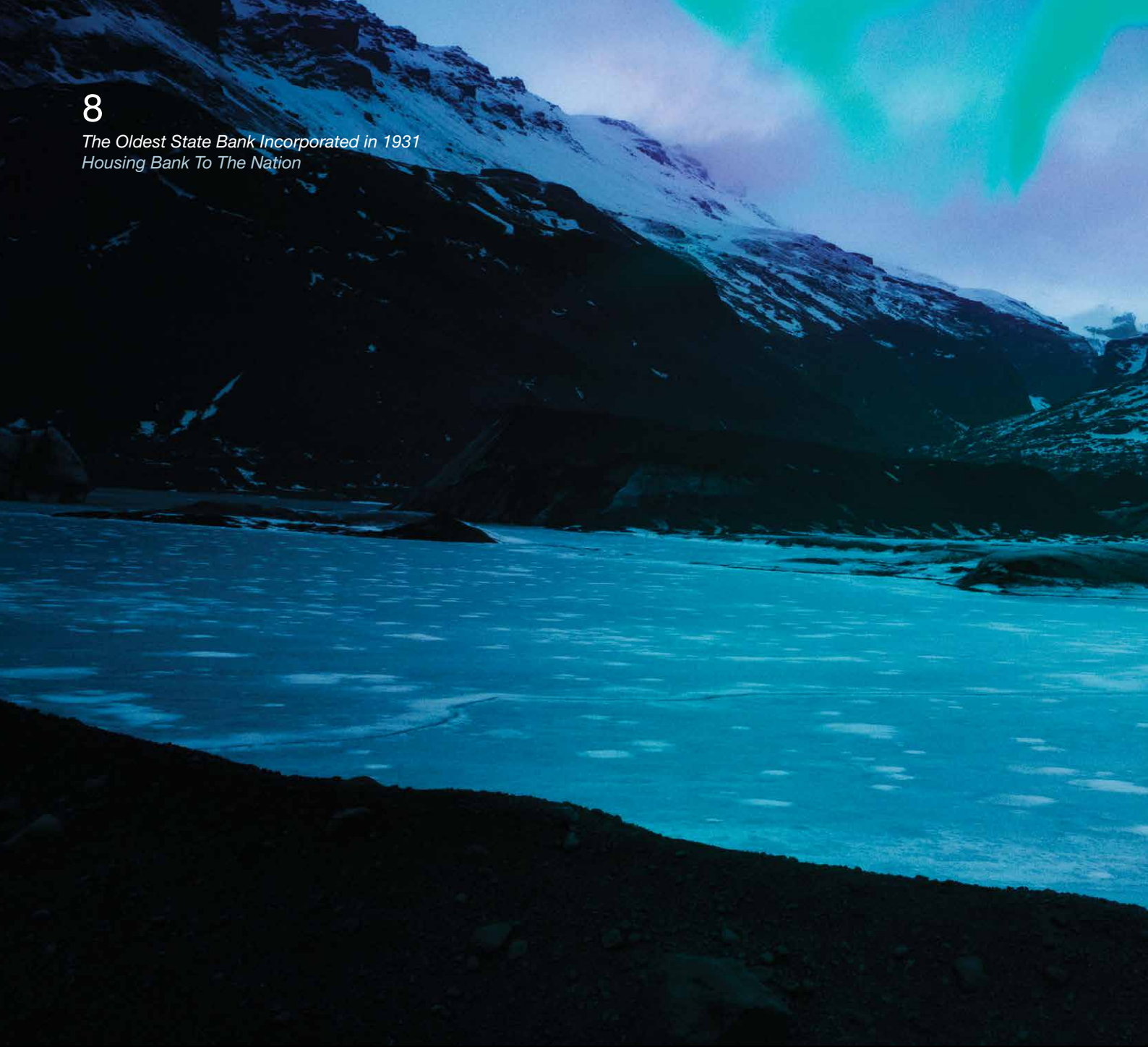
The banks operating in Sri Lanka are required to maintain a minimum 20% of statutory liquidity assets of their liabilities, excluding capital funds. The bank should measure the statutory liquidity assets in accordance with Section 86 of the Banking Act, No. 30 of 1988.

In relation to the Statutory Liquidity Ratio, the Bank stood at 22.34%, also well above the regulatory minimum requirement of 20%. In accordance with Basel (III), the Liquidity Coverage Ratio (LCR) which explains the availability of the high quality liquid assets at the disposal of the Bank amounted at 83.91 % as at the end of the 2018.

The Bank was "healthy" based on availability of stable funding as per the definitions prescribed by the CBSL. The Net Stable Funding Ratio (NSFR) stood at 133% as at 31 December 2018 against the minimum requirement of 100%.

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*The Oldest State Bank Incorporated in 1931  
Housing Bank To The Nation*





# Sustainability

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“ I am proud to announce that we have overcome these challenges through timely, appropriate, even daring strategic measures. In spite of the regulatory pressure and severe competition, State Mortgage and Investment Bank thrived its profitability reaching profit after tax (PAT) of 244.47 Mn.”



# Chairman's Message

Continuing the run of overall positive performances in recent years, the State Mortgage and Investment Bank (SMIB) concluded the year 2018 on a positive note, despite mounting pressure from competitors on our core banking activities and an overall uncertainty in the country's economic outlook, arising from political instability and downward revisions in the interest rate structure.

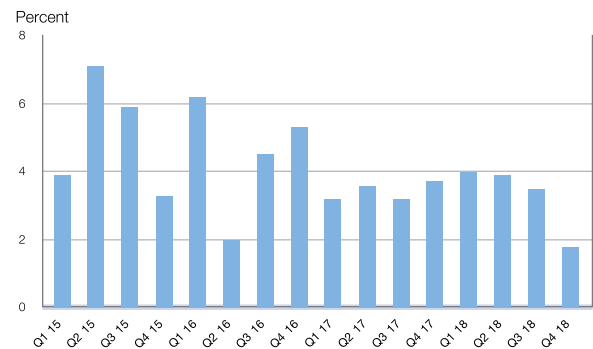
Growth in global economy remained static at 3.5%, causing a ripple effect on Sri Lanka's growth. Forecasts for global economy in 2019 and 2020 remain unchanged at 3.5% and 3.6% respectively. Reflecting the global downturn, our nation's growth was moderate, weighed down by mounting pressure on liquidity conditions, and lacklustre business and consumer sentiments, in the latter half of the year.

Sri Lanka's shift from a "developing country" status to 'lower middle-income status' based by the increment in Per-Capita Gross National Income (GNI) unleashed macro-economic level complications. The increment of GNI level had a spiralling effect on the economy and stemmed to increase overall cost of the economy. Consequently Foreign Direct Investments (FDI) was decreased and it directly impacted our foreign reserves. This phenomenon led foreign borrowings to be taken at prevailing high rates, creating a cascading effect on the country's economy, affecting our foreign reserves, exchange rates, inflation. This adverse macroeconomic climate indirectly affected SMIB's performance too.

The country GDP grew at 3.2% in 2018, with Agriculture and Services sectors recording the highest individual growths of 4.8% and 4.7% respectively. Industrial sector growth was sluggish at 0.9%. Although an expansionary monetary policy during the first half of the year supported the banking sector, pressure on global financial conditions led Central Bank of Sri Lanka to adopt a more cautionary note in the latter part of 2018, resulting in a gradual increase of market interest rates.

Although the banking sector recorded a 20% growth in gross loans and advances during the year, an overall sluggishness in the economy led to a sharp rise in impairments. Gross Non-Performing Loans (NPL) increased by 64% while the sector's NPL ratio rose to 3.4% from 2.5% the year before. As a whole, the sector's profit after tax declined by 9% to LKR 125.9 billion during the year under review.

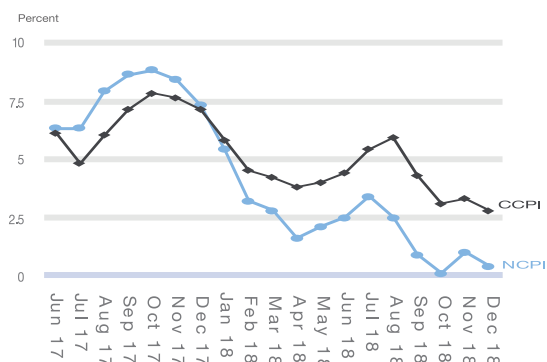
## GDP Growth



Source : <https://www.cbsl.gov.lk>

## Inflation

Y-o-Y Percentage Change



CCPI - Colombo Consumer Price Index

NCPI - National Consumer Price Index for Sri Lanka

Source : <https://www.cbsl.gov.lk>

## Our Bank

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



## Chairman’s Message Contd...

Bank of Sri Lanka on 27th April 1998 in terms of the Banking Act No. 30 of 1998.

During the year under review Central Bank of Sri Lanka (CBSL) and the Ministry of Finance regulatory measures limit flexibility of Licensed Specialized Banks in setting interest rate margins. Hemmed in by these restrictions and increasing competition in our niche market, SMIB lacked the clout to dominate the housing finance sector. Limitations on size and scale of operations also were deterrents to diversification into new business, expansion of markets or creating new products.

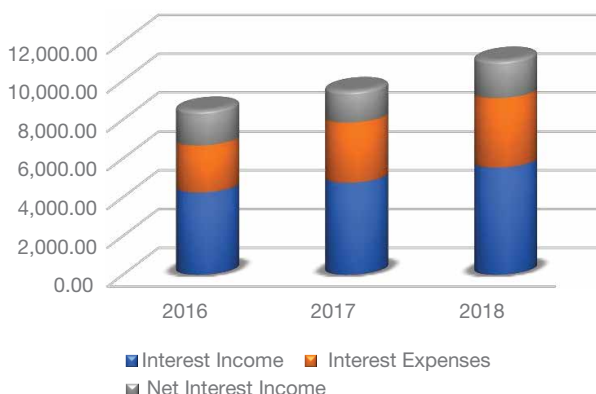
I am proud to announce that we have overcome these challenges through timely, appropriate, even daring strategic measures. In spite of the regulatory pressure and severe competition, State Mortgage and Investment Bank thrived its profitability reaching profit after tax (PAT) of 244.47Mn. Our operating profit for the year 2018, (before VAT, DRL and NBT) increased by 29.29%, recording a Rs. 732 million, and Profit After Tax (PAT) of Rs. 244.47 is a 36.94% growth compared to the previous year.

Reflecting prudent management measures of our credit portfolio and quality of liquid assets, SMIB amassed an asset base of Rs 42.6 billion, a 1.37% YoY growth. This landmark achievement was the result of a series of strict regulatory measures introduced during the year which included, initiating an income source verification model, the establishment of pre disbursement and monitoring unit for credit proposals, and introducing a sophisticated risk rating model. Our focus on strengthening our liquidity positions and liquidity risk management in accordance with CBSL regulations resulted in SMIB achieving a Statutory Liquidity Ratio of 22.34% in 2018, exceeding the CBSL regulatory minimum requirement of 20%. In accordance with Basel (III), the Liquidity Coverage Ratio (LCR) which measures availability of high-quality liquid assets at the disposal of the Bank was 83.91 % as at the end of the 2018.

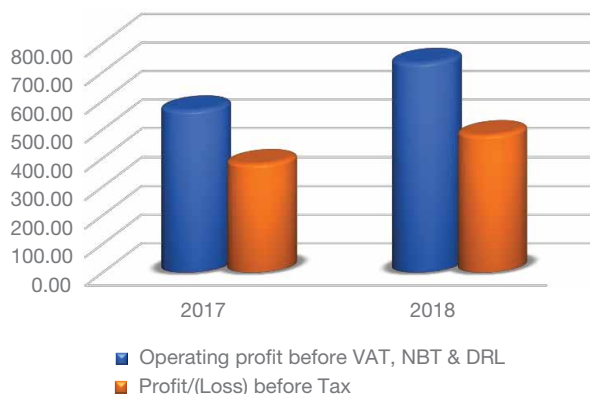
The Bank was "healthy" based on availability of stable funding as per the definitions prescribed by the CBSL. The Net Stable Funding Ratio (NSFR) stood at 133% as at 31 December 2018, against the minimum requirement of 100%.

Despite solid efforts to maintain statutory ratios and the general health of the bank, pressure on interest rates in 2018, led to fierce competition in our core business - housing finance, compelling us to diversify and change the original composition of our portfolio. We expanded our portfolio from our traditional lines of business, Mortgage Loans and EPF backed loans, to Personal loans, SME and Micro Finance sectors. The process of expanding our deposit base to service our expanded loan portfolio at the prevailing highly competitive market rates was almost insurmountable, resulting in cost of funds escalating to higher than forecast levels.

**Movements of Net Interest Income**



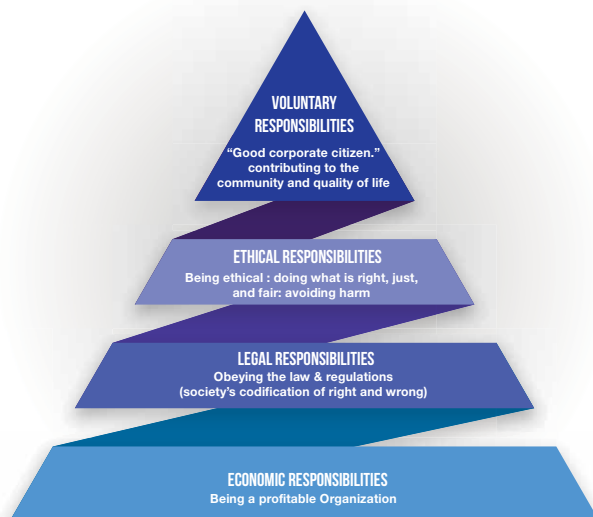
**Comparison of operation profit**



## Chairman's Message Contd...

### Building on our resources

In order to fortify ourselves from these threats and challenges, we have adopted a key strategy of developing our human capital, strong and steadfast in our belief that Human Resource is SMIB's most valuable asset. Our strategic investments in our human capital have differentiated us and given us a competitive edge, in our niche market, housing finance. Our workforce is continuously trained in operational skills and soft skills to reach a higher level of customer centricity through 45 training programs.



This investment in our human capital has become a winning proposition for SMIB, in its long journey of more than 85 years of serving our nation as the leader in the housing finance sector.

As we are moving into another year, the strong values of Corporate Governance we practiced are upheld protecting the bank's independence as an individual entity. Our Corporate Social Responsibility (CSR) activities are centred on building the nation through education. In support of Sri Lanka's mission to make our nation an educational hub in South Asia, SMIB assists rural, less privileged children. We have been conducting various types of Educational Seminars, activities and workshops for these children in order for them

to be more competitive at these Grade Five (5) scholarship examination and General Certificate of Education (Ordinary Level) GCE(O/L) examination. We firmly endorse the concept of a triple bottom line rating system of people, profit and planet instead of laissez-faire view of corporate social responsibility.

As we look ahead into another year, I as your Chairman and the Board of Directors are confident of a strong performance backed by growth, expansion and digitalization despite tough operating conditions foreseen in the year ahead. I wish to extend my sincere appreciation and gratitude to the Board of Directors, General Manger and the management team for their diligence, insight, support and the dedication. SMIB staff and business teams deserve a very special commendation for the dedication and commitment they have displayed to achieve results.

Finally, I would like to thank His Excellency the Honourable President of Sri Lanka, The Honourable Minister of Public Enterprises Development, the Honourable Minister of Finance. The Honourable State Ministers of Public Enterprises Development Finance Ministries, Secretary to the Treasury, Officials of Central Bank, Departments of Attorney General and Auditor General, and heads of other regulatory bodies for their guidance and support throughout this financial year.

**Mr. Niroshana Perera**  
Chairman



“The bank was able to perform its business operations to achieve the remarkable increase of profit after tax by 37% compared with previous year as a result of team work, introduction of several measures to improve the asset quality of the bank and adopting best management practices.”

# General Manager's Review

As a Chief Executive Officer of the bank, I am happy to report an overall positive performance, fueled by a significant growth of our core operations, for the financial year ending 2018. Our bank has survived the challenges and threats confronting us during the year under review, with bold changes to our core operations, coupled with prudent management of risk and teamwork.

The overall growth in core business areas could be attributed to the implementation of sound business plans, investments on strengthening the brand, and prudent management of risk and teamwork. Faced with global and macro-economic changes during the year under review, which placed additional pressure affecting our bottom-line profitability, SMIB was compelled to make tough decisions to grow our business profitability and enter new lines of business.

Nevertheless, facing severe competition from banks and financial institutions during the year under review, SMIB recorded a commendable growth in overall performance, which is reflected in its profitability and risk ratios. The Bank's operating profit for the year of Rs. 732 million is a nearly 30% increase in profit before tax (PBT). Profit after tax also increased by 37% to Rs. 244.47 million compared to the previous financial year. Interest income for the year stood at Rs. 5,525 million. The impact of the substantial increase in interest cost during the year under review, resulted in the net interest margin being offset by a substantial increase in business volumes. The overall solid performance of our core business activities, the interest earning loan portfolio and financial investments accounted for a substantial improvement in our total asset base. At the end of the financial year under review, the bank was able to increase its asset base up to Rs. 42.6 billion.

A spike in the Bank's overall interest income boosted our bottom lines in the period under review. Driven by broad-based growth in the loans and advances portfolio and interest income on securities, interest income for the year under review increased by 16.43% to Rs. 5,525 million. Non-interest income comprising fee and commission income and other operating income, however did not record a noteworthy progress. However overall, our operating income improved from the previous financial year, by 14.68% to Rs. 2,080 million up from Rs. 1,814 million the previous year.

Despite the decrease in fee and commission income, growth in Net Interest Income and other operating income contributed to the overall growth in Total Operating Income.

With several measures introduced to enhance the quality of the asset base, which includes initiating an income source verification model, the establishment of pre disbursement and monitoring unit for credit proposals and introduction of a sophisticated risk rating model, we have been successful in achieving lower impairment provisions.

Accordingly, provisions for impairment have decreased by Rs. 40.43 million with the growth in the lending and improvements in asset quality, initiated by our proactive risk management approach. These developments improved the provision cover of the Bank, enabling it to have a buffer for unexpected losses. Growth in interest income resulted from expansion in loans and advances portfolio combined with the slight change of the non-interest income allowed the Bank to impress with the remarkable profit record amidst a change in the net interest margin and a change in impairment charge and taxes.

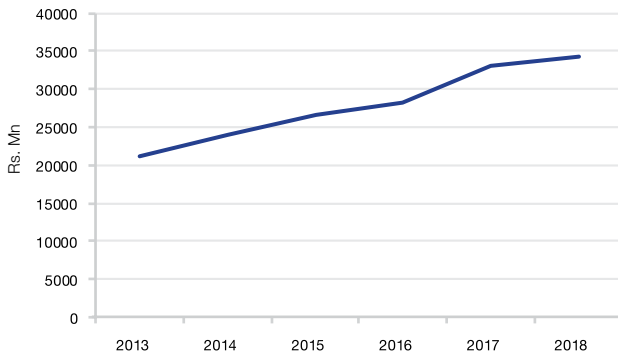
We maintained our Return on Assets (ROA) before tax at same level of 1.13% consequent to asset growth. The return on equity ratio (ROE) grew at 4.82 % when compared with the 3.62% reported in previous year. As the State Mortgage and Investment Bank, the Bank continues its contribution towards the Nation's development in form of various taxes & levies.

The Bank's contribution to the State in the form of direct and indirect taxes increased by 25.76 % to Rs. 487.24 million during 2018 from Rs. 387.44 million the previous year. This encompasses an Income Tax of Rs. 34.86 million and VAT, DRL and NBT on financial services of Rs. 64.95 Mn. The VAT on financial services has been increased from 11% to 15% with effect from November 2016 where the full impact of the increase was felt in 2017 and 2018. The DRL was also introduced by the government with effect from October 1, 2018, further building financial strength for the country's sustainable growth. Despite these mandatory contributions towards our country's economy, we are proud to have maintained compulsory liquidity and capital sufficiency ratios prescribed by the Central Bank of Sri Lanka. A reasonable growth was also recorded in loans and advances of 4.00% in 2018 to reach Rs. 34,225 million, in comparison to the previous years' Rs. 32,987 million. The growth of the portfolio was totally backed by increased credit demand from the retail credit lines of Housing Loans, Personal loans and Refinance loans and other loans enabling us to improve our overall performance.

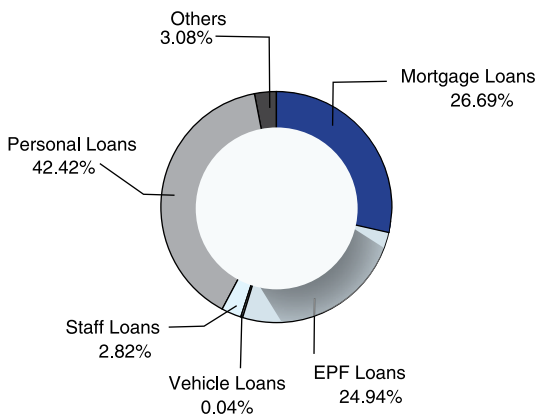


## General Manager’s Review Contd...

**Movements of Loans and advances**



**Loans and Advances**

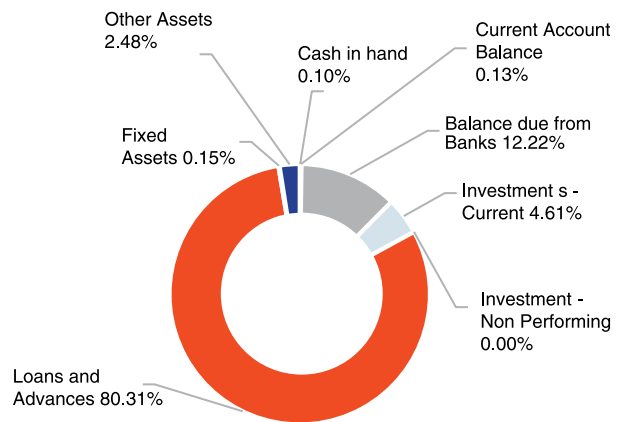


The loans and receivables portfolio were diversified across several industry sectors concentrating on Agriculture, Tourism, SME and Micro finance and housing finance sectors.

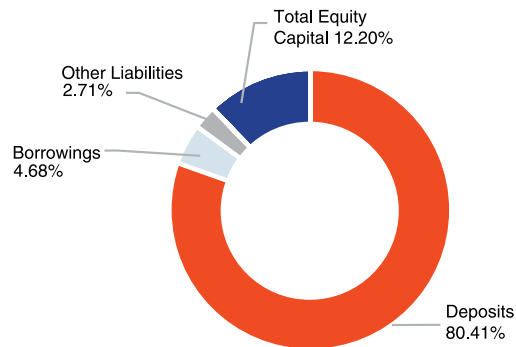
Total liabilities increased marginally by 0.93% to Rs. 344.29 million, led by expansion in customer deposits as well as institutional deposits. The funding composition remained relatively unchanged with the total assets base largely funded by customer deposits. It is a favorable condition that the Bank has been maintaining its rollover ratio of deposits above 80%. To face any unexpected events; arrangements have been made to maintain contingency funding arrangement of Rs. 2.8 billion. The Bank's deposit base grew to Rs. 34,272 million in 2018, with a higher overall growth in savings deposits in comparison with fixed deposits.

These funds were mainly utilized for disbursing loans and advances and investments in Government Securities, thereby increasing the interest income levels of the bank to enhance the profitability and liquidity.

**Assets Mix**



**Liability Mix**



I would like to thank Chairman and the Board of Directors for their support in steering the bank towards the expected level of performance. Further my special thanks go to the Senior Management and all staff for their unstinted contribution in conducting business activities of the bank and the untiring effort by all staff in operational departments and branches to promote business in a severely competitive environment.

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



# Board of Directors



1. **Mr. Nirosana Perera**  
Chairman  
(Appointed on 26<sup>th</sup> July 2018)
2. **Mr. Tissa Jinadasa**  
Chairman  
(Up-to 12<sup>th</sup> July 2018)
3. **Dr. C. N. S. Gamage**  
Director  
(Up-to 30<sup>th</sup> November 2018)
4. **Mr. Rajitha Halwela**  
Director  
(Up-to 17<sup>th</sup> May 2018)
5. **Mr. Roshan Hettiaratchi**  
Director  
(Up-to 25<sup>th</sup> May 2018)

6. **Mr. P.A. Kulasuriya**  
Director  
(Up-to 25<sup>th</sup> Sep 2018)
7. **Mr. P.S.K.R. Weerakon**  
Director  
(Up-to 18<sup>th</sup> May 2018)
8. **Mr. E.A.L. Edirisinghe**  
Director  
(Up-to 22<sup>nd</sup> Sep 2018)
9. **Mr. S.G. Senarathna**  
Director  
(Up-to 20<sup>th</sup> May 2018)
10. **Mrs. K.D.R. Olga**  
Director  
(Appointed on 02<sup>nd</sup> July 2018)

11. **Mr. Bernard Wasantha**  
Director  
(Appointed on 26<sup>th</sup> June 2018)
  12. **Mr. I Gunasekara**  
Director  
(Appointed on 12<sup>th</sup> July 2018)
- Not in Picture**
13. **Mr. T.M.I. Abdeen**  
Director  
(Appointed on 12<sup>th</sup> July 2018)
  14. **Mr. R.M. Abeyratna**  
Director  
(Up-to 27<sup>th</sup> March 2018)

## Board of Directors Contd...

### 1. Mr. Niroshana Perera - Chairman

Mr. Niroshana Perera, Attorney-at-Law was appointed as the Chairman of SMIB on 26th July 2018. He started his legal career in the chambers of former President of the Bar Association of Sri Lanka Mr. Ananda Wijesekara President's Counsel in 1993. He travels extensively appearing mainly in Magistrates' Courts and High Courts in intellectual property, bribery and corruption, debt recovery, defamation, criminal and labour related matters for over a period of 24 years. He is a much respected delegate of the Bar Association of the Sri Lanka and was a Committee member of the Colombo Law Society for a period of five years. Mr. Niroshana Perera was the Chairman of the Industrial Technology Institute and was a Non-executive Director at Merchant Bank of Sri Lanka & Finance PLC and the Sri Lanka Foreign Employment Agency.

### 2. Mr. Tissa Jinadasa - Chairman

Mr. Tissa Jinadasa was appointed as the Chairman of SMIB on 09th February 2015 and served up to 12th July 2018. 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 the 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.

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

Dr. Niroshan Gamage has been a Director of the Board of SMIB since 06.03.2015 and served up to 30th November 2018. 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.

### 4. Mr. Rajitha Halwela- Director

Mr. Rajitha Halwela was appointed to the Board of SMIB on 02nd November 2015 and served up to 17th May 2018. 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. Mr. Halwela 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. His areas of specialization are; financial marketing, operations risk management and international trade finance.

### 5. Mr. Roshan Hettiaratchi- Director

Mr. Roshan Hettiaratchi was appointed to the Board of SMIB on 02nd November 2015 and served up to 25th May 2018. 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 a Director in several unlisted companies.

### 6. 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 and served upto 25th September 2018. 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.

### 7. Mr. P.S.K.R. Weerakoon - Director

Mr. P.S.K.R. Weerakoon was appointed as a Director to the Board of Directors of SMIB on 01st March 2017 and served up to 18th May 2018 until he retires from Government Service. 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

## Board of Directors Contd...

presently as an Additional Secretary of the Ministry of Agriculture.

### 8. 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 and served up to 22nd September 2018. 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 Lahore Lone Fund, Director/Vice Chairman of Attanagalla MPCs Limited, and President of Employees Welfare Society of NIC.

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

Mr. S. G. Senarathna was appointed as a Director to the Board of Directors of SMIB on 21st April 2017 and served up to 20th May 2018. He holds a B.Com (Special) Degree from University of Sri Jayewardenepura, 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 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 and further to that he is 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.

### 10. Mrs. K.D.R. Olga - Director

Mrs. K.D. R. Olga was appointed as a Director to the Board of Directors of SMIB on 02.07.2018. She is the Director General of State Accounts of Ministry of Finance and holds a Master Degree in Financial Economics (VOC) and successfully completed Bsc. Degree of Business Administration (special) from University of Sri Jayawardenapura. Being qualified the Chartered Licentiate Examination in 1987 held by ICASL, she has served more than 29 years as an Accountant at Sri Lanka Accountants service since 1990 and has multi disciplines in government sector such as Public Financial Management Auditing, Accounting and Public Procurement.

### 11. Mr. Bernard Wasantha- Director

Mr. Bernard Vasantha was appointed as a Director to the Board of Directors of SMIB on 26.06.2018. He serves as the Secretary of the Ministry of Housing and Construction and Cultural Affairs. He holds Bachelor of Arts (Economics) Degree from University of Colombo and Master of Arts (Sociology) from University of Kelaniya. He has served more than 28 years in Sri Lanka Administrative Service (SLAS) from 1990 up to now.

### 12. Mr. I Gunasekara

Mr. I Gunasekara was appointed as a Director to the Board of Directors of SMIB on 12.07.2018. He holds Master of Business Administration Degree from University of Southern Queensland, Australia and Post Graduate Diploma in Business and Finance from Institute of Chartered Accountant Sri Lanka. Mr. Gunasekara is a Certified Management Accountant in Australia. From 1992 to 2000 he worked at Seylan Bank PLC as a Junior Executive, Executive and Assistant Manager, From 2000- 2013 worked at Nations Trust Bank as a Manager and Senior Manager and from 2014 to 2016, he served at Pan Asia Bank as an Assistant General Manager.

### 13. Mr. T.M.I. Abdeen

Mr. T.M.I. Abdeen was appointed as a Director to the Board of Directors of SMIB on 12.07.2018 and served upto October 2018. He served as a Member of Kandy Municipal Council since 1983-1994, as a Member of Central Provincial Council since 1994-1998, as the Chairman of Mahanuwara Bus Company Limited from 1999-2001, as the Coordinating Secretary to Hon. Minister of Plantation Industry from 2001-2004, as a Member of Kandy Municipal Council 2002-2016 June. He was the Chief Trustee of Meera Maccam Mosque, Kandy from 1994-2004 and in 2016 he was the Chief Trustee of Meera Maccam Mosque, Kandy and the Vice President of Rawzul Islam Orphanage, Kandy.

### 14. Mr. R.M. Abeyratna - Director

Mr. R.M. Abeyratne was appointed as a Director to the Board of Directors of SMIB on 01st February 2018 and served up to 27th March 2018 until he retired from the government service. He was the Secretary to the Ministry of Housing & Construction.



# Corporate Management



- 01. Mr. W.M.Dayasinghe**  
*General Manager / Chief Executive Officer*
- 02. Mr.A.D.N.Dharmarathne**  
*Assistant General Manager (Valuation)*
- 03. Mr. K.L.N.A.Perera**  
*Assistant General Manager (Finance)*
- 04. Mr. T.M.J.Wickramasekara**  
*Assistant General Manager  
(Credit -EPF/Estate/ SME and Micro)*
- 05. Mrs. N.P.K.Lokuge**  
*Assistant General Manager (Legal)  
& Secretary to the Board*
- 06. Mr.B.M.D.P.B.Basnayake**  
*Assistant General Manager (IT)*

- 07. Mr.L.W.Samarawickrama**  
*Act. Assistant General Manager (Credit)/ Chief  
Manager (Credit)*
- 08. Mr.D.M.R.Dissanayaka**  
*Act. Assistant General Manager (HR & L)/ Chief  
Manager / Head of VIP & Speed Loan Division*
- 09. Mrs.W.K.Perera**  
*Chief Manager (Legal)*
- 10. Mr. S.Wickramasinghe**  
*Chief Manager (Credit)*
- 11. Mr. D.B.P.Willaarachchi**  
*Internal Auditor*
- 12. Mrs. W.G.S.S.K.Abeywickrama**  
*Chief Manager (Compliance)*

## Corporate Management Contd...



**13. Mr. R.M.U.D.Bandara**  
Chief Manager (HR & L)

**14. Mr. S.A.K.A.K.Sooriyaarachchi**  
Chief Manager (Risk Management)

**Retired/Resigned Officers in the year of 2018**

**15. Mr. K.G.Karunarathne**  
Chief Manager (Valuation)

**16. Mr. S.S.Wijedoru (Not in Picture)**  
Assistant General Manager (HR & L)

**Not in Picture**

**17. Mr.I.K.Gamini**  
Chief Manager (Credit)

**18. Mrs.D.K.Hidellearachchi**  
Assistant General Manager  
(Credit, Disbursement and Monitoring)



## Corporate Management Contd...

### 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 is performing as the General Manager / CEO of the Bank.

### 02. 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 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 had been working in United Nations and Valuation Department.

Mr.A.D.N.Dharmarathne joined the bank on 04th November 1986, as a Valuation Inspector. Throughout his career at State Mortgage & Investment Bank he has held the positions of 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 Marketing Division.

### 03. 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 Fellow member of Institute of Chartered Accountant of Sri Lanka (FCA). He started his career as Audit Examiner (II) in 1995.

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

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

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

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

## Corporate Management Contd...

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

### 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 31 years' experience in Legal profession and over 23 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.

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

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

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

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

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

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

### 07. **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 (ACBF). 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 the positions of 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.

### 08. **Mr. D.M.R.Dissanayaka** - *Act. Assistant General Manager (Human Resource & Logistics) /Chief Manager/Head of VIP & Speed Loan Division*

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

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

## Corporate Management Contd...

### 09. Mrs. W.K.Perera - 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.

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

### 10. Mr.S.Wickramasinghe - Chief Manager (Credit)

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 (AIV). He started his career as a Field Investigator in 1993.

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

### 11. 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), Certified Business Accountant (CBA) of Institute of Chartered Accountants of Sri Lanka, ICDL Certificate, Member of Institute of Internal Auditors (IIA) and Association of Accounting Technicians of Sri Lanka (SL).

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.

### 12. Mrs.W.G.S.S.K.Abeywickrama - Chief Manager (Compliance)

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

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

### 13. Mr.R.M.U.D.Bandara - Chief Manager (Human Resource & Logistics)

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

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

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

### 14. Mr.S.A.K.A.K.Sooriyaarachchi - Chief Manager (Risk Management)

Mr.S.A.K.A.K.Sooriyaarachchi is a holder of Master Degree in Economics, Bachelor Degree (Special) in Economics, Postgraduate Diploma in Applied Statistics, Association of Chartered Certified Accountants (ACCA) - UK Professional Stage.



## Corporate Management Contd...

He started his career as a Graduate Trainee in 2000. Since then he had been working in State Bank of India - Colombo, Seylan Bank PLC, RR Donnelly (USA based fortune 500 entity) and Sri Lanka Savings Bank Ltd.

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

### Retired/Resigned Officers in the year of 2018

15. **Mr. K.G.Karunarathne** - *Chief Manager (Valuation)*

16. **Mr. S.S.Wijedoru** - *Assistant General Manager (HR & L)*

### Not in Picture

17. **Mr.I.K.Gamini** - *Chief Manager (Credit)*

18. **Mrs.D.K.Hidellearachchi** - *Assistant General Manager (Credit, Disbursement and Monitoring)*

# Corporate Governance

The Concept of corporate governance complements the traditional supervision of financial institutions, protects the interests of the depositors and enhances the confidence in the public on the financial institution while contributing to the integrity and credibility of the Institution.

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

Holding the purpose of Corporate Governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long term success of the bank, the Board of Directors of the State Mortgage and Investment Bank, which is the highest decision making authority has overall responsibility for the operation and the financial soundness of the Bank and liable to ensure that the interests of depositors, creditors, employees, and other stakeholders are met. The Board ensures that the Bank is managed prudently and within the framework of laws and regulations of the country and governing authorities and the internal policies of the Bank.

The 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 experiences needed to arrive independent, impartial and direct decisions regarding issues of strategy, performance and resources. The Board continued to strengthen its oversight responsibilities on the affairs of the Bank providing the leadership to put the Institution's strategic aims into effect, supervising the management of the business and reporting shareholders on their stewardship.

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

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

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

## Accountability

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

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

The Bank has complied with the requirements imposed by all regulatory authorities concerning matters relevant to the Bank's business with an understanding on the fact that, the availability and the existence of a system of accountability in place is just another step towards moving the Banks culture into a place that supports growth which enhances the very best in the Bank's employees and promotes an attitude of ownership that leads to successful outcomes for the Bank.

## Fairness

It is well understood that in the Business atmosphere, the goal of an institution is to make good decisions that serve the needs of the business without harming anyone such as customers, employees, Shareholders, suppliers and the community at large.

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

## Transparency and disclosure

Transparency and disclosure (T&D) are essential elements of a robust corporate governance framework as they provide the base for informed decision making by shareholders, stakeholders and potential investors in relation to capital allocation, corporate transactions and financial performance monitoring.

## Corporate Governance Contd...

Accordingly, it has generally been agreed that the main failure leading to the financial crisis stemmed directly from the lack of financial disclosure and inadequate governance practices.

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

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

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

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

### Board of Directors

The board has the overall responsibility for the bank, including approving and overseeing management's implementation of the bank's strategic objectives, governance framework and corporate culture. The board has ultimate responsibility for the bank's business strategy and financial soundness, key personnel decisions, internal organization and governance structure and practices, and risk management and compliance obligations. The board may delegate some of its functions, though not its responsibilities, to board committees where appropriate.

The Board of Directors of SMIB has been appointed by the Ministry of Finance as stipulated in the State Mortgage and Investment Bank Law No. 13 of 1975 as amended time to time, and it consists of nine fit and proper independent and non-executive directors having knowledge in diverse areas. Three of the directors out of the said nine members are the

representatives of Ministry of Social Services, Welfare & Livestock Development, Ministry of Housing & Construction and Ministry of Irrigation & Agriculture since the purpose of the Bank is to assist in the development of agriculture, industry and housing, by providing financial and other assistance. The composition of the Board ensures that there is a sufficient balance of power and continuation of contribution guides in decision-making process of the board.

Having a proper understanding about the fact that, the board of directors of the organization bears direct responsibility for cultivating a culture of accountability and transparency, the Board of Directors of the Bank truly independent in establishing policies that ensure and reward transparency. They diligently monitor implementation, decisively intervene to ensure completeness, ensure that facts are not obscured and that conflicts of interest are eliminated.

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

The Board of directors, relying upon their judgment, experience, and expertise, 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 2018, 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.



## Corporate Governance Contd...

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.

Accordingly, the board of the Bank ensures that transactions with related parties (including internal group transactions) are reviewed to assess risk and are subject to appropriate restrictions (eg. by requiring that such transactions be conducted on arm's length terms) and that corporate or business resources of the bank are not misappropriated or misapplied.

### Composition of the Board:

Name of the Director	Date of Appointment	Date of Retirement or ceased to be a Director	Category of Director
Mr. Tissa Jinadasa (Chairman)	13.02.2015	18.05.2018	Independent non-executive director
Mr. Nirosana Perera (Chairman)	12.07.2018	-	Independent non-executive director
Dr. Nirosan Gamage	06.03.2015	30.11.2018	Independent non-executive director
Mr. Roshan Hettiaratchi	02.11.2015	17.05.2018	Independent non-executive director
Mr. Rajitha Nuwan Halwala	02.11.2015	17.05.2018	Independent non-executive director
Mr. P. A. Kulasooriya	06.02.2017	25.09.2018	Independent non-executive director
Mr E.A. Lesly Edirisinghe	15.02.2017	22.09.2018	Independent non-executive director
Mr. P.S.K.R. Weerakoon	01.03.2017	18.05.2018	Independent non-executive director
Mr. S.G. Senaratne	21.04.2017	20.05.2018	Independent non-executive director
Mr. R.M. Abeyratna	01.02.2018	27.03.2018	Independent non-executive director
Mrs. K.D.R. Olga	22.06.2018	-	Independent non-executive director
Mr. Bernard Wasantha	26.06.2018	-	Independent non-executive director
Mr. T.M.I. Abdeen	12.07.2018	28.08. 2018	Independent non-executive director
Mr. I. Gunasekara	12.07.2018	30.11.2018	Independent non-executive director

## Corporate Governance Contd...

Directors' attendance at Meetings in the Year 2018 is being given in the Directors Report of this annual report.

### Appraisal of Board Performance

Corporate governance requires the board of the Bank to have effective processes and to evaluate their performance and appraise directors at least once a year.

Accordingly, 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/CEO

CEO, which stands for Chief Executive Officer, is the highest-ranking individual in the Bank. He is responsible for the overall success of the Bank for making top-level managerial decisions. The General Manager / Chief Executive Officer reports directly to, and is accountable to, the board of directors for the performance of the Bank. In addition to the overall success of the Bank, the General Manager/CEO is responsible for leading the development and execution of long-term strategies, with the goal of increasing shareholder value.

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.

Since, it is a very responsible position and requires years of experience in various sectors and levels of banking industry, the The General Manager /CEO of the Bank has an in depth knowledge about the operations taking place at all levels in

the bank. Being the head of operations of the bank he strictly adhered to the duties vest on him to oversee all aspects of management of the Bank.

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

### Board Sub Committees

The oversight function of corporate governance is performed by the company's board of directors and its designated committees. Board of directors perform their advisory and oversight function through well-structured, planned, and assigned committees to take advantage of the expertise of all the directors.

The Bank has established four (4) Board sub committees which shall directly report to the Board. These subcommittees are as follows;

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

Scopes of these Board sub committees detailed in the subcommittee reports which mentioned in this annual report. These Committees are chaired by non- executive directors who have expertise and proficiency in the relevant field. Board sub committees normally function independently from each other and are provided with sufficient authority, resources, and assigned responsibilities in assisting the entire board.

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

The Board Human Resources and Remuneration Committee (BHRRC) sets goals and targets for the Directors, General Manager/CEO and the Key Management Personnel and

## Corporate Governance Contd...

evaluates the performance of same against the set targets and goals periodically and determines the basis for revising remuneration, benefits and other payments of performance-based incentives. Developing and reviewing HR development strategies on behalf of the Bank and maintaining a consultative role with the other Board Subcommittees and operational committees on all human resource issues, including matters relating to all staff, are among the primary responsibilities vested in the BHRRC.

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

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

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

The State Mortgage and Investment Bank's better risk management indicates that 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.

### Management Committees

Adhering to the Basel Committee's revised principles which provide a framework within which banks and supervisors should operate to achieve robust and transparent risk management and decision-making and, in doing so, promote public confidence and uphold the safety and soundness of the banking system, the Management Committees of the Bank take on subordinates that needs training to handle the banking transaction and guide them to produce successful results understanding that they are responsible for forming policies, assembling resources and critical measurements that eventually contributes to the Bank's finance.

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

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

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

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

## Corporate Governance Contd...



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## தேசிய கணக்காய்வு அலுவலகம்

### NATIONAL AUDIT OFFICE



මගේ අංකය  
எனது இல  
My No.

BAF/G/SMIB/CG/2018/01

ඔබේ අංකය  
உமது இல  
Your No.

දිනය  
திகதி  
Date

03<sup>rd</sup> October 2019

#### 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 2018.

I have performed the procedures enumerated in an 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 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 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 matters might have come to my attention that would have been reported to you.

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

This Report relates only to the item specified above and does not extended to any financial Statements of State Mortgage and Investment Bank, taken as a whole.

**W.P.C. Wickremaratne**  
Auditor General





## Corporate Governance Contd...

### Questionnaire for compliance officers of banks

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

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
<b>3(1) The responsibilities of the board</b>						
3(1)(i)	Procedures to be carried out to ensure the board have strengthened the safety and soundness of the bank.	Complied				
	a	Complied			Corporate Plan for the period 2018-2022 and Action Plan for 2018 was approved by the board under the board paper No.18/08/36 at the meeting held on 30.07.2018	Complied Corporate Plan for the period 2018-2022, was presented to the board under the board paper No.18/08/36 at the meeting held on 09/08/2018.
		Complied			Strategic objectives and corporate values are communicated through heads of departments at each division at the Senior Management Meetings and Branch Managers Meetings held during the year 2018.	Complied Strategic objectives and corporate values are communicated through heads of departments at each division at the Senior Management Meetings and Branch Managers Meetings held during the year 2018 Ex 18.08.2018

## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
b	<p>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>	<p>Complied</p> <p>Complied</p> <p>Complied</p>			<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 30.07. 2018.</p> <p>The bank has documented the overall business strategy including the overall risk policy, risk management procedures and mechanisms</p> <p>The measurable goals to 2018-2022 are included in the corporate plan</p>	<p>Complied Overall business plan was approved by the Board of directors the board paper No.18/08/36 at the meeting held on 09/08/2018 It was observed in Cooperate plan (Revised) page no. 18- 29</p> <p>Complied IRMC policy which included strategic, credit, liquidity risk has been formulated and submitted to Board.</p> <p>Complied The measurable goals to 2018-2022 are included in the corporate plan</p>
c	<p>Check that the appropriate systems to manage the risks identified by the board are prudent and are properly implemented</p>	<p>Complied</p>			<p>The Board Integrated Risk Management Committee is addressing the risk identified periodically.</p> <p>Therefore, board reviews Risk Assessment Report of the BIRMC meetings and ensure that the bank has appropriate systems to manage the risks. 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.</p>	<p>Complied BOD review KRIs and Stress testing results submitted to the board in quarterly basis Ex Board Paper 18/08/25 Dated 06/07/2018 BIRMC 2<sup>nd</sup> Quater</p>

## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
d	Check that the board has approved and implemented a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	Complied			<p>The customer charter is used for the purpose of effective communication between customers and the bank.</p> <p>Further, Government has 100% ownership of the bank and all directors are appointed by the Line Ministry. Therefore, effective communication between government/ shareholders depositors, creditors, borrowers and the bank is maintained.</p> <p>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</p>	<p>Complied The Policy of communication has been approved by the board; No.15.11.155.01 in the board paper No. 15/11/08 in Dec 2015</p> <p>SMIB board has a representative from General Treasury and communication with government is in place, Further all directors are appointed by the minister.</p>
e	Check that the board has reviewed the adequacy and the integrity of the bank's internal control systems and management information systems;	Complied			<p>The adequacy and integrity of the internal controls and management information system had been reviewed by the Board Audit Committee, the board reviewed the minutes of respective Board audit committee and BIRMC</p> <p>BIRMC Meeting Board Paper No.18/08/25 in the minutes of the board meeting held on 30.07.2018 and Board Paper No.18/13/06 in the minutes of the board meeting held on 30<sup>th</sup> November 2018 Board Paper No. 18/01/39 board meeting held on 26<sup>th</sup> January 2018.</p>	<p>Complied Board carries out this function through the BAC which oversee the internal audit function of the bank.</p> <p>We observed the meeting minutes of BAC meeting Board Paper No.18/02/02 dated 28/06/2018 and BIRMC Meeting Board Paper No.18/08/25 in the minutes of the board meeting held on 06.07.2018 and Board Paper No.18/13/06 in the minutes of the board meeting held on 28<sup>th</sup> November 2018 Board Paper No. 18/01/39 board meeting held on 26<sup>th</sup> January 2018.</p>

## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
f	Check that the board has identified and designated key management personnel, as defined in the Sri Lanka Accounting Standards, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;	Complied			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.	Complied 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 11/12/2015.
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.	Complied Board has carried out meetings with CEO by reviewing the progress of stress testing results have seen board paper No18/03/06 and dated 28.09.2018
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.	Complied It was observed that Director's powers and authority had been defined in section 07 of the SMIB Law No.13 of 1975 .  Directors were allocated to sub committees by the Board of Directors and charter of each committee defines responsibilities. Ex Compliance Officer KMPs authorities and responsibilities are listed in Job Descriptions.



## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
i	Check that the board has periodically assessed the effectiveness of the board directors' own governance practices, including: (i) the selection, nomination and election of directors and key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary.	Complied			<p>Selections, nominations and election of the board of directors are done by the minister according to the SMIB Law No.13 of 1975. Directors confirmed in their self-evaluation forms that the board has undertaken an annual evaluation of its own governance practices.</p> <p>The effectiveness of the BODs is assessed through a questionnaire.</p>	<p>Complied The directors are appointed by the minister according to the section 7 of the SMIB Law No.13 of 1975.</p> <p>Directors confirmed in their self-evaluation Forms that the board has undertaken an annual evaluation of its own governance practices.</p>
j	Check that the board has a succession plan for key management personnel	Complied			<p>Succession plan for key management personnel for the year 2017 is available. 17.04.52.04 (Board Paper No.17.04.21) in the minutes of the board meeting held on 28/04/2017</p>	<p>Complied It was observed in Succession plan for key management personnel in No.17.04.21 of 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.</p>

## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
k	Check that the board has scheduled regular meetings with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives	Complied			In each Board meeting the General Manager being attended 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 to ensure that management is working towards corporate objectives.	<p>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. In addition, the KMP are summoned to the Board meetings as and when necessary.</p> <p>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.</p> <p>Though board had directed to hold senior management meeting, every month. Only 5 meeting was held during the year.</p> <p>Ex 19.02.2018 23.04.2018 22.06.2018 31.08.2018 23.11.2018</p>

## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
	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 monthly basis and to the BIRMC Quarterly basis and respective Boards review the progress. The board audit committee assists the bank in this regard as per the charter of audit committee Terms of References.	The Compliance Officer has been appointed in reference to board paper no 16.09.99.01 dated on 20.09.2916 and job description of the Chief Manager Compliance  Compliance division reports to the Board on monthly basis and to the BIRMC Quarterly basis and respective Boards review the progress.  The board audit committee assists the bank in this regard as per the charter of audit committee Terms of References.
	m Check that the board has a process in place for hiring and oversight of external auditors	Complied			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.	Complied This is not applied to SMIB. Auditor General is the external auditor as per the SMIB Law.
3(1)(ii)	Check that the board has appointed the chairman and the Chief Executive Officer (CEO).  Check that the functions and responsibilities of the chairman and the CEO are in line with Direction 3(5) of these Directions	Complied			According to the SMIB Law No.13 of 1975, The chairman has been appointed by relevant Line Ministry. The General Manager/CEO has been appointed by the board.  Checked and ensured the functions and responsibilities of the chairman and the CEO which are in line with the above said directions.	Complied 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 in line with the SMIB Law no 13 of 1975.

## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(1)(iii)	Check that the board has met regularly and held board meetings at least twelve times a year at approximately monthly intervals.	Complied			The board has met 13 times during the year 2018 at approximately monthly intervals. Observed board minutes and directors' attendance register.	Complied The board has met 13 times during the year 2018 at approximately monthly intervals. Observed board minutes and directors' attendance register.
3(1)(iv)	Check that the board has a procedure in place to enable all directors to include matters and proposals in the agenda for regular board meetings where such matters and proposals relate to the promotion of business and the management of risks of the bank.	Complied			The agenda prepared under the authority of the board secretary and it is Check by the CEO/GM. 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.  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.	Complied It was observed the agenda prepared under the authority of the board secretary with the approval of the Chairman. We observed the board agenda
3(1)(v)	Check that the board has given notice of at least 7 days for a regular board meeting to provide all directors an opportunity to attend. And for all other board meetings, notice has been given.	Complied			Prepared agenda was sent to each directors of the board which is signed and approved by the secretary by post or by hand at least 7 days prior to the meeting.	Complied 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. We observed the copy of the mail sent by the board secretary



## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(1) (vi)	Check that the board has taken required action on directors who have not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held. Participation at the directors' meetings through an alternate director, however, to be acceptable as attendance.	Complied			The directors have attended the meetings as required and hence, no such requirement.  Observed the Directors' Attendance Register and Board Minutes.	Complied The directors have attended the meetings as required and hence, no such action needed to be taken in the year 2018  Checked the attendance register to confirmed the attendance
3(1) (vii)	Check that the board has appointed a company secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and whose primary responsibilities shall be to handle the secretariat services to the board and shareholder meetings and carry out other functions specified in the statutes and other regulations.	Complied			The board has appointed the secretary to the board in accordance with the section 43 of the Banking Act No. 30 of 1988 and the Companies Act No 7 of 2007.  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.	Complied Board secretary is an attorney at law which complies with section 43 of the banking act No 30 of 1988. We observed the Certificate of Attorney at law
3(1) (viii)	Check the process to enable all directors to have access to advice and services of the company secretary.	Complied			All directors have access to advice and obtain the service of the Board Secretary.	Complied As per the board secretary all directors shall have unlimited access to advise and obtain the service of the board secretary.

## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(1)(ix)	Check that the company secretary maintains the minutes of board meetings and there is a process for the directors to inspect such minutes.	Complied			All the minutes of the board meetings are filed sequentially and kept under the Board Secretaries authority. At any time, any director shall have access to any information regarding the board meetings. Observed board meetings' minutes.	Complied 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.
3(1)(x)	Check that the minutes of a board meeting contain or refer to the following: (a) a summary of data and information used by the board in its deliberations (b) the matters considered by the board (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; (d) the matters which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations; (e) the understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted; and (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.  i) Confirmation minutes of the previous meeting ii) Matters arising out of the minutes of the previous meetings. iii) Differed from the previous meeting iv) Recovery matters v) Financial matters vi) Marketing and publication matters vii) Administration and personal matters. viii) Credit matters ix) Risk Matters x) Legal Matters and, xi) Any Other Matters.  Observed minutes of the board meeting.	Complied Checked the board minutes and ensured that minutes are recorded in sufficient detail. i) Confirmation minutes of the previous meeting ii) Matters arising out of the minutes of the previous meetings. iii) Deferred from the previous meeting iv) Credit matters v) Financial matters vi) Marketing and publication matters vii) Administration and personal matters. viii) Recovery matters ix) Risk Matters x) Legal Matters and, xi) Any Other Matters.  Observed minutes of the board meeting.

## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(1) (xi)	Check that there are procedures agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the bank's expense.	Complied			Bard approval is obtained enabling directors to seek independent professional advise whenever is necessary while caring out duties and making decisions at the bank expense Generally for this bank follows government approved tender procedures	Complied. It was observed in board paper of " Supervisory concerns on Statutory Examination no 14/14/19 dated 30.04.2014
3(1) (xii)	Check that there is a procedure to determine, report, resolve and to take appropriate action relating to directors avoid conflicts of interests, or the appearance of conflicts of interest.	Complied			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  According to the section 28 of the SMIB Law No.1975, no loan shall be granted by the bank to any director	Complied Related Party Transaction Policy was approved by the Board Paper No 16/08/35 & Board minute No 16.08.95.02 held on 16.08.2016  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.
	Check that a director has abstained from voting on any board resolution in relation to which he/she or any of his/her close relation or a concern in which a director has substantial interest, is interested.	Complied			No such situation taken place in year 2018.	
	Check that has he/she been counted in the quorum for the relevant agenda item at the board meeting			N/A	Such a matter has not arisen during the year 2018 and therefore this section is not applicable.	

## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(1) (xiii)	Check that the board has a formal schedule of matters specifically reserved to it for decision to identify the direction and control of the bank is firmly under its authority.	Complied			The board has a formal schedule of matters, the board maintain schedule of matters specifically reserved to it for decision to identify the direction and control of the bank is firmly under its authority. Observed Board Paper No.16/10/40 in the minutes of 16.10.122.02	Complied There is a formal schedule of matters reserved to the board as per the board paper No.16.10.40 & minute No. 16.10.122.02 dated 24 October 2016
3(1) (xiv)	Check that the board has forthwith informed the Director of Bank Supervision of the situation of the bank prior to taking any decision or action, if it considers that the procedures to identify when the bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors.			N/A	Such situation has not been evident through the review of the board minutes.	Such incident has not taken place during the year 2018
3(1) (xv)	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 31/12/2018 the SMIB shows capital adequacy (Tier 1) as 21.68% and Total capital ratio (Tier11) as 22.23%.	Complied 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 31/12/2018 the SMIB shows capital adequacy (Tier 1) as 21.68% and Total capital ratio (Tier11) as 22.23%. Based on the financial statements.



## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(1) (xvi)	Check that the board publishes, in the bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.	Complied			The board has published annual corporate governance report setting out the compliance with direction 3 of these directions in the annual report.	Complied There was a corporate governance report published as per the bank annual report 2017
3(1) (xvii)	Check that the board adopts a scheme of self-assessment to be undertaken by each director annually, and maintains records of such assessments.	Complied			Self- assessment/evaluation process has been carried out by the board of directors for the year 2018.	Complied Board secretary has obtained the evaluation forms from all the directors. Ex Annual Confidential Report Emp No 626
<b>3(2) The board's Composition</b>						
3(2)(i)	Check that the board comprise of not less than 7 and not more than 13 directors.	Complied			According to the section 7 of SMIB act Board of Directors consisting of nine fit and proper persons appointed by the Minister. But the board consists of 06 directors as at 31 December 2018. According to the SMIB law section 16, three Directors constitute a quorum of the Board.	Complied. the board consists of 07 directors as at 31 December 2018  Though directions that minimum no of directors are seven according to the the SMIB law section 16, minimum no of directors should be nine Refer List of board of directors as at 31.12.2018 obtained from board secretary
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			It was observed that no directors has exceeded 9 years of service	Complied It was observed that no directors has exceeded 9 years of service Refer List of board of directors as at 31.12.2018 obtained from board secretary

## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
b	In the event of any director serving more than 9 years, check that the transitional provisions have been applied with			N/A	No director has exceeded 9 years of service in the capacity of director	Complied No director has exceeded 9 years of service in the capacity of director Refer List of board of directors as at 31.12.2018 obtained from board secretary
3(2)(iii)	Check that the number of executive directors, including the CEO does not exceed one-third of the number of directors of the board.	Complied			In accordance with the provisions of the SMIB Law No.13 of 1975 the board consists of nine directors and appointed by the Line Ministry and all are non-executive directors.	Complied In accordance with 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  Refer List of board of directors as at 31.12.2018 obtained from board secretary
3(2)(iv)	Check that the board has at least three independent non-executive directors or one third of the total number of directors, whichever is higher.  Check if non-executive directors can be considered independent if he/she:	Complied			All the Directors are appointed by the Minister, and all are independent and non-executive directors.	Complied 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	The bank is fully owned by the government therefore no any shareholding by the directors	The bank is fully owned by the government therefore no any shareholding by the directors.

## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
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 final account 2017, note 27 this transaction no occurred in the year.	According to note 28 this transaction occurred in the year.
c	has been employed by the bank during the two-year period immediately preceding the appointment as director.			N/A	No such non-executive directors were employed by the bank.	No such non-executive directors were employed by the bank.
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( 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	Appointments of directors are done by minister of 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 director own share of the bank since 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					There is no business transaction with any of the present directors with the bank
	I. Which currently has a transaction with the bank as defined in Direction 3(7) of these Directions, exceeding 10 per cent of the regulatory capital of the bank, or			N/A		

## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
	II. in which any of the other directors of the bank are employed or are directors or are material shareholders; or			N/A	There is no business transaction with any of the present directors with the bank	Such an instance was not observed.
	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		
3(2)(v)	In the event an alternate director was appointed to represent an independent director, Check the person so appointed meet the criteria that applies to the independent director			N/A	No alternative directors were appointed during the year.	Alternative directors were appointed during the year in BHRRC , BNC, BIRMC, BAC and them are independent directors.
3(2)(vi)	Check that the bank has a process for appointing independent directors.	Complied			Directors are appointed by the Minister according to the section 7 of SMIB Law No.13 of 1975.	Complied Appointments of directors are done by the minister under the SMIB Law No.13 of 1975.(Section 07)
3(2)(vii)	Check that the stipulated quorum of the bank includes more than 50% of the directors and out of this quorum more than 50% should include non-executive directors.	Complied			All directors are non – executive Directors.	Complied It was observed that all the directors are non-executive directors.
3(2)(vii)	Check that the bank discloses the composition of the board, by category of directors, including the names of the chairman, executive directors, non-executive directors and independent non-executive directors in the annual corporate governance report.	Complied			The bank has disclosed the composition of the board, including the names of the chairman and directors. It had disclosed directors' category as independent non-executive directors of the annual report.	Complied It was disclosed in Director's report in annual report in 2017



## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(2)(ix)	Check the procedure for the appointment of new directors to the board.	Complied			The appointment of directors is done by the Minister in accordance with the SMIB Act No.13 of 1975.	Complied According to SMIB Act No.13 of 1975 the appointment of directors is done by the Minister of Public Enterprises Development and Minister of finance.
3(2)(x)	Check that all directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after their appointment.	Complied			The directors are appointed by the Minister in accordance with the SMIB Law No.13 of 1975.	Complied The directors are appointed by relevant ministries in compliance with the Act.
3(2)(xi)	<p>Check if a director resigns or is removed from office, the board:</p> <p>(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</p> <p>(b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders</p>	Complied		N/A	<p>The removal of the directors is done by the minister of relevant Line Ministry in accordance with the SMIB Law No.13 of 1975.</p> <p>The removal of the directors is done by the minister of relevant Line Ministry in accordance with the SMIB Law No.13 of 1975</p>	Complied The removal of the directors is done by the minister of relevant Line Ministry in accordance with the SMIB Law No.13 of 1975.

## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(2) (xii)	Check if there is a process to identify whether a director or an employee of a bank is appointed, elected or nominated as a director of another bank.	Complied		N/A	As per section 76H read with section 42 of the Banking Act, DBS has accepted the assessment of fitness and propriety of the Directors of SMIB. Code of conduct is in place for employees of SMIB.	Complied 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. Refer directors annual declaration
<b>3(3) Criteria to assess the fitness and propriety of directors</b>						
3(3)(i)	Check that the age of a person who serves as director does not exceed 70 years.	Complied			Checked and ensured through the declarations that all other directors are below the age of 70.	Complied Directors had not exceed age 70.  Refer List of board of directors as at 31.12.2018 obtained from board secretary
a	Check that the transitional provisions have been complied with.			N/A	Directors had not exceed age 70.	Directors had not exceed age 70.
3(3)(ii)	Check if a person holds office as a director of more than 20 companies/entities/ institutions inclusive of subsidiaries or associate companies of the bank.	Complied			No director holds office as a director of more than 20 companies/entities/ institutions. No director holds such directorships.	Complied As per the annual declaration. It was observed that no directors holds office as a director of more than 20 companies/entities/ institutions. Refer Directors' Annual declarations
<b>3(4) Management functions delegated by the board</b>						
3(4)(i)	Check that the delegation arrangements have been approved by the board.	Complied			Power delegation by the BOD to the General Manager to manage the business is done according to the SMIB Law -section 20, 21. Further - more the board appointed sub committees and delegate powers accordingly.	Complied It was observed that the Power delegation by the BOD to the General Manager to manage the business is done according to the SMIB Law -section 20, 21.

## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(4)(ii)	Check that the board has taken responsibility for the matters in 3 (1) (i) even in the instances such actions are delegated.	Complied			The board limits delegation of any function to board committees, CEO or key management personnel to an extent that will not reduce the ability of the board to discharge its function.	Complied the board limits delegation of any function to board committees, CEO or key management personnel to an extent that will not reduce the ability of the board to discharge its function.
3(4)(iii)	Check that the board review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the bank.	Complied			The board reviews the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the bank.	Complied It was observed that the sub comity minutes and organizational Chart
<b>3(5) The Chairman and CEO</b>						
3(5)(i)	Check that the roles of chairman and CEO is separate and not performed by the same individual	Complied			The role of the chairman and CEO are separate and not performed by the same individual.	Complied It was observed that the role of chairman and CEO are separate. Ex Organizational Chart
3(5)(ii)	Check that the chairman is a non-executive director.  In the case where the chairman is not an independent director, check that the board designate an independent director as the senior director with suitably documented terms of reference.  Check that the designation of the senior director be disclosed in the bank's Annual Report	Complied		N/A  N/A	Chairman is a non – executive director and he is appointed by the relevant Line Ministry, Under the SMIB Law. No.13 of 1975.  The chairman is an independent director  SMIB Law No. 13 of 1975 does not provide provisions to appoint senior director position	Complied The chairman appointed by the minister under the SMIB Law section 14 of the No.13 of 1975  chairman is an independent director of the board

## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(5)(iii)	Check that the board has a process to identify and disclose in its corporate governance report, which shall be a part of its Annual Report, any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the chairman and the CEO and board members and the nature of any relationships including among members of the board.	Complied			This has been disclosed in the self-declaration made by the directors in accordance with the term of section 42 of the Banking Act.	Complied This has been disclosed in the self-declaration made by the directors in accordance with the term of section 42 of the Banking Act.
3(5)(iv)	Check that the board has a self-evaluation process where the chairman: (a) provides leadership to the board; (b) ensures that the board works effectively and discharges its responsibilities; and (c) ensures that all key and appropriate issues are discussed by the board in a timely manner.	Complied			Self-evaluation process has been carried out by the board.	It was observed that a self –assessment process has been carried out by the board.
3(5)(v)	Check that a formal agenda is circulated by the company secretary approved by the chairman.	Complied			The agenda was circulated to each and every director by the board secretary with the approval of the chairman.	Complied It was observed that the agenda was circulated to each and every directors.
3(5)(vi)	Check that the chairman ensures, through timely submission that all directors are properly briefed on issues arising at board meetings.	Complied			The directors are properly briefed on issues arising at the board meetings in advance and Board papers are submitted to the Directors prepare early.	Complied Adequate information is provided to all directors in advance to the meeting and board papers are submitted to them to prepare early. We observed the Copy of Mail sent by the board secretary



## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(5) (vii)	Check that the board has a self-evaluation process that encourages all directors to make a full and active contribution to the board's affairs and the chairman taking the lead to act in the best interest of the bank.	Complied			Self-evaluation process has been carried out to assess the contribution of the Non-executive Directors by the board in 2018.	Complied The directors had been carried out self-evaluation process. Ex: Mr. AND Dharmarathna provide his self-evaluation form for 25/07/2017 – 24/07/2018
3(5) (viii)	Check that the board has a self-evaluation process that assesses the contribution of non-executive directors.	Complied			Self-evaluation process has been carried out by the board in 2018 and it assesses the contribution of non-executive directors. Observed the self-evaluation forms.	Complied The directors had been carried out self-evaluation process. Ex: Mr. AND Dharmarathna provide his self-evaluation form for 25/07/2017 – 24/07/2018
3(5) (ix)	Check that the chairman engages in activities involving direct supervision of key management personnel or any other executive duties whatsoever.			N/A	The chairman does not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	According to SMIB Law section 20 of the No.13 of 1975, chairman had not engaged in activities involving direct supervision of KMP.
3(5)(x)	Check that there is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the board.			N/A	Government has the 100% ownership of the bank and all directors are appointed by the relevant Line Ministry. The Treasury representative is a permanent member of the board.	Government has the 100% ownership of the bank. Directors are appointed by the minister of finance and minister of Public Enterprise Development.
3(5) (xi)	Check that the CEO functions as the apex executive-in-charge of the day-to-day management of the bank's operations and business.	Complied			As per the organization chart the CEO/ GM function as apex executive in charge of day to day management of the bank operations and business.	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

## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
<b>3(6) Board appointed committees</b>						
3(6)(i)	Check that the bank has established at least four board committees as set out in Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions.	Complied			Bank has established following board sub committees <ul style="list-style-type: none"> <li>• Audit Committee</li> <li>• Human Resources, and Remuneration Committee</li> <li>• Nomination Committee</li> <li>• Board Integrated Risk Management Committee (BIRMC)</li> </ul>	Complied Observed the Board Paper No.18.09.134 – Appointment of Directors to the Board sub Committees namely Audit Committee (BAC) Human Resources and Remuneration Committee(BHRRC), Nomination Committee (BNC), Board Integrated Risk Management Committee (BIRMC).
	Check that each board committee report is addressed directly to the board.	Complied			Each board subcommittee reports/minutes are directly addressed to the board.	Partly Complied Observed the Board minutes and Board papers of BAC and BIRMC reference to board paper number 18/01/01 and board paper 18/13/06 respectively.
	Check that the board presents in its annual report, a report on each committee on its duties, roles and performance.	Partially Complied			The bank has disclosed details of BIRMC Board, Nomination Committee BAC in the annual report.	Partially Complied Observed that BIRMC, BNC and BAC reports in the annual report 2017

## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
<b>3(6)(ii) Audit Committee:</b>						
a	Check that the chairman of the committee is an independent non-executive director and possesses qualifications and related experience.	Complied			The chairman of BAC is an independent non-executive director and has necessary qualifications and experience.	<p>Complied Observed that List of independent non-executive director's schedule given by the Board secretary. (page 17-19) and accordingly chairman is an independent non-executive director.</p> <p>According to the schedule given by the secretary, the chairman of BAC , has following necessary qualifications and experience. She holds a Master degree in financial economics (VOC), BSc .degree of Business administration (special) USJP and passed chartered licentiate examination- 1987 held by ICASL. She has 29 years' experience as an Accountant belongs to Sri Lanka accountant service since 1990 having multi disciplines government sector such as public financial management auditing, accounting and public procurement.</p>
b	Check that all members of the committee are non-executive directors.	Complied			Board Audit committee consists of 4 members and all the members are independent nonexecutive directors.	Complied According to the schedule given by the secretary (page 17-19) all members of the committee are non-executive.
c	Check that the committee has made recommendations on matters in connection with			N/A		

## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
	(i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes			N/A	The External Auditor is the Auditor General who appointed in accordance with the finance Act and SMIB Law No 13 of 1975.	Not relevant as the Auditor General is appointed as per the SMIB Law.
	(ii) the implementation of the Central Bank guidelines issued to auditors from time to time			N/A		
	(iii) the application of the relevant accounting standards; and	Complied			Board Audit Committee meeting on 11/12/2018 mention that Financial statements have been prepared in accordance with the relevant accounting standards as necessary. The external auditor is Auditor General who has been appointed by the Ministry of Finance according to the SMIB Law No.13 of 1975.	Complied Board Audit Committee meeting held on 24/06/2019 mention that Financial Statements for the year ended December 2018 prepared in accordance with the SLFRS and LKAS.
	(iv) the service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the Previous term.			N/A		

Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
d	Check that the committee has obtained representations from the external auditors on their independence, and that the audit is carried out in accordance with SLAUS.			N/A	Not relevant. According to the SMIB Law No.13 of 1975, Auditor General is the external Auditor of the SMIB.	
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.	
f	Check that the committee has discussed and finalized, the nature and scope of the audit, with the external auditors in accordance with SLAUS before the audit commences.			N/A	The Audit committee has discussed the nature and scope of the audit with the external auditor. Audit Report States that the audit was conducted in accordance with SLAUS.	External Auditor is the Auditor General. Audit is conducted based on the audit plan and. Auditor General's representative is in presence at the Audit Committee meetings (BAC).



## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
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 23 / 02 / 2018</p> <p>Meeting Date- 29 / 06 / 2018</p> <p>Meeting Date- 29 / 09 / 2018</p> <p>Meeting Date- 11 / 12 / 2018</p>	Complied It is observed that 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	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...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
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/ quarries and management's response there to. Reviewed the Auditor General's Report for the year 2017 issued under the Section 14 (2) (c) and the management response hereon on meeting held on 23.02.2018	Complied Observed that BAC 1 <sup>st</sup> quarter dated 23/05/2019 review reports regarding the Auditor General's 14 (2) (c) report.
j	Check that the committee shall take the following steps with regard to the internal audit function of the bank:					
	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;	Complied			Internal Audit Plan – 2018 was approved by BAC Paper No.05 (27/12/2017)	Complied Internal audit plan was approved by BAC Paper No.17/04/05. Chief Internal Auditor position is vacant from 01 January 2016.
	II. Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department	Complied			Checked and ensured that the Audit committee has reviewed the internal audit plan quarterly and the results of the internal audit process and taken the appropriate actions where those were necessary.	Complied Observed the BAC paper number19/02/01 dated 14/06/2019 and it is mentioned follow up report on direction given by BAC on 23/05/2019 Including matter, action, follow up other than that internal audit report for the year 2018 mention audit observation implementation recommendation and responses from the manager.

## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
	III. Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department	Complied			On performance matters, BAC chairman evaluates the internal auditor. Assessment of the performance of senior staff members of the internal audit division are assessed by the internal auditor.	Complied On performance matter board audit committee BAC chairman evaluate the internal auditor annually. Evaluation of the performance of the senior staff members of the internal audit division are evaluated by the internal auditor.
	IV. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function.	Complied			Either any appointment or resignations have not been occurred during the year 2018.	Complied Chief internal auditor position is vacant from 1 <sup>st</sup> January 2016. Either any appointment or resignations have not been occurred during the year 2018.
	V. Check that the committee is appraised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;	Complied			No appointments or resignations occurred during the year.	Complied Chief internal auditor position is vacant from 1 <sup>st</sup> January 2016. Either any appointment or resignations have not been occurred during the year 2018.
	VI. Check that the internal audit function is independent of the activities it audits	Complied			The Charter of board audit committee mentioned, BAC ensures that internal audit functions carried out independently of audits. Internal audit function is independent of the activities it audits.	Complied According to the charter of board audit committee internal auditor reported to the board directly.

## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
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	Complied Audit findings of the internal investigation are included in the Board audit committee minutes (BAC). Internal audit report mention the internal investigation including observations ,implecations, recommendations and management response.
l	Check whether the committee has had at least two meetings with the external auditors without the executive directors being present.	Partially Complied			A representative of AG is present at three BAC meetings. One meeting held without CEO. The BAC members do not include any executive directors.	Complied A representative of AG was presented at three board audit committee on invitation out of four meetings held in 2018. The BAC members do not include any executive directors.
m	Check the terms of reference of the committee to ensure that there is I. explicit authority to investigate into any matter within its terms of reference; II. the resources which it needs to do so III. full access to information; and IV. authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary	Complied			Terms of References the board audit committee includes required terms. 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.	Complied The charter of the Internal audit consist with clauses such as authority and reporting, independence, power of the board audit committee, responsibility of the internal audit division ,auditing and reporting activities and other responsibility of the CIA.

## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
n	Check that the committee has met, at least four times and maintained minutes	Complied			The committee has met four times for the period of 2018 and maintains minutes of those meetings. Check the audit committee attendance register and minutes.	Complied Committee had met four times during the year and minutes maintained. 2018/02/23 2018/06/29 2018/09/27 2018/12/11
o	Check that the board has disclosed in the annual report I. details of the activities of the audit committee II. the number of audit committee meetings held in the year; and III. details of attendance of each individual director at such meetings	Complied			The annual report contains a board audit committee report and it includes the required details.	Complied The annual report 2017 contains a board audit committee report and it includes the composition of the committee ,attendance , task and responsibility of committee, meetings, board audit committee activities during the year 2017 etc.
p	Check that the secretary of the committee is the company secretary or the head of the internal audit function.	Complied			The Secretary of the committee is the secretary to the Board of Directors.	Complied Secretary of the committee is the Secretary to the Board of Directors for the Bank.
q	Check that the "whistle blower" policy covers the process of dealing with;  I. The improprieties in financial reporting, internal control or other matters. 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	Complied 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



## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
<b>3(6)(iii) Does the following rules apply in relation to the Human Resources and Remuneration Committee</b>						
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			<p>Presently remunerations are decided as follows. Circular of the Public Enterprises No. PED 3/2015-Directors and Chairman.</p> <p>The remuneration of the KMPs is decided in par with the collective agreement considering salary increment of three main government banks and approved by the BOD of the bank.</p>	<p>Complied 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 2017. Presently remunerations are decided as follows.</p> <p>Circular of the Public Enterprises No.PED 3/2015 determines allowance for Directors an Chairman. 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.</p>
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 2018-2022.	Complied Goals and target for the directors, CEO / GM and for the key management personnel are documented in the corporate plan and action plan 2018- 2022.

## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
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	Complied Observed the TOR of the Human resources and remuneration 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.	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 We observed the TOR for the bank.
<b>3(6)(iv) Does the following rules apply in relation to the Nomination Committee:</b>						
a	Check that the committee has implemented a procedure to select/appoint new directors, CEO and key management personnel.	Complied			The directors are appointed by the Ministry as per provisions in the SMIB Law No13 of 1975. KMPs are selected as per the Scheme of Recruitment	Complied The directors are being appointed by the Ministry as per provisions in the SMIB Law No13 of 1975. CEO is appointed by the board. KMP are selected as per the scheme of recruitment (SOR).

## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
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.	Complied SOR contains the qualifications and experience required for appointment of CEO and KMPs. The approval for the SOR was not presented to the audit.
d	Check that the committee has obtained from the directors, CEO and key management personnel signed declarations that they are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes.	Complied			All completed declarations of directors have been obtained by Board secretary and forwarded to CBSL with the approval of the Nomination Committee. Completed declaration of CEO and Key Management Personnel have been obtained by HR division and forwarded to CBSL.	Complied Out of the seven declarations only Four signed declaration of directors had been obtained by Board secretary and forward to Complied the Central Bank of srilanka. (only for the new appointments made in 2018 CEO and key management personnel signed declaration had been obtained by HR division. Directors' Declarations were placed before the committee for evaluation.

## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
e	Check that the committee has considered a formal succession plan for the retiring directors and key management personnel.	Complied			Succession plan for KMPs is being processed and to be submitted to BNC. Directors' appointment is done by the Ministry.	Complied Directors are appointed by the Minister. Formal succession plan of KMPs had been considered by the committee in the 1 <sup>st</sup> quarter of 2017 for next five years.
f	Check that the Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.	Complied			All the directors (including chairman) are independent non -executive directors who are appointed by the Minister. The CEO presented meetings by invitation. The Board of Directors have appointed members to Board Nomination Committee.	Complied All the directors including chairman are independent non-executive directors who are appointed by the minister. The board of directors have appointed members to board nomination committee.
<b>3(6)(v) Does the following rules apply in relation to the Integrated Risk Management Committee (IRMC):</b>						
a	The committee shall consist of at least three non- executive directors, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.	Complied			BIRMC consist from three Non – Executive Directors, CEO /GM, CM-Risk Management, BIRMC – secretary.	Complied BIRMC consist from three Non – Executive Directors, CEO /GM and other key management personnel on invitation. Board minute dated 17/12/2018 as evidence the composition of the Committee

## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
b	Check that the committee has a process to assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a bank basis and group basis	Complied			Risk management Division (RMD) assesses the credit market operational risk, strategic risk, liquidity risk adequately and submit reports to the committee on quarterly basis, In addition, RMD uses RCSA mechanism to let the risk owners identify their own risk.	Complied 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 26/11/2018.
c	Check that the committee has reviewed specific quantitative and qualitative risk limits for all management level committees such as the credit committee and the asset-liability committees, and report any risk indicators periodically	Complied			BIRMC had discussed in the committee meeting regarding the quantitative and qualitative risk of credit, liquidity, operational, strategic and compliance. KRIs depict the relevant risk limits and responsible parties/officers/committees. It is required to report the quarterly KRIs by the risk owners themselves with proposed corrective actions.	Complied BIRMC had discussed in the committee meeting regarding the quantitative and qualitative risk of credit, liquidity, operational, strategic and compliance. We observed the BIRMC board minutes dated 26/11/2018.
d	Check that the committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	Complied			Committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits. In the summary paper of KRIs submitted to the BIRMC (covering behavior of the KRIs for last six quarters), the committee has given special attention for the risk indicators which have gone beyond the prudential limits and has given due directions.	Complied The risk report submitted to BIRMC included risk indicators which are complied. We observed BIRMC board minutes dated 26/11/2018.



## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
e	Check how many times the committee has met at least quarterly.	Complied			BIRMC has met five times during the year 2018.	Complied As per the attendance, BIRMC has met 5 times during the year 2018.
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.	Complied 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  (risk assessment report of the BIRMC meeting held on 19/12/2017 is submitted on 04/04/2018. Therefore this is partially complied)	Complied The committee submitted the risk assessment report to the next immediate board meeting except for the two meetings. Details as follows.
h	Check that the committee has establish a compliance function to assess the bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations and that there is a dedicated compliance officer selected from key management personnel to carry out the compliance function a report to the committee periodically.	Complied			The board has appointed Chief Manager Compliance for the compliance function. The Chief Manager compliance reports the compliance function monthly to the board periodically to the BIRMC.	Complied 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.16.09.99.01

## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
<b>3(7) Related party transactions</b>						
3(7)(i)	<p>Check that there is an established and documented process by the board to avoid any conflicts of interest that may arise from any transaction of the bank with any person, and particularly with the following categories of persons who shall be considered as “related parties” for the purposes of this Direction:</p> <ol style="list-style-type: none"> <li>Any of the bank’s subsidiary companies;</li> <li>Any of the bank’s associate companies;</li> <li>Any of the directors of the bank;</li> <li>Any of the bank’s key management personnel;</li> <li>A close relation of any of the bank’s directors or key management personnel;</li> <li>A shareholder owning a material interest in the bank;</li> <li>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.</li> </ol>	Complied			<p>An established process is available to identify related parties prior carrying out transactions to avoid conflict of interest, Related Party Transaction Policy is approved by the Board. Board Paper No 16/08/35 Board minute no 16.08.95.02 dated 16/08/2016.</p>	<p>Complied 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 &amp; dated 16 august 2016. It speaks on related parties, types of related party transactions, any conflict of interest etc.</p>

## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(7)(ii)	<p>Check that there is process to identify and report the following types of transactions been identified as a transaction with the related parties that is covered by this direction</p> <p>The grant of any type of accommodation as defined in the Monetary board' Directions on maximum amount of accommodation.</p>	Complied			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	Complied 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
	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.					

Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(7)(iii)	Does the board have a process to ensure that the bank does not engage in transactions with related parties as defined in Direction 3(7)(i) above, in a manner that would grant such parties "more favorable treatment" than that accorded to other constituents of the bank carrying on the same business	Complied			Related Party Transaction Policy is approved by the Board. (Board Paper No 16/08/35) Board minute no 16.08.95.02 held on 26.08.2016	Complied 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.
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>					

## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
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...

		Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(7) (iv)		Check that the bank has a process for granting accommodation to any of its directors and key management personnel, and that such accommodation is sanctioned at a meeting of its board of directors, with not less than two-thirds of the number of directors other than the director concerned, voting in favor of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary board as well.			N/A	No such incident was reported.	Directors Annual Declarations is mentioned a clause as accommodation under the heading of business transaction and it was observed that No such incident was reported
3(7)(v)	a	Check that the bank has a process, where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a director of the bank, that steps have been taken by the bank to obtain the necessary security as may be approved for that purpose by the Monetary board, within one year from the date of appointment of the person as a director.			N/A	It was observed no director of the this nature was appointed to the Board in 2017 as per the secretary to the board explanation	According to the board secretary's expiation no director of this nature was appointed to the board in 2018

## Corporate Governance Contd...

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

## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
d	Check the process in place to ensure clause 3 (7) (v) (c) does not apply to any director who at the time of the grant of the ac Check the process in place to ensure clause 3 (7) (v) (c) does not apply to any director who at the time of the grant of the accommodation was an employee of the bank and the accommodation was granted under a scheme applicable to all employees of such bank accommodation was a employee of the bank and the accommodation was granted under a scheme applicable to all employees of such bank			N/A	No such incident was reported	
3(7) (vi)	Check that there is a process in place to identify when the bank grants any accommodation or "more favorable treatment" relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary board in respect of accommodation granted as per Direction 3(7)(v) above.			N/A	No such incident was reported.	According to the board secretary's expiation no director of this nature was appointed to the board in 2018.

## Corporate Governance Contd...

		Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(7) (vii)		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	No such incident was reported.	Not applicable
<b>3(8) Disclosures</b>							
3(8)(i)	a	Check that the board has disclosed					
	a)	Annual audited financial statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied			Annual audited financial statements are prepared in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards. Further, those statements were published in the following newspapers. 1. Daily News 2. Lankadeepa 3. Thinakural	It was observed that financial statements prepared in accordance with the format of prescribed by the supervisory and regulatory authorities and applicable accounting standards. Those statements were published in news papers in Sinhala, Tamil and English.
	b)	Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English Check that the board has made the following minimum disclosures in the Annual Report:	Complied			Observed that the quarterly financial statements are also published as above as per the requirements of CBSL.	Quarterly financial statements were Published in the news papers accordingly

## Corporate Governance Contd...

		Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
3(8)(ii)	a.	The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures	Complied			These details are disclosed in the "Directors' Responsibility, for the Financial Reporting"	Disclosed in the "Directors' Responsibility, for the Financial reporting" in the Annual Report of 2017( Page 86)
	b.	The report by the board on the bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements	Complied			Director's statement on Bank's internal control over Financial Reporting systems was included in the annual report.	Directors statement on Bank's internal Control system is not included in the annual report of 2017
	c.	Check that the board has obtained the external auditor's report on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above	Complied			Auditor general's report on Bank's Internal Control over Financial Reporting is included in the annual Report.	Auditor general's report on Bank's Internal Control over Financial Reporting is not included in the annual Report of 2017 and included in 2016
	d.	Details of directors, including names, qualifications, age, experience fulfilling the requirements of the guideline fitness and propriety, transactions with the bank and the total of fees/ remuneration paid by the bank	Complied			Directors' profile has been disclosed in the annual report. Directors' remuneration disclosed in the annual report.	Directors' profile has been disclosed in the annual report. Directors' remuneration disclosed in the annual report. (Page 16 – 21)

## Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
e	Total net accommodation as defined in 3(7) (iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the bank's regulatory capital	Complied			No accommodation provided to related parties.	No accommodation provided to related parties.
f	The aggregate values of remuneration paid by the bank to its key management personnel and the aggregate values of the transactions of the bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the bank.	Complied			Transaction with KMPs are disclose in the annual report.	
g	Check that the board has obtained the external auditor's report on the compliance with Corporate Governance Directions	Complied			Auditor General report on a compliance with corporate governance directions is included in the annual report	



Corporate Governance Contd...

	Direction	Complied	Not Complied	Not applicable	Reference	Audit Observations
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	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.	Auditor General report on a compliance with corporate governance directions is included in the annual report 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.
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			N/A	Director of Bank Supervision has not sent any reports highlighting the non-compliances during the year 2018.	

# Board Committee Reports

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# Board Audit Committee Report

## Chairman's Overview 2018

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 2018
		Since	To	
Mr S.G. Senarathna	Chairman (NED)	2018 January	2018 June	01
Dr. Niroshan Gamage	Member (NED)	2018 January	2018 December	02
Mr Rajitha Halwela	Member (NED)	2018 January	2018 June	01
Mr. P.A. Kulasuriya	Member (NED)	2018 June	2018 September	01
Mr. E.A.L. Edirisinghe	Alternate Member (NED)	2018 June	2018 September	01
Mrs. K.D.R. Olga	Chairman (NED)	2018 September	Up to Date	02
Mr. I. Gunasekara	Member (NED)	2018 September	2018 December	02

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. 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.

## Board Audit Committee Report Contd...

- 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.
07. Reviewed the Performance Appraisal of Senior Staff members of the Internal Audit Division.
  08. Reviewed and actions taken by the BAC regarding the Internal Audit Findings.
  09. In response to the recommendation made by the committee, the board of directors has approved the Internal Audit Manual prepared by the Internal Audit Division.
  10. The committee has monitored and reviewed the management responses for the internal audit reports on financial, administration and operational activities of the bank. Committee also reviewed the effectiveness of the performance of internal audit division and monitors the adequacy of the internal audit assignments were carried out in line with the approved audit plan.

### Meetings

The committee met on Four (04) occasions during the year 2018. The Superintendent of the Government Audit as the representative of the Auditor General attended the BAC meetings by invitation. A brief overview of the matters taken up at the meetings are listed below,

### Board Audit Committee Activities during the year 2018

The Committee attended to the following actions:

01. Approved and reviewed the risk-based internal audit plan quarterly for implementation of the year 2018 by the BAC.
02. Reviewed progress of replying Auditor General's Queries for the year 2017.
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 2017 and quarters ended 31st March, 30th June, 30th September 2018 recommended to submit the same to the Board of Directors.
05. The quarterly review has been performed by the committee to ensure that the financial and operational activities of the bank are conducted in line with all regulatory requirements.
06. Quarterly reviewed the performance of the Internal Audit Division.

### 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.



**K.D.R. Olga**

Chairman - Board Audit Committee/NED

# Board Nomination Committee Report

## Composition of the Committee

The Board Nomination Committee comprises of Four Directors including one alternative Director who have been appointed by the Board of Directors of the State Mortgage and Investment Bank. First and foremost, having solid knowledge of governance structures, policies and principles, which forms the foundation for their duties, nominating committee members of the Bank have leadership experience through their profession or their membership in professional associations.

Amongst the personnel's heading the Committee, it could be seen that all are Independent Non - Executive Directors and all appointments to the committee are for a period of three (3) years.

The members of the Board Nomination Committee (BNC), as at the end of the year 2018, comprised of the following Independent Non-Executive Directors of the Bank:

Members in the year 2018.

Mrs. K.D.R. Olga	- Chairperson
Dr. Niroschan Gamage	- Member
Mr. P.A. Kulasuriya	- Member
Mr. E.A. Lesly Edirisinghe	- Alternative Member

## Scope of the Committee

Being a committee that acts as part of an organization's corporate governance, the Board Nomination Committee will evaluate the Board of Directors of its respective firm and examine the skills and characteristics needed in board candidates.

Further to that, by reviewing 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, the board nominating committee acts as one of the most fundamental board committees because the board performs the most essential duties of the organization they serve.

Thereby the board nominating committee is responsible for recruiting the best-qualified candidates for the board of directors and the senior leadership of the Bank.

## Main Duties of the Committee

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

- Implementing 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.
- Evaluating the fit and propriety of Directors, their own governance practices
- Evaluating the fit and propriety of CEO and Key Management Personnel.

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

## Meetings of Committee

It is required and mandatory to the Committee to meet at least twice a year and meetings can be convened at any time where it is necessary. With respect of the Bank, one Committee meeting was held in the year 2018.

The quorum is two members both of whom must be independent Non-Executive Directors present throughout the

## Board Nomination Committee Report Contd...


meeting in person. Proceedings of the Committee meetings are regularly reported to the Board of Directors for their information and approval.

### Attendance of the Committee members at the meetings

Name of the Director	Status in BHRRC	Number of Meetings eligible to attend	Number of Meetings attended
Mrs. K.D.R. Olga	Chairperson	01	01
Dr. Niroshan Gamage	Member	01	01
Mr. P.A. Kulasuriya	Member	01	01
Mr. Lesly Edirisinghe	Alternative Member	01	-

Mr. W. M. Dayasinghe, General Manager / CEO and Mr. D.M.R. Dissanayake Actg. AGM (HR & L) attended the meeting of the Committee by invitation.

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



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

Chairperson of the Committee



# Board Human Resources and Remuneration Committee Report

## Composition and Quorum during the Year 2018

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

BHRRC comprised of following Independent Non- Executive Directors as at the end of the year 2018.

### Members in the year 2018 - up to 20.05.2018

Dr.Niroshana Gamage	- Chairman
Mr.Rajitha Halwala	- Member
Mr.P.S.K.R.Weerakoon	- Member
Mr.P.A.Kulasuriya	- Alternative Member

### Members in the year 2018 - From 09.08.2018

Dr.Niroshana Gamage	- Chairman
Mr.Bernard Vasantha	- Member
Mr.P.S.K.R.Weerakoon	- Member
Mr.Lesly Edirisinghe	- Alternative Member

## Scope of the Committee

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

The committee shall set goals and targets for the Directors, CEO and the Key Management Personnel evaluate the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance based incentives.

## Main Duties of the Committee

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

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

## Human Resources and Remuneration Committee Report Contd...

- Develop human resources and organizational development strategies including staff training and skill developments programs in line with the business strategy of the Bank.
- Assess human resources requirements and the competence that are required to operate Bank business model and recommend to the Board on hiring new competence
- Exercise as an appeal board to an employee, if any aggrieved staff member referred to his/her case to the committee for fair and reasonable resolution.
- Undertake periodic review and surveys in order to assess human resource management practices and profiles for the improvement of HR perspective of the Bank
- Carry out the work as per the guidelines issued by the Central Bank of Sri Lanka time to time under the purview of human resource and remuneration and ensure regulatory requirements are fulfilled

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



**Dr. Niroshana Gamage**  
Chairman of the Committee

### Meetings of Committee

The Human Recourses and Remuneration committee shall meet at least quarterly and meetings can be convened at any time where it is necessary. Three BHRRC meetings were held during the year 2018.

Attendance of the Committee Members at the Meetings			
Name of the Director	Status in BHRRC	Number of Meetings eligible to attend	Number of Meetings attended
Dr.Niroshana Gamage	Chairman	2	1
Mr.Rajitha Halwala	Member	2	1
Mr.P.S.K.R. Weerakoon	Member	3	2
Mr.Bernard Vasantha	Member	1	0
Mr.Lesly Edirisinghe	Alternative Member	2	1
Mr.P.A.Kulasuriya	Alternative Member	2	1

# Board Integrated Risk Management Committee Report

## Composition of the Board Integrated Risk Management Committee-2018

The Board Integrated Risk Management Committee comprised of three Non-Executive Directors, General Manager/CEO and the Head of Risk Management, during the year 2018.

### ► The Committee for the first two meetings of the year 2018 was comprised from the following members; (27.03.2018 and 09.04.2018)

Mr. S.G.Senarathna	- Non-Executive Director - Chairman to the Committee
Dr. Niroshan Gamage	- Non-Executive Director
Mr. Rajitha N. Halwela	- Non-Executive Director
Mr.W.M.Dayasinghe	- General Manger/Chief Executive Officer
Ms.W.G.S.S.K.	- Acting AGM-Risk Management Division
Abeywickrama	Management Division
Ms.Nishani Lokuge	- Head of Legal Division - Secretary to the Committee

### ► The Committee for the 3rd meeting of the year 2018 was comprised from the following members. (29.06.2018)

Dr. Niroshan Gamage	- Non-Executive Director
Mr. Rajitha N. Halwela	- Non-Executive Director
Mr. P.A.Kulasooriya	- Non-Executive Director
Mr.E.A.L. Edirisinghe	- Non-Executive Director
Mr.W.M. Dayasinghe	- General Manger/ Chief Executive Officer
Ms. W.G.S.S.K.	- Acting AGM-Risk Management Division
Abeywickrema	Management Division
Ms. Nishani Lokuge	- Head of Legal Division - Secretary to the Committee

\* As per the Board minute no. 18.07.109.02, Board Meeting dated 26.06.2018, The Chairman has instructed to appoint Mr. Kulasuriya and Mr. Edirisinghe in lieu of the position of the Dr. Niroshan Gamage and Mr. Senarathna respectively in order to held the Board Sub Committee meeting of BIRMC on the 29th June 2018 as per the directions of the CBSL until the arrival of the respective Board members and reconstitute the members of the committees.

### ► The Committee for the 4th meeting of the year 2018 was comprised from the following members. (20/09/2018)

Mr.I.Gunasekara	- Non-Executive Director Chairman to the Committee
Dr.Niroshan Gamage	- Non-Executive Director
Mr. Bernard Wasantha	- Non-Executive Director
Mr. P.S.K.R.Weerakoon	- Non-Executive Director
Mr.W.M. Dayasinghe	- General Manger/ Chief Executive Officer
Ms. W.G.S.S.K.	- Acting AGM-Risk Management Division
Abeywickrema	Management Division
Ms. Nishani Lokuge	- Head of Legal Division - Secretary to the Committee

### ► The Committee for the 5th meeting of the year 2018 comprised of the following members. (17.12.2018)

Mr.I.Gunasekara	- Non-Executive Director- Chairman to the Committee
Dr.Niroshan Gamage	- Non-Executive Director
Mr. P.S.K.R.Weerakoon	- Non-Executive Director
Mr.W.M. Dayasinghe	- General Manger/ Chief Executive Officer
Mr.S.A.K.A.K. Sooriyarachchi	- Chief Manager-Risk Management Division
Ms. Nishani Lokuge	- Head of Legal Division - Secretary to the Committee

## Charter of the BIRMC

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

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

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

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

- Review bank's risk appetite.
- Review and approve the bank's key risk policies on 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 Metrix 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.
- 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 CM-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.

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

### BIRMC meetings

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

Name of the Director	"No of Meetings Attended" / (No of Meetings to be attended )
Mr.S.G. Senarathna (Chairman-1st two meetings) (Retired)	2/2
Mr.Niroshan Gamage	2/5
Mr.Rajitha N. Halwala	3/3
Mr. P.A.Kulasooriya	1/1
Mr.E.A.L. Edirisooriya	1/1
Mr I Gunasekara - (Chairman of last two meetings)	2/2
Mr. P.S.K.R.Weerakoon	2/2
Mr.Bernard Wasantha	0/2

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 were presented to the Board for the information of the Board and discussed in detail when necessary.



#### Mr. Sheanath De Soysa

The Chairman-Board Integrated Risk Management  
Committee



# Value Creation

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# 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 Methodology
- A culture of Risk Awareness

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

Those elements are interlinked and interrelated 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.

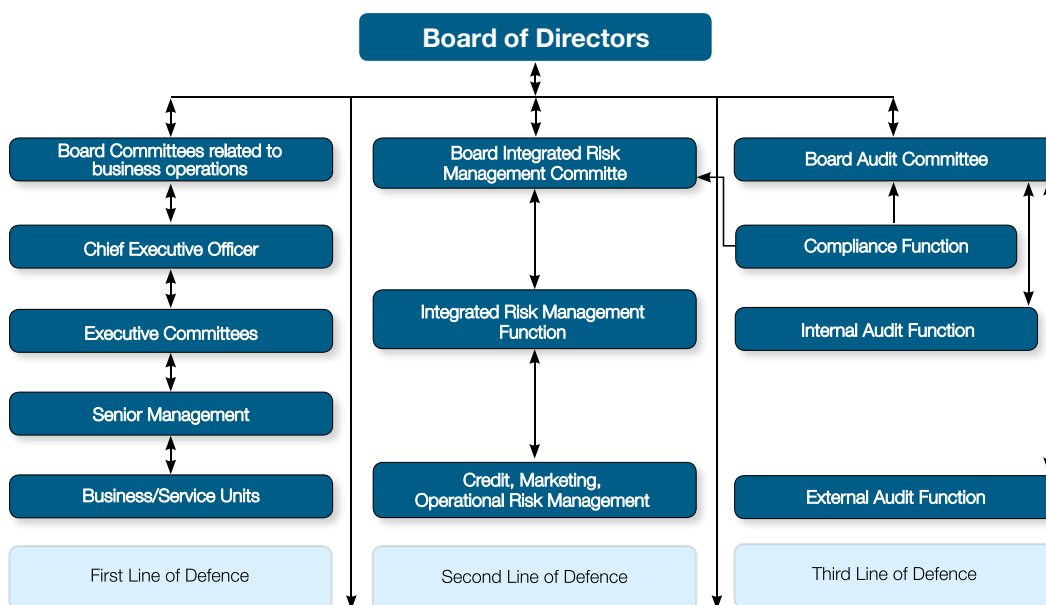
### Role of the Board and Board Sub Committees

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.



## Integrated Risk Management Contd...

### **Evolving Risk Management Function of SMIB**

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

Board Integrated Risk Management Committee (BIRMC), Executive Integrated Risk Management Committee (EIRMC), and business continuity - BCP steering committee were formed and terms of references applicable to each committee had established .

Risk Management Policy, Credit Policy, Assets and Liability Management Policy, Liquidity Management Policy and BCP 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.

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 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.

## Integrated Risk Management Contd...

### • Risk Management Methodology

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



The provided reports which contain information on aggregate measures of risk across products and portfolios are compared with agreed policy limits providing a clear picture of the amounts, types and sensitivities of the risks identified. Integrated Risk Management Framework of the bank which is formulated based on Basel II, III and other regulatory frameworks laid out by the CBSL, clearly defines the objectives, processes and roles in managing risk.

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

### Capital Adequacy Management

Internal Capital Adequacy Assessment Process (ICAAP) report is submitted according Section 4.3 of Banking Act Directions No. 01 of 2016 Capital Requirements under Basel III (PILLAR

II SUPERVISORY REVIEW) for Licensed Commercial Banks and Licensed Specialized Banks. Every LCB and LSB shall submit a Board approved ICAAP Document to the Director of Bank Supervision within five months from the end of its financial year annually.

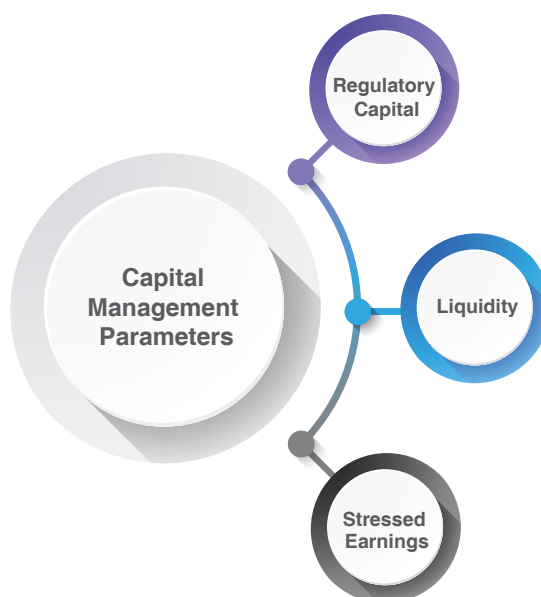
The objectives of the Internal Capital Adequacy Assessment Process- ICAAP are,

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

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

Tier I capital ratio of SMIB is 21.69% and total capital ratio is 22.23% as at 31.12.2018. 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 periodically as when he necessities and approved by the Board of Directors ensuring consistency with the bank's risk appetite and the business strategy.

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

#### Credit Risk Management

SMIB focuses on following module when managing credit risk.

Initial screening of the borrower and the credit appraisal is done by the risk owners according to the consistent standards guided by the credit manual. Credit appraisal will ensure the borrower's capacity to meet its obligations on a timely manner. Credit officers are educated to maintain

the consistency on the credit appraisal process complying with the risk appetite set by the Board of Directors. Credit risk is mitigated by obtaining collateral and guarantees as security and the accepted criteria is set by the policy. Periodic valuation and assessment of realizable value of collateral is carried out as per the regulatory requirement and when required, especially as a part of the recovery action.

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

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

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

Clear guidelines have been established in the bank for the loan approval structure and the authority has been delegated to different levels in the approval process. No single person can originate and approve the granting of credit. Credit facilities beyond a set threshold will be independently evaluated by the risk officers attached to the risk management division and the comments will be followed when approving such facilities. Pre Disbursement unit play vital part of the loan granting process of the bank. Pre disbursement functions specify clearly the terms and conditions on the basis of which the advance is given. These terms and conditions are mutually accepted by both the bank and the borrower. They cover the amount of the loan or the maximum limit of the advance, the nature of the advance, the period up to which it is valid, the rate of interest to be charged. They also contain the period of repayment which depends on the purpose of the loan/advance and the size of the loan. For the valuation of securities, the bank consult both internal & external valuation professionals particularly for mortgage securities (land, building, etc. ), due to the legal side of securities, SMIB are handling with care all the documents relating to them. Pre-Disbursement unit checks if all the necessary formalities are well filled in and that the borrowers are liable by their true signatures. Pre-Disbursement unit able to avoid risk of loss

## Integrated Risk Management Contd...

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

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

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

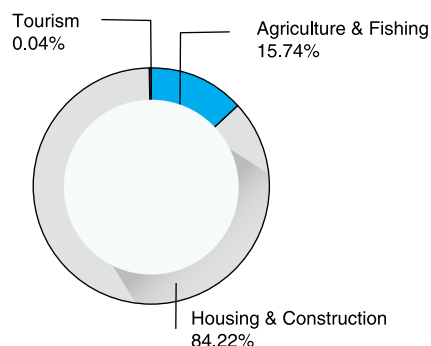
### Credit Concentration Risk

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

### Sector wise Exposure as at 31.12.2018

Sectors	Amount (Rs. Mn)
Agriculture & Fishing	5,387
Housing & Construction	28,827
Tourism	15
<b>Total</b>	<b>34,229</b>

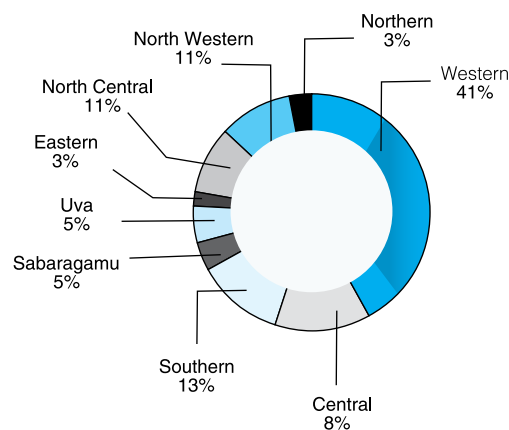
### Sector wise exposure



### Geographical Concentration as at 31.12.2018

Province	Amount (Rs. Mn)
Western	14,143
Central	2,843
Southern	4,362
Sabaragamu	1,589
Uva	1,702
Eastern	995
North Central	3,711
North Western	3,838
Northern	1,046
<b>Total</b>	<b>34,229</b>

### Geographical Concentration



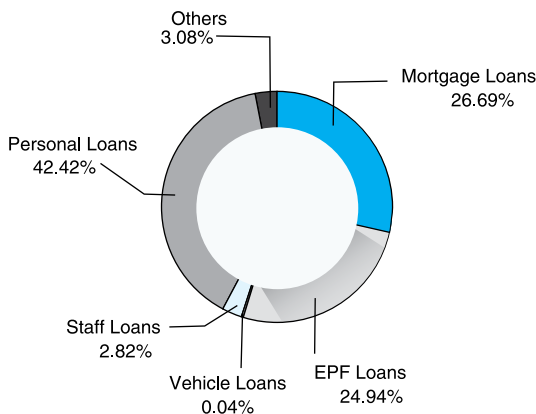


## Integrated Risk Management Contd...

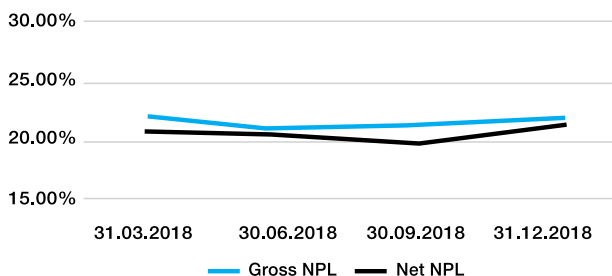
### Products Concentration as at 31.12.2018

Product	Amount (Rs. Mn)
Mortgage Loans	9,135
EPF Loans	8,537
Vehicle Loans	15
Staff Loans	966
Personal Loans	14,521
Others	1,055
<b>Total</b>	<b>34,229</b>

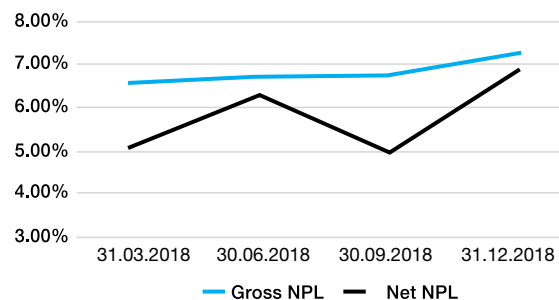
Product Concentration



### Movement of Gross & Net Non- Performing Advances Ratio during the year 2018



### Movement of Gross & Net Non- Performing Advances Ratio during the year 2018 (Excluding EPF and Estate Loans)



High Non-Performing Advance (NPA) ratio is due to the NPA position of EPF Loans 65.10% as at 31/12/2018 which is being recovered annually from EPF balances of customers held in Central Bank of Sri Lanka.

### Market Risk

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

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

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

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

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

### Interest Rate Risk

Interest rate risk to the SMIB's banking book arises when there is a mismatch between positions, which are subject to interest rate adjustment within a specified period. The bank's

## Integrated Risk Management Contd...

lending, funding and investment activities give rise to interest rate risk.

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

The Bank has adopted the Modified Duration Gap approach for analyzing the changes in Economic Value of Equity, which

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

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

### Interest Rate Risk in Banking Book (IRRBB) and impact on economic value of the capital (EVC) of SMIB

Years to Maturity (YTM) Profile of the assets and liabilities of SMIB

31-Dec-18	15	60	135	270	730	1460	1825
Assets	15 days	30-90 days	90-180 days	180-360 days	360 - 1080 days	1080-1800 days	1800 to 2520 days
	0 to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	1-3 years	3-5 years	over 5 years
Bank Balances and Placements	0.03637			0.64436			
Treasury Bills and Bonds							3.51834
Loans & Advances	0.03948	0.16123	0.35393	0.68765	1.70077	2.95062	3.41126
Interest Bearing Assets	0.03671	0.16123	0.35393	0.66325	1.70077	2.95062	3.41149
Deposits	0.03948	0.16123	0.35589	0.69330	1.74444	3.08756	3.59575
Borrowings	0.03827	0.15527	0.34853	0.66047	1.69742	2.99075	
Interest Bearing Liabilities	0.03947	0.16122	0.35586	0.69194	1.72628	3.07625	3.59575

### Interest Rate risk in Banking Book capital Calculation

	Rs. 'Mn		Rs. 'Mn
Total Eligible Capital	4,850	Modified Duration of Equity	6.7058
Leverage (RSA/Total Eligible Capital)	6.51	Rate Shock	2.00%
Modified Duration (Assets) (DA)	2.1254	For a 200 bp Rate shock the drop in equity value	(13.41%)
Modified Duration (Liabilities) (DL)	0.9528	Change in EVE	(650)
Weight (RSL / RSA)	1.1491	<b>EVE Change Threshold</b>	<b>10.00%</b>
Modified Duration Gap (Balance Sheet), Years (DGAP)	1.0305	<b>IRRBB Capital Charge</b>	<b>165.47</b>

## Integrated Risk Management Contd...

### Liquidity Risk

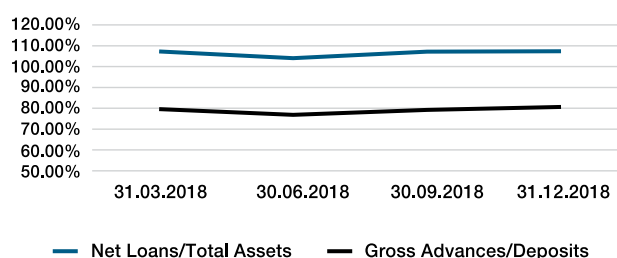
Liquidity risk is the potential for loss to an institution arising from either its inability to meet its obligations or to fund increases in assets as they fall due without incurring unacceptable cost or losses. Liquidity risk cannot be seen in isolation, because it is often triggered by consequence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

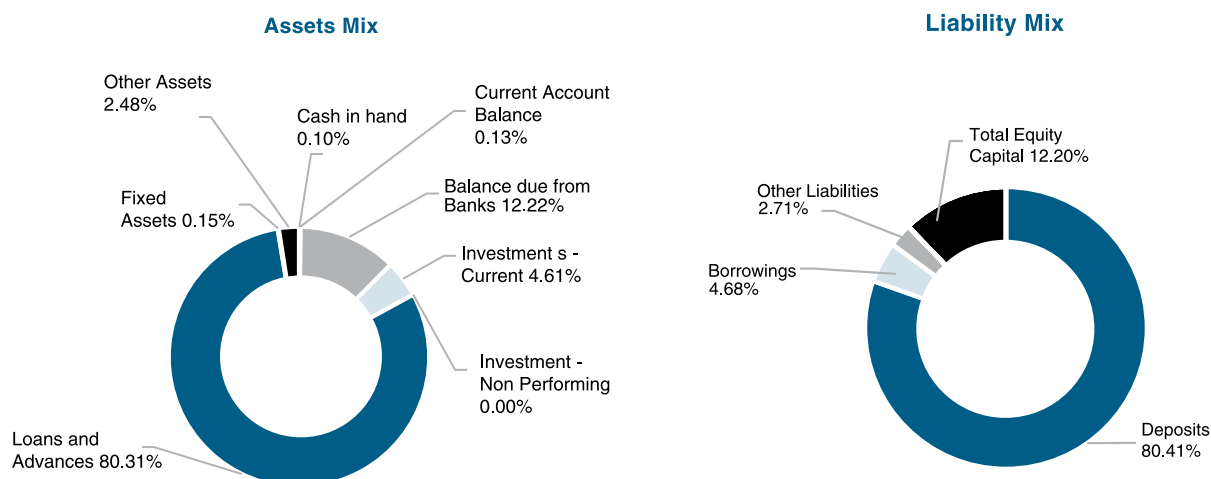


The bank monitors its own liquidity movements through regular cash flow forecasts, liquidity ratio and maturity gap analysis. The bank also analyses the contingency funding plan and the market accessibility.

Summary ALCO - Asset/Liability Mix as at 31.12.2018											
State Mortgage and Investment Bank											
Balances (Rs. MN)	Book Value	As a % of Total Assets	Total is % of segment			** Rate Sensitive < 1 year	*Book Yield/Rate	* Rein. Rate	* 12 Month Projected Yield/Rate	Average Life	Effective Duration
			Fixed	Var.	Non-Int.						
Cash in hand	41	0.10%			100%						
Current Account Balance	55	0.13%			100%						
Balance due from Banks	5,206	12.22%		100%		100%	11.89%	10.85%	13.50%	0.34	0.29
Investments - Current	1,966	4.61%	3.28%	95.55%	1.17%	86.63%	8.38%	8.35%	10.03%	1.19	0.64
Investment-Non-Performing	0	0.00%	-	-	-						
Loans and Advances	34,230	80.31%		100%		10.38%	14.01%	14.40%	15.93%	3.79	2.72
Fixed Assets	64	0.15%			100%						
Other Assets	1,057	2.48%			100%						
<b>Total Assets</b>	<b>42,619</b>	<b>100.00%</b>	<b>0.15%</b>	<b>96.94%</b>	<b>2.91%</b>	<b>24.54%</b>	<b>13.45%</b>				
Deposits	34,272	80.41%		100%		80.71%	9.75%	8.81%	11.65%	1.10	0.88
Borrowings	1,995	4.68%		100%		32.66%	11.89%	9.47%	7.81%	2.09	1.67
Other Liabilities	1,153	2.71%			100%						
<b>Total Liabilities</b>	<b>37,421</b>	<b>87.80%</b>	<b>-</b>	<b>85.10%</b>	<b>2.71%</b>	<b>66.43%</b>	<b>9.88%</b>				
<b>Total Equity Capital</b>	<b>5,199</b>	<b>12.20%</b>	<b>12.20%</b>								
<b>Total Liability and Capital</b>	<b>42,619</b>	<b>100.00%</b>									

## Integrated Risk Management Contd...

Liquidity Ratios	Current position as at 31.12.2018
Investment/Deposits	20.93%
Loans/Deposits	99.88%
Loans/Assets	80.31%
Loans/Capital	658.41%
Net Borrowed Funds/Capital	38.38%
Reliance on Institutional Deposits	32.43%
Dependency Ratio	79.17%
Liquid Assets/Total Assets	16.29%
Available Line of Credit Rs. Bn	2.8



## Maturity Mismatch Analysis as at 31/12/2018 (Rs. Mn) Static Basis)

Rs. Mn	less than 7 Days	7-30 Days	1-3 Months	3-6 Months	6-12 Months	1-3 years	3-5 years	Over 5 years	Total
Total Assets	1,041	3,641	645	1,598	4,004	6,846	5,864	18,980	42,619
Total Liabilities	2,047	1,583	5,249	6,615	13,434	2,539	4,390	6,761	42,619
Gap	(1,005)	2,058	(4,605)	(5,018)	(9,430)	4,307	1,474	12,218	-

## Maturity Mismatch Analysis as at 31/12/2018 (Rs. Mn) (Under Behavioral assumptions)

Rs. Mn	less than 7 Days	7-30 Days	1-3 Months	3-6 Months	6-12 Months	1-3 years	3-5 years	Over 5 years	Total
Total Assets	1,002	3,639	546	1,466	4,916	8,295	6,383	16,373	42,619
Total Liabilities	194	743	2,513	4,590	14,029	3,508	5,130	11,913	42,619
Gap	807	2,896	(1,966)	(3,124)	(9,113)	4,787	1,253	4,459	-

## 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.

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

- Reviewing the Business Continuity Plan of SMIB - Version 03 and establishing the Terms of Reference (TOR) of BCP steering committee
- Appointment of the BCP Committees
- Appointing fire warden at each level of the head office building.
- Expedite the process of purchasing of document management system and provide other IT related assessments.
- Arranging suitable permanent BCP recovery site to the Head Office
- Installing a Fire alarm at the Head office building
- Conducting a Disaster Recovery Drill at Head Office and main five branches (Kegalle, Kiribathgoda, Battaramulla, Kurunegala and Gampaha) and reporting the feedback to the BCP steering Committee and BIRMC.

## Integrated Risk Management Contd...

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

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

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

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

### Legal Risk

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

### Strategic Risk Management

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

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

### Compliance Risk

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

- A culture of Risk Awareness

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

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

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

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



# Human Resource

*"One machine can do the work of fifty ordinary men. No machine can do the work of one extraordinary man."*  
Elbert Hubbard

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

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 389 which was comparatively small but they have contributed to the bank performance at greater extent. During the year, 24 staff members left the bank of which 09 retired from the bank and 15 staff members left the bank on other grounds. We recruited 48 new staff members to the Bank during the year. 57 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	1			
Senior Management	1	1	2	
Executive	2	1	1	1
Non Executives	5	13	45	56
<b>Total</b>	<b>9</b>	<b>15</b>	<b>48</b>	<b>57</b>

## Staff Strength by Tier Wise

Management Level	No: of Employees as at 31.12.2018	Percentage
Corporate Management	9	2
Senior Management	7	2
Executive	117	30
Non Executives	256	66
<b>Total</b>	<b>389</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 49% male and 51% female in the year of 2018.

## Employee Age Profile

Bank had privileged and capitalizes most experienced and senior staff. 45% of the staff is above 40 years.

Age category	No: of Employees as at 31.12.2018	Percentage
50 or Above	93	24
40 - 49	82	21
30 - 39	118	30
29 or below	96	25
<b>Total</b>	<b>389</b>	<b>100</b>

## Human Resource Contd...

### 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.

Below table summarizes the employee participation in different categories of training granted during 2018.

Key Area	Number of Participants
Knowledge and Skill Development Training	174
Attitude Development Training / Motivational Training	15
Technical Competency and IT Training	4
Overseas Training	2
Seminars, Workshops, Membership Fees, Quiz Competitions	5

### Employee Service

Service category (Years)	No: of Employees as at 31.12.2018	Percentage
0-4	140	36
5-9	72	19
10-14	51	13
15-19	39	10
Above 20	87	22
<b>Total</b>	<b>389</b>	<b>100</b>

46% 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 Celebration



Training Programme - Compliance awareness



Discussion on Action Plan



Annual Get Together 2018

# Corporate Social Responsibility

Corporate social responsibility (CSR) is the commitment by organizations to 'behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large'. Social security and social welfare are internationally accepted methodology. Any company or institution, whether public or private, their first objective is to achieve their goals. It is most important for the most productive businesses, allocate significant financial contributions out of the profit for social updates.

In Sri Lanka, CSR projects have National worth for it and it is legalized in the country. Conventionally State Mortgage and Investment Bank also focused mainly on its Business Vision and the main aim is to become the leader in Housing and Financial Development of Sri Lanka.

The mission of our Bank is to strengthen its option as the Best Housing Finance Institute, while fulfill all of our customers financial needs by providing appropriate solutions and proper security and attractive benefits for depositors.

We believe that it is our social responsibility to provide shelter or home ownership as it is a basic need of the humankind.

State Mortgage and Investment Bank could be defined as the first and the oldest state bank in Sri Lanka which has valued its social responsibility ideally.

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 2017 and 2018 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



Blood Donation Campaign

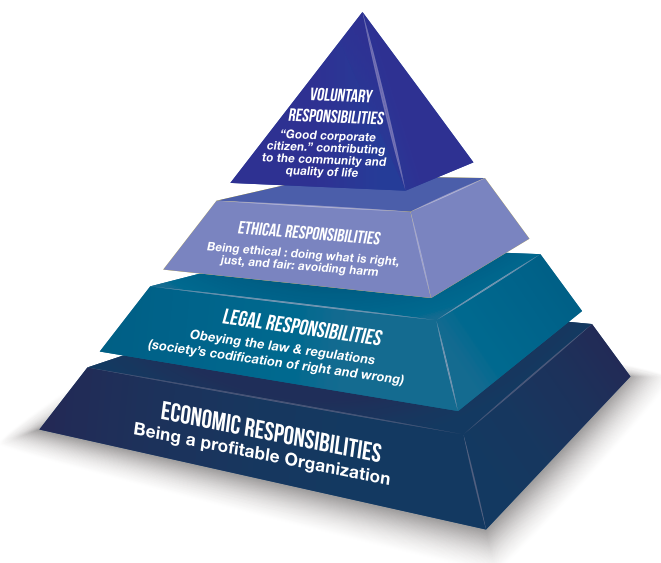


Blood Donation Campaign



Workshop of Grade V Scholarship Examination

### SMIB CSR Framework





# Our Products

Everything changes with time. Especially the shapes in the finance sector and also the consumption patterns of people do change. Changes occur in such a pattern that the conditions in the past year cannot be applied to today. Global and regional scenarios are the same in this matter,

Under Globalization, not only the material and technological stuff, but also inter cultural aspects are being transferred and shared in addition to the matters relevant to literacy. All these circulations happen targeting the financial market.

No one can survive alone in the financial market. It is a must to have proper understanding and trust towards the other parties. Various strategic methodologies are used to maintain a continuous relationship.

State Mortgage and Investment Bank is the first state bank in Sri Lanka. Therefore, it is essential to maintain the reputation, prestige and the continuous trust of the public. As a leader in the financial sector this should be cherished and nurtured surpassing all the other financial institutions. Depositors, creditors and all the other government and non-government parties/ stakeholders should be won over.

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

The bank has won the hearts of people for more than 87 years due to the reason of maintaining a proper advertising

campaign to make the people aware of the services it offers to direct and indirect customers. Various marketing techniques have been applied to win the customers through the relationship with the state mechanism and also through personal contacts. The continuous financial feasibility of the bank throughout the years proves the fact that an omnipresent marketing methodologies have been used.

Year 2017 reported the highest number of loans issued. The amount is around seven billion rupees. On the other hand, the profit on the interest of loans has hugely increased. This is one of the prominent milestones in the State Mortgage and Investment Bank which is a bank with financial experience of 08 decades. Further, the bank had the opportunity to obtain more than one billion rupees as short term and long term fixed deposits.

The branch network established to cover the entire island has made it easier for the bank to serve thousands of customers in the country. In year 2018 and 2017, around 15 housing loan schemes were introduced to the public sector and together with the loan scheme introduced to the Department of Pensions, a few new products were introduced to the customers. Few of the savings products to be implemented in year 2019, were also planned in year 2018.

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





# Financial Information

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# Directors' Report

The State Mortgage and Investment Bank is a licensed specialized bank under the Banking Act No. 30 of 1988 and amendments thereto and was duly incorporated under the State Mortgage and Investment Bank Law No: 13 of 1975 and amendments thereto.

The Board of Directors of State Mortgage and Investment Bank take pleasure in presenting their report on the affairs of the Bank together with the Audited Consolidated Financial Statements for the year ended 31 December 2018 of the Bank and the Auditor General's Report on those Financial Statements, conforming to the requirements of the State Mortgage and Investment Bank Law No: 13 of 1975 as amended and Banking Act No. 30 of 1988 and amendments thereto. The Directors reviewed and approved the Financial Statements which have been prepared in accordance and conformity with the Sri Lanka Accounting Standards.

## DIRECTORS

The Board consisting of Nine non-executive independent directors appointed by the Minister in compliance with section 7 of the State Mortgage and Investment Bank Act No. 13 of 1975 as amended and three of the directors so appointed are the representatives of;

- The Ministry of Agriculture,
- The Ministry of Housing and Construction
- The Ministry of Social Services, Welfare & Livestock Development.

One Director is appointed as the Treasury Representative. The Minister of the Ministry of Public Enterprises and Kandy City Development has appointed the Chairman of the Board among the directors. There are no executive directors in the bank.

Three members out of the nine constitute a quorum at any meeting of the Board. Meetings of the Board of Directors should be held at least once a month or oftener if the Chairman deems it necessary as per the State Mortgage and Investment Bank Law and the Banking Act.

### Directors' attendance at the Board meetings:

13 meetings were held in the year 2018.

Name of the Director	Number of meetings eligible to attend	Number of Meetings attended
Mr. Tissa Jinadasa (Chairman from 09.02.2015 to 12.07.2018 )	07	07
Mr. Niroshana Perera (Chairman from 12.07.2018)	06	06
Dr. Niroshan Gamage	13	07
Mr. Roshan Hettiaratchi	07	05
Mr. Rajitha Nuwan Halwala	07	06
Mr. S.G. Senaratne	05	04
Mr. P. A. Kulasooriya	13	08
Mr E.A. Lesly Edirisinghe	10	08
Mr. P.S.K.R. Weerakoon	13	11
Mr. R.M. Abeyratne	02	02
Mr. K.D.R. Olga	06	05
Mr. Bernard Vasantha	05	02
Mr. I. Gunasekera	06	06
Mr. T.M.I. Abdeen	03	01

### 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 2018 and results of those operations are contained in the Chairman's Report, General Manager's /CEO'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.



## Directors' Report Contd...

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.

The objective of this Policy is to ensure that transactions between the Bank and its related parties (defined hereinafter) are based on principles of transparency and arm's length pricing. Likewise, this Policy aims at preventing and providing guidance in situations of potential conflict of interests in the implementation of transactions involving such related parties. This Policy outlines the basis on which the materiality of related party transactions will be determined and the manner of dealing with the related party transactions by the Bank.

There were not any Related Party business transactions in the year 2018.

### Capital Adequacy Ratio (CAR)

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

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

### The General Manager / Chief Executive Officer (CEO)

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

### Vision, Mission and Values

Together, the vision, mission, and values statements provide direction for everything that happens in the Bank. They keep everyone focused on where the Bank is going and what it is trying to achieve. And they define the core values of the Bank and how people are expected to behave.

The Bank's Vision, Mission and Values are given on page 03 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

It is well known that; the corporate governance has been seen at the forefront of establishing standards of corporate ethics aimed at reducing unscrupulous corporate practices while preserving a fair business environment. Corporate governance is also increasingly being considered an important part of enterprise risk management and the rationale is poor corporate governance is viewed as risky, whereas creditors and investors view good corporate governance (GCG) as a sign of strength in a corporation.

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 26 to 30 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.

#### • Board Audit Committee

The Board Audit Committee (BAC) of the bank performs its functions in a professional manner. The committee reviews the results of an audit with management and external auditors, including matters required to be communicated to the committee under generally accepted auditing standards. Controls over financial reporting, information technology security and operational matters fall under the purview of the committee.

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

## Directors' Report Contd...

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 4 Independent, non -executive Directors, one being an alternative member The Chairman of the Committee is an independent non-executive director who possesses qualifications in accountancy and audit who is the director representing the Treasury. Members for all the Subcommittees including the BAC members are being appointed out of the said Board members who possess necessary qualifications, skills and experience to serve BAC.

Board Secretary functions as the secretary of the Board Audit Committee. The General Manager, AGM Finance, AGM Risk AGM-Credit and AGM (HR &L) attended Meetings as invitees whilst the Superintendent of Government Audit attended all the meetings as an observer. Four Board Audit Committee meetings were held in the year 2018. The Committee met once in the year 2018 with the superintendent of the government audit and without the Chief Executive Officer is being present.

Members in the year 2018 - upto 20.05.2018

Mr. S.G. Senaratne	-	Chairman
Dr. Niroshan Gamage	-	Member
Mr. Rajitha Halwela	-	Member
Mr. P.A.Kulasuriya	-	Alternative Member

Members in the year 2018 - From 09.08.2018

Mrs. K.D.R. Olga	-	Chairperson
Dr. Niroshan Gamage	-	Member
Mr. I. Gunasekara	-	Member
Mr. P.A.Kulasuriya	-	Alternative Member

### • Board Human Resources & Remuneration Committee

The Board Human Resources and Remuneration Committee (BHRRC) shall guide and advise in developing and implementing HR Policies , strategies and plans on behalf of the Bank and maintain a consultative role with the other Board Subcommittees on all human resource issues, including matters relating to all staff, which are among the primary responsibilities vested in the BHRRC.

The General Manager/CEO attends all meetings of the Committee except when matters relating to the General Manager/CEO are being discussed. The Committee is 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, initiatives, 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.

AGM (Legal) functions as the Secretary to BHRRC. The Committee meetings are held quarterly however based on the needs, meetings are fixed. Three (3) Board Human Resources & Remuneration Committee meetings were held in the year 2018.

Members in the year 2018 - upto 20.05.2018

Dr. Niroshan Gamage	-	Chairman
Mr. Rajitha Halwela	-	Member
Mr. P.S.K.R. Weerakoon	-	Member
Mr. P.A. Kulasuriya	-	Alternative Member

Members in the year 2018 - From 09.08.2018

Dr. Niroshan Gamage	-	Chairman
Mr. Bernard Wasantha	-	Member
Mr. P.S.K.R. Weerakoon	-	Member
Mr. Lesly Edirisinghe	-	Alternative Member

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

Board Integrated Risk Management Committee (BIRMC) assesses all risks, i.e. credit, market, liquidity, operational and strategic to the Bank through appropriate risk indicators and management information.

The committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the bank's policies and regulatory and supervisory requirements.

## Directors' Report Contd...

The Board of Directors of the Bank has established the BIRMC in compliance with the Banking Act Direction No. 11 of 2007, corporate governance for licensed specialised banks in Sri Lanka.

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

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 as specified by the Committee. The Committee is to take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee 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.

Five Board Integrated Risk Management Committee (BIRMC) meetings were held in the year 2018.

Members of the BIRMC in the year 2018 - upto 20.05.2018

Mr. S.G. Senaratne	-	Chairman
Dr. Niroshan Gamage	-	Member
Mr. Rajitha Halwela	-	Member

Members of the BIRMC in the year 2018 - upto 09.08.2018

Dr. Niroshan Gamage	-	Chairman
Mr. Rajitha Halwela	-	Member
Mr. P.A. Kulasuriya	-	Member
Mr. Lesly Edirisinghe	-	Member

Members of the BIRMC in the year 2018 - From 09.08.2018

Mr. I. Gunasekera	-	Chairman
Dr. Niroshan Gamage	-	Member
Mr. Bernard Wasantha	-	Member
Mr. P.S.K.R. Weerakoon	-	Alternative Member

### • Board Nomination Committee (BNC)

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

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 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 2018 - upto 20.05.2018

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

Members in the year 2018 - from 09.08.2018

Mrs. K.D.R. Olga	-	Chairperson
Dr. Niroshan Gamage	-	Member
Mr. P.A. Kulasuriya	-	Member
Mr. E.A. Lesly Edirisinghe	-	Alternative Member

One Committee meeting was held in the year 2017

### Risk Management

Risk management is the process of identifying, assessing and controlling threats to an Bank's capital and earnings. These threats, or risks, could stem from a wide variety of sources, including financial uncertainty, legal liabilities, strategic management errors, accidents and natural disasters.

## Directors' Report Contd...

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 90 of this Annual Report.

### Internal Control

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

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

The Directors Report on Internal Control appears on Page 113 in this annual report.

### Profit and Appropriations

The Total Income of the Bank for the year 2018 was Rs. 5,658 Mn.

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

	2018 Rs. 000	2017 Rs. 000
Gross Income	5,658,179	4,916,232
Interest Income	5,524,856	4,745,059
Interest Expenses	3,577,504	3,101,891
Net Interest Income	1,947,352	1,643,168
Other Income	133,323	171,172
Net Income	2,080,675	1,814,341
Less: Operating expenses	1,348,957	1,248,379
VAT / NBT / DRL	251,985	187,033
Operating Profit before Tax	479,733	378,929
Less: Provision for Taxation	235,261	200,404
Profit for the Year	244,472	178,524
Retained Profits	2,729,278	2,706,976
Profit available for appropriation	2,973,750	2,885,500
Appropriations	-	-
Deemed Dividend Tax	(48,965)	(93,266)

	2018 Rs. 000	2017 Rs. 000
Payments to consolidated Fund	-	(25,000)
Transfers to Reserve Fund	(15,032)	(15,278)
Transfers to Investment Fund	-	-
Other Comprehensive Income	(23,677)	5,207
Balance carried forward	2,957,694	2,729,278

### Deemed Dividend & Reserves

Deemed dividend tax for the year 2018 was 48.96 Mn. 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 2018 amounted to Rs. 4,297 Mn (2017 - 4,067 Mn) Movement of which are given on page 124 in the statement of Changes in Equity.

### Capital Expenditure

The details of Property, Plant, and Equipment and Motor Vehicles of the Bank are shown in Note 16 on page 149.

### Market Value of Immovable Properties

SMIB did not own tangible immovable properties as at 31st December 2018.

### Contributed Capital

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

### 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 2018 totalled 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.

## Directors' Report Contd...

### Taxation

Income tax for 2018 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 sovereign stakeholders involvement, forecasts and budgets; borrowing requirements and maturities; liabilities existing and contingent; financial adoptability to changing circumstances; product and market trends; overall risk management strategies; strengths, weaknesses, opportunities and threats; the Board is satisfied that the bank has adequate resources to continue its operations in the foreseeable future without materially curtailing its operations.

The Financial Statements of the Bank has been prepared on 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

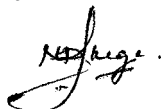
The Auditor General is the Auditor of the State Mortgage & Investment Bank. Report of the Auditor General on the Financial Statements and other legal and Regulatory Requirements of the State Mortgage and Investment Bank for the year ended 31st December 2018 was made in terms of section 12 of the National Audit Act No: 19 of 2018.

The Auditor General's report on the Financial Statements of the Bank as at 31st December, 2018 is given on page 118 of this Annual Report.

### ACKNOWLEDGMENT:

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

By order of the Board,



**Nishani P.K. Lokuge**  
Secretary to the Board

# Director's Statement on Internal Control over Financial Reporting

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



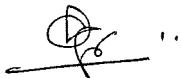
## Director's Statement on Internal Control over Financial Reporting Contd...

- Management level committees have also been functioning with appropriate empowerment to ensure effective management and supervision of Bank's core areas in the day-to-day business operations.
- A structured annual review of the design and effectiveness of the bank's internal control over financial reporting has been carried out. The Board has already approved that the documentation of the internal control system of the bank which would facilitate review of the effectiveness of the internal controls.
- The Board has realized that there are additional control procedures to be designed and implemented over the financial reporting process in order to ensure more effective internal control system of the bank.

### Confirmation

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

The External Auditor will review the above Directors' Statement on Internal Control over financial reporting for the year ended 31st December 2018.



**K.D.R. Olga**

Chairman - Board Audit Committee/Director (NE)



**Niroshan Gamage**

Director (NE)



**Indrajith Gunasekara**

Director (NE)

# Auditor General's Report on Bank's Internal Control



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தேசிய கணக்காய்வு அலுவலகம்  
**NATIONAL AUDIT OFFICE**



මගේ අංකය  
எனது இல  
My No.

BAF/G/SMIB/IC/2018/01

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உமது இல  
Your No.

දිනය  
திகதி  
Date

07th October 2019

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

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

## Introduction

This report is to provide assurance on the Directors' Statement on Internal Control ("Statement") of the State Mortgage and Investment Bank included in the annual report for the year ended 31 December 2018.

## Management's Responsibility

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

## My Responsibilities and Compliance with SLSAE 3050

My responsibility is to issue a report to the Board of Directors on the Statement based on the work performed. I conducted my engagement in accordance with Sri Lanka Standard on Assurance Engagement SLSAE 3050- Assurance Report for Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

## Summary of Work Performed

My engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for Directors and appropriately reflects the process the Directors have adopted in reviewing the system of internal control for the Bank.

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

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

The Directors' Statement on Internal Control, over financial reporting has stated that limited procedures were followed in reviewing the design and effectiveness of internal controls over financial reporting and steps have been taken to strengthen the processes. However, I couldn't observe that steps have been taken to strengthen the process even though Board of Directors highlighted the same fact in the Directors' Statement on Internal Control in previous years.

## My Conclusion

Based on the procedures performed, except for the effect for the deficiency described in the previous paragraph, nothing has come to my attention that causes me to believe that the Statement included in the annual report is inconsistent with my understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control over financial reporting of the Bank.

**W.P.C. Wickramaratne**  
Auditor General



# Directors' Responsibility for Financial Reporting

Directors' responsibility for financial reporting arises from the duty of care directors have to the organization it is governing. All directors are collectively responsible for meeting their obligations in relation to annual financial reporting adhering to the norm that "the Directors are primarily responsible for the quality of the financial report."

Being responsible for overseeing the financial reporting processes undertaken by the management, the Board of Directors have the ultimate responsibility for ensuring that legislative requirements in relation to financial reporting, such as filing with regulator bodies and providing financial information to investors / shareholders, are complied with. Accordingly, the responsibility of the Board of Directors in relation to the financial statements of the State Mortgage and Investment Bank is set out in this statement.

Each participant of the Bank in the financial reporting process has a role in ensuring that relevant, useful, comparable and consistent financial information is provided to enable users to make informed decisions and the Directors confirm that the Financial Statements of the Bank will reflect a true and fair view of the state of affairs as at 31st December 2018 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

The Board of Directors do need to have sufficient financial literacy to understand, monitor and direct the organization. As a result, directors are expected to be able to read and understand the financial statements and to form a view on the accuracy, credibility and understandability of the information presented, as well as understanding the processes in place to review the financial statements.

Accordingly, the Board of Directors of the Bank, having such capability, is required to control and administer the affairs and the business of the Bank in terms of the provisions of the State Mortgage and Investment Bank Law No. 13 of 1975 and its amendments read with the Finance Act No. 38 of 1971, the Banking Act No. 30 of 1988 and its amendments and Directions issued by the Central Bank of Sri Lanka.

The Board of Directors are responsible for ensuring that proper accounting records which correctly record and explain

the Bank's financial position, with reasonable accuracy at any point of time is determined by the Bank, enabling preparation of the Financial Statements.

The Financial Statements for the year 2018 prepared and presented in this Annual Report are consistent with the underlying books of accounts and are in conformity with the requirements of Generally Accepted Accounting Principles, Sri Lanka Accounting Standards' and Sri Lanka Financial Reporting Standards that give a true and fair view of the financial position of the Bank at the end of each financial year in compliance with the relevant statutory requirements.

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

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

The Directors of SMIB acknowledge that in preparing the Financial Statements for the year 2018 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 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 Interim Financial Statements prior to their release, following a review and recommendation by the Board Audit Committee. The Board Audit Committee report appears on Page 80 of this annual report.

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

## Directors' Responsibility for Financial Reporting Contd...

### Going Concern

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

### Internal Controls and Risk Management

The internal control and risk management system of the Bank is defined as the set of procedures, organizational structures and related activities aimed at ensuring, through an adequate process of identification, measurement, risk management and monitoring, correct Bank management consistent with the established objectives.

Having an understanding of the purpose of internal control is to achieve an effective organization that achieves goals set by the Board of Directors and since this means to a reasonable extent ensure that the Bank's business is conducted appropriately and effectively, that laws and regulations are complied with and to provide reasonable assurance in relation to the reliability of the financial reporting, the Board of Directors of SMIB, is responsible for taking reasonable measures and care to safeguard the assets of the Bank detect frauds and other irregularities and has also instituted an effective and comprehensive system of internal financial controls, an effective system of monitoring its effectiveness which includes internal audit 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.

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

A report by the Directors on the Bank's internal control mechanism is given on pages 113 and 114 of this Annual Report.

### Compliance Report

The Directors confirm that to the best of their knowledge and belief that all taxes payable by the Bank and all contributions and taxes payable on behalf of and in respect of employees

of the Bank and all other known statutory dues to the Government and the other relevant regulatory and statutory authorities which were due and payable by the Bank as at the date of Statement of Financial Position have been paid or where relevant provided for.

### Audit Report

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

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

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

### Directors' interests in contracts of significance

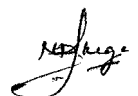
It has to be ensured that, no contracts of significance to which the Bank was a party and in which a director or former director of the Bank had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year and with respect to the Board of Directors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

### Statutory payments

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

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

By Order of the Board,



**Nishani P.K. Lokuge**  
Secretary to the Board / AGM (Legal)

# Report of the Auditor General



## ජාතික විගණන කාර්යාලය தேசிய கணக்காய்வு அலுவலகம் NATIONAL AUDIT OFFICE



මගේ අංකය  
எனது இல  
My No.

BAF/G/SMIB/1/18/1

ඔබේ අංකය  
உமது இல  
Your No.

දිනය  
திகதி  
Date

20 August 2019

Chairman

State Mortgage and Investment Bank

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

### 1. Financial Statements

#### 1.1 Qualified Opinion

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

In my opinion, except for the effects of the matters described in the basis for Qualified Opinion section of my report, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### 1.2 Basis for Qualified Opinion

- An abnormal credit balance of Rs.13, 651,821 had been carried forward in the claim voucher account without being corrected since more than 03 years. The reasons for this abnormal credit balance had not been identified. As well the debit balances of Rs.1, 996,000 and Rs.1, 030,374 had been remained in claim vouchers account in Chillaw Branch and Kurunagala Branch respectively since more than 02 years without being reconciled.
- A debit balance of Rs.12, 772,657 had been carried forward in un-reconciled control account disclosed under other assets in the Financial Statements. The balance arose due to transfer of un-reconciled differences from particular general ledger accounts to un-reconciled control account during the period from 2016 to 2018 for which supporting documents were not available.
- A difference of Rs.8, 088,496 was observed between the balance as per general ledger and balance as per the loan schedule as at 31 December 2018 in relation to interest receivable on estate provident fund loan balance.
- An abnormal debit balance of Rs.8, 137,376 had been carried forward in the Cheques on





## Report of the Auditor General Contd...



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 தேசிய கணக்காய்வு அலுவலகம்  
 NATIONAL AUDIT OFFICE

- Realization account without being corrected for a considerable period of time. Out of the above debit balance Rs.7, 885,705 had been remained in the account since more than 05 years. The reasons for the debit balance had not been identified.
- (e) The abnormal debit balance of cheques on realization account in Kandy Branch had been understated by Rs.2, 702,521 due to erroneous entries posted to the same account in order to correct the abnormal debit balance during the year 2018.
- (f) The cash out flow on VAT, NBT, DRL and income tax recorded in the cash flow statement was higher than the actual cash out flow by Rs.24, 652,323. As well the cash inflow on dividend income had been recorded in the cash flow statement without deducting the withholding tax of Rs.3, 090,360 on dividend income.
- (g) When disclosing the ESC receivable balance of Rs.28, 053,170 in the financial statements, the Bank had been net off the receivable amount against the ESC payable amount of Rs.6, 877,683. As per Section 33 of LKAS 01, offsetting is not allowed in the statement of profit or loss and other comprehensive income or financial position except when offsetting reflects the substance of the transaction.
- (h) A difference of Rs.4, 296,607 was observed between inter branch accounts of the Bank as at 31 December 2018.
- (i) An un reconciled balance of Rs.3, 008,166 had been carried forward in EPF and ETF payable accounts since more than 12 years.
- (j) An abnormal debit balance of Rs.2,499,034 and Rs.303,814 had been recorded in loan instalment for estate sector account in Kandy Branch and Hatton Branch respectively due to error posting.
- (k) There was an abnormal debit balance of Rs.2,508,640 in branch advice account without being corrected for a considerable period of time. Out of the above debit balance Rs.2, 489,500 had been remained in the accounts since more than 03 years. The reasons for the debit balance had not been identified.
- (l) An amount of Rs.2, 400,000 was recorded in frauds account and disclosed under other assets in the Financial Statements. The balance reflects the amount relating to two frauds occurred in 1999. However the recoverability of this balance is doubtful.
- (m) A credit balance of Rs.1, 615,152 had been carried forward in rent advance account in head office. The reason for the credit balance had not been identified.
- (n) An irrecoverable debit balance of Rs.1, 512,882 had been recorded in accrued assistant to provident fund account since more than 02 years and disclosed under other debtors in the financial statements.
- (o) The Bank had been erroneously recognized the interest payable amount higher than the correct amount by Rs.818,630 on National Savings Bank loan for the period of 26 December 2018 to 31 December 2018.
- (p) The Bank had disclosed all of its fixed assets under vehicles and furniture and equipment without properly grouping those according to their nature.
- I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

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

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

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue



## Report of the Auditor General Contd...



as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

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

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

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

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

### 2. Report on Other Legal and Regulatory Requirements

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

- Except for the effect of the matters described in the Basis for qualified opinion paragraph, I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Bank as per the requirement of

## Report of the Auditor General Contd...



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 தேசிய கணக்காய்வு அலுவலகம்  
 NATIONAL AUDIT OFFICE

section 12 (a) of the National Audit Act, No. 19 of 2018.

- The financial statements presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018 except for audit observation shown under 1.2. (a),(b),(c),(d),(h),(i),(k),(l) and (n) of this report.

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

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

- (a) As per Section 5.1.1 of the National Procurement Guideline, the Bank was unable to draft the bidding documents including technical specifications, drawing and etc. in a proper manner.
- (b) The Bid opening committee had not been appointed and bid opening procedure had not been followed properly as per Section 6.3.3 of National Procurement Guideline.
- (c) The Technical Evaluation Committee had not been evaluated the received bids as per Section 7.1 of National Procurement Guideline.
- (d) A formal letter of acceptance followed by the execution of a formal contract had not been entered between the Bank and bidders as per Section 8.9.1 of National Procurement Guideline.
- (e) Evidences were not available to ensure whether the execution of works are adequately supervised and assessed for the purpose of making interim and final payments as per Section 8.12.1 of the National Procurement Guideline.

**W.P.C. Wickramaratne**  
Auditor General

## Income Statement

	Note	2018 Rs.	2017 Rs.
Interest Income		5,524,856,523	4,745,059,385
Interest Expenses		(3,577,504,063)	(3,101,891,268)
<b>Net Interest Income</b>	01	<b>1,947,352,460</b>	<b>1,643,168,117</b>
Fee and Commission Income		107,468,209	149,313,983
Fee and Commission Expenses		-	-
<b>Net Fee and Commission Income</b>	02	<b>107,468,209</b>	<b>149,313,983</b>
Net Fair Value Gains/(Losses) from FA at FVPL	03	(260,000)	-
Net Other Operating Income	04	26,114,437	21,858,420
<b>Total Operating Income</b>		<b>2,080,675,106</b>	<b>1,814,340,520</b>
Impairment Charges	05	(184,958,053)	(225,391,986)
<b>Net Operating Income</b>		<b>1,895,717,053</b>	<b>1,588,948,534</b>
Personnel Expenses	06	(824,017,672)	(725,129,018)
Depreciation and amortization expenses		(25,817,153)	(33,105,203)
Other Expenses	07	(314,164,575)	(264,753,260)
<b>Operating profit/(loss) before VAT, NBT &amp; DRL</b>		<b>731,717,653</b>	<b>565,961,053</b>
Value Added Tax (VAT) on Financial Services		(198,439,397)	(165,028,588)
Nation Building Tax (NBT) on Financial Services		(26,458,586)	(22,003,812)
Debt Repayment Levy (DRL) on Financial Services		(27,086,978)	-
<b>Profit/(Loss) before Tax</b>		<b>479,732,692</b>	<b>378,928,654</b>
Income tax expenses	08	(235,260,663)	(200,404,345)
<b>Profit/(Loss) for the Year</b>		<b>244,472,029</b>	<b>178,524,309</b>

## Statement of Comprehensive Income

	2018 Rs.	2017 Rs.
<b>Profit/(Loss) for the Year</b>	<b>244,472,029</b>	<b>178,524,309</b>
Gains and Losses on Re-Measuring Financial Assets	-	655,000
Re-measurement of post-employment benefit obligations	(23,677,276)	5,206,601
<b>Total Comprehensive Income for the Year</b>	<b>220,794,753</b>	<b>184,385,910</b>

# Statement of Financial Position

	Note	2018 Rs.	2017 Rs.
<b>Assets</b>			
Cash and Cash Equivalents	10	96,180,182	104,191,042
Placements with Banks	11	5,206,048,813	5,987,564,588
Financial Assets - FVPL	12	17,635,000	17,895,000
Financial Assets - AC			
- Loans and Advances	13	34,225,486,332	32,987,158,106
- Debt and Other Instruments	14	1,943,157,959	2,118,281,230
Financial Assets - FVOCI	15	5,379,078	5,379,078
Property, Plant and Equipment	16	64,244,824	71,381,532
Deferred Tax Assets	17	107,451,184	95,801,007
Other Assets	18	931,684,987	634,770,231
<b>Total Assets</b>		<b>42,597,268,360</b>	<b>42,022,421,815</b>
<b>Liabilities</b>			
Due to Banks	19	12,196,466	32,047,664
Financial Liabilities at Amortised Cost	20		
- Due to Depositors		34,272,228,231	33,620,237,411
- Due to Debt Securities Holders		110,173,288	110,180,822
- Due to Other Borrowers		1,872,732,341	2,387,007,679
Employee Benefit Liability	21	382,499,632	336,544,991
Other Liabilities	22	760,454,437	579,972,958
<b>Total Liabilities</b>		<b>37,410,284,396</b>	<b>37,065,991,525</b>
<b>Equity</b>			
Stated Capital/Assigned Capital	23	889,812,899	889,812,899
Statutory Reserve Fund	24	261,668,385	246,635,734
Retained Earnings	25	2,957,693,676	2,729,277,654
Other Reserves	26	1,077,809,004	1,090,704,004
<b>Total Equity</b>		<b>5,186,983,964</b>	<b>4,956,430,290</b>
<b>Total Equity and Liabilities</b>		<b>42,597,268,360</b>	<b>42,022,421,815</b>
<b>Contingent Liabilities and Commitments</b>	27	-	-

## Certification:

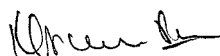
(a) The above Statements have been prepared in compliance with the format and definitions prescribed by the Central Bank of Sri Lanka.



**Mr. K.L.N.A Perera**

Assistant General Manager ( Finance)

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



**Mr. Niroshana Perera**

Chairman



**Mr. Sheanath De Soysa**

Director



**Mr. W.M. Dayasinghe**

CEO/General Manager

## Statement of Changes in Equity

	Assigned Capital	Statutory Reserve	Capital Reserve	General Reserve	Title Indemnity Fund	Retained Earnings	AFS Reserve	Total
<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	<b>4,918,195,257</b>
Prior Period Adjustments						(27,884,783)		<b>(27,884,783)</b>
Net Profit for the Year						178,524,309		<b>178,524,309</b>
Deemed Dividend Tax						(93,266,093)		<b>(93,266,093)</b>
Other Comprehensive Income						5,206,601	655,000	<b>5,861,601</b>
Transfer During the Year		15,278,229				(15,278,229)		-
Transfer to Consolidated Fund						(25,000,000)		<b>(25,000,000)</b>
<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	<b>4,956,430,290</b>
Prior Period Adjustments						(11,967,208)		<b>(11,967,208)</b>
OCI Reserve Transfer to RE						12,895,000	(12,895,000)	-
Impairment Adjustment						70,691,003		<b>70,691,003</b>
Net Profit for the Year						244,472,029		<b>244,472,029</b>
Deemed Dividend Tax						(48,964,874)		<b>(48,964,874)</b>
Other Comprehensive Income						(23,677,276)		<b>(23,677,276)</b>
Transfer During the Year		15,032,651				(15,032,651)		-
Transfer to Consolidated Fund						-		-
<b>Balance as at 31.12.2018</b>	889,812,899	261,668,385	393,498,004	683,280,000	1,031,000	2,957,693,676	-	<b>5,186,983,964</b>

# Statement of Cash Flows

	2018 Rs.	2017 Rs.
<b>Cash Flows from Operating Activities</b>		
Interest Received	4,635,448,510	3,700,799,179
Interest Payments	(4,393,015,335)	(2,188,853,183)
Net commission receipts	107,468,209	149,313,983
Payments to Employees	(787,069,528)	(687,458,688)
VAT, DLR & NBT on financial services	(259,789,840)	(175,922,132)
Receipts from Other Operating Activities	2,540,437	2,650,920
Payments on Other Operating Activities	(315,804,667)	(295,331,973)
<b>Operating Profit before Changes in Operating Assets</b>	<b>(1,010,222,214)</b>	505,198,105
<b>(Increase)/Decrease in Operating Assets:</b>		
Financial assets at amortised cost - loans & advances	(1,321,306,075)	(5,000,603,645)
Other assets (please specify)	-	-
	<b>(1,321,306,075)</b>	(5,000,603,645)
<b>Increase /(Decrease) in Operating Liabilities:</b>		
Financial liabilities at amortised cost - due to depositors	1,467,261,443	3,866,183,753
Financial liabilities at amortised cost - due to other borrowers	(514,275,338)	1,990,122,486
Other liabilities (please specify)	-	-
	<b>952,986,105</b>	5,856,306,239
<b>Net Cash from Operating Activities before Income Tax</b>	<b>(1,378,542,184)</b>	1,360,900,699
Taxes Paid	(194,966,230)	(354,192,450)
<b>Net Cash from Operating Activities</b>	<b>(1,573,508,414)</b>	1,006,708,249
<b>Cash Flows from Investing Activities</b>		
Dividends Received	23,574,000	19,207,500
Proceeds from Sales of Property, Plant & Equipment	214,300	214,300.00
Purchase of Property, Plant & Equipment	(18,680,445)	(11,116,587)
Purchase of financial investments	756,118,847	(1,756,102,303)
Proceeds from the sale and maturity of financial investments	824,122,050	759,264,547
<b>Net Cash from Investing Activities</b>	<b>1,585,348,752</b>	(988,532,543)
<b>Cash Flows from Financing Activities</b>		
Repayment of subordinated debt	-	-
Payment to the Consolidated Fund	-	(25,000,000)
<b>Net Cash from Financing Activities</b>	<b>-</b>	(25,000,000)
<b>Net Increase in Cash and Cash Equivalents</b>	<b>11,840,338</b>	(6,824,294)
Cash and Cash Equivalents at the beginning of the Year	72,143,378	78,967,672
Cash and Cash Equivalents at the end of the Year	<b>83,983,716</b>	72,143,378
<b>Reconciliation of Cash and Cash Equivalents</b>		
Cash and Short Term Funds	96,180,182	104,191,042
Borrowings from Banks	(12,196,466)	(32,047,664)
	<b>83,983,716</b>	72,143,378



# 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 2018 were authorized for issue in accordance with the approval given by the Board of Directors of the Bank at the meeting held on 27.02.2019

The staff strength of the Bank as at December 31, 2018 was 386 (365 as at December 31, 2017)

## 2. Summary of Significant Accounting Policies

### 2.1. Basis of Preparation

These Financial Statements for the year ended 31 December 2018 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.

### 2.2. 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.

## 2.3. Presentation of Financial Statements

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

## 2.4. Significant accounting Judgments, Estimates and Assumptions

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

## 2.5. 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.

## Accounting Policies Contd...

### 2.6. Going concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

### 2.7. Deferred Tax Assets

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

### 2.8. 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.

	2018	2017
Interest Rate	11.50%	11.50%
Rate of Annual Salary Increase	10%	7.50%
Retirement Age	55-60 years	55-60 years

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

### 2.9. 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.

	2018	2017
Discount Rate	11.50%	10.00%
Medical Expense Escalation	7.00%	10.00%
Participant Data (Actives) census information at	31.12.2018	31.12.2017

Description of employee benefits is given in Note 20.

### 2.10. 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:

#### 2.11. 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.

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

#### 2.13. Dividend income

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

## Accounting Policies Contd...

### 2.14. 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.

### 2.15. Other Income

Other income is recognized on an accrual basis.

### 2.16. 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.

### 2.17. 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.

### 2.18. Property, Plant and equipment

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

### 2.19. 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.

### 2.20. Subsequent Cost

The cost of replacing part of an item of Property, Plant & Equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will

flow into the Bank and its cost can be reliably measured.

### 2.21. 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.

### 2.22. Capital Work-in-Progress

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

### 2.23. 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	Rate 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.

### 2.24. 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.

## Accounting Policies Contd...

### 2.25. Intangible Assets

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

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

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

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

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

### 2.26. 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.

### 2.27. Financial Guarantees

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

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

### 2.28. Retirement Benefit Obligation

#### 2.28.1. Gratuity

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

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

## Accounting Policies Contd...

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.

### 2.29. Recognition of Actuarial Losses / Gains

Actuarial losses / gains are recognized in OCI.

### 2.30. Expected Return on Assets

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

### 2.31. 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.

### 2.32. Funding Arrangements

The Gratuity liability is not externally funded.

### 2.33. Defined contribution plan

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

### 2.34. Employees' Provident Fund

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

### 2.35. Employees' Trust Fund

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

### 2.36. 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.

### 2.37. 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.

### 2.38. Recognition of Actuarial Losses / Gains

Actuarial losses / gains are recognized in OCI.

### 2.39. Expected Return on Assets

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

### 2.40. Interest Cost

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

### 2.41. Funding Arrangements

The Medical Benefit Scheme is not externally funded

### 2.42. 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

## Accounting Policies Contd...

is presented in the income statement net of any reimbursement.

### 2.43. Taxes

#### 2.43.1. Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted by the 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.

#### 2.44. 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
- 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 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.

#### 2.45. 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.

#### 2.46. 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.

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

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



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### 3. Changes in accounting policies and disclosures (SLFRS 9 and SLFRS 7)

#### 3.1. New and amended standards and interpretations

In these financial statements, the Bank has applied SLFRS 9 and SLFRS 7, with effect from periods beginning on or after 1 January 2018, for the first time. The Bank has not adopted early any other standard, Interpretation or amendment that has been issued but is not yet effective.

#### 3.2. Changes to classification and measurement

To determine their classification and measurement category, SLFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The LKAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on de-recognition
- Equity instruments at FVOCI, with no recycling of gains or losses of profit or loss on de-recognition
- Financial assets FVPL

The accounting for financial liabilities remains largely the same as it was under LKAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

The Bank's classification of its financial assets and liabilities is explained in Notes 09. The quantitative impact of applying SLFRS 9 as at 1 January 2018 is disclosed in Note 29.

#### 3.3. Changes to the impairment calculation

The adoption of SLFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing LKAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. SLFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Details of the Bank's impairment method are disclosed in Note 3.10 of this accounting policies. The quantitative impact of applying SLFRS 9 as at 1 January 2018 is disclosed in Note 29

#### 3.4. SLFRS 7

To reflect the differences between SLFRS 9 and LKAS 39, SLFRS 7 Financial Instruments: Disclosures was updated and the Bank has adopted it, together with SLFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in Note 29, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 3.10 of these accounting policies.

#### 3.5. Recognition of interest income

##### 3.5.1. The effective interest rate method

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

## Accounting Policies Contd...

instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

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

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

### 3.5.2. Interest and similar income

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

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

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

## 3.6. Financial instruments - initial recognition

### 3.6.1. Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades:

purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to customers when funds are transferred to the Bank.

### 3.6.2. Initial measurement of financial instruments

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

### 3.6.3. Day 1 profit or loss

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

### 3.6.4. Measurement categories of financial assets and liabilities

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

- Amortised cost
- FVOCI
- FVPL

Before 1 January 2018, the Bank classified

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

### 3.7. Financial assets and liabilities

#### 3.7.1. Due from banks, Loans and advances to customers, Financial investments at amortised cost

Before 1 January 2018, due from bank and Loans and advances to customers, included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Bank intended to sell immediately or in the near term
- That the Bank, upon initial recognition, designated as at FVPL or as available-for-sale
- For which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

#### 3.7.2. Due from banks, Loans and advances to customers, Financial investments at amortised cost continued

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

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

The details of these conditions are outlined below.

#### 3.7.3. Business model assessment

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

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

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

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

#### 3.7.4. The SPPI test

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

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

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

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

### 3.7.5. Debt instruments at FVOCI (Policy applicable from 1 January 2018)

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

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

- The contractual terms of the financial asset meet the SPPI test

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

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

### 3.7.6. Equity instruments at FVOCI (Policy applicable from 1 January 2018)

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

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been

established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

### 3.7.7. Debt issued and other borrowed funds

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

### 3.7.8. Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under SLFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

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

Or

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

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the Own

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credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using contractual interest rate, Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established

### 3.8. Reclassification of financial assets and liabilities

From 1 January 2018, the Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2017 & 2018.

### 3.9. De-recognition of financial assets and liabilities

#### 3.9.1. De-recognition due to substantial modification of terms and conditions

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

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

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

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

### 3.9.2. De-recognition other than for substantial modification

#### 3.9.2.1. Financial assets

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

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

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

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

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



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

A transfer only qualifies for de recognition if either:

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

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

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

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

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

### 3.9.2.2. Financial liabilities

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

## 3.10. Impairment of financial assets (Policy applicable from 1 January 2018)

### 3.10.1. Overview of the ECL principles

As described in Note 3.2 of this accounting policies, the adoption of SLFRS 9 has fundamentally changed the Bank's loan loss impairment method by replacing LKAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under SLFRS 9.

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

Both LTECLs and 12mECLs are calculated on either an individual LKAS is or a collective LKAS is, depending on the nature of the underlying portfolio of financial instruments. The Bank's policy for grouping financial assets measured on a collective basis.

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



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

- **Stage 1:**  
When loans are first recognised, the Bank recognises an allowance LKASed on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- **Stage 2:**  
When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- **Stage 3:**  
Loans considered credit-impaired (as outlined in Note 13).The bank records an allowance for the LTECLs.
- **POCI:**  
Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised LKASs on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

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

### 3.10.2. The calculation of ECLs

The Bank calculates ECLs based on a four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash lows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- **PD :**  
  
The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously recognised and is still in the portfolio.
- **EAD:**  
  
The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, either scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- **LGD:**  
  
The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

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

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

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### 3.10.2.1. The mechanics of the ECL method are summarised below:

- **Stage 1:**  
The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance LKAS on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the four scenarios, as explained above.
- **Stage 2:**  
When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- **Stage 3:**  
For loans considered credit-impaired, the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
- **POCI:**  
POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit adjusted EIR.

### 3.10.3. Debt instruments measured at fair value through OCI

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

### 3.10.4. Purchased or originated credit impaired financial assets (POCI)

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

### 3.10.5. Forward looking information

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

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

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

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

## Accounting Policies Contd...

### 3.11. Collateral valuation

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

### 3.12. Collateral repossessed

The Bank's accounting policy under SLFRS 9 remains the same as it was under LKAS 39. The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

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

### 3.13. Write-offs

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

# Notes to the Financial Statements

	2018 Rs.	2017 Rs.
<b>1. Net Interest Income</b>		
Placements with Banks	665,225,374	548,965,795
Financial Assets at Amortised Cost		
- Loans and Advances	4,687,478,097	4,000,991,626
- Debt and Other Instruments	172,413,052	195,101,964
Financial Assets - FVTPL	(260,000)	-
Financial Assets - FVOCI	-	-
<b>Total Interest Income</b>	<b>5,524,856,523</b>	<b>4,745,059,385</b>
<b>Interest Expenses</b>		
Due to Banks	65,731	511,984
Financial Liabilities at Amortised Cost		
- Due to Depositors	3,308,441,414	3,065,753,523
- Due to Debt Securities Holders	2,742,466	2,750,000
- Due to Other Borrowers	266,254,451	32,875,761
<b>Total Interest Expenses</b>	<b>3,577,504,063</b>	<b>3,101,891,268</b>
<b>Net Interest Income</b>	<b>1,947,352,460</b>	<b>1,643,168,117</b>
<b>a. Net Income from Sri Lanka Government Securities</b>		
	2018 Rs.	2017 Rs.
Interest Income	101,969,571	188,195,405
(Less):Interest Expenses	-	-
<b>Net Interest Income</b>	<b>101,969,571</b>	<b>188,195,405</b>
<b>2. Net Fee and Commission Income</b>		
	2018 Rs.	2017 Rs.
Fee and Commission Income	107,468,209	149,313,983
Fee and Commission Expenses	-	-
<b>Net Fee and Commission Income</b>	<b>107,468,209</b>	<b>149,313,983</b>
<b>Comprising</b>		
Bank Service Charges - Loans and Advances	97,755,399	138,023,927
Legal & Technical Fees - Loans and Advances	558,791	398,371
Other Charges	9,154,018	10,891,685
<b>Net Fee and Commission Income</b>	<b>107,468,209</b>	<b>149,313,983</b>
<b>3. Net Fair Value Gains/(Losses) From Financial Instruments at Fair Value Through Profit or Loss</b>		
	2018 Rs.	2017 Rs.
Gains on financial assets at fair value through profit or loss	-	-
Losses on financial assets at fair value through profit or loss	(260,000)	-
<b>Total</b>	<b>(260,000)</b>	<b>-</b>

## Notes to the Financial Statements Contd...

	2018 Rs.	2017 Rs.
<b>4. Other Operating Income (net)</b>		
Dividend Income	23,574,000	19,207,500
Sundry Income	2,540,437	2,650,920
Other Operating Income (net)	<b>26,114,437</b>	21,858,420
<b>5. Impairment Charges/ (Reversal) for Loans and Other Losses</b>		
	2018 Rs.	2017 Rs.
Financial Assets at AC - Loans and Advances		
Stage 1	15,475,456	25,719,314
Stage 2	24,367,738	16,496,506
Stage 3	147,542,908	183,176,166
Other Financial assets at amortised cost		
Stage 1	(2,428,049)	-
Stage 2	-	-
Stage 3	-	-
Total	<b>184,958,053</b>	225,391,986
<b>6. Personnel Expenses</b>		
	2018 Rs.	2017 Rs.
Salaries and Bonus	574,169,121	494,652,203
Contribution to Defined Contribution/Benefit Plans	79,343,055	66,084,826
Provision for defined benefit obligations	46,338,201	45,191,659
Others	124,167,295	119,200,330
<b>Total</b>	<b>824,017,672</b>	725,129,018
<b>7. Other Expenses</b>		
	2018 Rs.	2017 Rs.
Directors' Emoluments	2,350,426	2,880,056
Auditors' Remuneration	1,500,000	1,400,000
Professional and Legal Expenses	795,917	840,563
Depreciation/Amortisation of Property, Plant and Equipment	25,817,153	33,105,203
Office Administration and Establishment Expenses	196,942,381	159,335,029
Advertising and Promotional Expenses	20,788,846	10,918,122
Motor Vehicle Maintenance & Travelling	7,374,667	8,461,708
General Expense	18,557,667	13,419,948
District Rep's Commission	14,250	4,250
Other Losses, Bad Debts and Write Offs	947,787	-
CBSL Deposit Insurance	29,687,389	26,867,288
Other Expenses	35,205,244	40,626,295
<b>Total</b>	<b>339,981,728</b>	297,858,463

## Notes to the Financial Statements Contd...

	2018 Rs.	2017 Rs.
<b>08. Tax Expenses</b>		
<b>Current Tax Expense</b>		
Current Year	246,910,840	200,347,087
Deferred Tax Expense/(Credit)	(11,650,177)	57,258
<b>Total</b>	<b>235,260,663</b>	<b>200,404,345</b>
<b>a. Reconciliation of Tax Expenses</b>		
Profit/(Loss) before Tax	731,717,653	565,961,053
Adjustment in Respect of Current Income Tax of Prior Periods		
Add: Tax Effect of Expenses that are not Deductible for Tax Purposes	274,697,263	222,959,074
(Less): Tax Effect of Expenses that are Deductible for Tax Purposes	(90,101,622)	(65,411,333)
Disposal of Assets	-	-
Capita Gains & Dividends	(23,574,000)	(19,207,500)
Adjusted Profits for the Year	892,739,294	704,301,294
Taxation Based on Profit for the Year	249,967,002	197,204,362
Transfer to/from Deffered Taxation	(11,650,177)	57,258
(Over)/Under Provision in Previous years	(3,056,162)	3,142,724
<b>Tax Expense for the Period</b>	<b>235,260,663</b>	<b>200,404,345</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	(261,847)	(1,568,410)
Employee Benefit Obligations	(107,189,337)	(94,232,597)
<b>Deferred Tax (Credit)/Charge to Income Statement</b>	<b>(107,451,184)</b>	<b>(95,801,007)</b>



## Notes to the Financial Statements Contd...

## 09. Analysis of Financial Instruments by Measurement Basis - Bank - Current Year (2018)

In Rs.	AC	FVPL	FVOCI	Total
<b>ASSETS</b>				
Cash and cash equivalents	96,180,182	-	-	96,180,182
Placements with banks	5,206,048,813	-	-	5,206,048,813
Loans and advances	34,225,486,332	-	-	34,225,486,332
Debt instruments	65,983,517	-	-	65,983,517
Reverse Repos	729,583,724	-	-	729,583,724
Treasury Bills	874,312,408	-	-	874,312,408
Treasury Bonds	274,697,508	-	-	274,697,508
Unit Trusts	-	17,635,000	-	17,635,000
Unquoted Shares	-	-	5,379,078	5,379,078
<b>Total financial assets</b>	<b>41,472,292,485</b>	<b>17,635,000</b>	<b>5,379,078</b>	<b>41,495,306,563</b>
<b>LIABILITIES</b>				
Due to banks	12,196,466	-	-	12,196,466
Financial liabilities				
- Due to depositors	34,272,228,231	-	-	34,272,228,231
- Due to debt security holders	110,173,288	-	-	110,173,288
- Due to other borrowers	1,872,732,341	-	-	1,872,732,341
<b>Total Financial Liabilities</b>	<b>36,267,330,327</b>	<b>-</b>	<b>-</b>	<b>36,267,330,327</b>

AC - Financial assets/liabilities measured at amortised cost

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

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

## Bank - Previous Year (2017)

In Rs.	AC	FVPL	FVOCI	Total
<b>ASSETS -</b>				
Cash and cash equivalents	104,191,042	-	-	104,191,042
Placements with banks	5,987,564,588	-	-	5,987,564,588
Loans and advances	32,987,158,106	-	-	32,987,158,106
Debt instruments	65,889,590	-	-	65,889,590
Reverse Repos	1,017,022,848	-	-	1,017,022,848
Treasury Bills	759,902,623	-	-	759,902,623
Treasury Bonds	275,466,169	-	-	275,466,169
Unit Trusts	-	17,895,000	-	17,895,000
Unquoted Shares	-	-	5,379,078	5,379,078
<b>Total financial assets</b>	<b>41,197,194,966</b>	<b>17,895,000</b>	<b>5,379,078</b>	<b>41,220,469,044</b>
<b>LIABILITIES</b>				
Due to banks	32,047,664	-	-	32,047,664
Financial liabilities				
- Due to depositors	33,620,237,411	-	-	33,620,237,411
- Due to debt security holders	110,180,822	-	-	110,180,822
- Due to other borrowers	2,387,007,679	-	-	2,387,007,679
<b>Total Financial Liabilities</b>	<b>36,149,473,576</b>	<b>-</b>	<b>-</b>	<b>36,149,473,576</b>

## Notes to the Financial Statements Contd...

	2018 Rs.	2017 Rs.
<b>10. Cash and Cash Equivalents</b>		
Cash in hand	40,970,999	35,321,729
Balances with banks	55,209,184	68,869,313
<b>Total</b>	<b>96,180,182</b>	<b>104,191,042</b>
<b>11. Placements with Banks</b>		
	2018 Rs.	2017 Rs.
Sampath Bank	1,515,747,273	1,057,509,191
National Development Bank	1,750,768,307	2,399,693,313
National Savings Bank	201,482,740	-
Peoples Bank	-	454,295,890
Regional Development Bank	1,206,029,945	383,038,699
Sanansa Development Bank	532,020,548	1,693,027,496
<b>Total</b>	<b>5,206,048,813</b>	<b>5,987,564,588</b>
<b>12. Financial Assets Recognized Through Profit or Loss</b>		
	2018 Rs.	2017 Rs.
Unit Trusts (National Development Bank)	17,635,000	17,895,000
<b>Total</b>	<b>17,635,000</b>	<b>17,895,000</b>
<b>a. Analysis</b>		
	2018 Rs.	2017 Rs.
<b>By collateralisation</b>		
Pledged as collateral	-	-
Unencumbered	17,635,000	17,895,000
<b>Gross total</b>	<b>17,635,000</b>	<b>17,895,000</b>

## Notes to the Financial Statements Contd...

	2018 Rs.	2017 Rs.
<b>13. Financial Assets at Amortised Cost - Loans and Advances</b>		
<b>Gross loans and advances</b>	<b>34,930,520,644</b>	33,579,344,566
Stage 1	24,567,228,079	23,573,547,482
Stage 2	1,765,471,953	1,414,841,922
Stage 3	8,597,820,613	8,590,955,162
<b>(Less): Accumulated impairment under:</b>	<b>705,034,312</b>	592,186,460
Stage 1	139,657,779	70,031,935
Stage 2	56,965,387	45,021,882
Stage 3	508,411,145	477,132,644
<b>Net Loans and Advances</b>	<b>34,225,486,332</b>	32,987,158,106
<b>a. Analysis</b>	<b>2018 Rs</b>	<b>2017 Rs</b>
<b>By product</b>		
Mortgage	9,323,875,172	9,179,939,734
EPF	8,707,071,343	9,312,656,134
Vehicle	15,443,468	27,482,737
Staff loans	985,803,833	884,353,343
Personal Loans	14,821,377,959	13,193,612,739
Others	1,076,948,869	981,299,878
<b>Gross Total</b>	<b>34,930,520,644</b>	33,579,344,566
<b>By collateralization</b>		
Collateral held as Security	18,859,528,741	19,404,431,950
Other Credit Enhancements	16,070,991,903	14,174,912,617
<b>Gross Total</b>	<b>34,930,520,644</b>	33,579,344,566
<b>b. Movements in impairment during the year</b>	<b>2018</b>	<b>2017</b>
<b>Stage 1</b>		
Opening balance as at 01/01/2018	124,182,324	44,312,621
Charge/(Write back) to income statement	15,475,456	25,719,314
Write-off during the year	-	-
Closing balance at 31/12/2018	139,657,779	70,031,935
<b>Stage 2</b>		
Opening balance as at 01/01/2018	32,597,649	28,525,376
Charge/(Write back) to income statement	24,367,738	16,496,506
Write-off during the year	-	-
Closing balance at 31/12/2018	56,965,387	45,021,882
<b>Stage 3</b>		
Opening balance as at 01/01/2018	360,868,238	293,956,478
Charge/(Write back) to income statement	147,542,908	183,176,166
Write-off during the year	-	-
<b>Closing balance at 31/12/2018</b>	<b>508,411,145</b>	477,132,644
<b>Total</b>	<b>705,034,312</b>	592,186,460

## Notes to the Financial Statements Contd...

	2018 Rs.	2017 Rs.
<b>14. Financial Assets at Amortised Cost - Debt and Other Instruments</b>		
Treasury Bills	874,312,408	759,902,623
Treasury Bonds	274,697,508	275,466,169
Debenture	65,983,517	65,889,590
Reverse Repos	729,583,724	1,017,022,848
Commercial Paper	-	0.02
<b>Gross total</b>	<b>1,944,577,157</b>	<b>2,118,281,230</b>
<b>a. Analysis</b>		
By collateralization		
Pledged as collateral	-	-
Unencumbered	1,944,577,157	2,118,281,230
<b>Gross total</b>	<b>1,944,577,157</b>	<b>2,118,281,230</b>
<b>b. Movements in impairment during the year</b>	<b>2018</b>	<b>2017</b>
<b>Stage 1</b>		
Opening balance as at 01/01/2018	3,847,247	-
Charge/(Write back) to income statement	(2,428,049)	-
Write-off during the year	-	-
Other movements	-	-
<b>Closing balance at 31/12/2018</b>	<b>1,419,198</b>	<b>-</b>
<b>Stage 2</b>		
Opening balance as at 01/01/2018	-	-
Charge/(Write back) to income statement	-	-
Write-off during the year	-	-
Other movements	-	-
<b>Closing balance at 31/12/2018</b>	<b>-</b>	<b>-</b>
<b>Stage 3</b>		
Opening balance as at 01/01/2018	-	-
Charge/(Write back) to income statement	-	-
Write-off during the year	-	-
Other movements	-	-
<b>Closing balance at 31/12/2018</b>	<b>-</b>	<b>-</b>

## Notes to the Financial Statements Contd...

	2018 Rs.	2017 Rs.
<b>15. Financial Assets at Fair Value Through Other Comprehensive Income</b>		
Unquoted Shares		
CRIB	4,754,078	4,754,078
Fitch Rating	625,000	625,000
Gross total	5,379,078	5,379,078
<b>a. Analysis</b>		
By collateralization		
Pledged as collateral	-	-
Unencumbered	5,379,078	5,379,078
Gross total	5,379,078	5,379,078
<b>b. Movements in impairment during the year</b>	<b>2018</b>	<b>2017</b>
<b>Stage 1</b>		
Opening balance as at 01/01/2018	-	-
Charge/(Write back) to income statement	-	-
Write-off during the year	-	-
<b>Closing balance at 31/12/2018</b>	-	-
<b>Stage 2</b>		
Opening balance as at 01/01/2018	-	-
Charge/(Write back) to income statement	-	-
Write-off during the year	-	-
<b>Closing balance at 31/12/2018</b>	-	-
<b>Stage 3</b>		
Opening balance as at 01/01/2018	-	-
Charge/(Write back) to income statement	-	-
Write-off during the year	-	-
<b>Closing balance at 31/12/2018</b>	-	-

## Notes to the Financial Statements Contd...

## 16. Property, Plant and Equipment

## a. Property, Plant and Equipment

In Rs.	Vehicles	Furniture and Equipment	Total
<b>2018 (Current Year)</b>			
<b>Cost/Fair Value</b>			
<b>Opening Balance as at 01/01/2018</b>	70,798,254	248,776,629	<b>319,574,883</b>
Additions	-	18,680,445	<b>18,680,445</b>
Disposals	-	-	-
Adjustments	-	-	-
<b>Closing Balance as at 31/12/2018</b>	70,798,254	267,457,074	<b>338,255,328</b>
<b>(Less): Accumulated Depreciation</b>			
<b>Opening Balance as at 01/01/2018</b>	70,798,254	177,395,097	<b>248,193,351</b>
Charge for the Year	-	25,817,153	<b>25,817,153</b>
Additions	-	-	-
Disposals	-	-	-
Adjustments	-	-	-
<b>Closing Balance as at 31/12/2018</b>	70,798,254	203,212,250	<b>274,010,504</b>
(Less): Impairment Charges	-	-	-
<b>Net Book Value as at 31/12/2018</b>	-	64,244,824	<b>64,244,824</b>
<b>2017 (Previous Year)</b>			
<b>Cost/Fair Value</b>			
<b>Opening Balance as at 01/01/2017</b>	70,903,939	247,167,718	<b>318,071,657</b>
Additions	-	11,116,587	<b>11,116,587</b>
Disposals	(105,685)	(9,507,675)	<b>(9,613,360)</b>
Adjustments	-	-	-
<b>Closing Balance as at 31/12/2017</b>	70,798,254	248,776,629	<b>319,574,883</b>
<b>(Less): Accumulated Depreciation</b>			
<b>Opening Balance as at 01/01/2017</b>	66,794,514	157,701,192	<b>224,495,705</b>
Charge for the Year	4,109,425	28,995,778	<b>33,105,203</b>
Additions	-	-	-
Disposals	(105,685)	(9,301,873)	<b>(9,407,558)</b>
Adjustments	-	-	-
<b>Closing Balance as at 31/12/2017</b>	70,798,254	177,395,097	<b>248,193,351</b>
(Less): Impairment Charges	-	-	-
<b>Net Book Value as at 31/12/2017</b>	-	71,381,532	<b>71,381,532</b>



## Notes to the Financial Statements Contd...

	2018 Rs.	2017 Rs.
<b>17. Deferred Tax Assets/(Liabilities)</b>		
Opening Balance 01/01/2018	95,801,007	95,858,266
Charge for the year Recognized in		
- Profit/(Loss)	11,650,177	(57,258)
- Other Comprehensive Income		-
<b>Closing Balance 31/12/2018</b>	<b>107,451,184</b>	95,801,007
<b>18. Other Assets</b>	<b>2018 Rs.</b>	<b>2017 Rs.</b>
<b>Cost</b>		
Stationary Stock	10,743,575	10,815,198
Deposits and Prepayments	28,824,683	31,512,850
Prepaid Staff Loans	295,921,918	290,496,356
Others	596,194,811	301,945,826
<b>Total</b>	<b>931,684,987</b>	634,770,231
<b>19. Due to Banks</b>	<b>2018 Rs.</b>	<b>2017 Rs.</b>
Borrowings (ODs)	12,196,466	32,047,664
Repo agreements	-	-
Others	-	-
<b>Total</b>	<b>12,196,466</b>	32,047,664
<b>20. Financial liabilities at amortised cost</b>	<b>2018 Rs.</b>	<b>2017 Rs.</b>
Due to depositors	34,272,228,231	33,620,237,411
Debt securities issued by the bank	110,173,288	110,180,822
Repo agreements	-	-
Other borrowings	1,872,732,341	2,387,007,679
<b>Total</b>	<b>36,255,133,860</b>	36,117,425,912
<b>a. Analysis of amount due to depositors</b>	<b>2018 Rs.</b>	<b>2017 Rs.</b>
<b>By Product</b>		
Savings deposits	1,560,434,916	1,607,165,488
Fixed deposits	31,628,705,583	30,938,107,195
Other deposits (Schemes)	1,083,087,733	1,074,964,727
<b>Total</b>	<b>34,272,228,231</b>	33,620,237,411
<b>b. Analysis of other borrowings</b>	<b>2018 Rs.</b>	<b>2017 Rs.</b>
Bank Loans	1,604,093,151	2,056,658,089
AHF	11,912,260	20,840,226
CBSL Refinance Loans	256,726,931	309,509,365
<b>Total</b>	<b>1,872,732,341</b>	2,387,007,679

## Notes to the Financial Statements Contd...

**21. Employee Benefit**

The Bank measures the Present Value of Defined Benefit Obligation (PVDBO) which is a defined benefit plan with the advice of an actuary using the Projected Unit Credit Method.

The actuarial valuation involves making assumptions about discount rate, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The employee benefit obligation as at 31st December 2018 is calculated based on the actuarial valuation report as of 31st December 2018, carried out by Management Consultants (Pvt) Ltd.

The key assumptions used by the actuary include the following:

	2018 Rs.	2017 Rs.
Rate of Interest	11.50%	11.50%
Rate of Salary Increase	7.50%	7.50%
Retirement Age	55-60 years	55-60 years
<b>Gratuity</b>		
	2018 Rs.	2017 Rs.
<b>Provision for Gratuity</b>		
Balance at the Beginning of the Year	161,651,109	181,369,398
Current Service Cost	18,589,878	18,136,940
Interest Cost	12,890,128	10,241,449
Benefit Paid	(24,060,835)	(26,335,764)
Actuarial (Gains)/Losses	23,261,402	(21,760,914)
<b>Total</b>	<b>192,331,682</b>	<b>161,651,109</b>
<b>Medical</b>		
	2018 Rs.	2017 Rs.
<b>Provision for Medical Benefit</b>		
Balance at the Beginning of the Year	174,893,882	141,313,199
Current Service Cost	20,112,796	16,957,584
Interest Cost	4,581,049	5,923,541
Actuarial (Gain)/Losses	415,873	16,554,312
Benefit Paid	(9,835,651)	(5,854,754)
<b>Total</b>	<b>190,167,950</b>	<b>174,893,882</b>
<b>Total Employee Benefit Liability</b>	<b>382,499,632</b>	<b>336,544,991</b>
<b>22. Other Liabilities</b>		
	2018 Rs.	2017 Rs.
Taxes Payable	152,742,155	9,359,678
Accrued Expenditure	54,557,652	46,952,528
Others	257,232,712	233,164,395
Allowance for Day 1 Difference - Staff Loans	295,921,918	290,496,356
<b>Total</b>	<b>760,454,437</b>	<b>579,972,958</b>

## Notes to the Financial Statements Contd...

	2018 Rs.	2017 Rs.
<b>23. Stated Capital/Assigned Capital</b>		
Authorised Capital	2,000,000,000	2,000,000,000
Contributed Capital	889,812,899	889,812,899

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

The Government after the appointment date of 1st January 1979 made a contribution to the capital of the Bank so that the amounts of such contribution together with the amounts referred to the above paragraph amounted to Rs.889,812,899 as at 31st December 2018.

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.

	2018 Rs.	2017 Rs.
<b>24. Statutory Reserve Fund</b>		
Opening Balance as at 01st January	246,635,734	231,357,505
Transfer During the Period	15,032,651	15,278,229
Closing Balance as at 31st December	261,668,385	246,635,734

	2018 Rs.	2017 Rs.
<b>25. Retained Earnings</b>		
Opening Balance as at 01st January	2,729,277,654	2,706,975,850
Prior Period Adjustments	(11,967,208)	(27,884,783)
Impairment 1st day Adjustment	70,691,003	-
OCI Reserve Transfer	12,895,000	-
Profit for the Year	244,472,029	178,524,309
Transfers to Other Reserves	(15,032,651)	(40,278,229)
Other Comprehensive Income	(23,677,276)	5,206,601
Deemed Dividend Tax	(48,964,874)	(93,266,093)
<b>Closing Balance as at 31st December</b>	<b>2,957,693,676</b>	<b>2,729,277,654</b>
<b>Prior Period Adjustments</b>		
Transfer opening balance difference of WHT	3,352,847	
Transfer unreconcile Account balance	8,614,361	
<b>Total</b>	<b>11,967,208</b>	

## Notes to the Financial Statements Contd...

**26. Other Reserves**

<b>a. Bank - Current year (2018)</b>	Rs.		
	Opening balance as at 01/01/2018	Movements/ Transfers	Closing Balance as at 31/12/2018
General reserve	683,280,000	-	683,280,000
Capital Reserve	393,498,004	-	393,498,004
Title Indemnity Fund	1,031,000	-	1,031,000
AFS Reserve	12,895,000	(12,895,000)	-
<b>Total</b>	<b>1,090,704,004</b>	<b>(12,895,000)</b>	<b>1,077,809,004</b>

<b>b. Bank - Previous year (2017)</b>	Rs.		
	Opening balance as at 01/01/2017	Movements/ Transfers	Closing Balance 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>

**27. Contingent Liabilities and Commitments**

	2018 Rs.	2017 Rs.
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.

**28. Transactions with Key Management Personnel (KMPs)**

According to LKAS 24 - 'Related Party Disclosure', the Key Management Personnel includes those who are having authority and responsibility for planning, directing and controlling the activities of the Bank and its subsidiaries and associates. The Board of Directors, Members of the Corporate Management of the Bank, key employees and their Close Family Members (CFM) have been classified as Key Management Personnel of the Bank.

**28.1 (A) Compensation to Key Management Personnel**

	2018 Rs.	2017 Rs.
Short - Term Employment Benefits	28,234,296	20,218,526
Post - Employment Benefits	5,415,113	4,284,574
<b>Total</b>	<b>33,649,409</b>	<b>24,503,100</b>

## Notes to the Financial Statements Contd...

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

	2018 Rs.	2017 Rs.
<b>Income Statement</b>		
Interest Earned (From Loans)	2,462,047	2,149,477
Interest Paid (To Deposits)	1,099,673	423,112
Payment made as shown in 28.1 (A)	33,649,409	24,503,100
<b>Statement of Financial Position</b>		
	2018	2017
<b>Assets</b>		
Loans and Advances	31,752,208	24,694,468
Liabilities		
Deposits	26,305,767	11,548,808

**29. 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.

**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.

31st December 2018	Level 1 Rs	Level 2 Rs	Level 3 Rs	Total Rs
Financial Assets				
Quoted investments - Unit Trust (FVPL)	17,635,000	-	-	17,895,000
<b>Total Financial Assets</b>	17,635,000	-	-	17,895,000
<b>Financial Liabilities</b>	-			
<b>Total Financial Liabilities</b>	-	-	-	-

## Notes to the Financial Statements Contd...

**29.1. Fair value of assets and liabilities not measured at fair value**

The following describes the methodologies and assumptions used to determine 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 maturity less than a year), it is assumed that the carrying amount approximate their fair values. This assumption is also applied to demand deposits, call deposits and savings deposits without specific maturity.

**Fixed rate financial instruments**

Loans and advances with fixed interest rates were fair valued using market rates end of the reporting period and other variable interest bearing loans were considered as carrying value equal fair value. Conversely, fixed deposits with original tenor above one year and interest paid at maturity were discounted using current market rates offered to customer's end of the reporting period.

Set out below is a comparison by class, of the carrying amount 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.

Assets	2018		2017	
	Carrying Amount Rs	Fair Value Rs	Carrying Amount Rs	Fair Value Rs
Cash and cash equivalents	96,180,182	96,180,182	104,191,042	104,191,042
Placements with banks	5,206,048,813	5,206,048,813	5,987,564,588	5,987,564,588
Loans and receivables to customers	34,225,486,332	34,225,486,332	32,987,158,106	32,987,158,106
Financial Assets - FVPL	17,635,000	17,635,000	17,895,000	17,895,000
Financial Assets - FVOCI	5,379,078	5,379,078	5,379,078	5,379,078
Debt instruments measured at amortized cost	1,943,157,959	1,943,157,959	2,118,281,230	2,118,281,230
<b>Total Financial Assets</b>	<b>41,493,887,364</b>	<b>41,493,887,364</b>	41,220,469,044	41,220,469,044
<b>Liabilities</b>				
Due to banks	12,196,466	12,196,466	32,047,664	32,047,664
Due to customers	34,272,228,231	34,272,228,231	33,620,237,411	33,620,237,411
Other borrowings	1,982,905,629	1,982,905,629	2,497,188,501	2,497,188,501
<b>Total Financial Liabilities</b>	<b>36,267,330,327</b>	<b>36,267,330,327</b>	36,149,473,576	36,149,473,576



## Notes to the Financial Statements Contd...

**30. Transition disclosures**

A reconciliation between the carrying amounts under LKAS 39 to the balances reported under SLFRS 9 as of 1 January 2018 is, as follows:

In Rs	LKAS 39 measurement		Reclassifi- cation	Re-measurement		SLFRS 9	
	Ref Category	Amount		ECL	Other	Amount	Category
<b>Financial assets</b>							
Cash & cash Equivalents	L&R	104,191,042	-	-	-	104,191,042	AC
Cash & Balances with Central Bank	L&R	-	-	-	-	-	AC
Sri Lanka Government Securities	L&R	2,052,391,640	-	-	-	2,052,391,640	
Placement with other Banks	L&R	5,987,564,588	-	(3,847,247)	-	5,983,717,341	AC
Loans & Advances to Customers	L&R	32,987,158,106	-	74,538,250	-	33,061,696,356	AC
<b>Debt instruments at amortized cost</b>							
From Financial investments – HTM	C	65,889,590	-	-	-	65,889,590	AC
<b>Total</b>	<b>L&amp;R</b>	<b>41,197,194,966</b>	<b>-</b>	<b>70,691,003</b>	<b>-</b>	<b>41,267,885,969</b>	<b>AC</b>
<b>Financial investments – AFS</b>							
To: Equity instruments FVOCI	F	AFS	23,274,078	-	-	23,274,078	FVTPL
<b>Total</b>	<b>AFS</b>	<b>23,274,078</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23,274,078</b>	<b>FVTPL</b>

**30.1. The impact of transition to IFRS 9 on reserves and retained earnings is, as follows:**

In Rs	Loan loss provision under LKAS 39/LKAS 37 at 31 December 2017	Re- Measurement	ECLs under SLFRS 9 at 1 January 2018
Impairment allowance for			
Cash & cash Equivalents	-	-	-
Cash & Balances with Central Bank	-	-	-
Sri Lanka Government Securities	-	-	-
Placement with other Banks	-	3,847,247	3,847,247
Loans & Advances to Customers	592,186,460	(74,538,250)	517,648,210
<b>Total</b>	<b>592,186,460</b>	<b>(70,691,003)</b>	<b>521,495,457</b>

## Notes to the Financial Statements Contd...

**31. Credit loss expense**

The table below shows the Expected Credit Loss (ECL) charges on financial instruments for the year recorded in the income statement:

<b>31 December 2018</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>In Rs</b>				
Cash & cash Equivalents	-	-	-	-
Cash & Balances with Central Bank	-	-	-	-
Sri Lanka Government Securities	-	-	-	-
Placement with other Banks	(2,428,049)	-	-	(2,428,049)
Loans & Advances to Customers	15,475,456	24,367,738	147,542,908	187,386,101
<b>Total Impairment Loss</b>	<b>13,047,407</b>	<b>24,367,738</b>	<b>147,542,908</b>	<b>184,958,053</b>

<b>31 December 2017</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>In Rs</b>				
Cash & cash Equivalents	-	-	-	-
Cash & Balances with Central Bank	-	-	-	-
Sri Lanka Government Securities	-	-	-	-
Placement with other Banks	-	-	-	-
Loans & Advances to Customers	25,719,314	16,496,506	183,176,166	225,391,986
<b>Total Impairment Loss</b>	<b>25,719,314</b>	<b>16,496,506</b>	<b>183,176,166</b>	<b>225,391,986</b>

**32. RISK MANAGEMENT****32.1. Introduction and Overview**

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

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

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

**32.1.1. Risk Management Structure**

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

## Notes to the Financial Statements Contd...

- 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.

### 32.2. 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.

#### 32.2.1. Impairment Assessment

##### Definition of Default and Cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past or three instalments in arrears due on its contractual payments or when classified as Non-Performing Loan(NPL) as per directions issued by the Central Bank of Sri Lanka (CBSL). The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

##### Individually Assessed Allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis if there is any objective evidence of a potential loss. The Bank has currently set individually significant threshold for any customer with total exposure (Outstanding Balance) exceeding Rs. 2.00Mn or 0.1% of capital base. Items considered when determining allowance amounts include the sustainability of the counterpart's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should bankruptcy arise, the availability of other financial support, their realizable value of collateral and the timing of the expected cash flows.

##### Collectively-Assessed Allowances

Allowances are assessed collectively for losses on loans and receivables that are not individually significant and for individually significant loans and receivables that have been assessed individually and found not to be impaired. The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made for expected credit losses (ECLs). Which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as loan types, industry codes, and level of arrears) The Bank applies a three-stage approach to measure expected credit losses (ECLs).

## Notes to the Financial Statements Contd...

Financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

### **Stage 1: 12 - Months ECL**

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognized.

Bank determines 12 month ECL from customers whom are not significantly credit deteriorated (i.e. Less than 30 days past due)

### **Stage 2: Lifetime ECL - not credit impaired**

For exposures where there has been a significant increase in credit risk since initial recognition but is not credit impaired, a lifetime ECL (i.e. Reflecting the remaining lifetime of the financial asset) is recognized. In consistent with the policies of the bank, significant deterioration is measured through the rebuttable presumption of 30 days past due other than the credit facilities categorized under Stage 3, in line with the requirements of the standard.

Bank also have considered all restructured loans, which are restructured up to two times, other than credit facilities/exposures upgraded credit facilities from a higher stage to a lower stage consider under stage 2 as per the guidance issued by the Central Bank.

### **Stage 3: Lifetime ECL - credit impaired**

Exposures are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognized and interest revenue is calculated by applying the effective interest rate to the mortised cost (net of provision) rather than the gross carrying amount.

Bank determines credit facilities where contractual payments of a customer are more than 90 days past due which are subject to the rebuttable presumption as stated in SLFRS 9 together with all NPL classifications as per Central Bank classification, All restructured loans which are restructured more than twice and all rescheduled loans other than credit facilities/exposures upgraded credit facilities from a higher stage to a lower stage and all credit facilities/customers classified as non-performing as per CBSL Directions under stage 3.

### **PD estimation process**

Probability of Default is the estimate of the likelihood of default over a given time horizon. PD estimation for loans and advances to other customers under SLFRS 9 is largely based on the Days Past Due(DPD) of the customers which is common for most Banks in the country at present. Accordingly, exposures are categorized among 5 groups based on the DPD as follows.

- "Zero days past due
- "1-30 days past due
- "31-60 days past due
- "61-90 days past due
- "Above 90 days past due

### **The exposure at default (EAD)**

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. The Bank uses Credit Conversion Factors (CCF) which explains the historical utilization

## Notes to the Financial Statements Contd...

of defaulted facilities at the time of default to calculate the EAD of revolving facilities in which customers have the ability to increase their exposure. For non-revolving facilities, already utilized amount plus any accrued interest over same is considered as EAD.

**Loss given default (LGD)**

Loss given default (LGD) is the magnitude of likely loss on exposure, and is expressed as a percentage of exposure. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realized from any collateral held.

**Collateral and other credit enhancements**

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

**The main types of collateral obtained are as follows,**

The Bank obtains mortgages over residential properties for lending.

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

**Analysis of Risk Concentration**

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

**Concentration analysis**

As at 31.12.2018	Financial Services	Government Securities	Construction and Housing	Consumers	Other	Total
<b>Financial Assets</b>						
Cash and cash equivalents	96,180,182					96,180,182
Placement with other banks	5,206,048,813					5,206,048,813
Loans and receivables to customers						-
Mortgage			9,323,875,172			9,323,875,172
EPF			8,707,071,343			8,707,071,343
Vehicle				15,443,468		15,443,468
Staff loans			985,803,833			985,803,833
Personal Loans				14,821,377,959		14,821,377,959
Others					1,076,948,869	1,076,948,869
Impairment Charge						-
Net Loans and Advances						-
Financial investments - FVPL	17,635,000					17,635,000
Financial investments - AC	795,567,241	1,149,009,916				1,944,577,157
Financial investments - FVOCI	5,379,078					
	<b>6,115,431,237</b>	<b>1,149,009,916</b>	<b>19,016,750,349</b>	<b>14,836,821,427</b>	<b>1,076,948,869</b>	<b>42,194,961,797</b>

## Notes to the Financial Statements Contd...

**32.3. 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 consist of cash, balances with banks and government securities. The bank monitors the following liquidity ratios to assess funding requirement. (Statutory Requirement 20%)

<b>Liquid Asset Ratio (%)</b>	<b>2018</b>	<b>2017</b>
Year - End	22.34	22.10
Maximum	29.70	27.23
Minimum	22.34	20.09
Average	25.58	23.20

**Refer to the note on Risk Management in Page 90.**

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

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

The table below summarizes the maturity profile of the undiscounted cash flows of the bank's financial assets and liabilities as at 31 December 2018.



## Notes to the Financial Statements Contd...

**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 2018.

	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 & Cash Equivalents	96,180,182	-	-	-	-	-	-	-	-	96,180,182
Due from Banks	-	3,036,017,694	-	1,490,424,954	679,606,164	-	-	-	-	5,206,048,812
Investment HTM	779,409,390	-	97,904,483	731,028,813	97,044,988	65,983,517	171,786,787	23,014,078	-	1,966,172,037
Loan & Advances Current	120,409,468	258,097,634	545,247,743	827,088,330	1,679,154,126	6,759,454,370	5,686,992,980	10,452,033,353	7,897,038,328	34,225,486,333
Fixed Assets	-	-	-	-	-	-	-	-	64,244,824	64,244,824
Other Assets	173,515	718,332,610	8,082,153	142,169,965	35,847,503	21,512,030	113,018,396	-	-	1,039,136,172
Total Assets	996,172,555	4,012,447,938	651,234,380	3,190,682,062	2,491,652,761	6,846,949,917	5,971,798,164	10,475,047,431	7,961,283,152	42,597,268,360
Total Capital Fund	-	-	-	-	-	-	-	-	5,186,983,964	5,186,983,964
Deposits	1,847,994,736	1,299,238,565	5,165,678,411	6,608,472,716	12,740,262,687	1,262,057,249	3,468,315,520	1,639,884,059	240,374,289	34,272,228,232
Borrowings	12,196,466	979,511	1,195,888	28,853,353	542,281,151	911,714,288	497,881,478	-	-	1,995,102,095
Other Liabilities	28,386,499	130,536,139	123,007,654	166,959,528	354,380,581	116,885,214	153,283,623	68,041,068	1,473,763	1,142,954,069
Total Liabilities	1,888,577,701	1,430,754,215	5,289,881,933	6,804,285,596	13,636,924,418	2,290,656,731	4,119,480,622	1,707,875,128	5,428,832,016	42,597,268,360

## Notes to the Financial Statements Contd...

### **32.4. Market Risk and Operational Risk**

As discussed in the Risk Management - Management discussion

### **32.5. Capital Management**

#### **Regulatory Capital**

Licensed Specialized 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 standardized approach whereas operational risk is computed by using the basic indicator approach.

As of 31st December 2018, SMIB reported Common Equity Tier 1 Capital Ratio of 21.68 %, Tier 1 Capital Ratio of 21.69% and Total Capital Ratio of 22.24% those are remain comfortably above the CBSL's capital requirements.

### **32.6. Market Risk**

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The bank does not possess any trading portfolios at present and hence the Bank's portfolio is mainly none trading.

#### **32.6.1. 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.

### **32.7. 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, authorization and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

Notes to the Financial Statements Contd...

33. Maturity Gap Analysis

MATURITY GAP ANALYSIS 31st Dec 2018										
	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>	996,172,555	4,012,447,938	651,234,380	3,190,682,082	2,491,652,761	6,846,949,917	5,971,798,164	10,475,047,431	7,961,283,152	42,597,268,360
Cash & Cash Equivalents	96,180,182	-	-	-	-	-	-	-	-	96,180,182
Due from Banks	-	3,036,017,694	-	1,490,424,954	679,606,164	-	-	-	-	5,206,048,812
Investment HTM	779,409,390	-	97,904,483	731,028,813	97,044,968	65,983,517	171,786,787	23,014,078	-	1,966,172,037
Loan & Advances Current	120,409,468	258,097,634	545,247,743	827,058,330	1,679,154,126	6,759,454,370	5,686,992,980	10,452,033,353	7,887,038,328	34,225,486,333
Fixed Assets	-	-	-	-	-	-	-	-	64,244,824	64,244,824
Other Assets	173,515	718,332,610	8,082,153	142,169,965	35,847,503	21,512,030	113,018,396	-	-	1,039,136,172
<b>Total Liabilities</b>	1,888,577,701	1,430,754,215	5,289,881,933	6,804,285,596	13,636,924,418	2,290,656,731	4,119,480,622	1,707,875,128	5,428,832,016	42,597,268,360
Total Capital Fund	-	-	-	-	-	-	-	-	5,186,983,964	5,186,983,964
Deposits	1,847,994,736	1,299,238,565	5,165,678,411	6,608,472,716	12,740,262,687	1,262,057,249	3,463,315,520	1,639,834,059	240,374,289	34,272,228,232
Borrowings	12,196,466	979,511	1,195,868	28,853,353	542,281,151	911,714,288	497,881,478	-	-	1,995,102,095
Other Liabilities	28,366,499	130,536,139	123,007,654	166,959,528	354,380,581	116,885,214	153,283,623	68,041,068	1,473,763	1,142,954,069
<b>Maturity Gap</b>	(892,405,145)	2,581,693,724	(4,638,647,554)	(3,613,603,534)	(11,145,271,657)	4,556,293,186	1,852,317,542	8,767,172,303	2,532,451,136	-
<b>cumulative M.Gap</b>	1,689,288,578	1,689,288,578	(2,949,356,975)	(6,562,962,510)	(17,708,234,167)	(13,151,940,981)	(11,299,623,438)	(2,532,451,136)	-	-

## Notes to the Financial Statements Contd...

### **34. The Events Occurring 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.

### **35. Assets Pledged**

No assets have been pledged as security for liability.

### **36. 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.

### **37. Directors' Interest in Contracts and Proposed Contracts**

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

As per the Act, No loan shall be granted by the bank to any Director or employee of the bank or to the spouse or a dependent child of a Director or employee or to any company or firm in which a Director or employee has a substantial interest: " Provided however that the bank may grant to its employees loans for the purchase of any land for the construction of a dwelling house or for the purchase, construction, repair, renovation of or any extension to, a dwelling house or for any other purpose prescribed by the rules made under this law. Outstanding balance of loans given to employees as per this paragraph is disclosed on page 146 of this report under Note- 13 Loans and advances. The Directors of SMIB were not directly or indirectly interested.

## Value added Statement

For the Year Ended 31st December

	2018 Rs.	2017 Rs.
Interest Income	5,524,856,523	4,745,059,385
Other Income	133,322,646	171,172,403
<b>Total Revenue</b>	<b>5,658,179,168</b>	4,916,231,788
Interest Expenses	(3,577,504,063)	(3,101,891,268)
Cost of Services	(566,149,536)	(451,785,659)
Impairment Provision	(184,958,053)	(225,391,986)
<b>Total</b>	<b>1,329,567,517</b>	1,137,162,875

### Distribution of Value Added

For the year ended at 31st December

	2018 Rs.	2017 Rs.
<b>To Employees</b>		
Salaries and other benefits	824,017,672	725,129,018
<b>To Government</b>		
Corporate Tax	235,260,663	200,404,345
Deemed Dividends	48,964,874	93,266,093
Payment to Consolidated Fund	-	-
<b>To Expansion and Growth</b>		
Depreciation	25,817,153	33,105,203
Retained Profit	195,507,155	85,258,216
<b>Total</b>	<b>1,329,567,517</b>	1,137,162,875

# Capital Adequacy

Rs. 000'	Risk Weighted Balance			
	Basel (III) 2018	Basel (II) 2017	Basel (III) 2018	Basel (II) 2017
Cash	40,971	35,321	-	-
Treasury Bill and other securities eligible for Re-discounting with Central Bank	1,815,815	2,025,744	-	-
Securities purchased under Resale Agreement	-	-	-	-
Claims on Financial Institutions	73,169	73,169	22,937	22,937
Claims on Central Bank of Sri Lanka	-	-	-	-
Claims on Public Sector entities	171,042	206,815	171,042	206,815
Claims on Banks exposures	5,123,172	5,903,978	1,888,192	1,664,628
Loans against Cash Deposits	512,589	384,278	-	-
Loans guaranteed by CBSL	8,002,803	8,566,122	-	-
Secured by Primary Mortgage over Residential Property	9,889,634	9,730,160	5,173,531	5,029,878
Other Loans and Advances	15,038,787	13,557,502	11,661,091	10,347,633
Due from Local Banks	-	-	-	-
Property, Plant and Equipment	65,865	66,271	65,865	66,271
Other Assets	942,322	552,108	942,322	552,108
<b>Total</b>	<b>41,676,169</b>	<b>41,101,468</b>	<b>19,924,980</b>	<b>17,890,270</b>

## Basis of Computation

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

	Basel (III) 2018	Basel (II) 2017
Total Risk Weighted Assets for Credit Risk	19,924,979	17,890,270
Total Risk Weighted Assets for Operational Risk	2,440,758	2,825,480
Total Risk Weighted Assets	22,365,737	20,715,750
Tier 1 Capital Ratio / Core Capital Ratio %	21.69	23.74
Total Capital Ratio / Total Risk Weighted Capital Ratio %	22.24	24.29



# Sources and Utilisation of Income

For the Year Ended 31st December

	2018 Rs.	2017 Rs.
<b>Sources of Income</b>		
Loans and Advances	4,687,478,097	4,000,991,626
Government Securities & Other Investments	837,378,426	744,067,759
Fee and Commission Income	107,468,209	149,313,983
Other Income	25,854,437	21,858,420
<b>Total</b>	<b>5,658,179,168</b>	4,916,231,788
<b>Utilisation of Income</b>		
Employees		
Salaries and other payment to staff	824,017,672	725,129,018
<b>Suppliers</b>		
Interest paid	3,577,504,063	3,101,891,268
Other Expenses	776,924,742	710,282,848
<b>Government</b>		
Corporate Taxes	235,260,663	200,404,345
Deemed Dividends	48,964,874	93,266,093
Payment to consolidated Fund	-	-
<b>Retained Profit</b>	<b>195,507,155</b>	85,258,216
<b>Total</b>	<b>5,658,179,168</b>	4,916,231,788

# Ten Year Statistical Summary

Year ended 31st December (Rs.Million)	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
<b>Income Statement</b>										
Interest Income	5,524	4,745	4,241	3,879	3,633	3,635	2,879	2,611	2,709	2,636
Interest Expenditure	3,577	3,102	2,425	2,057	2,214	2,459	1,725	1,214	1,368	1,939
Net Interest Income	1,947	1,643.17	1,815.44	1,821.69	1,419.29	1,176.04	1,154.00	1,397.28	1,341.00	697.00
Other Operating Income	133	171	131	120	113	102	79	76	41	36
Total Operating Income	2,080	1,814	1,947	1,941	1,532	1,278	1,233	1,473	1,382	733
<b>Non Interest Expenses</b>	1,601	1,435	1,240	1,260	1,119	935	803	785	740	612
Net Profit before Tax	479	379	706	681	413	343	430	689	642	120
Taxation	235	200	270	271	140	110	158	178	179	46
<b>Net Profit after Tax</b>	244	179	436	410	273	232	272	510	463	74
<b>Assets</b>										
Investment Securities	18	18	17	432	19	17	14	5	5	5
Loans and Advances	34,225	32,987	28,164	26,523	24,038	21,186	18,550	16,170	13,670	13,433
Other Assets	8,290	8,946	7,073	7,201	6,148	5,556	3,928	4,276	3,531	3,369
Property, Plant and Equipment	64	71	94	74	96	67	51	58	39	40
<b>Total Assets</b>	42,597	42,022	35,347	34,232	30,301	26,825	22,543	20,509	17,245	16,847
<b>Fund Employed</b>										
Capital Contributed	890	890	890	890	890	890	890	890	890	890
Reserves	4,297	4,067	4,028	3,373	3,128	3,040	2,920	2,753	1,763	1,480
Total Equity	5,187	4,957	4,918	4,263	4,018	3,930	3,810	3,643	2,653	2,370
<b>Liabilities</b>										
Deposits	34,272	33,620	28,845	27,836	24,146	21,201	17,237	15,088	12,506	12,350
Debentures	110	110	110	110	195	195	195	195	195	250
Other Liabilities	3,028	3,336	1,474	2,022	1,942	1,499	1,301	1,583	1,891	1,877
<b>Total Liabilities</b>	37,410	42,022	35,347	34,232	30,301	26,825	22,543	20,509	17,245	16,847
<b>Ratio</b>										
Return on Average Assets-NPBT% (ROA)	1.13	0.98	2.03	2.11	1.44	1.39	2.01	3.65	3.77	0.77
Return on Average Funds Employed% (ROE)	4.82	3.62	9.50	9.90	6.87	6.00	7.31	16.21	18.46	3.06
Number of Employees(no.)	386	392	392	392.00	407.00	334.00	323.00	302.00	308.00	320.00
Net Profit per Employee (Rs. Mn)	0.63	0.46	1.11	1.05	0.67	0.70	0.84	1.69	2.08	0.38
Statutory Reserve Fund (Rs. Mn)	261.67	246.64	231.36	203.05	191.36	181.15	172.98	163.19	135.44	112.26
Advances to Deposits(Times)	0.99	0.98	0.98	0.95	1.00	1.00	1.08	1.07	1.09	1.29
Interest Cover(Times)	1.13	1.12	1.29	1.33	1.19	1.14	1.25	1.60	1.47	1.26
Debt to Equity Ratio(Times)	0.38	0.50	0.10	0.23	0.28	0.23	0.19	0.18	0.21	0.28
Equity to Assets Ratio(Times)	0.12	0.12	0.14	0.12	0.13	0.15	0.17	0.18	0.15	0.14
Total Assets per Rupee Contributed	47.87	47.22	39.72	38.46	34.05	30.14	25.33	23.04	19.38	18.93
Effective Deemed Dividend Rate%	25.00	25.00	25.00	25.00	25.00	25.00	20.00	19.84	20.22	5.74
Deemed Dividend Cover	4.99	1.91	2.52	2.44	3.57	3.16	3.46	3.14	2.58	1.44
<b>Our Contribution to the Nation</b>										
Deemed Dividend Tax	48.96	93.27	173.35	167.86	76.42	73.60	79.00	177.00	180.00	52.12
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 03, Sri Lanka.

## Head Office

No. 269, Galle Road, Colombo 03.  
Tel. 011-2573561, 011-7722722-3  
Fax. 011-2573346  
E-Mail : gm@smib.lk  
Web : www.smib.lk

## Head Office

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## Kandy

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## Panadura

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## Board of Directors

Mr. Niroshana Perera	- Chairman (Appointed on 26th July 2018)
Mr.Tissa Jinadasa	- Chairman (Up-to 12th July 2018)
Dr. C. N. S. Gamage	- Director (Up-to 30th November 2018)
Mr. Rajitha Halwela	- Director (Up-to 17th May 2018)
Mr. Roshan Hettiarachchi	- Director (Up-to 25th May 2018)
Mr. P.A. Kulasuriya	- Director (Up-to 25th Sep 2018)
Mr. P.S.K.R. Weerakon	- Director Up-to 18th May 2018)
Mr. E.A.L. Edirisinghe	- Director (Up-to 22nd Sep 2018)
Mr. S.G. Senarathna	- Director (Up-to 20th May 2018)
Mrs. K.D.R. Olga	- Director (Appointed on 02nd July 2018)
Mr. Bernard Wasantha	- Director (Appointed on 26th June 2018)
Mr. I Gunasekara	- Director (Appointed on 12th July 2018)
Mr. T.M.I. Abdeen	- Director (Appointed on 12th July 2018)
Mr. R.M. Abeyratna	- Director (Up-to 27th March 2018)

## General Manager

Mr. W.M. Dayasinghe

## Board Secretary

Ms. N.P.K. Lokuge

## Audit Committee

Mr S.G. Senarathna	Chairman (NED)
Dr. Niroshan Gamage	Member (NED)
Mr Rajitha Halwela	Member (NED)
Mr. P.A. Kulasuriya	Member (NED)
Mr. E.A.L. Edirisinghe	Alternate Member (NED)
Mrs. K.D.R. Olga	Chairman (NED)
Mr. I. Gunasekara	Member (NED)

## Auditors

Auditor General  
Auditor General's Department,  
Colombo 07.

## Principal Lines of Business

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



## 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