

TOUCHING EVERY UNIT OF LIFE



STATE MORTGAGE & INVESTMENT BANK
Annual Report 2016

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TOUCHING EVERY UNIT OF LIFE

As we close our 85th year in business, we are proud to retain our mantle of being the Housing Bank to the Nation. Over the eight decades of our operations we have grown our core business of providing financial solutions to the housing needs of the citizens of Sri Lanka to reach a new level of maturity where we, “Touch every unit of life” with our diverse banking services.

This year we expanded our traditional lines of business such as mortgage loans and EPF backed loans, and diversified into SME and Micro finance sectors competitively to reach the untouched market segments. While we have been successful in growing our core business in a competitive environment we are on track with our five year strategic plan which includes diversification of business and branch expansion. We march forward to the year ahead with confidence backed by the strategic strength of our management team and an high trained and competent staff.

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	2016 Rs.Mn	2015 Rs.Mn	Change %
Interest Income	4,241	3,879	9.33
Interest Expenses	(2,425)	(2,057)	17.89
Net Interest Income	1,815	1,822	(0.34)
Profit before Tax	706	681	3.69
Taxation	270	271	(0.42)
Profit after Tax	436	410	6.40
Investment in Government Securities	668	820	(18.59)
Loans and Advance	28,164	26,523	6.18
Total Assets	35,347	34,232	3.26
Customer Deposits	28,845	27,836	3.62
Borrowings	503	960	(47.61)
Stakeholders' Fund	4,918	4,263	15.37
Ratio Analysis			
Profitability Level			
	%	%	
Net Interest Margin	5.22	5.65	(7.57)
Return on Equity (ROE)	9.50	9.90	(4.03)
Return on Assets (ROA)	2.03	2.11	(3.83)
Capital Adequacy			
Equity / Total Assets	13.91	12.45	11.72
Equity / Loans & Advances	17.46	16.07	8.65
Tier 1	22.96	22.17	3.56
Tier 1 & 11	23.47	22.65	3.56
Liquidity			
Liquid Asset Ratio	22.82	23.64	(3.47)
Deposit/Loans and Advances	102.42	104.95	(2.41)
Borrowings/Loans and Advances	1.79	3.62	(50.66)
Rating (ICRA)			
Asset Quality			
NPL/Loans and Advances	25.17	29.40	(14.39)
Loans and Advance to Total Assets	79.68	77.48	2.83

Rs. 8.88 Billion

Loan Disbursements

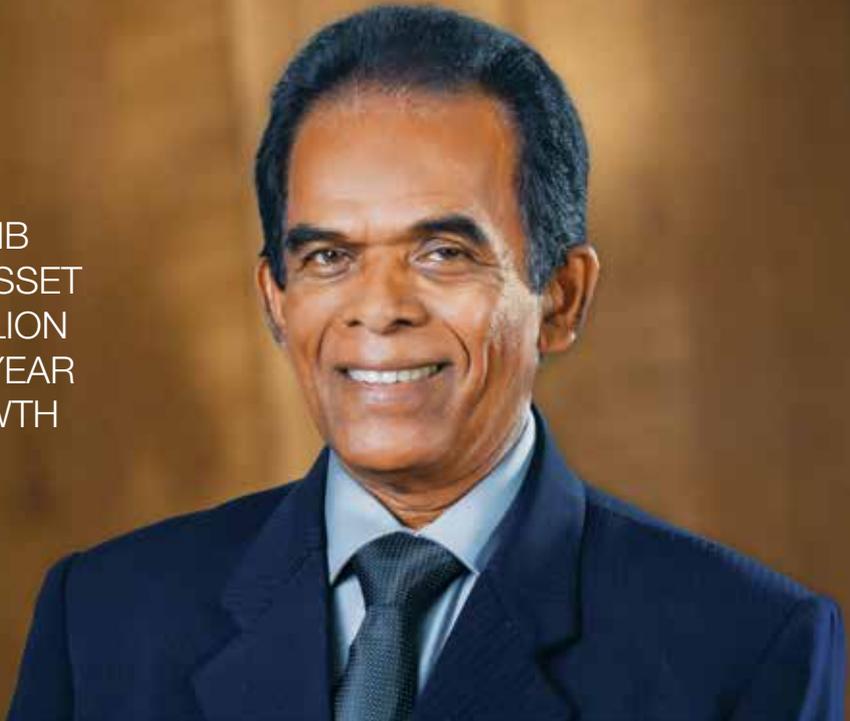


Management Information

Backed by a substantial growth in retail banking operations, mainly in the areas of lending, deposits and profits, 2016 marked a significant growth in the assets base of the bank, despite pressure of upward trends in the market interest rates. While the total asset base of the LSB sector increased by 9.1 per cent during the year under review, the assets base of the SMIB increased by 3.3 percent from Rs. 34.2 billion to Rs. 35.3 billion. A significant 6.24 per cent increase in loans and advances in the year under review was the core contributing factor for asset growth.

Chairman's Message

“ I AM HAPPY TO ANNOUNCE THAT SMIB ACHIEVED A TOTAL ASSET BASE OF RS.35.2 BILLION RECORDING A 3.3% YEAR ON YEAR (YOY) GROWTH IN 2016 ”



The year 2016 was another challenging year for SMIB, as we reached the end of year with mixed results. In a year of consolidation, despite not reaching expected performance levels, we recorded with an overall increase in assets by surpassing many challenges faced during the year under review.

Operating within a narrow scope in an authorized line of business, guided by the SMIB Act, the amendment of SMIB ACT to enable the bank to diversify into restricted lines of business, unfavorable market conditions created by upward trend in market interest rate, and immense competition in the housing loan segment were the real challenges faced by the bank in 2016.

State Mortgage and Investment Bank (SMIB), the Housing Bank to the Nation has consistently been among the leading institutions in providing financial solutions to the housing needs of the citizens of Sri Lanka for over 85 years.

In its dual role as a chief contributor to the sustainable socio-economic growth of Sri Lanka, SMIB has provided financial support to the country's agricultural and industrial sectors.

One of SMIB's key focus areas in the year under review has been to strengthen liquidity positions and liquidity risk management in accordance with Central Bank of Sri Lanka (CBSL) regulations. CBSL introduced additional regulatory measures in 2016

to strengthen the liquidity risk management of banks while continuing to strengthen the risk absorbing capacity of individual banks. The banking sector managed to maintain its liquidity and capital at comfortable levels during the year, while prudently managing its credit, market interest rate and liquidity risks.

Sri Lanka's economy which grew by 4.4 per cent in real terms in 2016, amidst numerous global and domestic challenges, impacted favourably on the banking services sector.

However the per capita income rate indicated a downward slide from a minimal 0.57 per cent increase in 2015 to -2.1 per cent in 2016. The rate of inflation which was 2.2 per cent in 2015 went up by 4.0 per cent in 2016.

The unfavourable changes in these macroeconomic rates resulted in interest rates going up, pushing up cost of capital and deposits, resulting in substantially increased interest costs. This spiral effect caused a decline in the net interest income and the low increase in profits.

Inclement weather conditions that prevailed during the year also adversely impacted economic activity, primarily in the agriculture sector which directly affected the Bank, which has a heavy exposure to the agriculture sector of the economy.

Chairman's Message Contd...

The Services sector grew by 4.2 % accounting for 56.5 % of GDP; Financial services (12.4 %), transportation activities (4.1%) and wholesale and retail trade (2.5%) contributed the most to services sector growth.

The value addition in Services related activities grew by 4.2 per cent in 2016 compared to 5.7 per cent in 2015.

This indicates that the demand of financial services has substantially increased with the expansion of a variety of financial services and providing digitalized services to their customers, enabling them to obtain friendly and easy services from financial institutions.

Unemployment rate declined to 4.4 per cent in 2016 from 4.7 per cent in the previous year, while the number employed, increased by 1.5 in 2016, with the expansion in the Industry and Services related activities of the economy. These macro economic factors impacted the bank's lending activities positively.

Riding on the strength of the overall increase in total assets in the banking sector in the year under review, I am happy to announce that SMIB achieved a total asset base of Rs.35.2 billion recording a 3.26% year on year (YoY) growth. Amidst severe competition in the sector to capture potential customers while retaining current customers, SMIB achieved a 6.24% year on year growth in Loans and Advances. The 9.5% Return on Equity ratio (ROE) of Loans and advances, is lower than the previous year's figure of 9.9 % but indicates underlying prudential marketing strategies and customer oriented services. Total Deposits grew at a rate of 3.62% compared to the year 2015, emphasizing depositors continued confidence in SMIB to safeguard their deposits and provide maximum return on their deposits.

Total loan disbursement for the year was Rs.8.88 Billion which was a 6.16% growth against the year 2015.

The bank recorded a Return on Asset ratio of 2.03% marginally lower than the ratio of 2.11% achieved in 2015.

In this challenging scenario, the bank has achieved an overall increase in profits, with a 3.69 per cent increase in Profit before Tax and a 6.4 increase in Profit after Tax.

While continuing to rely on our traditional lines of business such as mortgage loans and EPF backed loans, we also diversified into SME and Micro finance sectors competitively to reach the untouched market segments. Dedicated strategic effort such as door to door marketing campaign, enhancement of service levels in all corners of the bank, encouraging of personal selling, special loan scheme for elected private and government sector institutions combined to leverage a continuous increase of our assets base despite significant competitive disadvantages in the current business domain.

The bank's sustainable long-term journey is anchored on profitability and balance sheet strength. The statutory liquidity

positions and capital position of the bank is healthy and stable providing the opportunity of rapid growth in coming years. The bank intends to overcome sectoral and activity limitations stipulated in the Act and search avenues to expand potential.

SMIB has consistently maintained a healthy statutory liquidity position and capital position thereby providing a solid foundation for rapid growth. The bank is working with resolve to meet its strategic priorities with a clear vision and purpose based on solid values.

As we tread a path of expansion and growth with new business, we take pride in safeguarding our firmly established practices of good governance, ethical management and business.

The priority of the company is to maintain the trust and confidence we have built with our stakeholders and our customers. We also strive to safeguard our most valued asset, our team. Our focus in human resource management is to recruit, build and retain a motivated, fulfilled and contented team, to provide equal opportunities and empowerment for career progress.

The next FY 2017/2018 will be an year in which the Company will look at further diversifying into new areas of loans and disbursements.

We ensure continuous service to be a valued partner in national development while corporate governance is a top priority, duty and responsibility for my board members and me.

I, as your Chairman and the Board of Directors are confident of a strong performance backed by growth and expansion in the years 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 Honorable President of Sri Lanka. The Honorable Minster of Public Enterprises Development, the Honorable Minster of Finance, The Honorable 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.



Tissa Jinadasa
Chairman

General Manager's Review



Year 2016 records the Loan Disbursement of Rs. 8.88 bln , marked the highest ever amount in the bank's history. The bank's total loans and advances disbursements increase of 6.2% in 2016 compared to the previous year. Improvements in procedures and initiatives to streamline and simplify legal documentation, quicker loan processing, enhancements in staff skills in internal valuation and legal division and free technical advices are major factors that contributed to achieve growth in Loans and Advances.

SMIB is a Licensed Specialized Bank and financial facilities were provided mainly to sectors such as Housing, Agricultural, Industrial, Tourism etc. With a view to diversify its business activities in to other areas, decisions have been taken and implemented to provide financial facilities to SME and Micro Finance Sectors. As a result it was able to provide loan facilities to Small and Medium Enterprises they really contribute lot for the development activities of the economy. SMIB wish to sign the agreement with CBSL as a participatory financial institution

to provide financial support for both new entrants and existing entrepreneurs who are engaged in income generating activities in the Agriculture and Livestock, Industrial and Service Sectors.

The deposit base from customers as at Balance Sheet date records YoY increase of 3.62 percent from Rs.27,836 million in 2015 to Rs.28,845 million in 2016. The bank enjoys a satisfactory deposit renewal rate of above 80%. The bank was able to maintain customer confidence for more than 86 years.

Our effort to reach a Core Capital of Rs.5 billion by end of 2017 for which CBSL approval has been obtained. The bank has a comfortable Capital Profile Characterized by Core Capital of the bank is supported by the Low risk – weights attached to the Mortgage Loans and EPF Loans.

Risk Management and Compliance Functions of the bank have been strengthen with necessary staff and other resources to enable the bank's early response on overall risk related issues

General Manager's Review Contd...

and ensure continuous compliance on all regulatory issues. We managed to maintain a Capital Adequacy Ratio and Statutory Liquid Assets Ratio well above the minimum threshold limits.

SMIB is committed to the continuous improvement of healthy assets books of the bank, evident by the year on year decline of the NPL ratio of loans and advances. Non performing Loan (NPL) ratio improved in comparison to the previous financial year. NPL Ratio of Mortgage Loans were 6.34% compared to 8.22% in 2015. Personal Loan NPL ratio was 3.48% in 2016 as compared to 5.82% in 2015. As a result of implementing proper recovery procedures the bank was able to reduce its impairment charge for loans and other losses by 63% during the year under review.

Development of Human Resources will be undertaken with a view to enhance competency and skills of staff, their career development and advancement , improving results orientation with rewards linked to performance, retention of staff and achieving a greater productivity. Procedures and guidelines have already been developed to ensure proper recruitment of staff and the management of Human Resources.

The bank Profit after Tax improved from Rs.409.8 Mn in the year 2015 to Rs.436.0 Mn. The bank was able to maintain 6.4% growth rate of profit for the year. Even though the mandate of our bank is empowered to limited operation of banking activities, we were able to achieve success through persistent discipline in good banking practices.

I would like to thank chairman and the Board of Directors for their support steering the bank towards the expected level of performances. My special thanks go to Senior Management and all Staff Members for their unstinted contribution in conducting business activities of the bank and the untruing effort by all staff in Operational Departments and Branches to promote business in a severe competitive environment.



W. M. Dayasinghe

General Manager | CEO

Board of Directors



1. Mr.Tissa Jinadasa *Chairman*

Mr.Tissa Jinadasa was appointed as the Chairman of SMIB on 09th February 2015. He holds a Bachelor of Arts Degree from the University of Sri Jayawardhenapura. He has over 30 years' experience in public sector as well as private sector. He has served as a Working Director of the Corporative Whole Sale Establishment since 2002-2004.

Also he has served as the Private Secretary to the Hon.Deputy Speaker Gamini Fonseka since 1989 - 1994 and Secretary to the North - East Governor since 1996 - 1998. He has experience as the Group Personnel Manager/Director Administration of Maharaja Organization Ltd. since 1985 -1989.

2. Mr.M.S.D.Ranasiri *Independent Non-Executive Director*

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

3. Mrs.L.U.N.Sumanasekara *Independent Non-Executive Director*

Mrs.L.U.N.Sumanasekara has been with SMIB as a Director since 27.04.2015. She holds a Bachelor of Science Hons. Degree in Agriculture from the University of Peradeniya and

Profile of the Board of Directors

Masters in Forestry and Environment Management from the University of Sri Jayawardhenapura. She has over 28 years' experience in the Government Service. Currently she is serving as the Director of Agriculture Technology in the Ministry of Agriculture.

4. Mr. Rajitha Halwela *Independent Non-Executive Director*

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

5. Mr. Roshan Hettiaratchi *Independent Non-Executive Director*

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

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

6. Mr. P.C. Wijayawardena *Independent Non-Executive Director*

Mr. P.C. Wijayawardena was appointed to the Board of SMIB in November 2015. He is having excellent leadership qualities, management and motivational skills. He has exceptional knowledge of a local authority's internal management arrangements including budgetary processes. He had served twice as a Pradeshiya Sabha member and worked as a consultant in Road Development Authority.

7. Dr. Niroshan Gamage *Independent Non-Executive Director*

Dr. Niroshan Gamage has been a Director of the Board of SMIB since 06.03.2015. He holds a Bachelor's Degree in Veterinary Medicine from the University of Peradeniya and 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 Welfare & Livestock Development at present. He is a Director of the Council for Agriculture Research Policy (CARP) and Milco Pvt. Ltd. He is a fellow of Royal College of Veterinary Surgeons and Sri Lanka Association of Advancement of Science.

8. Ms. W.K.K. Athukorala *Independent Non-Executive Director*

Mrs. W.K.K. Athukorala was appointed as a Director to the Board of Directors of SMIB on 04.01.2016. She is a senior special grade officer in the Sri Lanka Administrative Service and maintains over 32 years of experience earned from the key positions of the country. Starting the carrier in public sector, as an Assistant Commissioner of Co-operatives in 1985, she has also served as a Divisional Secretary (Weligama, Hakmana and Matara) from 1991 to 2006, an Additional District Secretary (Matara) from 2006-2008, a District Secretary/Government Agent (Matara district) from 2008-2013 and a Chief Secretary (Southern Province) from 2013 to 2015. Presently, she is serving as the Secretary to the Ministry of Housing and Construction. She holds a B.A.(Hons)(Econ Special) degree from University of Sri Jayawardanapura. She is also having a Diploma for Business Studies at Maradana Technical College.

9. Mr. A. M. Peeris *Independent Non-Executive Director*

Mr. A. M. Peeris was appointed to the Board of SMIB in November 2015. He is the Chairman, Managing Director of MAS Group of Companies and M/S Trading and Forwarding Agency since 1965. He had served as a Director in the Sri Lanka Central Transport Board and Agricultural Development Authority. He was director -in-charge of Werahera Central Workshop & Ekala Body Building Workshop. He has overseas work experience as well.

New Board of Directors



1. Mr. Tissa Jinadasa *Chairman*

Mr. Tissa Jinadasa was appointed as the Chairman of SMIB on 09th February 2015. He holds a Bachelor of Arts Degree from the University of Sri Jayawardhenapura. He has over 32 years' experience in public sector as well as private sector. He has served as a Working Director of the Corporative Whole Sale Establishment since 2002-2004. He has served as the Private Secretary to the Hon. Deputy Speaker Mr. Gamini Fonseka since 1989-1994 and Secretary North - East Governor since 1996 - 1998. He has experience as the Group Personnel Manager/Director Administration of Maharaja Organization Ltd. since 1985 - 1989.

2. Dr. C. N. S. Gamage *Independent Non-Executive Director*

Dr. Niroshan Gamage has been a Director of the Board of SMIB since 06.03.2015. He holds a Bachelor's Degree in Veterinary Medicine from the University of Peradeniya and a Masters in Economics and Molecular Biology & Bio Technology. He also holds a Post Graduate Diploma in Public Management. He serves as the Deputy Director (Livestock Development) in the Ministry of 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.

Profile of the New Board of Directors

3. Mr. Rajitha Halwela

Independent Non-Executive Director

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

4. Mr. Roshan Hettiaratchi

Independent Non-Executive Director

Mr. Roshan Hettiaratchi was appointed to the Board of SMIB in November 2015. He is an Attorney-at-Law and holds a Master's degree in Intellectual Property and Information Technology Law. Counting over 16 years of experience as an Attorney at Law he is engaged in an active practice concentrating on Commercial Law, Intellectual Property Law and various aspects of Public Law. He further provides Professional legal services to multinational companies engaged in the IT industry. He also serves as Director in several unlisted companies.

5. Ms. W. K. K. Athukorala

Independent Non-Executive Director

Mrs.W.K.K.Athukorala was appointed as a Director to the Board of Directors of SMIB on 04.01.2016. she is the Secretary of the Ministry of Housing and Construction.

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

6. Mr P.A. Kulasuriya

Independent Non-Executive Director

Mr P.A. Kulasuriya was appointed as a Director to the Board of Directors of SMIB on 06.02.2017. Mr. Kulasuriya is an Attorney-at- Law and a Notary Public. He holds a Bachelor of Arts (Special) degree in Economics, Bachelor of Law and a Post Graduate Diploma in Medical Records.

7. Mr P.S.K.R. Weerakon

Independent Non-Executive Director

Mr. P.S.K.R. Weerakon was appointed as a Director to the Board of Directors of SMIB on 06.02.2017. He holds a Bachelor of Art (General) degree from University of Kelaniya and successfully completed Maser of Art (Sociology) degree from University of Kelaniya. He has over Thirty years' experience in the Government Service. He serves presently as an Additional Secretary of the Ministry of Agriculture.

8. Mr E.A.L. Edirisinghe

Independent Non-Executive Director

Mr. E. A. L. Edirisinghe was appointed as a Director to the Board of Directors of SMIB on 15.02.2017. He has 31 years of experience in National Insurance Corporation out of which 11 years as a Senior Executive. He has served as the Chairman, Regional Rural Development Bank, Gampaha District, Member of Board of Trustee of Lady Lahore Lone Fund, Director/Vice Chairman of Attanagalla MPCs Limited, and President of Employees welfare Society of NIC.

9. Mr S.G. Senarathna

Independent Non-Executive Director

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

Senior Management Team



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01. Mr. W. M. Dayasinghe
General Manager

02. Mr. R.P.U.Pathirana
DGM (Credit)

03. Mr. T.M.J.Wickramasekara
AGM (EPF/Estate)

04. Mrs. D.K.Hedellearachchi
AGM (Disbursement & Monitoring)

05. Mr. A.D.N.Dharmaratne
AGM (Valuation/Marketing/Special Recovery)

06. Mr. W. M. S. Wijethunga
AGM (IT)

Senior Management Team



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07. Mrs. S. P. J. I. Senanayake
AGM (Risk Management)

08. Mrs. K.P.K.H.D.Perera
AGM (Recoveries)

09. Mr. K.L.N.A.Perera
AGM (Finance)

10. Mr. S.S.Wijedoru
AGM (HR & Logistics)

11. Mrs. N.P.K.Lokuge
AGM (Legal)

12. Mr. R.M.Abeyratne
Senior Accountant

13. Mr. D.M.R.Dissanayake
Chief Manager (Branch Operations)

14. Mrs. W.K.Perera
Chief Manager (Legal)

15. Mr. S.Wickramasinghe
Chief Manager (Credit/Administration & Logistics)

16. Mr. K.G Karunaratne
Chief Manager (Valuation)

17. Mr. D.B.P. Willarachchi
Internal Auditor

18. Mr. J.A.D.P. Priyalal
Chief Manager (Recoveries)

19. Mrs. W.G.S.S.K. Aebeywickrama
Chief Manager (Compliance)

Not in Picture

1. Mr. I. K. Gamini
Chief Manager (Credit)

2. Mr. L.W. Samarawickrama
Chief Manager (Credit)

Financial Review

SMIB continued its growth momentum during the year 2016 despite the increased interest rates in the market due to sound asset management policies and efficient market oriented strategies, of the bank.

Profitability

SMIB recorded a Pre-Tax Profit of Rs.706 Mn for the year ended 2016 compared to Rs. 681 Mn in 2015. This is mainly due to loan growth, effective investment management and efficient recovery management process of the bank.

Interest Income

Interest income from loans and advances has been increased by 2% during the year 2016 mainly backed by the expansion of the loan portfolio of the Bank, interest income from the investments has been increased substantially by 71% while maintaining adequate liquid assets which is a great achievement of the bank for the year 2016.

Interest Income	2016 Rs.Mn	2015 Rs.Mn
Income from Loans and Advances	3,507.07	3,450.96
Interest Income from Investments	733.70	428.07
Total Interest Income	4,240.77	3,879.03

Interest Expenditure

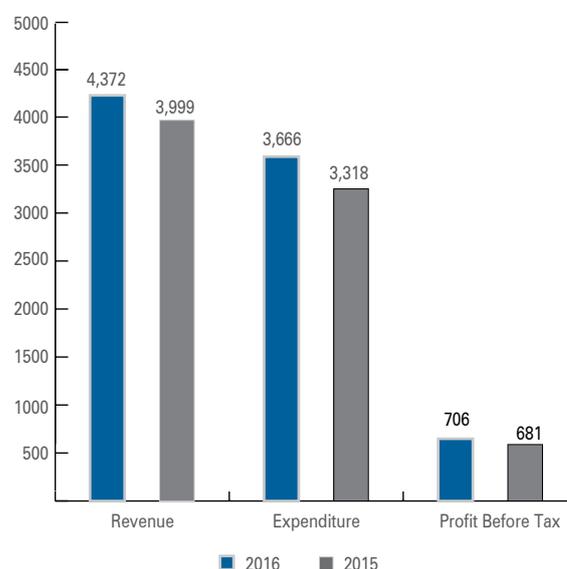
Due to the high interest rates prevailed in the market the Bank's interest expenditure has been increased significantly by 18% in the year 2016 compared to the year of 2015. This was mainly affected for the low increase of the profit for the year.

Rs. Mn	2016	2015
Deposits	2,404.08	2,030.96
Borrowings	21.25	26.37
Total	2,425.33	2,057.34

Revenue, Expenses and Profit comparison (Rs. Mn)

Total revenue by of the bank has been in creased by 9% during the year while total expenditure has been increased by 10% mainly due to increase of interest expenditure which is increased by 368 Mn, resulting the profit before VAT has sharply been increased by 4% during the year.

Rs. Mn	2016	2015
Revenue	4,372	3,999
Expenditure	3,666	3,318
Profit Before VAT	706	681



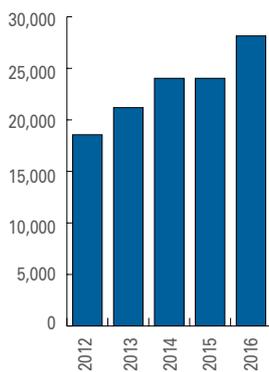
Loans and Advances, Deposits and Assets

The average growth of last five years for loans and advances by 15%, deposits by 14%, total assets by 18% and for the total capital base by 7% that shows a continuous growth in all the above sectors those are mentioned below.

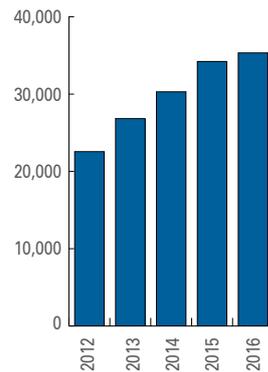
Rs. Mn	2012	2013	2014	2015	2016
Loans and Advances	18,550	21,186	24,038	26,523	28,164
Total Assets	22,543	26,825	30,301	34,232	35,347
Deposits	17,237	21,201	24,146	27,836	28,845
Total Equity	3,810	3,930	4,018	4,263	4,918

Financial Review Contd...

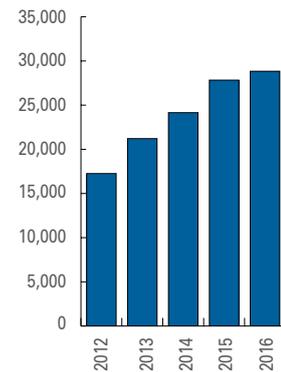
Loans and Advances



Total Assets



Deposits



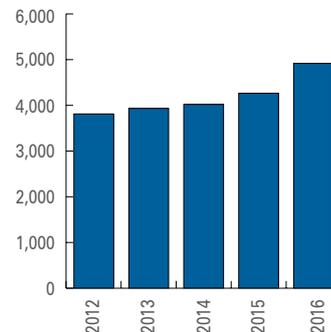
Asset Quality

SMIB continued improve its prudent credit management policy in 2016 bank has increased its credit volume sound credit quality simultaneously. Gross NPL ratio of the Bank stood at 25.17% as at 31st December 2016 in comparison to 29.40% in 2015. The NPL ratio has been decreased during the recent past significantly due to efficient recovery management and maintain credit quality.

Contribution to National Economy

SMIB as a responsible corporate citizen continued to make a considerable contribution to the economy in 2016 by way of various taxes paid to the government. In 2016 the contribution to national economy in the form of taxes and other levies paid to the government amounted to Rs. 677.99 Mn in comparison to Rs. 615.46 Mn in 2015 while maintaining required liquidity and capital adequacy ratios prescribed by the Central Bank of Sri Lanka.

Total Equity



Rs. Mn	2016	2015
VAT & NBT	220.45	161.84
Income Tax and Deemed Dividend Tax	443.40	439.04
Transfers to Consolidated Fund	10.00	10.00
Crop Insurance Levy	4.14	4.58
Total	677.99	615.46

Human Resources

Management (HRM)

According to Decenzo and Robbins “HRM is concerned with the people dimension in management. Since every organization is made up of people, acquiring their services, developing their skills, motivating them to higher levels of performance and ensuring that they continue to maintain their commitment to the organization are essential in achieving organizational objectives. 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. A comprehensive human resource management approach has a significant impact on individual and organizational effectiveness. That brings consistency in human resource management practices and improves human relations in the organization. SMI Bank's HRM approach is focused on strategic objectives and works by improving employee knowledge, skills, and motivation and contribution opportunities.

Staff Strength

The total number of staff for the year accounted as 375 which was comparatively small but they have contributed to the bank performance at greater extent. During the year, 17 staff members left the bank of which 13 retired from the bank and balance 4 staff members resigned due to personal reasons. We added two (02) new staff members to the Bank during the year. 26 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	Externally Recruited	Internally Promoted
Corporate Management	1		-	4
Senior Executive Management	-	-	-	1
Executive	7	3	2	20
Non Executives	5	1	-	1
Total	13	4	2	26

Staff Strength by Tier Wise

Management Level	No: of Employees as at 31.12.2016	Percentage
Corporate Management	11	3
Senior Executive Management	10	3
Executive	103	27
Non Executives	251	67
Total	375	100

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 47% male and 53% female in the year of 2016.

Employee Age Profile

Bank had privileged and capitalizes most experienced and senior staff. 49% of the staff is above 40 years.

Age category	No: of Employees as at 31.12.2016	Percentage
50 or Above	107	28
40 - 49	77	21
30 - 39	111	30
29 or below	80	21
Total	375	100

Human Resources 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.

Programs such as tuition assistance and tuition reimbursement programs often are within the purview of the HR training and development area. Training and development has its strategic positioning and it directly contributes towards organizational business goals and objectives.

Below table summarizes the employee participation in different categories of training granted during 2016.

Key Area	Number of Participants
Knowledge and Skill Development Training	138
Attitude Development Training	18
Technical Competency and IT Training	13
Overseas Training	1
Seminars, Workshops, Membership Fees, Quiz Competitions	55



Branch Opening - Panadura

Training and Development (T & D) function of the bank is considered vital as the development of the employees is the key path of success for any organization. In the HR policy and procedure manual amended in 2016, the area of T & D has been fully reviewed with the aim of utilizing the maximum output through T & D. The Budgeted training plan for year 2016 had 29 distinct training programs planned to be held. But 43 programmes were actually conducted during the year which is a 148% achievement in that regard.

Employee Service

55% of the employees have been working more than 10 years in the bank and contribute their service to bank development. Not only providing financial benefits but also providing non-financial benefits to the staff has contributed in increasing their job satisfaction.

Service category (Years)	No: of Employees as at 31.12.2016	Percentage
0-4	161	43
5-9	9	2
10-14	52	14
15-19	53	14
Above 20	100	27
Total	375	100



Branch Re Location - Kegalla

Human Resources Contd...

Bank proudly celebrated its 85th anniversary during the year of 2016. 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. In recognizing their

contribution, at the celebration ceremony of 85th anniversary several awards were granted to employees mainly including Best branch performance, additional services provided, creativity, etc.



Best Branch – Gampaha

1st Runner up – Horana Branch



2nd Runner up – Anuradhapura & Kaduruwela



Recognition Award for Creative Team



Further, truly valuing the long-dedicated service of the employees who have been serving the bank for more than 25 years were also appreciated and recognized at the ceremony by awarding gold medals.



Integrated Risk Management

Risk Culture and Vision

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

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

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

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

Integrated Risk Management Framework

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

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

Integrated risk management process of the bank is consisted

of interrelated elements of risk management, risk governance, internal controls, risk appetite, risk management tools and risk based culture.

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



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

Integrated Risk Management Contd...

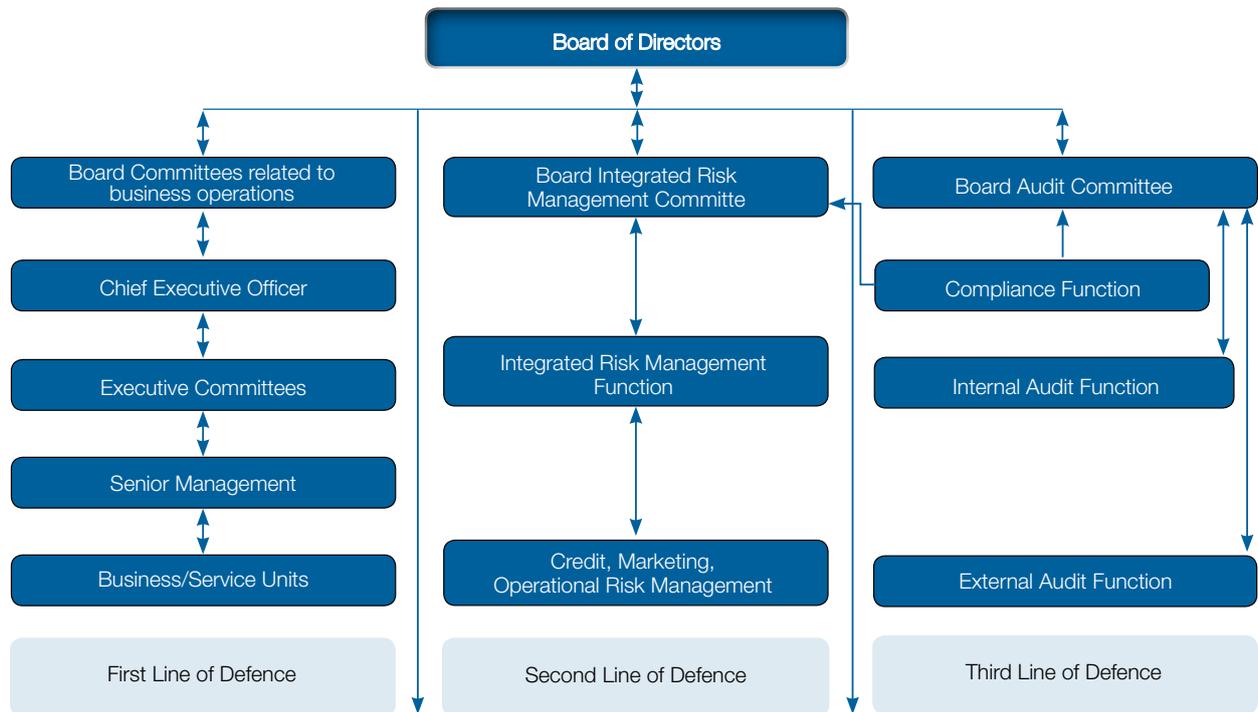
• **Risk Governance and Management Structure of the bank**

Risk management structure of SMIB includes three segments comprising of business operation, integrated risk management and audit/compliance. These three lines of defense operate under the guidelines issued by Board of Directors defending bank against unacceptable risk exposures.

SMIB has defined risk management policies and procedures with respect to the credit, market and operational risks faced by the bank. The policies and the systems are reviewed periodically to ensure the compliance. Bank’s organizational structure clearly

defines roles and responsibilities of individuals involved in risk taking and managing activities. Efforts are being taken to internalize the risk management concepts within the bank through capacity building and review mechanisms.

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



Integrated Risk Management Contd...

Role of the Board and Board Sub Committees

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

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

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

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

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

Evolving Risk Management Function of SMIB

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

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

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

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

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

A risk rating model was developed internally to categorize the facility based on the risk profile of the customer and the model is implemented throughout the bank in accessing new customers.

Loan review mechanism is being carried out to re-assess problem credit and identify early warning signals.

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

Risk Matrix has been introduced to assess the customers and to categorize them into low, medium and high risk categories at the time of entering into the initial transaction.

Risk Control Self-Assessment policy has been introduced to departments and RCSA branch model has been developed to strengthen the overall risk based culture of the bank.

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

Surveys on minimum security features have been carried out in order to strengthen the operational risk mitigation process of the bank.

• 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.

Integrated Risk Management Contd...

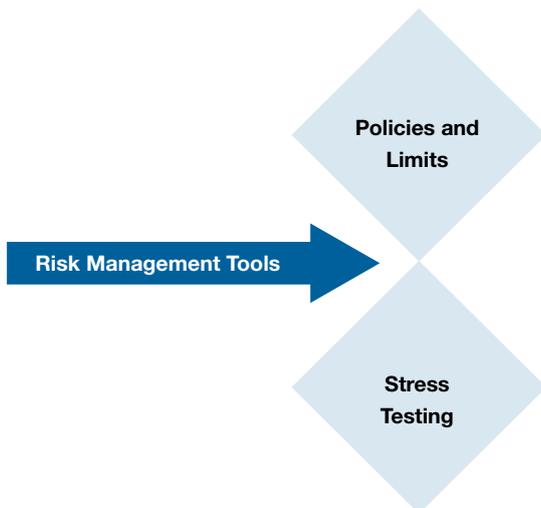
The bank’s risk appetite is monitored and controlled by the risk management function and reported regularly to Board of Directors, corporate management and relevant committees.

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

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

• Risk Management Tools

Risk management tools facilitate identification, measurement, evaluation, monitoring and management of risk. Risk Management Tools consist of Policies, Limits and Stress Testing. Risk measurement, monitoring and reporting is the responsibility of the risk management function. Regular and ad-hoc reports are provided for review by the management committees and the board in taking strategic decisions.



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

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

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

Capital Adequacy Management

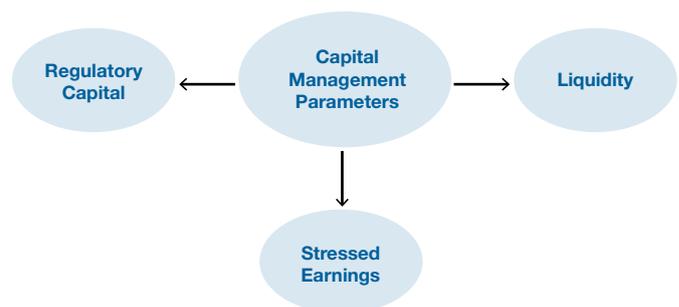
Capital adequacy measures the adequacy of the group’s aggregate capital in relation to the risk it assumes. SMIB computes capital adequacy as per the regulator’s direction where risk (pillar I) is quantified using the Basel II and III frameworks as follows.

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

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

Tier I capital ratio of SMIB is 22.96% and total capital ratio is 23.47% as at 31.12.2016. These ratios are well above the industry average and indicate a stronger capacity for risk absorption.

Capital Management Parameters are shown in the following diagrams.



Integrated Risk Management Contd...

Managing Key Risks

Credit Risk

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

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

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

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

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

Credit Risk Management

SMIB focuses on following module when managing credit risk.

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

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.

The bank has established a credit administration division to ensure efficient post sanction processes and to verify loan releases comply with the bank's set 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. Credit risk indicators set at the bank level is monitored at frequent intervals to identify early warning signals and to take precautionary actions.

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

Credit Concentration Risk

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

Integrated Risk Management Contd...

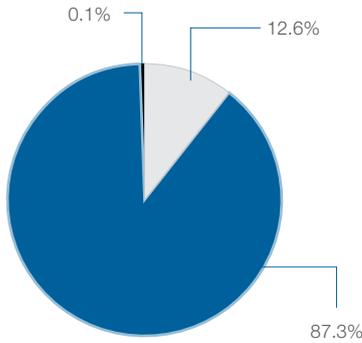
Sector wise Exposure as at 31.12.2016

Sectors	Amount (Rs.)
Agriculture & Fishing	3,586
Housing & Construction	24,904
Tourism	40
Total	28,530

Geographical Concentration as at 31.12.2016

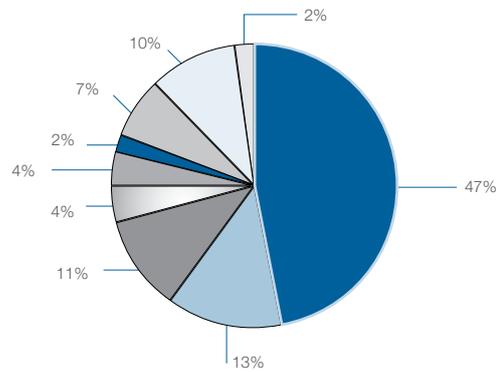
Province	Amount (Rs.)
Western	13,404
Southern	3,659
Northern	3,271
Central	1,117
Uva	1,154
Eastern	483
Sabaragamuwa	2,096
North Western	2,797
North Central	549
Total	28,530

Sector wise Exposure



■ Agriculture & Fishing ■ Housing & Construction ■ Tourism

Geographical Concentration

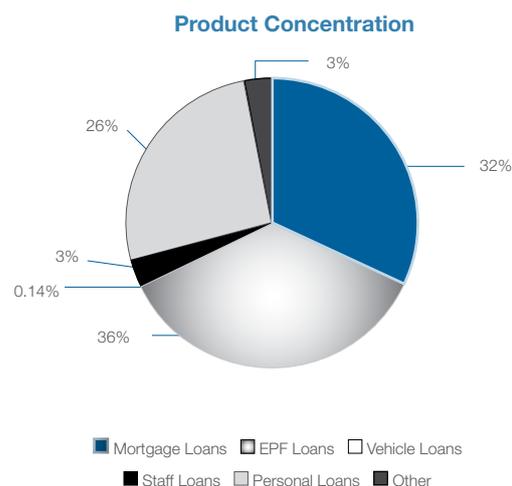


■ Western ■ Central ■ Southern ■ Sabaragamuwa ■ Uva ■ Eastern
 ■ North Central ■ North Western ■ Northern

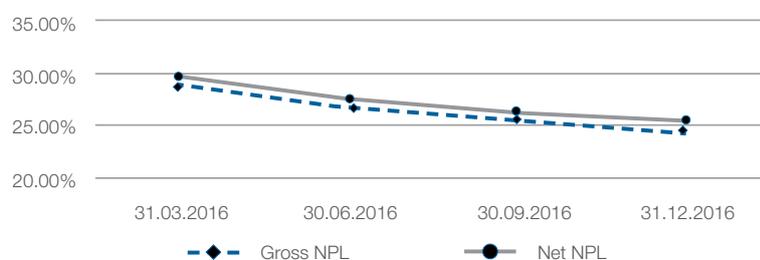
Integrated Risk Management Contd...

Product Concentration

Product	Amount (Rs.)
Mortgage Loans	9,076.12
EPF Loans	10,343.70
Vehicle Loans	40.34
Staff Loans	841.70
Personal Loans	7,430.01
Others	798.62
Total	28,530.49



Movement of Gross & Net Non - Performing Advances Ratios during the year 2016



High Non Performing Allowance (NPA) ratio is due to the NPA position of EPF Loans 57.90 as at 31/12/2016 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.

Integrated Risk Management Contd...

Interest Rate Risk

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

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

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

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

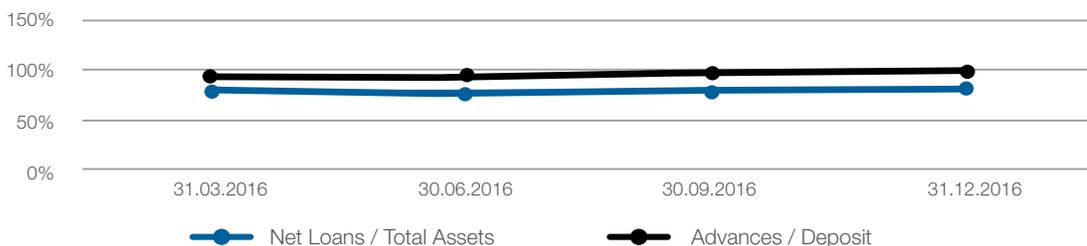
Liquidity Risk

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

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

The Bank also won depositor confidence through the fair and competitive deposit rates it offered and the accessibility to retail deposits has increased through increased branch network. Hence reliance on wholesale deposits has reduced. Lack of long-term borrowing instruments at affordable costs results in maturity mismatch in the asset book and the bank is researching on introducing innovative products to reduce the maturity mismatch. The bank monitors a number of liquidity ratios as per the CBSL risk direction which are discussed at ALCO and Board Integrated Risk Management Committee.

Liquidity Related Ratios



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

Integrated Risk Management Contd...

Maturity Mismatch Analysis as at 31/12/2016 (Rs.Mn)

Rs. Mn	less than 7 Days	7-30 Days	1-3 Months	3-6 Months	6-12 Months	1-3 years	3-5 years	Over 5 years	Unclas-sified	Total
Total Assets	1,593	1,840	1,530	1,919	2,200	5,694	4,389	8,207	7,975	35,347
Total Liabilities	1,785	1,690	5,995	5,040	8,511	5,202	576	1,631	4,918	35,347
Gap	(192)	150	(4,465)	(3,120)	(6,311)	492	3,813	6,576	3,057	-

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

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

Operational Risk

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

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

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

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

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

bank also feed information to risk identification process.

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

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

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

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

Legal Risk

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

Strategic Risk Management

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

Integrated Risk Management Contd...

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.

Corporate Governance

The Bank accepts the importance of good corporate governance: to provide a basis for its future development and corporate performance. The Board of Directors of the State Mortgage and Investment Bank, which is the highest decision making body has overall responsibility for the operations and the financial soundness of the Bank and ensures 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 and the Bank's own policies.

The Board has an active combination of professionals with practical experience in banking, finance, economics, business management, human resource management, law, marketing, etc. They have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources.

The Bank's governance culture and framework underpins effective decision making, facilitates greater transparency and promotes accountability across all aspects of the business.

Accountability

Accountability is one of the cornerstones of good governance.

The Bank's position and prospects have been discussed in detail in Chairmen's review/ Message on pages 6 and 7 General Manager's Review on pages 8 and 9.

On the recommendation of the Audit Committee, the Board reviews and approves the annual and interim financial statements of the Bank. Information on financial statements is being reported to the Bank's stake holders and to the general public in a transparent and diligent manner.

Fairness

The bank treats all its stakeholders fairly. Bank makes things work for customers. When providing credit facilities the bank evaluates its customers' repayment capacity that is the affordability of monthly payments. The bank takes legal action for defaulted customers only as a last resort.

Transparency and disclosure

The bank quarterly publishes Financial Reports prepared in accordance with SLFRS and LKS, which are clear and easy to understand.

The bank to be more transparent in its activities is disclosing, through its annual report; capital adequacy, key performance indicators, business concentrations, corporate governance statements, and financial statements.

During the year 2016 the bank did not have any transactions with the related parties.

Board of Directors

The Board of Directors of the bank consists of nine fit and proper

independent and non-executive directors appointed by the Ministry of Finance and the Ministry of Public Enterprises Development. Since the purpose of the Bank is to assist in the development of agriculture, industry and housing, by providing financial and other assistance three of the directors so appointed are representatives of Ministry of Social Services, Welfare & Livestock Development, Ministry of Housing & Construction and Ministry of Irrigation & Agriculture.

The directors, drawing on 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 Bank has an effective leadership structure that allows the board to work collaboratively as a team. Composition of the Board ensures that there is a sufficient balance of power and contribution by all Directors and provide continuous contribution and guidance to the board decision-making process. The Chairman and the Board of Directors with their strong commitment and prudent guidance manages the bank ahead.

The Board of Directors meet at least monthly, and in the year 2016 met 12 times.

Timely Information

The Directors receive the agenda to be discussed and the minutes of meetings held, one week ahead of the meeting. However the Board considers agenda submitted subsequently, depending on the urgency and importance of the matters to be discussed. To go green the documents or annexures to the Board papers which are having several pages are being mailed to the directors without giving hard copies.

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 progress in implementation of the strategic goals, financial, social and environmental performance, changes and challenges presented by the operating environment, recommended policy frameworks and executive governance structures.

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

The approval process provides for discussions among the Board members as well as with members of the Bank's management. The Board proposes such amendments to the strategic plan as it deems appropriate before approving it. Management implements the strategy as approved and submits progress reports to the Board.

Corporate Governance Contd...

Composition of the Board

Directors Name	Date of Appointment	Date Retired / ceased to be a Director	Category of Director
Mr. Tissa Jinadasa (Chairman)	13.02.2015		Independent non-executive director
Dr. C. N. S. Gamage	06.03.2015		Independent non-executive director
Mr. M. S. D. Ranasiri	24.02.2015	Retired on 31.01.2017	Independent non-executive director
Ms. L. U. N. Sumanasekera	27.04.2015	Retired on 24.12.2016	Independent non-executive director
Mr. Roshan Hettiaratchi	02.11.2015		Independent non-executive director
Mr. A. M. Peeris	02.11.2015	Retired on 22.09.2016	Independent non-executive director
Mr. Rajitha Nuwan Halwala	02.11.2015		Independent non-executive director
Mr. P. C. Wijewardena	02.11.2015	Ceased to hold office w. e. f. 27.09.2016	Independent non-executive director
Mr. P. A. Kulasooriya	06.02.2017		Independent non-executive director
Mr E.A. Lesly Edirisinghe	15.02.2017		Independent non-executive director
Mr. S.G. Senarathna	21.04.2017		Independent non-executive director

Directors' attendance at Meetings in the Year 2016 is being given in the Directors Report appearing on Page 62 of this annual report.

Appraisal of Board Performance

The Board adopts a scheme of self-assessment by 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 Act 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.

The Chairman

The chairman provides leadership to the board; ensures that the board works effectively and discharges its responsibilities. He further ensures that all key and appropriate issues are discussed by the board in a timely manner. He encourages all directors to make a full and active contribution to the board's affairs and take the lead to ensure that the board acts in the best interests of the bank. He does not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.

The General Manager

Mr. W. M. Dayasinghe is the General Manager of the Bank.

The Board appoints the General Manager to the staff of the Bank who is the chief executive officer of the Bank. The managerial and operational activities of the bank have been delegated to the General Manager who heads the Corporate Management Team as well as all the Management Committees of the Bank. The General Manager functions as the apex executive-in-charge of the day-to-day-management of the bank's operations and business.

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

The division of responsibilities between the chairman and the General Manager are clearly established.

There is no relationship between the Chairman and the General Manager or any of the Board Directors.

Statutory Compliance

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

Corporate Governance Contd...

Board Sub Committees

The Board has delegated some of its functions to Board sub committees, scopes of which are being detailed in the various subcommittee reports appearing in this annual report. These Committees are chaired by non- executive directors who have expertise in the relevant field.

Risk Management

There are clearly defined standards for risk tolerance, and there is enough free cash flow to cover these risks.

Both bank performance and risk management are dependent on implementing good corporate governance; hence, the two constructs are interrelated by nature. Interrelationship between the two represents the risk and return trade-off. 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 better performance of the bank.

Management Committees

According to Basel Guide Lines the board should not participate in day-to-day management but should receive information sufficient to judge management. The Board of Directors in managing affairs of the bank has delegated business operations to certain specialized

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

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

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

Corporate Governance Contd...



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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல
My No.

BAF/G/SMIB/FA/2016/01

ඔබේ අංකය
உமது இல
Your No.

දිනය
திகதி
Date

19 October 2017

The Chairman
State Mortgage and Investment Bank

Auditor General's Report of Factual Findings of State Mortgage and 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 2016.

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 the 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 extend to any Financial Statement of State Mortgage & Investment Bank, Taken as a whole.

W.P.C Wickramaratne
Auditor General (Acting)

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව, . - இல. 306/72, பொல்தூவ வீதி, பத்தரமுல்லை, இலங்கை. - No. 306/72, Polduwa Road, Battaramulla, Sri Lanka

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Corporate Governance Contd...

Annexure

3(1)	The responsibilities of the board	Audit observations
3(1)(i)	Procedures to be carried out to ensure the board have strengthened the safety and soundness of the bank.	
a)	<p>Check the board approval of the bank's strategic objectives and corporate values.</p> <p>Check whether the bank has communicated the bank's strategic objectives and corporate values throughout the bank</p>	<p>Corporate Plan for the period 2016-2020 was presented to the board under the board paper No.15/11/17 at the meeting held on 29/12/2015 and revised corporate plan with quarterly action, was reapproved by the Board of Directors at the board meeting held on 26 August 2016. (Board Minute No.16.08.95.05 Board Paper No.16/08/38)</p> <p>Strategic objectives and corporate values are communicated through heads of departments at monthly progress meetings held during the year 2016.</p>
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>Overall business plan was approved by the Board of directors at the board meeting held on 29 December 2015 and revised plan was approved on 29 August 2016.</p> <p>It was observed in page no. 15-23 of the Cooperate plan (Revised)</p> <p>Goals were observed in page no. 17-23 of the Cooperate plan (Revised)</p>
c)	Check that the appropriate systems to manage the risks identified by the board are prudent and are properly implemented.	<p>Boards IRMC charter was revisited and approved by the board on 28 October 2016.</p> <p>Risk management division had submitted reports for review to BIRMC.</p>
d)	Check that the board has approved and implemented a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	<p>The Policy of communication has been approved by the board minutes No.15.11.155.01 and board paper No. 15/11/08.</p> <p>SMIB board has a representative from General Treasury and communication with government is in place. Policy of communication with other stake holders is yet to be addressed.</p>

Corporate Governance Contd...

e)	Check that the board has reviewed the adequacy and the integrity of the bank's internal control systems and management information systems.	Board carries out this function through the BAC which oversee the internal audit function of the bank.
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;	The bank has designated the KMP in the board paper No.15/10/57 at the board meeting held on 29 December 2015. Accordingly, General manager, Deputy General managers, Assistant general managers, Senior Accountant, Chief Internal auditor, Compliance officer and Board secretary had been designated as KMP.
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;	Board has carried out meetings with CEO by reviewing the progress of action plan. We have seen Board minutes no 12 dated 30 December 2016 of reviewing 4 th quarter performance.
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;	It was observed that Director's powers and authority had been defined in section 08 of the SMIB Law No.13 of 1975. Directors were allocated to sub committees by the Board of Directors and Terms of Reference (TOR) of each committee defines responsibilities. KMPs authorities and responsibilities are listed in job description. We have seen the job description of AGM – finance.
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.	The directors are appointed by the minister according to the section 7 of the SMIB Law No.13 of 1975. A declaration has been obtained from the Board members to evidence that their interest is disclosed and thereby conflicts of interest are identified.
j)	Check that the board has a succession plan for key management personnel.	It was observed the Succession plan for key management personnel in Board minutes No.15.04.49 of the board meeting held on 29 May 2015. Succession plan is not relevant for the Board members since they are appointed by the minister. General Manager/CEO of the bank is appointed by the Board under Section 20 of SMIB LAW 13 of 1975
k)	Check that the board has scheduled regular meetings with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	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. Further, the board has directed to hold management committee meetings.

Corporate Governance Contd...

	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.	The Compliance Officer has been appointed in General Manager letter No P/F 466. Regulatory compliance reports are submitted to CBSL in timely manner. Compliance division has reported to the board on quarterly basis.
	m)	Check that the board has a process in place for hiring and oversight of external auditors.	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.	According to the Section 14 of the SMIB Law No.13 of 1975, The chairman is appointed by the Minister. A letter dated 09 February 2016 issued by the Minister of Finance evidences the appointment of the existing Chairman. General Manager/CEO is appointed by Board paper no 10/1029 with effect from 15 October 2010. The functions and responsibilities of CEO is explained in section 20 of SMIB Law no 13 of 1975.
3(1)(iii)		Check that the board has met regularly and held board meetings at least twelve times a year at approximately monthly intervals.	The board has met 12 times during the year 2016 at approximately monthly intervals
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.	It was observed the agenda prepared under the authority of the Board secretary with the approval of the Chairman.
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.	It was observed according to the board secretary, dates of Board Meetings are notified to each director of the board more than 7 days prior to the meeting.
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.	The directors have attended the meetings as required and hence, no such action needed to be taken in the year 2016.
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.	Board secretary is an attorney at law who complies with section 43 of the banking act no 30 of 1988. Secretary to the board is responsible for handling the secretariat services to the Board meetings and carrying out other functions specified in the statutes and other regulations.

Corporate Governance Contd...

3(1)(viii)	Check the process to enable all directors to have access to advice and services of the company secretary.	As per the Board secretary, all directors shall have unlimited access to advise and obtain the service of the board secretary.
3(1)(ix)	Check that the company secretary maintains the minutes of board meetings and there is a process for the directors to inspect such minutes.	It was observed that all minutes of the Board meetings are filed sequentially and kept under the board secretary. As per secretary at any time any director has access to any information regarding the board meetings.
3(1)(x)	<p>Check that the minutes of a board meeting contain or refer to the following:</p> <p>(a) a summary of data and information used by the board in its deliberations</p> <p>(b) the matters considered by the board</p> <p>(c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the board was carrying out its duties with due care and prudence;</p> <p>(d) the matters which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations;</p> <p>(e) the understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted; and</p> <p>(g) the decisions and board resolutions.</p>	<p>We checked the board minutes and ensured that minutes are recorded in sufficient details as mentioned below.</p> <ol style="list-style-type: none"> i. Confirmation minutes of the previous meeting ii. Matters arising out of the minutes of the previous meetings. iii. Credit matters Financial matters iv. Marketing and publication matters v. Administration and personal matters. vi. Recovery matters vii. Risk Matters viii. Legal Matters ix. Other matters
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.	According to the Board paper No 14/14/19 of 'Supervisory concerns on Statutory Examination', Board had granted approval to enable Directors to obtain professional advice in appropriate circumstances, at the bank's expense.

Corporate Governance Contd...

3(1)(xii)	<p>Check that there is a procedure to determine, report, resolve and to take appropriate action relating to directors avoid conflicts of interests, or the appearance of conflicts of interest.</p> <p>Check that a director has abstained from voting on any board resolution in relation to which he/she or any of his/her close relation or a concern in which a director has substantial interest, is interested.</p> <p>Check that has he/she been counted in the quorum for the relevant agenda item at the board meeting</p>	<p>Related Party Transaction Policy is approved by the Board in Paper No 16/08/35 & Board minute no 16.08.95.02</p> <p>According to the section 28 of the SMIB law No 13 of 1975, no loan shall be granted by the bank to any director.</p> <p>Further, on the appointment of the new director and on a yearly basis from the existing directors an affidavit and a declaration informing their interest of banks is obtained.</p> <p>No such a situation taken place in the year 2016.</p> <p>No such a situation taken place in the year 2016.</p>
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.	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.	Such incident has not taken place during the year 2016.
3(1)(xv)	Check that the board has the bank capitalized at levels as required by the Monetary board.	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 31/12/2016 the SMIB shows capital adequacy (Tier 1) as 22.96% and Total capital ratio (Tier11) as 23.47%. based on the financial statements.
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.	There is a corporate governance report published in bank's annual report 2015.
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.	Board secretary has obtained the evaluation forms from all the directors for the year 2016.

Corporate Governance Contd...

3(2)	The board's Composition	
3(2)(i)	Check that the board comprise of not less than 7 and not more than 13 directors.	According to the section 7 of SMIB Law, Board of Directors consists of nine appointed by the minister.
3(2)(ii)	(A) Check that the total period of service of a director other than a director who holds the position of CEO, does not exceed nine years.	It was observed that no director has exceeded 9 years of service.
	(B) In the event of any director serving more than 9 years, check that the transitional provisions have been applied with.	No directors have exceeded 9 years in the capacity of directors.
3(2)(iii)	Check that the number of executive directors, including the CEO does not exceed one-third of the number of directors of the board.	In accordance with the provisions of the SMIB Law No.13 of 1975, the Board consists of nine directors appointed by the Minister and all of them are non-executive directors.
3(2)(iv)	Check that the board has at least three independent non-executive directors or one third of the total number of directors, whichever is higher. Check if non-executive directors can be considered independent if he/she:	All of directors (9 directors) are non executive and independent.
	a) Holds a direct and indirect shareholding of more than 1 per cent of the bank;	The bank is fully owned by the government. therefore no any shareholding is held by the directors.
	b) currently has or had during the period of two years immediately preceding his/her appointment as director, any business transactions with the bank as described in Direction 3(7) hereof, exceeding 10 per cent of the regulatory capital of the bank.	According to our examination of note 27 to financial Statements, no such transaction occurred.
	c) has been employed by the bank during the two-year period immediately preceding the appointment as director.	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).	Appointments of directors are done by minister 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 directors.
	e) represents a specific stakeholder of the bank	No director owns share of the bank since bank is fully owned by the government.

Corporate Governance Contd...

	<p>f) is an employee or a director or a material shareholder in a company or business organization:</p> <p>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</p> <p>II. in which any of the other directors of the bank are employed or are directors or are material shareholders; or</p> <p>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.</p>	<p>There is no business transaction with any of the present directors with the bank.</p> <p>Such an instance was not observed</p> <p>Such an instance was not observed.</p>
3(2)(v)	In the event an alternate director was appointed to represent an independent director, Check the person so appointed meet the criteria that applies to the independent director.	No alternative directors were appointed during the year as per the board secretary's explanations.
3(2)(vi)	Check that the bank has a process for appointing independent directors.	Appointments of directors are done by the minister under the Section 07 SMIB Law No.13 of 1975.
3(2)(vii)	Check that the stipulated quorum of the bank includes morethan 50% of the directors and out of this quorum more than 50% should include non-executive directors.	It was observed that all the directors are non-executive directors.
3(2)(viii)	Check that the bank discloses the composition of the board,by category of directors, including the names of the chairman,executive directors, non-executive directors and independentnon-executive directors in the annual corporate governance report.	It was disclosed in Director's report in annual report in year 2015.
3(2)(ix)	Check the procedure for the appointment of new directors to the board.	According to SMIB Act No.13 of 1975 the appointment of directors is done by theminister.
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.	According to SMIB Act No.13 of 1975 the appointment of directors is done by the minister.
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>	Not relevant to Bank since directors are appointed or removed by minister and Board does not role in this regard.
3(2)(xii)	Check if there is a process to identify whether a director or anemployee of a bank is appointed, elected or nominated as a director of another bank	<p>Directors are required to disclose in their annual declaration submitted to the bank if they are in the board of any other bank.</p> <p>For the employees of the bank as per the code of conduct approved on 29 May 2015, they have been prohibited to accept any appointment conflict with the interests of the bank.</p>

Corporate Governance Contd...

3(3)	Criteria to assess the fitness and propriety of directors		
3(3)(i)	Check that the age of a person who serves as director does not exceed 70 years.		One director retired reaching the age 70 in 2016. Directors had not exceeded age of 70.
	(A)	Check that the transitional provisions have been complied with.	Since no directors exceed age of 70 years, this section does not apply.
3(3)(ii)	Check if a person holds office as a director of more than 20 companies/ entities/ institutions inclusive of subsidiaries or associate companies of the bank.		As per the annual declaration It was observed that no any directors hold office as a director of more than 20 companies.
3(4)	Management functions delegated by the Board		
3(4)(i)	Check that the delegation arrangements have been approved by the board.		Power delegation by the Board to the General Manager to manage the business should be done in terms of Section 20 and 21 of the SMIB Law. It was observed that the board appointed sub committees and has delegated power to carry out Board functions.
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.		
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.		
3(5)	The Chairman and CEO		
3(5)(i)	Check that the roles of chairman and CEO is separate and not performed by the same individual		It was observed that the role of chairman and CEO are separate and performed by two different individuals.
3(5)(ii)	<p>Check that the chairman is a non-executive director.</p> <p>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.</p>		<p>The chairman appointed by the minister under the SMIB Law No.13 of 1975 and he is a non –executive director</p> <p>Chairman is an independent director of the board. SMIB Law does not have any provision to appoint senior directors.</p>
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.		The corporate governance report for year 2015 is in page no.66 of annual report.

Corporate Governance Contd...

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.	It was observed that a self –evaluation process has been carried out in the year 2016.
3(5)(v)	Check that a formal agenda is circulated by the company secretary approved by the chairman.	It was observed that the agenda was circulated to each and every director. Agenda dated 18 August 2016 evidence this.
3(5)(vi)	Check that the chairman ensures, through timely submission that all directors are properly briefed on issues arising at board meetings.	Adequate information is provided to all directors in advance to the meeting and board papers are submitted to them to prepare early.
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.	Board has a self evaluation process to directors
3(5)(viii)	Check that the board has a self-evaluation process that assesses the contribution of non-executive directors.	Self-evaluation process has been carried out in year 2016 to assesses the contribution of non-executive directors Ex: C.N.S Gamage provided his Self-Evolution on 01.01.2017.
3(5)(ix)	Check that the chairman engages in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	According to discussion had with the Secretary, 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.	Government has the 100% ownership of the bank. Directors are appointed by the minister. The government is communicated through treasury representative who is a permanent member of the Board.
	Check that the CEO functions as the apex executive in charge of the day to day management of the bank's operations and business	As per the organization chart, General Manager/CEO functions as the highest executive in charge of the day to day management of the bank's operation and business

Corporate Governance Contd...

3(6)	Board appointed committees	
3(6)(i)	<p>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.</p> <p>Check that each board committee report is addressed directly to the board.</p> <p>Check that the board present in its annual report, a report on each committee on its duties, roles and performance.</p>	<p>Observed the Board Paper No.15/10/56 - Appointment of Directors to the Board sub Committees namely Audit Committee Human Resources, and Remuneration Committee, Nomination Committee, Board Integrated Risk Management, Committee (BIRMC) and Board Audit committee (BAC)</p> <p>Observed the Board minutes and Board papers of each sub committees to confirm that each Board Committees report is addressed directly to the board. Ex: Board Paper No:16/06/41 Board Paper No:16/08/37 Board Paper No:16/10/23 Board Paper No:16/09/29</p> <p>Observed that BIRMC and BAC reports were in the annual report 2015.Nimination committee and HR and Remuneration committee have not submitted their reports to Annual Reports</p>
3(6)(ii)	Board Audit Committee:	
	a) Check that the chairman of the committee is an independent non-executive director and possesses Qualifications and related experience	<p>Chairman is an independent non-executive director in terms of List of independent non-executive director's schedule given by the Board secretary.</p> <p>In terms of the CV of the chairman of BAC , The chairman of the board audit committee has necessary qualifications and experience.</p> <p>He holds a Bachelor degree in commerce (special) and has over 31 years' experience in public sector and he is a member of Sri Lanka Accountant Service (Class 01). He is currently serving as the Director General of Treasury operations of the ministry of finance.</p>
	b) Check that all members of the committee are non-executive directors.	All members of the committee are non executive.

Corporate Governance Contd...

	<p>c) Check that the committee has made recommendations on matters in connection with:</p> <p>(i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;</p> <p>(ii) the implementation of the Central Bank guidelines issued to auditors from time to time;</p> <p>(iii) the application of the relevant accounting standards; and</p> <p>(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.</p>	<p>Not relevant as the Auditor General is appointed as per the SMIB Law.</p> <p>BAC meeting held on 23 November 2016 mentioned that Financial statements have been prepared in accordance with relevant accounting standards.</p> <p>Not relevant as Auditor General is to be the auditor as per the SMIB Law.</p>
	<p>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.</p>	<p>Not relevant as Auditor General is to be the auditor as per the SMIB Law.</p>
	<p>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.</p>	<p>Not relevant as Auditor General is to be the auditor as per the SMIB Law.</p>
	<p>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.</p>	<p>Auditor General is the auditor as per the SMIB Law. Auditor General 's representative is in presence at the BAC.</p>
	<p>g) 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>	<p>It was observed that BAC has quarterly reviewed the financial information of the bank.</p> <p>BAC Paper No:01 dated 18 August 2016 evidence this.</p>
	<p>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.</p>	<p>Auditor General is the auditor as per the SMIB Law. Auditor General's representative is in presence at the BAC.</p>

Corporate Governance Contd...

	i) Check that the committee has reviewed the external auditor's management letter and the management's response thereto.	It was observed that BAC 3rd quarter review report regarding review of the Auditor General's 13 (7) (a) report and audit queries.
	<p>j) Check that the committee shall take the following steps with regard to the internal audit function of the bank:</p> <p>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;</p> <p>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;</p> <p>III. Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department</p> <p>IV. Recommend any appointment or termination of the head, senior staff members and outsourced service Providers to the internal audit function.</p> <p>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;</p> <p>VI. Check that the internal audit function is independent of the activities it audits</p>	<p>Internal audit plan - 2016 was approved by BAC Paper No: 01 (23/12/2015). However, Chief Internal Auditor position is vacant from 01 January 2016.</p> <p>We observed the minutes of the BAC dated 08/04/2016 -progress of the risk based internal audit plan 2016 related to 1st quarter.</p> <p>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.</p> <p>No appointment or resignation occurred during the year in terms of confirmation of the HR.</p> <p>As per the Organizational chart, Chief Internal auditor reports directly to the BAC. However, Chief Internal auditor position remains vacant during the year 2016.</p>
	k) Check the minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto	Audit findings of internal investigations are included in the BAC minutes.
	l) Check whether the committee has had at least two meetings with the external auditors without the executive directors being present.	A representative of AG is present at all BAC meeting except one on invitation. The BAC members do not include any executive directors.

Corporate Governance Contd...

	<p>m) Check the terms of reference of the committee to ensure that there is;</p> <p>(i) explicit authority to investigate into any matter within its terms of reference;</p> <p>(ii) the resources which it needs to do so;</p> <p>(iii) full access to information; and</p> <p>(iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary</p>	<p>We observed the charter of the Internal audit and it contains this.</p>
	<p>n) Check that the committee has met, at least four times and maintained minutes</p>	<p>Committee had met four times during the year and minutes</p>
	<p>o) Check that the board has disclosed in the annual report,</p> <p>(i) details of the activities of the audit committee;</p> <p>(ii) the number of audit committee meetings held in the year; and</p> <p>(iii) details of attendance of each individual director at such meetings</p>	<p>The annual report -2015 contains a board audit committee report and it includes details of the task and responsibility of committee, meetings, attendance</p>
	<p>p) Check that the secretary of the committee is the company secretary or the head of the internal audit function.</p>	<p>Secretary of the committee is the Secretary to the Board of Directors for the year.</p>
	<p>q) Check that the “whistle blower” policy covers the process of dealing with;</p> <p>a) The improprieties in financial reporting, internal control or other matters.</p> <p>ii) In relation to (i) the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters, and</p> <p>iii) Appropriate follow-up action.</p>	<p>We observed the Whistle blower policy and it contains matters like scope of the policy, objective of the policy, Employee rights, Untrue Allegations, Procedures for making a disclosure, Timescales and Investigating procedure.</p> <p>The scope of policy includes matters related to financial malpractices or impropriety or fraud.</p>
3(6)(iii)	<p>Does the following rules apply in relation to the Human Resources and Remuneration Committee</p>	
	<p>a) Check that the committee has implemented a policy to determine the remuneration (salaries, allowances and other financial payments) relating to directors, CEO and key management personnel of the bank by review of the “Terms of reference” and minutes.</p>	<p>Terms of Reference (TOR) for the Human Resources and Remuneration Committee shall determine the remuneration policy. The committee has approved the TOR in the year 2013 and the same TOR has been used without any changes for the year 2016.</p> <p>Presently remunerations are decided as follows. Public Enterprises Circular No. PED 3/2015 determines allowance for Directors and 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>

Corporate Governance Contd...

	b) Check that the goals and targets for the directors, CEO and the key management personnel are documented.	Goals and target for the directors, CEO /GM and for the key management personnel are documented in the corporate plan prepared for 2016- 2020and action plan.
	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.	Observed the TOR of the Nomination Committee. According to the scope of work mentioned in the TOR the committee has not considered evaluations of the performance of the CEO and key management personnel against the set targets and goals periodically.
	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.	Terms of Reference of human resources and remuneration committee for the year 2016 does not state that CEO is not present at the meeting when matters related to him are being discussed.
3(6)(iv)	Does the following rules apply in relation to the Nomination Committee:	
	a) Check that the committee has implemented a procedure to select/appoint new directors, CEO and key management personnel.	The directors are appointed by the Minister as per provisions in the SMIB Law No13 of 1975.CEO is appointed by the Board. KMPs are selected as per Scheme of Recruitment (SOR). The approval for the SOR was not presented to audit.
	b) Check that the committee has considered and recommended (or not recommended) the re-election of current directors.	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.	SOR contains the qualification and experience required for appointment of CEO and KMP
	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.	All the signed declaration of directors had been obtained by Board secretary. CEO and key management personnel signed declaration had been obtained by HR division. Directors' Declarations were placed before the committee for evaluation.
	e) Check that the committee has considered a formal succession plan for the retiring directors and key management personnel.	Not relevant for directors as they are appointed by the Minister. Formal succession plan of KMPs had been considered by the committee in the 1st quarter of 2017 as directed in the last meeting of 2016.
	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.	All the directors (including Chairman) are independent non -executive directors. The Chairman of the bank chairs the committee.

Corporate Governance Contd...

3(6)(v)	Does the following rules apply in relation to the Integrated Risk Management Committee (IRMC):	
	a) The committee shall consist of at least three non- executive directors, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.	IRMC consist from three Non - Executive Directors. CEO /GM and other key management personnel attend on invitation. Board minute dated 11.12.2015 evidence the composition of the Committee.
	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	Risk management Division (RMD) asses the credit, market, operational, Strategic and Liquidity risk and submit reports to the committee on quarterly basis. We observed the BIRMC paper No :16/BR/03/01 which describe the Key risk indicators as at 30 June 2016.
	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	BIRMC had discussed in the committee meeting regarding the quantitative and qualitative risk of credit, liquidity, operational, strategic and compliance. We observed the quarterly reports submitted on 21.03.2016 (BIRMC Paper No 16/BR/02/02) to evidence this.
	d) Check that the committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	The risk report submitted to BIRMC included risk indicators which are complied and not complied. BIRMC paper no 16/BR/03/01 dated 02 September 2016 evidence this.
	e) Check how many times the committee has met at least quarterly.	As per the attendance, BIRMC has met 4 times during the year 2016.(March, June, September and December)
	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.	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.	The committee submitted the risk assessment report to the next immediate board meeting. The Board meeting held on 30.12.2016 discussed the risk assessment report of the BIRMC meeting held on 08.12.2016
	h) Check that the committee has established a compliance function to assess the bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations and that there is a dedicated compliance officer selected from key management personnel to carry out the compliance function a report to the committee periodically.	The board has appointed Chief Manager-Compliance selected from Key Management Personnel to carry out the compliance function. The Chief Manager (compliance) reports the compliance functions to the board quarterly. Board Paper No:16/12/31 BoardPaperNo:17/03/31

Corporate Governance Contd...

3(7)	Related party transactions	
3(7)(i)	<p>Check that there is an established and documented process by the board to avoid any conflicts of interest that may arise from any transaction of the bank with any person, and particularly with the following categories of persons who shall be considered as “related parties” for the purposes of this Direction:</p> <ol style="list-style-type: none"> Any of the bank’s subsidiary companies; Any of the bank’s associate companies; Any of the directors of the bank; Any of the bank’s key management personnel; A close relation of any of the bank’s directors or key management personnel; A shareholder owning a material interest in the bank; A concern in which any of the bank’s directors or a close relation of any of the bank’s directors or any of its material shareholders has a substantial interest. 	<p>It was observed that the related party transaction policy had been approved by the board in board paper no 16/08/35 in board minute no 16.08.95.02 dated 16 August 2016. It speaks on related parties, types of related party transactions, any conflict of interest etc.</p>
3(7)ii	<p>Check that there is a process to identify and report the following types of transactions been identified as transaction with related parties that is covered by this direction.</p> <ol style="list-style-type: none"> The grant of any type of accommodation as defined in the Monetary board’ Directions on maximum amount of accommodation. The creation of any liabilities of the bank in the form of deposits, borrowings and investments. The provision of any services of a financial or non- financial nature provided to the bank or received from the bank. The creation or maintenance of reporting lines and information flows between the bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties. 	<p>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 minute no 16.08.95.02 dated 16 August 2016.</p>

Corporate Governance Contd...

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	Please refer 3(7) (i) above. Refer the boardpaper no 16/08/35 in board minute no 16.08.95.02 dated 16 august 2016.
	<p>a) Granting of “total net accommodation” to related parties, exceeding a prudent percentage of the bank’s regulatory capital, as determined by the board. For purposes of this sub-direction:</p> <p>I. “Accommodation” shall mean accommodation as defined in the Banking Act Directions, No.7 of 2007 on Maximum Amount of Accommodation.</p> <p>II. The “total net accommodation” shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the bank’s share capital and debt instruments with a maturity of 5 years or more.</p>	
	b) Charging of a lower rate of interest than the bank’s best lending rate or paying more than the bank’s deposit rate for a comparable transaction with an unrelated comparable counterparty	
	c) Providing of preferential treatment, such as favorable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;	
	d) Providing services to or receiving services from related-party without an evaluation procedure;	
	e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.	
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.	Granting loans to directors and their related parties are prohibited by the Act. It was observed that no loan had been granted to the directors according to the loan schedule submitted by the IT division.

Corporate Governance Contd...

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.	It was observed no director of this nature was appointed to the Board in 2016 as per the secretary to the board explanation.
	b)	Check where such security is not provided by the periodas provided in Direction 3(7)(v)(a) above, has the Check where such security is not provided by the periodas 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 banktaken steps to recover any amount due on account ofany accommodation, together with interest, if any, within the period specified at the time of the grant ofaccommodation or at the expiry of a period of eighteenmonths from the date of appointment of such director, whichever is earlier.	
	c)	Check that there is a process to identify any directorwho fails to comply with the above sub-directions bedeemed to have vacated the office of director and has the bank disclose such fact to the public	
	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 thegrant of the accommodation was an employee of thebank and the accommodation was granted under ascheme 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	

Corporate Governance Contd...

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 commissionsto any employee or a close relation of such employee or toany 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.	It was observed that no director of this nature was appointed to the Board in 2016 as per the secretary to the board explanation.
3(7)(vii)	Check that there is a process to obtain prior approval from the Monitory board for any accommodation granted by a bank under Direction 3(7)(v) and 3(7)(vi) above, no any part of such accommodation, no any interest due thereon been remitted without the prior approval of the Monetary board and any remission without such approval is void and has no effect	Not applicable as 3(7)v) and 3(7)(vi)
3(8)	Disclosures	
3(8) 3(8)(i)	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. (b) Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English	It was observed that financial statements prepared in accordance with the format of CBSL were published in news papers in Sinhala, Tamil and English. Publication was made in the news papers accordingly.
3(8)(ii)	Check that the board has made the following minimum disclosures in the Annual Report:	
	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	Disclosed in the “Directors’ Responsibility, for the Financial Reporting”
	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.	Director’s statement on Bank’s internal control systems included in the 2015 annual report. (Page No. 60 of the annual report – 2015).

Corporate Governance Contd...

	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.	Auditor General's report on Bank's Internal Control was presented in page No.61 of the 2015 annual report.
	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	Directors' profile has been disclosed in pages No.10-13 of the 2015 annual report. Directors' remuneration disclosed in page No.90 of the 2015 annual report.
	e) Total net accommodation as defined in 3(7)(iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the bank's regulatory capital.	Transactions with key Management Personnel are disclosed in page no. 99 and 100 of the 2015 annual report.
	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.	Directors' remuneration is disclosed in page No.90 of the 2015 annual report.
	g) Check that the board has obtained the external auditor's report on the compliance with Corporate Governance Directions.	Auditor General report on compliance with corporate governance directions is included in page No. 72 of the annual report - 2015.
	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	There is no separate report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance in the annual reports. However, directors' report includes the statement of compliance with applicable laws and regulations. (Page No. 68 in the annual report - 2015).
	a) 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	As per the explanation given by the AGM Risk Management, Director of Bank Supervision has not sent any reports highlighting the non-compliances during the year 2016.

Director's Statement on Internal Control over Financial Reporting

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

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

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

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

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

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

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

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

- The Board has reviewed whether the financial reporting processes of the bank ensure that the annual financial statements are prepared in accordance with the Sri Lanka Accounting Standards and the guidance on reporting requirements issued by the Central Bank of Sri Lanka.
- Management level committees have also been functioning with appropriate empowerment to ensure effective management and supervision of Bank's core areas in the day-to-day business operations.
- A structured annual review of design and effectiveness of bank's internal control over financial reporting has been carried out. The Board has already approved that the documentation of the internal control system of the bank which would facilitate review of the effectiveness of the internal controls.
- 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 2016.



Mr. M.S.D. Ranasiri
Chairman - Board Audit Committee/Director



Dr. Niroschan Gamage
Director



Mrs. W.K.K. Athukorala
Director

28th February 2017

Auditor General's Report on Bank's Internal Control



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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல
My No.

BAF/G/SMIB/IC/2016/15

ඔබේ අංකය
உமது இல
Your No.

දිනය
திகதி
Date

05 December 2017

The Chairman
State Mortgage and Investment Bank

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

Introduction

This report is to provide assurance on the Directors' Statement on Internal Control ("Statement") of State Mortgage and Investment Bank included in the annual report for the year ended 31 December 2016.

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 Engagements 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.

My Conclusion

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

Without qualifying my opinion, I draw your attention to the Directors' Statement on Internal control, over financial reporting where the board of directors has realized that there are additional procedures to be designed and implemented over financial reporting process in order to ensure more effective internal control system of the Bank. However, I couldn't observe that steps have been taken to strengthen the process even though board of directors highlighted the same face in the Directors' Statement on Internal Control in previous years. It is also noted that the Bank's internal audit function needs to be further strengthened.

H.M. Gamini Wijesinghe
Auditor General

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව, - - இல. 306/72, பொல்தூவ வீதி, பத்தரமுல்லை, இலங்கை. - No. 306/72, Polduwa Road, Battaramulla, Sri Lanka

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Corporate Social Responsibility

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

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

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

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

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

Products and Services

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

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

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

Financial support is provided to the small and medium scale enterprises with the aim of encouraging the low income earning groups, and the micro financial services are also carried out island

wide. These efforts have paved way for us to make the lives of the majority, prosperous.

A huge service diversification has been carried out aiming the officials in the public service. 2016 was the Planning Year of this task. Further, we have kept the promises of the customers 100%, who come to us with trust which is an asset we have earned as a State Bank. We have introduced an attractive interest for such customers in year 2016. Not only that, but also we have been able to implement various savings systems for senior citizens as well as for the children.

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

2016 is comparatively a year with a higher progress. The support of the entire staff and the product diversification play an important role in this success. Further, the far sighted financial policy of the State Mortgage and investment Bank has secured a stable and continuous growth throughout the year.



Financial Information

“Through sound asset management policies and efficient market oriented strategies, the bank successfully faced the challenges in the financial market. SMIB’s Pre-Tax Profit of Rs.706 Mn for the year ended 2016, compared to Rs. 681 Mn in 2015, is mainly due to loan growth, effective investment management and the bank’s efficient recovery management process.

The average growth of the last five years for loans and advances by 15%, deposits by 14%, total assets by 18% and for the total capital base by 7% shows the continuous growth of all sectors mentioned.



Directors' Report

The Board of Directors of the State Mortgage & Investment Bank has pleasure in presenting their report on the affairs of the Bank together with the Audited consolidated financial statements for the year ended 31st December 2016, in conformity with the Sri Lanka Accounting Standards.

Directors

The Board comprises of nine non-executive independent directors. The Minister of Finance has appointed from among the directors the Chairman of the Board. There are no executive directors in the bank.

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

- (a) The Ministry of Irrigation & Agriculture,
- (b) The Ministry of Housing & Construction, and
- (c) The Ministry of Social Services, Welfare & Livestock.

One Director is appointed as the Treasury Representative. Three members constitute a quorum at any meeting of the Board. Meetings of the Board of Directors should be held at least once a month as per the State Mortgage and Investment Bank Law and the Banking Act.

Directors' attendance at the Board meetings: 12 meetings were held in the year 2016.

Name	Number of Meetings eligible to attend	Number of Meetings attended
Mr. Tissa Jinadasa	12	12
Dr. C. N. S. Gamage	12	11
Mr. M. S. D. Ranasiri	12	09
Ms. L. U. N. Sumanasekera (Retired on 24.12.2016)	11	11
Mr. Roshan Hettiaratchi	12	07
Mr. A. M. Peeris (Retired on 22.09.2016)	09	08
Mr. Rajitha N. Halwala	12	11
Mr. P. C. Wijewardena (Ceased to hold office on 27.09.2016)	09	09
Ms. W. K. K. Athukorala	12	10

Principal Activities of the Bank

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

Review of Operations and Future Developments

An overview of the financial and operational performance and future Developments of the Bank during the financial year 2016 and results of those operations are contained in the Chairman's Report, General Manager's Report and Financial Review appearing on Pages 06 to 07, 08 to 09, and 16 to 17 respectively of this annual report. These reports form an integral part of this annual report.

Directors' interests in contracts

A director who, or whose spouse or dependent child or children, is directly or indirectly interested in any business, transacted or proposed to be transacted by the Board shall disclose the nature of such interest at the meeting of the Board where such business is discussed. This is followed according to the Related Party Transaction Policy of the bank which is in line with the directions issued by the Central Bank of Sri Lanka under the Banking Act. There weren't any Related Party business transactions in the year 2016.

Capital Adequacy Ratio (CAR)

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

Chief Executive Officer (CEO)

The General Manager is the Chief Executive Officer of the Bank and is appointed by the Board of Directors. He carries out the day to day management of the bank's business in line with Board approved strategic objectives, corporate values, and overall risk policy and risk management procedures.

Vision, Mission and Values

The Bank's Vision, Mission and Values are given on pages 02 and 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

The Board of Directors is committed towards maintaining an effective Corporate Governance structure and process. The Board considers good governance as the pillar of success which helps to ensure bank's long term continuation. The financial, operational

Directors' Report Contd...

and compliance functions of the Bank are directed and controlled effectively within the corporate Governance practices. Corporate Governance report appears on pages 31 to 54 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.

Audit Committee

Members in the year 2016

Mr M. S. D. Ranasiri	- Chairman
Dr. Niroshan Gamage	- Member
Mr. Rajitha Halwela	- Member
Mr. P. C. Wijayawardena	- Alternative Member (Ceased to hold office on 27.09.2016)
Mrs. W. K. K. Athukorala	- Alternative Member (Since 25.11.2016)

The Board Audit Committee of the bank performs its functions in a professional manner. It comprises of 4 non –executive Directors, one being an alternative member and the Chairman of the Committee is an independent non-executive director who is qualified in accountancy and audit. He is a director representing the Treasury. 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 2016.

Board Human Resources & Remuneration Committee

Members in the year 2016

Mrs. W.K. K. Athukorala	- Chairman
Mr. A. M. Peeris	- Member
Dr. Noroshan Gamage	- Member
Mr. P. C. Wijayawardena	- Alternative Member

Four Board Human Resources & Remuneration Committee meetings were held in the year 2016.

Board Integrated Risk Management Committee (BIRMC)

The composition and the scope of work of the Board Integrated Risk Management Committee is in conformity with the provisions of

the Section 3 (6) (v) of the Direction No. 11 of 2007, on 'Corporate Governance for Banks in Sri Lanka', issued by the Monetary Board of the Central Bank of Sri Lanka.

Directors of the BIRMC in the year 2016

Director Mr. Roshan Hettiaratchi	Chairman
Director Dr. Niroshan Gamage	Member
Director Mr. Rajitha Halwela	Member
Director Ms. L. U. N. Sumanasekera	Alternative Member

This committee comprises of 4 independent non- executive directors in addition to the key officers of the bank.

Four Committee meetings were held in the year 2016.

Risk Management

The Board of Directors assumes overall responsibility for managing risks. The specific measures taken by the Bank in mitigating the risks are detailed on page 20 of this Annual Report.

Internal Control

The Board of Directors has ensured the implementation of an effective and comprehensive system of internal controls in the Bank which is a guide to Corporate Management in the day-today management of the business. The Directors Report on Internal Control appears on Pages 55 and 56 in this annual report.

Profit and Appropriations

The Total Income of the Bank for the year 2016 was Rs. 4,371.8 Mn Details of profit relating to the Bank are given in the following Table:

	2015 Rs. 000	2016 Rs. 000
Gross Income	3,998,601	4,371,871
Interest Income	3,879,028	4,240,771
Interest Expenses	2,057,337	2,425,330
Net Interest Income	1,821,690	1,815,441
Other Income	119,664	131,100
Net Income	1,941,263	1,946,541
Less: Operating expenses	1,098,466	1,020,018
VAT & NBT	161,840	220,454
Operating Profit before Tax	680,957	706,069
Less: Provision for Taxation	271,183	270,051
Profit for the Year	409,774	436,018

Directors' Report Contd...

	2015 Rs. 000	2016 Rs. 000
Retained Profits	2,229,191	2,449,406
Profit available for appropriation	2,638,965	2,885,424
Appropriations	-	-
Deemed Dividend Tax	167,862	173,347
Payments to consolidated Fund	10,000	10,000
Transfers to Reserve Fund	11,697	28,305
Transfers to Investment Fund	-	-
Other Comprehensive Income	-	31,357
Balance carried forward	2,449,406	2,706,976

Deemed Dividend & Reserves

Deemed dividend tax for the year 2016 has been provided at 25 % on the net profit for the year after taxation in accordance with provisions of the Inland Revenue Act.

Reserves

Total reserves as at 31st December 2016 amounted to Rs. 4,028 Mn (2015 – 3,373 Mn) movement of which are given on page 78 in the statement of Changes in Equity.

Capital Expenditure

The details of Property, Plant, and Equipment and Motor Vehicles of the Bank are shown in Note 14 on page 99.

Market Value of Immovable Properties

SMIB did not own tangible immovable properties as at 31st December 2016.

Contributed Capital

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

Substantial Shareholding and Share Information

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

Payments to the Consolidated Fund

The payments made to the Consolidated Fund for the period of year 2007 to 2016 totaled to Rs. 170 Mn.

Statutory Payments

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

Taxation

Income tax for 2016 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.

Directors' Report Contd...

Customers and Borrowers

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

Depositors and Suppliers

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

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

Auditor's Report

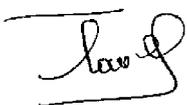
The Auditor General is the Auditor of the State Mortgage & Investment Bank. The audit of accounts of the State Mortgage & Investment Bank for the year ended 31st December 2016 was carried out under the Auditor General's directions in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13 (1) of the Finance Act No.38 of 1971.

The Auditor General's report on the Financial Statements of the Bank as at 31st December, 2016 is given on page 72 of this Annual Report.

Acknowledgment

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

By order of the Board,



W. K. Perera

Secretary to the Board

Board Integrated Risk Management Committee Report

- Composition of the Board Integrated Risk Management Committee

The Board Integrated Risk Management Committee comprised of three Non-Executive Directors and four members of the senior management of the bank during 1st quarter of 2016.

However the Board Integrated Risk Management Committee for the 2nd, 3rd and 4th quarters of 2016 consisted of three Non-Executive Directors and two members of the senior management.

- 】 **The Committee, during the first quarter of the year 2016 was composed of the following members:**

i. BIRMC meetings held in January, 2016

Mr. Roshan Hettiaratchi	- Non Executive Director (Chairman to the committee)
Dr. Niroshan Gamage	- Non Executive Director
Mr. Rajitha N. Halwela	- Non Executive Director
Ms.W.J.K.Geeganage	- Acting General Manger
Mr.R.P.U.Pathirana	- DGM- Credit Division
Mrs.J.I.Senanayake	- AGM-Risk Management Division
Mr.K.L.N.A. Perera	- AGM-Finance
Mrs.Nishani Lokuge	- AGM-Legal (Secretary to the committee)

ii. BIRMC meeting held in March, 2016

Mr. Roshan Hettiaratchi	- 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
Mr.R.P.U.Pathirana	- DGM- Credit Division
Mrs.J.I.Senanayake	- AGM-Risk Management Division
Mr.K.L.N.A. Perera	- AGM-Finance
Mrs.Nishani Lokuge	- AGM-Legal (Secretary to the committee)

- 】 **The Committee for the 2nd 3rd and 4th quarters of 2016 comprised of the following members.**

Mr. Roshan Hettiaratchi	- 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
Mrs.J.I.Senanayake	- AGM-Risk Management Division
Ms.Nishani Lokuge	- AGM-Legal - Secretary to the committee

Charter of the BIRMC

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

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

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

- Review bank's risk appetite.
- Review and approve bank's key risk policies on the establishment of risk limits and receive reports on bank's adherence to significant limits.
- Receive reports from, review with, and provide feedback to, Management on the categories of risk the bank faces, including credit, market, liquidity and operational risk, the exposures in each category, significant concentrations within those risk categories, the metrics used to monitor the exposures and Management's views on the acceptable and appropriate levels of those risk exposures.
- Review bank's credit, market, liquidity and operational risk management frameworks, including significant policies, processes and systems that management uses to manage risk exposures, as well as risk measurement methodologies and approaches to stress testing.
- Assess all risk types, including but not limited to: Credit, Market, Liquidity, Operational and Strategic/Reputational risks to the bank through appropriate risk indicators and management information.

Board Integrated Risk Management Committee Report Contd...

- 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 AGM-Risk management, the Chief Compliance Officer, the Chief Auditor, the Chief Financial Officer, The Treasurer, others in management, independent auditors, regulators and outside experts as appropriate regarding matters related to risk management and risk management function.
- Monitor the actions initiated by senior management to test the effectiveness of the measures taken by the respective committees referred to above.
- Review the annual work plan, related strategies, policies and framework of the above committees, to ensure that the committees have a good understanding of their mandate and adequate mechanism to identify, measure, avoid, mitigate, transfer or manage the risks within the qualitative and quantitative parameters set by the BIRMC.
- Maintain continues dialogue with the Management Committees directly or indirectly dealing with specific risks, so that the BIRMC is immediately informed of any hindrance, obstacle, discouragement or constraint in the performance of their functions and / or the implementation of their decisions.
- Review the risk indicators designed to monitor the level of specific risks at any given time, with a view of determining the adequacy of such indicators to serve the intended risk management objectives.
- Review the actual results computed monthly against each risk indicator and take prompt corrective action(s) to mitigate the effects of specific risks, in case such risks are exceeding the prudent thresholds defined by the Board of Directors.

BIRMC meetings

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

Name of the Director	No of Meetings Attended / (No of Meetings Held)
Mr. Roshaan Hettiaratchi	6/6
Dr. Niroshan Gamage	3/6
Mr. Rajitha N. Halwela	5/6

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

Reporting

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



Roshaan Hettiaratchi

Chairman-Board Integrated Risk Management Committee
31st December 2016

Board Audit Committee Report

Chairman's Overview 2016

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.

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.

Composition of the Committee

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

Attendance

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.

Member	Status of BAC	Committee member		Attendance of meeting during the year 201
		since	to	
Mr. M.S.D. Ranasiri	Chairman	2016 January	2016 December	04
Dr. Niroschan Gamage	Member	2016 January	2016 December	03
Mr. Rajitha Halwela	Member	2016 January	2016 December	02

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

Internal Audit Manual

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

Task & Responsibility of the Committee

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

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

Board Audit Committee Report Contd...

Meetings

The committee met on Four (04) occasions during the year 2016. The Superintendent of the Government Audit as the representative of the Auditor General attended the BAC meetings by invitation. Brief overview of the matters taken up at the meetings are listed below,

Board Audit Committee Activities during the year 2016

The Committee attended to the following actions:

01. Reviewed and approved the risk based internal audit plan for implementation of the year 2016 by the BAC.
02. Reviewed Auditor General's Report under section 13 (7) (a) for the year ended 31st December 2015 in terms of Finance Act No. 38 of 1971.
03. Committee reviewed the progress of achievement in budgetary targets of the branches quarterly, 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 2015 and quarters ended 31st March, 30th June, 30th September 2016 before publication and recommended to submit the same to the Board of Directors.
05. Quarterly review has been performed by the committee to ensure that financial and operational activities of the bank are conducted in line with all regulatory requirements.
06. Committee has reviewed the performance of the risk division to ensure that, Risk Division has time identifies risk faced by the bank.
07. Quarterly reviewed the performance of the Internal Audit Division.
08. Reviewed the Performance Appraisal of Senior Staff members of the Internal Audit Division.
09. Reviewed and corrective actions taken for the Central Bank Examination Report.
10. Reviewed the Internal Audit Findings.
11. In response to the recommendation made by the committee, the board of directors has approved the Internal Audit Manual prepared by the Internal Audit Division.
12. The committee has monitored and reviewed the management responses for the internal audit reports on financial, administration and operational activities of the bank. Committee also reviewed the effectiveness of the performance of internal audit division and monitors the adequacy of the internal audit assignments were carried out in line with the approved audit plan.

External Audit Reports

By statute, the Auditor General is the External Auditor of the Bank. The External Auditor was invited to discuss the findings of the External Auditor during the Committee meetings. The committee ensured the provision of all information and documents required by the External Auditor for the purpose of 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.

System of Internal Controls

On behalf of the Board of directors, committee has reviewed 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 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.



Mr. M.S.D. Ranasiri

Chairman - Board Audit Committee/Director
28th February 2017

Board Nomination Committee Report

Composition of the Committee

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

The members of the Board Nomination Committee (BNC), as at the end of the year 2016, comprised of the following Independent Non-Executive Directors of the Bank:

Mr. K. K. T. Jinadasa (Chairman)
 Dr. Niroschan Gamage
 Mr. P. C. Wijayawardena
 Mrs. L. U. N. Sumanasekera (Alternative member)

Scope of the Committee

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

Main Duties of the Committee

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

Meetings of Committee

The Committee shall meet at least twice a year. Meetings can be convened as and when a need arises. The Committee met twice in the year 2016.

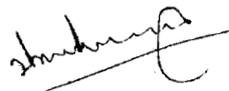
The quorum is two members both of whom must be independent Non-Executive Directors present throughout the meeting in person. Proceedings of the Committee meetings are regularly reported to the Board of Directors.

Attendance of the Committee members at the meetings

Name of Director	Status in BNC	Attendance at Meetings
Mr. Tissa Jinadasa	Chairman	2/2
Dr. Niroschan Gamage	Member	2/2
Mr. P. C. Wijayawardena	Member	2/2

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

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



Tissa Jinadasa

Chairman - Board Nomination Committee

Directors' Responsibility for the Financial Reporting

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

The Directors confirm that the Financial Statements of the Bank gives a true and fair view of the financial position of the Bank as at December 31, 2016; and financial performance of the Bank for the financial year then ended.

The Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report

Financial Statements

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

The Financial Statements for the year 2016 presented in this Annual Report are in conformity with the requirements of

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

The Directors acknowledge that in preparing the Financial Statements for the year 2016 presented in this Annual Report, the most appropriate accounting policies have been used and applied. Material departures, if any, have been disclosed and explained.

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

The Board of Directors also approves the 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 68 of this annual report.

Going concern

The Directors are of the view that the Bank has adequate resources to continue in business for the foreseeable future. Accordingly, they have continued to adopt the going concern basis in preparing the Financial Statements in accordance with the Sri Lanka Accounting Standards (LKAS & SLFRS) laid down by the Institute of Chartered Accountants of Sri Lanka and in conformity with the generally accepted Accounting Principles.

Internal controls, risk management and compliance

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

A report by the Directors on the Bank's internal control mechanism is given on pages 55 and 56 of this Annual Report.

Audit report

Pursuant to provisions of Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka, the Auditor General is the Auditor of the Bank and issues the final opinion on the Financial Statements of the Bank. The responsibilities of the Auditor in relation to the Financial Statements are set out in the Report of the Auditor General on page 72 of this Annual Report.

Directors' interests in contracts of significance

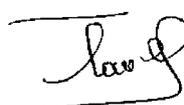
There wasn't any contract of significance to which the bank was a party and in which a director of the bank had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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



W. K. Perera

Board Secretary/Chief Manager (Legal)

Auditor General's Report



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මගේ අංකය
எனது இல
My No. } BAF/G/SMIB/1/16/1

ඔබේ අංකය
உமது இல
Your No. }

දිනය
திகதி
Date } 30 November 2017

The Chairman
State Mortgage and Investment Bank

Report of the Auditor General on the Financial Statements of the State Mortgage and Investment Bank for the year ended 31 December 2016 in terms of Section 14(2) (c) of the Finance Act, No.38 of 1971.

The audit of financial statements of the State Mortgage and Investment Bank ("the Bank") for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Financial Act, No.38 of 1971 and Section 65(2) of the State Mortgage and Investment Bank Law No.13 of 1975. My comments and observations which I consider should be published with the Annual Report of the Bank in terms of Section 14 (2) (c) of the Finance Act appear in this report.

1.2 Board's Responsibility for the Financial Statements

Board of Directors ("Board") is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for

such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. - இல. 306/72, பொல்தூவ வீதி, பத்தரமுல்லை, இலங்கை. - No. 306/72, Polduwa Road, Battaramulla, Sri Lanka

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www.auditorgeneral.gov.lk

Auditor General's Report Contd...

accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-section (3) and (4) of section 13 of Financial Act, No 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

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

1.4 Basis for Qualified option

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

2 Financial Statements

2.1 Qualified Option

In my option, except for the effect of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the State Mortgage and Investment Bank as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Compliance with Sri Lanka Accounting Standards (LKAS/SLFRS)

The Bank had made the debit and credit entries amounting to Rs.124, 707 and 3,317,349 respectively to the withholding tax on specified fees account as error corrections relating to the year before 2015 without complying with the requirements laid down in LKAS 08 - Accounting Policies, Changes in Accounting Estimates and Errors.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Although the financial statements had been prepared in accordance with the Sri Lanka Accounting Standards (SLFRS and LKAS), the general ledger accounts had not been updated in order to reflect the balances shown in the financial statements. Therefore, the Bank had to post 19 entries worth Rs 484,816,298 to the General Ledger as adjustments after reporting period for the preparation of the financial statements.

- (b) An amount of Rs 8,614,361 was shown as an un-reconciled control account in the financial statements as at 01 January 2016. Though a sum of Rs.58, 137, 838 and Rs.42, 526, 685 had been debited and credited to this account respectively during the year under review, most of these debit and credit entries are related to previous years for which adequate information was not made available. Accordingly, the recoverability and accuracy of a debit balance of Rs.24, 225, 514 shown under other assets in the financial statements is in doubt.
- (c) There was an abnormal debit balance of Rs. 12, 407,870 in Cheques on Realization Account as at 31 December 2016 without being confirmed. Hence, the other debtors shown in the financial statements had been overstated by that amount.
- (d) Adjustments to be made in the bank reconciliation statements relating to the year 2016 and previous years aggregating Rs. 5, 020, 135 had not been made to the respective bank reconciliation statements and therefore, cash and cash equivalent balance shown in the financial statements for the year under review had been understated by similar amount.
- (e) According to the financial statements for the year under review the un-appropriated loan balance was Rs. 168, 317, 332. However, it was shown as Rs. 148, 743, 268 in the age analysis. Hence, other liabilities shown in the financial statements had been overstated by Rs. 19, 574, 064 as at 31 December 2016.

2.2.3 Un-explained Differences

The following observations are made.

- (a) A difference of Rs. 3, 265, 669 was observed between the loan balances shown in the General Ledger and Loan Schedules relating to four loan categories as at 31 December 2016 and reason for this differences was not explained to audit. Further, a difference of Rs. 1, 382, 385 had been observed between the value of loans as per the financial statements and the total value of loans (after aggregating the loans) considered and not considered for impairment.

Auditor General's Report Contd...

- (b) A difference of Rs 2, 856, 831 was observed between the inter branch accounts which had not been reconciled as at 31 December 2016.
- (c) It was observed a difference of Rs 2, 231, 095 between the EPF and ETF payables shown in the financial statements and the amounts shown in the remittance forms as at 31 December 2016.
- (d) An amount of Rs.1, 587, 771 shown as employees' security deposit in the schedule to the financial statements was differ from the corresponding amount of Rs.1, 729, 042 shown in the financial statements as at 31 December 2016 and as such an unexplained difference of Rs. 141, 271 was observed in audit.
- (e) A difference of Rs.539,171 was observed between the financial statements and the balances generated by the computerized systems with regard to the deposits as at 31 December 2016.
- (f) Though a credit balance and a debit balance should be appeared in the branch advice account and claim voucher account respectively according to the accounting method followed by the bank, an abnormal debit and credit balance of Rs.6, 571, 060 and Rs.17, 592, 805 respectively were observed in these accounts as at 31 December 2016. However, the reasons for this had not been explained to audit.
- (g) Although an amount of Rs 27, 884, 783 was appeared in the financial statements as tax effect, it was Rs 493, 558 as per schedules provided to audit. The difference of Rs. 27, 391, 225 had not been adjusted in the financial statements as at 31 December 2016.

2.2.4 Lack of Evidence for Audit

An amount of Rs 2, 400, 000 shown as fraud account under other debtors as at the end of the year under review could not be satisfactorily vouched in audit due to non-submission of detailed schedules, confirmations and other required details to audit.

2.3 Accounts Receivable and payables

The following observations are made.

- (a) An amount of Rs. 1, 389,087 had been shown as received in advance in the financial statements for more

than two years. However, these balances had not been settled even as at the end of the year under review.

- (b) The following account balance aggregating Rs. 2, 121, 389 had been carried forward without being recovered for more than two years. Hence, the recoverability these balances were in doubt.
- (c)

Name of the Account	Amount Rs.
FD Loan Recoverable	418,635
National Security Levy	785,954
Interest paid in Advance-Ascharya	916,800
Total	2,121,389

- (d) Out of the debit balance of Rs. 7,197,693 shown in the advance accounts, a sum of Rs 5,376,153 related to the year 2015 had not been identified and adjusted in the accounts. Hence, the reliability and recoverability of this balance could not be ascertained in audit.
- (e) It was observed that a debit balance of Rs. 1,518,610 had been shown under other debtors as accrued assistant to provide fund account. Since this balance was not confirmed by the respective parties, the recoverability of this balance is in doubt.
- (f) An amount of Rs. 799,884 had been shown under other debtors as suspense nature in the financial statements as at 31 December 2016. However, the reasons and the details of this had not been submitted to audit.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of this Bank during the year under review had resulted in a pre-tax net profit of Rs.706 million as compared with the corresponding pre-tax net profit of Rs.681 million in the preceding year, thus showing an improvement of Rs.25 million or 4 per cent in the financial results.

Increase of interest income by 9.3 per cent and decrease of impairment for the year by 67 per cent as compared with the corresponding figures of the preceding year were the main reason attributed for this improvement.

Auditor General's Report Contd...

3.2 Value Addition

Although the Financial result of the Bank for the year under review was Rs 436,017,785, the value addition of the Bank had gradually increased from Rs.933,770,458 in year 2013 to Rs 1,662,254,618 in year 2016 after taking into account the personal emolument, depreciation and tax payable to the government aggregating Rs. 1,226,236,833 for the year under review and total value addition of the Bank had increased by Rs 86,232,972 or 5.5 per cent as against the previous year.

3.3 Analytical Financial Review

3.3.1 Profitability

The following observations are made.

- i. The interest income had increased from Rs. 2,611 million to Rs. 4,241 million or 62.4 per cent during the period from 2011 to 2016 while, interest expenses had also increased from Rs. 1,214 million to Rs. 2,425 million from 2011 to 2016 or by 99 per cent. Accordingly, the net interest income had dropped by 11 per cent from 53.5 per cent in 2011 to 42.8 per cent in 2016.
- ii. The net profit after tax had decreased from 510 million to Rs.436 million or by 14.5 per cent during the period of 2011-2016. However, it had increased from Rs.409 million to Rs.436 million or by 6.6 per cent in the year under review as compared with the previous year.

3.3.2 Significant accounting Ratios

According to the information made available, some important accounting ratios of the Bank for the year under review and for the preceding 02 years as compared with sector ratios are given below.

	The Bank		Sector	Ratios
	2016	2015	(Licensed Specialized Banks)	
	2016	2015	2016	2015
Profitability Ratios	Percentage	Percentage	Percentage	Percentage
i. Net Interest Margin	5.36	5.81	3.5	3.8
ii. Return on Equity	9.50	9.90	18.3	20.3
iii. Return on Assets	2.03	2.11	1.5	1.6
iv. Staff cost to operating expenses	20.27	22.14	51.1	52.1
Capital Adequacy Ratios				
Tier I	22.96	22.17	13.5	16.6
Liquidity Ratios				
i. Liquid Assets/ Deposits	22.82	23.64	61	67.2

Although the net interest margin was higher than the Licensed Specialized Banking Sector by 1.86 per cent, the return on equity was not in satisfactory level and it was behind the sectorial ratio by 8.8 per cent. Further, the liquidity of the Bank was also far below as compared with the sectorial ratio both in year 2015 and 2016.

3.3. Market share of the Bank

Market share position of the Bank based on the total deposits and total assets with compared to the Banking Sector (BS) and Licensed Specialized Banking Sector (LSBS) is given below.

Year	Market Share on Deposit Base As a percentage of		Market Share on Asset Base As a percentage of	
	BS	LSBS	BS	LSBS
2016	0.46	3.41	0.39	2.94
2015	0.52	3.64	0.42	3.10
2014	0.52	3.40	0.43	2.79
2013	0.51	3.43	0.45	2.91
2012	0.47	3.05	0.44	3.03
2011	0.49	2.94	0.48	3.04

The following observation is made in this regard.

The market share based on total deposits had increased by 0.47 per cent as compared with the LSBS from year 2011 to 2016. However, it had decreased by 0.23 per cent as compared with the year 2015. In the meantime, the market share of the Bank based on total Assets had decreased by 0.10 per cent as compared with LSBS during the period from 2011 to 2016 and it had decreased by 0.16 per cent as compared with year 2015.



H.M. Gamini Wijesinghe
Auditor General

Statement of Financial Position

As at 31st December 2016

	Note	2016 Rs.	2015 Rs.
ASSETS			
Cash and Cash Equivalents	09	98,024,536	103,597,281
Placements with Banks & Financial Institutions	10	5,700,335,444	5,812,559,274
Loans and Receivables to Customers	11	28,163,700,935	26,523,405,054
Financial Investments - Available for Sale	12	22,619,078	437,742,900
Financial Investments - Held to Maturity	13	667,814,030	820,278,148
Property, Plant and Equipment	14	93,575,951	74,415,697
Deferred Tax Assets	15	95,858,266	90,767,196
Other Assets	16	505,230,283	368,810,345
Total Assets		35,347,158,523	34,231,575,897
Liabilities			
Due to Banks	17	19,056,864	7,196,235
Due to Customers	18	28,845,169,193	27,836,410,935
Other Borrowings	19	502,912,396	959,935,368
Employee Benefit Liability	20	322,682,597	323,422,610
Other Liabilities	21	739,142,216	841,487,652
Total Liabilities		30,428,963,265	29,968,452,800
Equity			
Stated Capital/Assigned Capital	22	889,812,899	889,812,899
Statutory Reserve Fund	23	231,357,505	203,052,939
Retained Earnings	24	2,706,975,850	2,449,406,437
Other Reserves	25	1,090,049,004	720,850,822
Total Equity		4,918,195,257	4,263,123,097
Total Equity and Liabilities		35,347,158,523	34,231,575,897
Contingent Liabilities and Commitments	26	-	-

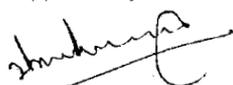
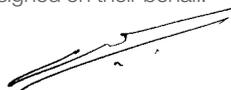
Certification:

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


K.L.N.A Perera

Assistant General Manager
(Finance)

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


Tissa Jinadasa
Chairman

S.G. Senarathna
Director

W.M. Dayasinghe
General Manager

Income Statement

For the year ended 31st December 2016

	Note	2016 Rs.	2015 Rs.
Interest Income		4,240,771,159	3,879,027,722
Interest Expenses		(2,425,330,442)	(2,057,337,280)
Net Interest Income	1	1,815,440,717	1,821,690,442
Fee and Commission Income		121,154,693	107,454,869
Fee and Commission Expenses	-	-	
Net Fee and Commission Income	2	121,154,693	107,454,869
Other Operating Income (net)	3	9,945,623	12,118,342
Total Operating Income		1,946,541,033	1,941,263,653
Impairment Charge for Loans and Other Losses	4	(35,276,398)	(106,577,177)
Net Operating Income		1,911,264,636	1,834,686,476
Personnel Expenses	5	(698,204,774)	(698,834,195)
Other Expenses	6	(286,537,111)	(293,054,823)
Operating Profit/(Loss) before Value Added Tax (VAT)		926,522,751	842,797,458
Value Added Tax (VAT) on Financial Services		(189,618,676)	(136,941,699)
NBT on Financial Services		(30,835,193)	(24,898,491)
Profit/(Loss) before Tax		706,068,883	680,957,269
Tax Expenses	7	(270,051,098)	(271,182,868)
Profit/(Loss) for the Year		436,017,785	409,774,401

Statement of Comprehensive Income

For the year ended 31st December 2016

	Note	2016 Rs.	2015 Rs.
Profit/(Loss) for the Year		436,017,785	409,774,401
Other Comprehensive Income, net of Tax			
Gains and Losses on Re-Measuring Available-for-Sale Financial Assets		(530,000)	13,523,822
Actuarial Gains/(Losses) on Defined Benefit Plans (+/-)		31,357,418	-
Total Comprehensive Income for the Year		466,845,203	423,298,223

Statement of Changes in Equity

For the year ended 31st December 2016

	Contributed Capital	Statutory Reserve	Capital Reserve	General Reserve	Title Indemnity Fund	Retained Earnings	AFS Reserve	Total
Balance as at 31.12.2014	889,812,899	191,356,249	9,176,000	683,280,000	1,031,000	2,229,190,619	13,840,000	4,017,686,767
Net Profit for the Year						409,774,401		409,774,401
Deemed Dividend Tax						(167,861,893)		(167,861,893)
Other Comprehensive Income						-	13,523,822	13,523,822
Transfer During the Year		11,696,690				(11,696,690)		-
Transfer to Investment Fund						-		-
Transfer to Consolidated Fund						(10,000,000)		(10,000,000)
Balance as at 31.12.2015	889,812,899	203,052,939	9,176,000	683,280,000	1,031,000	2,449,406,437	27,363,822	4,263,123,097
Prior Period Adjustments						1,845,834		1,845,834
Net Profit for the Year						436,017,785		436,017,785
Deemed Dividend Tax						(173,347,059)		(173,347,059)
Government Loan Transfer			384,322,004			-		384,322,004
Other Comprehensive Income						31,357,418	(15,123,822)	16,233,595
Transfer During the Year		28,304,566				(28,304,566)		-
Transfer to Consolidated Fund						(10,000,000)		(10,000,000)
Balance as at 31.12.2016	889,812,899	231,357,505	393,498,004	683,280,000	1,031,000	2,706,975,850	12,240,000	4,918,195,258

Statement of Cash Flows

As at 31st December 2016

	Note	2016 Rs.	2015 Rs.
Cash Flows from Operating Activities			
Interest Received		3,512,102,483	3,450,961,086
Interest Payments		(1,827,279,478)	(2,057,337,280)
Payments to Employees		(648,946,375)	(698,834,195)
Receipts from Other Operating Activities		125,012,566	119,573,211
Payments on Other Operating Activities		(286,104,056)	(293,054,823)
Operating Profit before Changes in Operating Assets		874,785,139	521,307,999
(Increase)/Decrease in Operating Assets:			
Funds Advanced to Customers (net)		(1,758,233,406)	(2,592,361,733)
Other Short-Term Securities		741,830,982	(1,541,159,669)
		(1,016,402,424)	(4,133,521,403)
Increase /(Decrease) in Operating Liabilities:			
Deposits from Customers (net)		276,337,326	3,689,991,892
Others		-	(80,085,100)
		276,337,326	3,609,906,792
Net Cash from Operating Activities before Income Tax		134,720,041	(2,306,611)
Taxes Paid		(678,620,779)	(336,246,110)
Net Cash from Operating Activities		(543,900,738)	(338,552,721)
Cash Flows from Investing Activities			
Dividends Received		6,087,750	5,518,500
Proceeds from Sales of Property, Plant & Equipment		-	-
Purchase of Property, Plant & Equipment		(56,687,346)	(12,312,639)
Interest Received from Deposits with Other Banks		408,206,582	335,945,067
Interest Received from Government Securities		251,561,432	92,121,569
Net Cash from Investing Activities		609,168,418	421,272,497
Cash Flows from Financing Activities			
Repayment of Debentures		-	-
Repayment of Loans		(72,701,054)	(74,486,268)
Proceeds from Borrowings		-	-
Payment to the Consolidated Fund		(10,000,000)	(10,000,000)
Net Cash from Financing Activities		(82,701,054)	(84,486,268)
Net Increase in Cash and Cash Equivalents		(17,433,375)	(1,766,492)
Cash and Cash Equivalents at the beginning of the Year		96,401,047	98,167,539
Cash and Cash Equivalents at the end of the Year		78,967,672	96,401,047
Reconciliation of Cash and Cash Equivalents			
Cash and Short Term Funds		98,024,536	103,597,281
Borrowings from Banks		(19,056,864)	(7,196,235)
		78,967,672	96,401,047

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).

1.5 Date of Authorization

The Audited Financial Statements of the State Mortgage & Investment Bank for the year ended 31st December 2016 were authorized for issue in accordance with a resolution of the Board of Directors on 30.09.2017

The staff strength of the Bank as at December 31, 2016 was 375 (392 as at December 31, 2015).

2. Summary of Significant Accounting Policies

2.1. Basis of Preparation

These Financial Statements for the year ended 31 December 2016 were prepared in accordance with Sri Lanka Financial Reporting Standards (SLFRS and LKAS).

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

2.1.1. Statement of compliance

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

2.1.2. Presentation of Financial Statements

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

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

2.2. Significant accounting Judgments, Estimates and Assumptions

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

2.2.1. Judgements

Taxation

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

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

Accounting Policies Contd...

2.2.2. Estimates and Assumptions

Going concern

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values.

Impairment losses on loans and advances

Individually assessed Loans and Advances

For financial assets carried at amortised cost (such as loans and advances to customers as well as held to maturity investments), the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

Impairment of Available For Sale Investments

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

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

Deferred Tax Assets

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

Employee Benefit Liability- Gratuity

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

	2016	2015
Interest Rate	10%	10%
Rate of Annual Salary Increase	8.50%	8.50%
Retirement Age	55-60 years	55-60 years

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

Employee Benefit Liability - Medical Benefit

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

The assumptions used are as follows.

	2016	2015
Discount Rate	12.00%	12.00%
Medical Expense Escalation	10.00%	10.00%
Participant Data (Actives) census information at	31.12.2016	31.12.2015

Description of employee benefits is given in Note 20.

Accounting Policies Contd...

2.3. Summary of Significant Accounting Policies

2.3.1. Financial Instruments - Initial Recognition and Subsequent Measurement

a. Date of Recognition

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

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

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

b. Initial Measurement of Financial Instruments

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

c. Available for sale investments

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

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

Unrealised gains and losses are recognised directly in equity (Other comprehensive income) in the 'Available for sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in

the income statement in 'Other operating income'. Dividends earned whilst holding available for sale financial investments are recognised in the income statement as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the income statement in 'Impairment losses on financial investments' and removed from the 'Available for Sale Reserve'.

d. Held to Maturity Financial Investments

Held to maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, held to maturity financial investments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest and similar income' in the income statement. The losses arising from impairment of such investments are recognised in the income statement line 'Impairment expense'.

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

e. Other Financial Liabilities

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

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

Accounting Policies Contd...

f. Financial Assets classified as Loans and Receivables

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

- Those that the bank intends to sell immediately or in the near term and those that the bank, upon initial recognition, designates as at fair value through profit or loss
- Those that the bank, upon initial recognition, designates as available for sale
- Those for which the bank may not recover substantially all of its initial investment, other than because of credit deterioration

After initial measurement, amounts 'Due from banks' and 'Loans and advances to customers' are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest and similar income' in the income statement. The losses arising from impairment are recognised in the income statement in 'Impairment expense'.

g. Day 1' Difference for staff loan

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

h. Reclassification of financial assets

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

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

The Bank may reclassify a non-derivative trading asset out of the 'held for trading' category and into the 'loans and

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

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

2.3.2. De-Recognition of Financial Assets and Financial Liabilities

a) Financial assets

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

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

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum

Accounting Policies Contd...

amount of consideration that the Bank could be required to repay.

b) Financial Liabilities

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

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

2.3.3. Repurchase and Reverse Repurchase Agreements

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

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

2.3.4. Determination of Fair Value

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

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

instruments for which market observable prices exist, and other relevant valuation models.

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

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

2.3.5. Impairment of Financial Assets

a) Loans and Advances

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

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

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

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the

Accounting Policies Contd...

difference between the carrying amount of the assets and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

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

Collectively assessed loans and advances

Impairment is assessed on a collective basis in two circumstances:

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

Incurred but not yet identified impairment

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

The collective impairment allowance is determined after taking into account:

- Historical loss experience in portfolios of similar credit risk; and
- Management's experienced judgment as to whether current economic and credit conditions are such that the

actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience.

Homogeneous groups of loans and advances

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

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

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

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

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

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

These additional macro and portfolio risk factors may include:

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

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

b) Financial Assets Carried at Amortised Cost

For financial assets carried at amortised cost (such as amounts due from Banks and loans and advances to customers), the Bank first assesses individually whether objective evidence

Accounting Policies Contd...

of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded as part of 'Interest and similar income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Impairment expense'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

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

c) Available for Sale Financial Investments

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

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

d) Renegotiated Loans

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

Accounting Policies Contd...

subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

e) Collateral Valuation

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

2.3.6. Offsetting Financial Instruments

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

2.3.7. Leasing

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

2.3.8. Recognition of income and expenses

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

a) Interest and Similar Income and Expense

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

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

b) Fee and commission income

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

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

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

Fee Income from Providing Transaction Services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

c) Dividend income

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

d) Net trading income

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

e) Other Income

Other income is recognized on an accrual basis.

f) Other Expenses

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

Accounting Policies Contd...

2.3.9. Cash and cash equivalents

Cash and short term funds include cash in hand, balances with banks, placements with banks and money at call and at short notice. Details of the cash and short term funds are given in Note 9 to the Financial Statements.

2.3.10. Property, Plant and equipment

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

a) Cost Model

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

b) Subsequent Cost

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

c) Restoration Cost

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

d) Capital Work-in-Progress

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

e) Depreciation

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The estimated useful lives are as follows:

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

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

f) De-recognition

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

2.3.11. Intangible Assets

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

Intangible assets acquired separately are measured on initial 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.

Accounting Policies Contd...

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

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

2.3.12. Impairment of Non-Financial Assets

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

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

2.3.13. Financial Guarantees

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

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

2.3.14. Retirement Benefit Obligation

a) Gratuity

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

Employees who have resigned or whose services are terminated other than by retirement are eligible to receive the terminal gratuity under the Payment of Gratuity Act No. 12 of 1983 at the rate of one half of the Gross Salary applicable to the last month of the financial year in which the employment is terminated or resigned, for each year of completed service, for those who have served in excess of 5 years. The Bank measures the present value of the promised retirement benefits of gratuity which is a defined benefit plan using the projected unit credit actuarial valuation method.

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

Recognition of Actuarial Losses / Gains

Actuarial losses / gains are recognized in OCI.

Expected Return on Assets

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

Interest Cost

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

Funding Arrangements

The Gratuity liability is not externally funded.

b) Defined contribution plan

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

The Bank contributes to the following schemes:

Employees' Provident Fund

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

Accounting Policies Contd...

Employees' Trust Fund

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

c) Medical Benefit

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

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

Normal and Early Retirement

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

Recognition of Actuarial Losses / Gains

Actuarial losses / gains are recognized in OCI.

Expected Return on Assets

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

Interest Cost

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

Funding Arrangements

The Medical Benefit Scheme is not externally funded

2.3.15. Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the

obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

2.3.16. Taxes

a) Current Taxation

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

b) Deferred Taxation

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

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

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

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

Accounting Policies Contd...

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

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

c) Value Added Tax on Financial Services (VAT)

Bank's total value addition was subjected to a 15% and 11% Value Added Tax as per section 25A of the Value Added Tax No. 14 of 2002 and amendments thereto.

2.3.17. Events after the Balance Sheet Date

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

2.3.18. Related Party Transactions with Government and Government Related Entities

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

2.3.19. Standards Issued but not yet Effective

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

(i) SLFRS 9 -Financial Instruments: Classification and Measurement

SLFRS 9, as issued reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities.

(ii) SLFRS 13 -Fair Value Measurement SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 provides guidance on all fair value measurements under SLFRS.

Notes to the Financial Statements

	2016 Rs.	2015 Rs.
1. Net Interest Income		
Interest Income		
Sri Lanka Government Securities	268,883,451	92,121,569
Loans and Advances	3,507,069,283	3,450,961,086
Financial Investments	464,818,425	335,945,067
Total Interest Income	4,240,771,159	3,879,027,722
Interest Expenses		
Due to Banks	191,425	65,251
Due to Customers	2,403,891,658	2,030,898,351
Other Borrowings	18,497,360	21,625,048
Debt Securities Issued	2,750,000	4,748,630
Total Interest Expenses	2,425,330,442	2,057,337,280
Net Interest Income	1,815,440,717	1,821,690,442
a. Net Income from Sri Lanka Government Securities		
	2016 Rs	2015 Rs
Interest Income	268,883,451	92,121,569
(Less):Interest Expenses	-	-
Net Interest Income	268,883,451	92,121,569
2. Net Fee and Commission Income		
	2016 Rs	2015 Rs
Fee and Commission Income	121,154,693	107,454,869
Fee and Commission Expenses	-	-
Net Fee and Commission Income	121,154,693	107,454,869
Comprising		
Bank Service Charges	104,804,828	98,729,444
Legal & Technical Fees	484,395	2,238,696
Other Loan Charges	15,865,470	6,486,729
Net Fee and Commission Income	121,154,693	107,454,869
3. Other Operating Income (net)		
	2016 Rs	2015 Rs
Dividend Income	6,087,750	7,454,500
Sundry Income	3,857,873	4,663,842
Other Operating Income (net)	9,945,623	12,118,342

Notes to the Financial Statements Contd...

	2016 Rs.	2015 Rs.
4. Impairment Charges/ (Reversal) for Loans and Other Losses		
Individual Impairment	3,503,255	2,940,053
Collective Impairment	31,773,143	103,637,124
Total	35,276,398	106,577,177
5. Personnel Expenses		
	2016 Rs	2015 Rs
Salaries and Bonus	470,891,369	441,092,582
Contribution to Defined Contribution Plans	67,867,961	65,894,250
Contribution to Defined Benefit Plans	75,821,856	68,516,365
Other Staff Expenses	83,623,588	123,330,998
Total	698,204,774	698,834,195
6. Other Expenses		
	2016 Rs	2015 Rs
Directors' Emoluments	2,684,224	1,893,162
Auditors' Remuneration	1,400,000	2,482,798
Professional and Legal Expenses	1,445,635	1,912,214
Depreciation/Amortisation of Property, Plant and Equipment	37,527,092	34,389,992
Office Administration and Establishment Expenses	145,141,277	142,879,340
Advertising and Promotional Expenses	14,278,436	18,602,502
Motor Vehicle Maintenance & Travelling	7,523,141	6,233,490
General Expense	11,893,478	11,337,151
District Rep's Commission	16,750	79,563
Other Losses, Bad Debts and Write Offs	23,898	707,077
CBSL Deposit Insurance	25,302,525	23,256,935
Other Expenses	39,300,654	49,280,598
Total	286,537,111	293,054,823

Notes to the Financial Statements Contd...

	2016 Rs.	2015 Rs.
7. Tax Expenses		
Current Tax Expense		
Current Year	275,142,167	275,136,523
Deferred Tax Expense/(Credit)	(5,091,070)	(3,953,655)
Total	270,051,098	271,182,868
a. Reconciliation of Tax Expenses		
Profit/(Loss) before Tax	926,522,751	842,797,458
Adjustment in Respect of Current Income Tax of Prior Periods		
Add: Tax Effect of Expenses that are not Deductible for Tax Purposes	143,472,133	195,729,127
(Less): Tax Effect of Expenses that are Deductible for Tax Purposes	(58,856,031)	(48,441,645)
Disposal of Assets	-	-
Capita Gains & Dividends	(41,317,087)	(7,454,500)
Adjusted Profits for the Year	969,821,765	982,630,440
Taxation Based on Profit for the Year	271,550,094	275,136,523
Transfer to/from Deffered Taxation	(5,091,070)	(3,953,655)
(Over)/Under Provision in Previous years	3,592,073	-
Tax Expense for the Period	270,051,098	271,182,868
b. The Deferred Tax (Credit)/Charge in the Income Statement Comprise of the Following.		
Deferred Tax Assets		
Property, Plant & Equipment	(5,507,139)	(208,865)
Employee Benefit Obligations	(90,351,127)	(90,558,331)
Deferred Tax (Credit)/Charge to Income Statement	(95,858,266)	(90,767,196)

Notes to the Financial Statements Contd...

8. Analysis of Financial Instruments by Measurement Basis Bank - Current Year (2016)

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

Held-to-Maturity - HTM

Available-for-Sale – AFS

Loans and Receivables/Deposits at Amortised Cost - Amortised Cost

Notes to the Financial Statements Contd...

Bank - Previous Year (2015)

In Rs.	HTM	Loans & Receivables	AFS	Total
ASSETS				
Cash and Balances with Central Banks		103,597,281		103,597,281
Sri Lanka Government Securities	820,278,148			820,278,148
Balances with Banks				-
Investment Securities			5,379,078	5,379,078
Placement with and Loans to Other Banks & Financial Institutions				-
Commercial Papers		466,025,740		466,025,740
Treasury Bills Held Under Resale Agreement		611,335,421		611,335,421
Fixed Deposits		4,669,308,523		4,669,308,523
Debentures		65,889,590		65,889,590
Loans and Receivables to Other Customers		26,523,405,054		26,523,405,054
Financial Investments - Pyramid Trust			432,363,822	432,363,822
Other Assets -Prepaid Staff Loans		260,732,940		260,732,940
Total financial assets	820,278,148	32,700,294,550	437,742,900	33,958,315,599
LIABILITIES				
Due to Banks		7,196,235		7,196,235
Due to Customers				-
Deposits		17,969,933,892		17,969,933,892
Institutional Deposits		8,862,849,956		8,862,849,956
Scheme Deposits		1,003,627,087		1,003,627,087
Debt Securities Issued		110,180,822		110,180,822
Other Borrowings				-
Government of Sri Lanka		384,321,918		384,321,918
AHF		37,615,411		37,615,411
Refinance Borrowing		427,817,217		427,817,217
Other Liabilities		369,394,770		369,394,770
Total Financial Liabilities	-	29,172,937,308	-	29,172,937,308

Notes to the Financial Statements Contd...

	2016 Rs.	2015 Rs.
09. Cash and Cash Equivalents		
Cash and Balances with banks	98,024,536	103,597,281
Total	98,024,536	103,597,281
	2016 Rs.	2015 Rs.
10. Placements with Banks & Financial Institution		
Commercial Paper	291,436,924	466,025,740
Treasury Bills Held under Resale Agreement	940,400,465	611,335,421
Debentures	65,999,171	65,889,590
Fixed Deposits	4,402,498,884	4,669,308,523
Total	5,700,335,444	5,812,559,274
	2016 Rs.	2015 Rs.
11. Loans and Receivables to Customers		
Gross Loans and Receivables	28,530,495,410	26,854,923,131
Individual Impairment	(12,893,063)	(9,389,808)
Collective Impairment	(353,901,411)	(322,128,268)
Net Loans and Receivables	28,163,700,935	26,523,405,054
	2016 Rs	2015 Rs
a. Analysis		
By product		
Mortgage	9,076,121,011	8,213,025,862
EPF	10,343,697,912	12,051,365,374
Vehicle	40,344,555	54,681,830
Staff loans	841,704,479	740,215,941
Personal Loans	7,430,006,373	4,606,068,478
Others	798,621,080	1,189,565,645
Gross Total	28,530,495,410	26,854,923,131
By industry		
Construction of Houses	11,897,376,972	11,012,444,692
Home Improvements	10,880,620,473	10,071,315,001
Purchase of Building Sites	147,377,412	136,415,414
Purchase of Houses	4,009,353,821	3,711,136,270
Other	1,595,766,732	1,923,611,755
Gross Total	28,530,495,410	26,854,923,131
By Security		
Collateral held as Security	20,301,867,957	21,059,289,008
Other Credit Enhancements	8,228,627,453	5,795,634,123
	28,530,495,410	26,854,923,131

Notes to the Financial Statements Contd...

	2016 Rs	2015 Rs
b. Movements in Individual and Collective Impairment		
Individual Impairment		
Opening Balance as at 1st January	9,389,808	6,449,755
Charge/(Write back) to income statement	3,503,255	2,940,053
Closing Balance	12,893,063	9,389,808
Collective Impairment		
Opening Balance as at 1st January	322,128,268	218,491,144
Charge/(Write Back) to Income Statement	31,773,143	103,637,124
Closing Balance	353,901,411	322,128,268
Total	366,794,474	331,518,077

	2016 Rs.	2015 Rs.
12. Financial Investments-Available-for-Sale (Excluding Sri Lanka Government Securities)		
Equity Securities- Unit Trust	17,240,000	432,363,822
Unquoted Shares	5,379,078	5,379,078
(Less): Impairment Charges	-	-
Net Available-for-sale Investments	22,619,078	437,742,900

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

13. Financial Investments-Held to Maturity

	2016 Rs	2015 Rs
Treasury Bills and Bonds	667,814,030	820,278,148
(Less): Impairment Charges	-	-
Net Held to Maturity Investments	667,814,030	820,278,148

Notes to the Financial Statements Contd...

14. Property, Plant and Equipment a. Property, Plant and Equipment

In Rs.	Vehicles	Furniture and Equipment	Total
2016 (Current Year)			
Cost/Fair Value			
Opening Balance as at 01/01/2016	70,903,939	190,480,371	261,384,310
Additions	-	56,687,346	56,687,346
Disposals	-	-	-
Adjustments	-	-	-
Closing Balance as at 31/12/2016	70,903,939	247,167,718	318,071,657
(Less): Accumulated Depreciation			
Opening Balance as at 01/01/2016	58,552,689	128,415,925	186,968,613
Charge for the Year	8,241,825	29,285,267	37,527,092
Additions	-	-	-
Disposals	-	-	-
Adjustments	-	-	-
Closing Balance as at 31/12/2016	66,794,514	157,701,192	224,495,705
(Less): Impairment Charges			
Net Book Value as at 31/12/2016	4,109,426	89,466,526	93,575,951

In Rs.	Vehicles	Furniture and Equipment	Total
2015 (Previous Year)			
Cost/Fair Value			
Opening Balance as at 01/01/2015	70,903,939	178,167,731	249,071,670
Additions	-	12,312,640	12,312,640
Disposals	-	-	-
Adjustments	-	-	-
Closing Balance as at 31/12/2015	70,903,939	190,480,371	261,384,310
(Less): Accumulated Depreciation			
Opening Balance as at 01/01/2015	45,264,950	107,313,671	152,578,621
Charge for the Year	13,287,739	21,102,253	34,389,992
Additions	-	-	-
Disposals	-	-	-
Adjustments	-	-	-
Closing Balance as at 31/12/2015	58,552,689	128,415,925	186,968,613
(Less): Impairment Charges			
Net Book Value as at 31/12/2015	12,351,251	62,064,447	74,415,697

Fully depreciated fixed assets value as at 31.12.2016 is Rs. 89,706,318.96

Notes to the Financial Statements Contd...

15. Deferred Tax Assets/(Liabilities)

	Statement of Financial Position		Income Statement	
	2016	2015	2016	2015
Property, Plant & Equipment	5,507,139	208,865	5,298,274	(490,886)
Employee Benefit Obligations	90,351,127	90,558,331	(207,204)	4,444,541
Net Total	95,858,266	90,767,196	5,091,070	3,953,655

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

	2016 Rs.	2015 Rs.
16. Other Assets		
Cost		
Stationary Stock	10,062,368	10,197,536
Deposits and Prepayments	34,042,465	20,720,918
Prepaid Staff Loans	275,456,318	260,732,940
Others	185,669,131	77,158,950
Total	505,230,283	368,810,345

17. Due to Banks

	2016 Rs.	2015 Rs.
Bank Overdraft	19,056,864	7,196,235
Total	19,056,864	7,196,235

18. Due to Customers

	2016 Rs.	2015 Rs.
Total Amount Due to Customers	28,845,169,193	27,836,410,935
Total	28,845,169,193	27,836,410,935
Analysis		
By Product		
Deposits	17,814,278,697	17,969,933,892
Institutional Deposits	9,982,831,015	8,862,849,956
Scheme Deposits	1,048,059,480	1,003,627,087
Total	28,845,169,193	27,836,410,935

19. Other Borrowings

	2016 Rs.	2015 Rs.
Debentures	110,180,822	110,180,822
Government of Sri Lanka	-	384,321,918
AHF	29,320,659	37,615,411
CBSL Refinance Loan	363,410,915	427,817,217
Total	502,912,396	959,935,368

Notes to the Financial Statements Contd...

20. Employee Benefit

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

The actuarial valuation involves making assumptions about discount rate, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The employee benefit obligation as at 31st December 2016 is calculated based on the actuarial valuation report as of 31st December 2016, carried out by Messrs Piyal S. Goonatilleke and Associates and the Management Consultants (Pvt) Ltd. The key assumptions used by the actuary include the following:

	2016 Rs.	2015 Rs.
09. Cash and Cash Equivalents		
Rate of Interest	10.00%	10.00%
Rate of Salary Increase	8.50%	8.50%
Retirement Age	55-60 years	55-60 years
Gratuity		
	2016 Rs	2015 Rs
Provision for Gratuity		
Balance at the Beginning of the Year	163,740,779	161,999,599
Current Service Cost	12,468,619	7,589,309
Interest Cost	18,022,554	15,263,002
Benefit Paid	(16,324,207)	(21,111,131)
Actuarial (Gains)/Losses	3,461,653	-
Total	181,369,398	163,740,779
Medical		
	2016 Rs	2015 Rs
Provision for Medical Benefit		
Balance at the Beginning of the Year	159,681,831	145,549,650
Current Service Cost	6,333,716	3,567,897
Interest Cost	14,371,365	13,420,579
Actuarial (Gain)/Losses	(34,819,070)	-
Benefit Paid	(4,254,643)	(2,856,295)
Total	141,313,199	159,681,831
Total Employee Benefit Liability	322,682,597	323,422,610

Notes to the Financial Statements Contd...

21. Other Liabilities

	2016 Rs	2015 Rs
Taxes Payable	143,370,993	211,359,942
Accrued Expenditure	46,792,271	46,060,258
Others	273,522,635	323,334,512
Allowance for Day 1 Difference - Staff Loans	275,456,318	260,732,940
Total	739,142,216	841,487,652

22. Stated Capital/Assigned Capital

	2016 Rs	2015 Rs
Authorised Capital	2,000,000,000	2,000,000,000
Contributed Capital	889,812,899	889,812,899

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

The Government after the appointment date of 1st January 1979 made a contribution to the capital of the Bank so that the amounts of such contribution together with the amounts referred to the above paragraph amounted to RS.889,812,899 as at 31st Decemebr 2016.

Further ,as per the provisions of the Act ,SMIB may from time to time ,raise such sums of money as further contribution to the capital of the Bank in such a manner as the Bank deems fit,from the Government or any other source what so ever in or outside of the Republic of Sri Lanka and where such sums of money raised from the Government which shall be charged on the consolidated fund.

23. Statutory Reserve Fund

	2016 Rs	2015 Rs
Opening Balance as at 01st January	203,052,939	191,356,249
Transfer During the Period	28,304,566	11,696,690
Closing Balance as at 31st December	231,357,505	203,052,939

24. Retained Earnings

	2016 Rs	2015 Rs
Opening Balance as at 01st January	2,449,406,437	2,229,190,619
Prior Period Adjustments	1,845,834	-
Profit for the Year	436,017,785	409,774,401
Transfers to Other Reserves	(38,304,566)	(21,696,690)
Other Comprehensive Income	31,357,418	-
Deemed Dividend Tax	(173,347,059)	(167,861,893)
Closing Balance as at 31st December	2,706,975,850	2,449,406,437

Prior Period Adjustments

Interest income of Treasury Bonds resulting from amortization was over estimated due to the interest income of Treasury Bonds for the years of 2014 and 2015 being recorded in 2016

Notes to the Financial Statements Contd...

25. Other Reserves

a. Bank - Current year (2016)

	Opening balance as at 01/01/2016	Movements/ Transfers	Closing Balance as at 31/12/2016
General reserve	683,280,000	-	683,280,000
Capital Reserve	9,176,000	384,322,004	393,498,004
Title Indemnity Fund	1,031,000	-	1,031,000
AFS Reserve	27,363,822	(15,123,822)	12,240,000
Total	720,850,822	369,198,182	1,090,049,004

b. Bank – Previous year (2015)

	Opening balance as at 01/01/2015	Movements/ Transfers	Closing Balance as at 31/12/2015
General reserve	683,280,000	-	683,280,000
Capital Reserve	9,176,000	-	9,176,000
Title Indemnity Fund	1,031,000	-	1,031,000
AFS Reserve	13,840,000	13,523,822	27,363,822
Total	707,327,000	13,523,822	720,850,822

	2016 Rs.	2015 Rs.
26. Contingent Liabilities and Commitments		
Guarantees issued	-	-
Other commitments	-	-
Total	-	-

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

27. Transactions with Key Management Personnel (KMPs)

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

	2016 Rs.	2015 Rs.
27.1 (A) Compensation to Key Management Personnel		
Short - Term Employment Benefits	26,000,080	41,158,507
Post - Employment Benefits	7,621,383	10,745,609
Total	33,621,463	51,904,116

Notes to the Financial Statements Contd...

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

	2016 Rs.	2015 Rs.
Income Statement		
Interest Earned (From Loans)	2,180,715	4,365,358
Interest Paid (To Deposits)	4,528,358	915,182
Payment made as shown in 27.1 (A)	33,621,463	51,904,116
Statement of Financial Position		
Assets		
Loans and Advances	29,096,056	51,416,021
Liabilities		
Deposits	24,027,895	21,424,073

28. Fair Value of Financial Instruments

Financial Instruments Recorded at Fair Value

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

Financial Investments – Available For sale

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

28.1 Determination of Fair Value and Fair Value Hierarchy

The bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

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

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

31st December 2016 Rs	Level 1 Rs	Level 2 Rs	Level 3 Rs	Total
Financial Assets				
Financial investments available for sale				
Quoted investments - Unit Trust	17,240,000	-	-	17,240,000
Total Financial Assets	17,240,000	-	-	17,240,000
Financial Liabilities				
	-	-	-	-
Total Financial Liabilities	-	-	-	-

Notes to the Financial Statements Contd...

Determination of fair value and fair value hierarchy - continued

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

	2016	
	Carrying Amount Rs	Fair Value Rs
Assets		
Cash and cash equivalents	98,024,536	98,024,536
Placements with banks	5,700,335,444	5,700,335,444
Loans and receivables to customers	28,163,700,935	28,163,700,935
Financial investments – Available-for-Sale	5,379,078	5,379,078
Financial investments – Held-to-maturity	667,814,030	667,814,030
Other assets	275,456,318	275,456,318
Total Financial Assets	34,910,710,341	34,910,710,341
Liabilities		
Due to banks	19,056,864	19,056,864
Due to customers	28,845,169,193	28,845,169,193
Other borrowings	502,912,396	502,912,396
Other liabilities	273,522,635	273,522,635
Total Financial Liabilities	29,640,661,087	29,640,661,087

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

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

Assets for which Fair Value Approximates Carrying Value

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

Fixed Rate Financial Instruments

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

Notes to the Financial Statements Contd...

29. RISK MANAGEMENT

29.1 Introduction and Overview

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

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

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

Risk Management Structure

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

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

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

29.2 Credit risk

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

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

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

Notes to the Financial Statements Contd...

Impairment Assessment

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

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

Individually Assessed Allowances

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

Collectively assessed allowances

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

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

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

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

The loans are impaired using risk migration method.

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows

The Bank obtains mortgages over residential properties for lending.

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

Notes to the Financial Statements Contd...

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.

Industry analysis

As at 31.12.2016	Financial Services	Government Securities	Construction and Housing	Consumers	Other	Total Rs.
Financial Assets						
Cash and cash equivalents	98,024,536					98,024,536
Placement with other banks	5,700,335,444					5,700,335,444
Loans and receivables to customers						-
Mortgage			8,234,416,533			8,234,416,533
EPF			10,343,697,912			10,343,697,912
Vehicle				40,344,555		40,344,555
Staff loans			841,704,479			841,704,479
Personal Loans				7,430,006,373		7,430,006,373
Others					798,621,080	798,621,080
Impairment Charge						-
Net Loans and Advances						-
Financial investments – Available-for-sale	22,619,078					22,619,078
Financial investments – Held-to-maturity		667,814,030				667,814,030
	5,820,979,058	667,814,030	19,419,818,923	7,470,350,928	798,621,080	34,177,584,019

29.3 Liquidity Risk and Funding Management

Liquidity risk is defined as the risk that the bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

Liquidity Ratios

Liquid assets mainly consists of cash, balances with banks and government securities. The bank monitors the following liquidity ratios to assess funding requirement.

	2016	2015
Liquid Asset Ratio (%)		
Year - End	22.82	23.64
Maximum	26.68	24.36
Minimum	22.82	20.14
Average	24.56	22.33

Refer to the note on Risk Management in Page 21.

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

Notes to the Financial Statements Contd...

Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarises the maturity profile of the undiscouted cash flows of the bank's financial assets and liabilities as at 31 December 2016.

Contractual maturities of undiscouted cash flows of financial assets and liabilities

The table below summarizes the maturity profile of the undiscouted cash flows of the Bank's financial assets and liabilities as at 31 December 2016. As at 31 December 2016

	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	34,815,212	-	-	-	-	-	-	-	-	34,815,212
Due from Banks	851,738,615	201,806,387	144,942,661	146,527,250	49,568,697	-	99,835,179	-	177,005,030	1,671,423,819
Investment Currents	677,769,639	956,623,757	820,568,575	1,000,801,234	736,808,219	501,364,384	-	65,999,171	22,619,078	4,782,554,058
Investment Non performing	-	-	-	-	-	-	-	-	-	-
Loan & Advances Current	-	298,220,147	543,242,601	681,239,058	1,350,958,868	5,177,968,003	4,289,231,008	8,140,604,934	-	20,481,464,618
Loan & Advances NPL	-	-	-	-	-	-	-	-	7,682,236,317	7,682,236,317
Fixed Assets	-	-	-	-	-	-	-	-	93,575,951	93,575,951
Other Assets	28,243,665	383,159,821	21,290,666	90,792,062	62,489,842	15,112,492	-	-	-	601,088,548
Total Assets	1,592,567,131	1,839,810,113	1,530,044,503	1,919,359,603	2,199,825,626	5,694,444,879	4,389,066,187	8,206,604,105	7,975,436,376	35,347,158,523
Total Capital Fund	-	-	-	-	-	-	-	-	4,918,195,257	4,918,195,257
Deposits	1,672,681,602	1,595,681,811	5,782,506,193	4,851,120,185	8,251,304,769	4,814,866,358	305,842,667	1,571,365,608	-	28,845,169,192
Borrowings	39,344,340	438,164	876,328	30,832,893	31,363,302	131,541,379	231,238,860	37,277,130	-	502,912,396
Other Liabilities	72,679,348	93,626,855	211,924,217	157,571,422	228,151,507	255,727,590	38,841,920	22,358,818	-	1,080,881,677
Total Liabilities	1,784,705,290	1,689,746,830	5,995,106,737	5,039,524,501	8,510,819,578	5,202,135,327	575,923,447	1,631,001,555	4,918,195,257	35,347,158,523

Notes to the Financial Statements Contd...

29.4 Market Risk and Operational Risk

As discussed in the Risk Management -Management discussion

29.5 Capital Management

Regulatory Capital

Licensed Specialised banks in Sri Lanka need to maintain a minimum Capital Adequacy Ratio (CAR) of 10% and a Core Tier 1 Capital Ratio of at least 5%.

Capital Adequacy

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

As at 31st December 2016, SMIB reported a Tier 1 ratio of 22.96% and a total CAR is also 23.47% which remain comfortably above the CBSL's capital requirements.

29.6 Market Risk

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

29.6.1 Market risk – non-trading

Interest Rate Risk

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

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

Prepayment Risk

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

29.7 Operational Risk

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

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

Notes to the Financial Statements Contd...

30. Maturity Gap Analysis

	Less than 7 days	7-30 days	1-3 months	3-6 months	6-12 months	1-3 years	3-5 years	Over 5 years	Unclassified	Total
Total Assets	1,592,567,131	1,839,810,113	1,530,044,503	1,919,359,603	2,199,825,626	5,694,444,879	4,389,066,187	8,206,604,105	7,975,436,376	35,347,158,523
Cash	34,815,212	-	-	-	-	-	-	-	-	34,815,212
Due from Banks	851,738,615	201,806,987	144,942,661	146,627,250	49,568,697	-	99,895,179	-	177,005,030	1,671,423,819
Investment Currents	677,769,639	956,623,757	820,568,575	1,000,801,234	736,808,219	501,364,384	-	65,999,171	22,619,078	4,782,564,068
Investment Non performing	-	-	-	-	-	-	-	-	-	-
Loan & Advances Current	-	298,220,147	543,242,601	681,239,058	1,350,958,868	5,177,968,003	4,289,231,008	8,140,604,934	-	20,481,464,618
Loan & Advances NPL	-	-	-	-	-	-	-	-	7,682,236,317	7,682,236,317
Fixed Assets	-	-	-	-	-	-	-	-	93,575,951	93,575,951
Other Assets	28,243,665	383,159,821	21,290,666	90,792,062	62,489,842	15,112,492	-	-	-	601,088,548
Total Liabilities	1,784,705,290	1,689,746,830	5,995,106,737	5,039,524,501	8,510,819,578	5,202,135,327	575,923,447	1,631,001,555	4,918,195,257	35,347,158,523
Total Capital Fund	-	-	-	-	-	-	-	-	4,918,195,257	4,918,195,257
Deposits	1,672,681,602	1,595,681,811	5,782,306,193	4,851,120,185	8,251,304,769	4,814,866,358	305,842,667	1,571,365,608	-	28,845,169,192
Borrowings	39,344,340	438,164	876,328	30,832,893	31,363,302	131,541,379	231,238,860	37,277,130	-	502,912,396
Other Liabilities	72,679,348	93,626,855	211,924,217	157,571,422	228,151,507	255,727,590	38,841,920	22,358,818	-	1,080,881,677
Maturity Gap	(192,138,158)	150,063,282	(4,465,062,235)	(3,120,164,897)	(6,310,993,952)	492,309,551	3,813,142,740	6,575,602,550	3,057,241,119	-
Cumulative M. Gap	(192,138,158)	(42,074,876)	(4,507,137,111)	(7,627,302,008)	(13,938,295,960)	(13,445,986,409)	(9,632,843,668)	(3,057,241,119)	-	-

Notes to the Financial Statements Contd...

31. The Events Occuring After the Balance Sheet Date

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

32. Assets Pledged

No assets have been pledged as security for liability.

33. Related Party Transactions

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

34. Directors' Interest in Contracts and Proposed Contracts

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

As per the Act, No loan shall be granted by the bank to any Director or employee of the bank or to the spouse or a dependant child of a Director or employee or to any company or firm in which a Director or employee has a substantial interest: " Provided however that the bank may grant to its employees loans for the purchase of any land for the construction of a dwelling house or for the purchase, construction, repair, renovation of or any extension to, a dwelling house or for any other purpose prescribed by the rules made under this law. Outstanding balance of loans given to employees as per this paragraph is disclosed on page 97 of this report under Note - 11 Loans and advances. The Directors of SMIB were not directly or indirectly interested

Capital Adequacy

Rs. 000'			Risk Weighted Balance	
	2016	2015	2016	2015
Cash	35,270	32,910	-	-
Treasury Bill and other securities eligible for Re-discounting with Central Bank	1,580,166	1,395,858	-	-
Securities purchased under Resale Agreement	-	-	-	-
Claims on Financial Institutions	340,686	937,797	290,454	887,565
Claims on Central Bank of Sri Lanka	-	-	-	-
Claims on Public Sector entities	249,520	305,626	249,520	305,626
Claims on Banks exposures	4,313,257	4,652,444	1,778,056	2,388,024
Loans against Cash Deposits	337,341	354,374	-	-
Loans guaranteed by CBSL	9,618,650	11,230,109	-	-
Secured by Primary Mortgage over Residential Property	9,472,649	8,716,698	5,060,372	4,702,804
Other Loans and Advances	7,757,270	5,046,390	4,599,882	3,839,362
Due from Local Banks	-	-	-	-
Property, Plant and Equipment	81,003	86,085	81,003	86,085
Other Assets	441,415	239,472	441,415	239,472
Total	34,227,227	32,997,763	12,500,702	12,448,938

Basis of Computation

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

	2016	2015
Total Risk Weighted Assets for Credit Risk	13,765,674	12,448,938
Total Risk Weighted Assets for Operational Risk	2,837,430	2,178,970
Total Risk Weighted Assets	16,603,104	14,627,908
Core Capital Ratio %	22.96	22.17
Total Risk Weighted Capital Ratio %	23.47	22.65

Sources and Utilisation of Income

For the year ended 31st December	2016 Rs.	2015 Rs.
Sources of Income		
Loans and Advances	3,507,069,283	3,450,961,086
Government Securities & Other Investments	733,701,877	428,066,636
Fee and Commission Income	121,154,693	107,454,869
Other Income	9,945,623	12,118,342
Total	4,371,871,476	3,998,600,933
Utilisation of Income		
Employees		
Salaries and other payment to staff	698,204,774	698,834,195
Suppliers		
Interest paid	2,425,330,442	2,057,337,280
Other Expenses	542,267,377	561,472,189
Government		
Corporate Taxes	270,051,098	271,182,868
Deemed Dividends	173,347,059	167,861,893
Payment to consolidated Fund	10,000,000	10,000,000
Retained Profit	252,670,726	231,912,508
Total	4,371,871,476	3,998,600,933

Ten Year Summary

Year ended 31st December (Rs.Million)	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Income Statement										
Interest Income	4,241	3,879	3,633	3,635	2,879	2,611	2,709	2,636	2,102	1,532
Interest Expenditure	2,425	2,057	2,214	2,459	1,725	1,214	1,368	1,939	1,636	1,002
Net Interest Income	1,815.44	1,821.69	1,419.29	1,176.04	1,154.00	1,397.28	1,341.00	697.00	466.00	530.00
Other Operating Income	131	120	113	102	79	76	41	36	120	39
Total Operating Income	1,947	1,941	1,532	1,278	1,233	1,473	1,382	733	586	569
Non Interest Expenses	1,240	1,260	1,119	935	803	785	740	612	535	445
Net Profit before Tax	706	681	413	343	430	689	642	120	51	124
Taxation	270	271	140	110	158	178	179	46	30	41
Net Profit after Tax	436	410	273	232	272	510	463	74	21	83
Assets										
Investment Securities	17	432	19	17	14	5	5	5	1	1
Loans and Advances	28,164	26,523	24,038	21,186	18,550	16,170	13,670	13,433	13,142	10,995
Other Assets	7,073	7,201	6,148	5,556	3,928	4,276	3,531	3,369	1,336	1,219
Property, Plant and Equipment	94	74	96	67	51	58	39	40	37	37
Total Assets	35,347	34,232	30,301	26,825	22,543	20,509	17,245	16,847	14,516	12,252
Fund Employed										
Capital Contributed	890	890	890	890	890	890	890	890	890	890
Reserves	4,028	3,373	3,128	3,040	2,920	2,753	1,763	1,480	1,507	1,634
Total Equity	4,918	4,263	4,018	3,930	3,810	3,643	2,653	2,370	2,397	2,524
Liabilities										
Deposits	28,845	27,836	24,146	21,201	17,237	15,088	12,506	12,350	10,174	7,517
Debentures	110	110	195	195	195	195	195	250	250	250
Other Liabilities	1,474	2,022	1,942	1,499	1,301	1,583	1,891	1,877	1,695	1,961
Total Liabilities	35,347	34,232	30,301	26,825	22,543	20,509	17,245	16,847	14,516	12,252
Ratio										
Return on Average Assets-NPBT% (ROA)	2.03	2.11	1.44	1.39	2.01	3.65	3.77	0.77	0.38	1.18
Return on Average Funds Employed% (ROE)	9.50	9.90	6.87	6.00	7.31	16.21	18.46	3.06	0.88	3.32
Number of Employees(no.)	392	392	407.00	334.00	323.00	302.00	308.00	320.00	328.00	345.00
Net Profit per Employee (Rs. Mn)	1.11	1.05	0.67	0.70	0.84	1.69	2.08	0.38	0.16	0.36
Statutory Reserve Fund	231.36	203.05	191.36	181.15	172.98	163.19	135.44	112.26	108.59	106.42
Advances to Deposits(Times)	0.98	0.95	1.00	1.00	1.08	1.07	1.09	1.29	1.36	1.46
Interest Cover(Times)	1.29	1.33	1.19	1.14	1.25	1.60	1.47	1.26	1.03	1.12
Debt to Equity Ratio(Times)	0.10	0.23	0.28	0.23	0.19	0.18	0.21	0.28	0.30	0.48
Equity Assets Ratio(Times)	0.14	0.12	0.13	0.15	0.17	0.18	0.15	0.14	0.17	0.21
Total Assets per Rupee Contributed	39.72	38.46	34.05	30.14	25.33	23.04	19.38	18.93	16.31	13.77
Effective Deemed Dividend Rate%	25.00	25.00	25.00	25.00	20.00	19.84	20.22	5.74	3.33	2.34
Deemed Dividend Cover	2.52	2.44	3.57	3.16	3.46	3.14	2.58	1.44	0.71	4.00
Our Contribution to the Nation										
Deemed Dividend Tax	173.35	167.86	76.42	73.60	79.00	177.00	180.00	52.12	29.65	20.82
Payments to Consolidated Fund	10.00	10.00	10.00	40.00	25.00	-	-	50.00	-	25.00

Value Added Statements

For the Year Ended 31st December	2016 Rs.	2015 Rs.
Interest Income	4,240,771,159	3,879,027,722
Other Income	131,100,316	119,573,211
Total Revenue	4,371,871,476	3,998,600,933
Interest Expenses	(2,425,330,442)	(2,057,337,280)
Cost of Services	(469,463,887)	(420,505,020)
Impairment Provision	(35,276,398)	(106,577,177)
Total	1,441,800,748	1,414,181,456

Distribution of Value Added

For the year ended at 31st December	2016 Rs.	2015 Rs.
To Employees		
Salaries and other benefits	698,204,774	698,834,195
To Government		
Corporate Tax	270,051,098	271,182,868
Deemed Dividends	173,347,059	167,861,893
Payment to Consolidated Fund	10,000,000	10,000,000
To Expansion and Growth		
Depreciation	37,527,092	34,389,992
Retained Profit	252,670,726	231,912,508
Total	1,441,800,748	1,414,181,456

Corporate Information

Name of the Bank

State Mortgage & Investment Bank

Legal Form

A Body Corporate Incorporated under the State Mortgage & Investment Bank Law No. 13 of 1975.

Registered Office

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

Head Office

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

Kandy Branch

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

Gampaha Branch

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

Galle Branch

No.119,Wakwella Road, Galle.
Tel: 091 -7722722/3, 091 -2246788
galle.mgr@smib.lk

Kurunegala Branch

No.46/1,Mihindu Mw,Kurunegala
Tel: 037- 7722722/3, 037 -2231234
kurunegala.mgr@smib.lk

Matugama Branch

No.141/1, Agalawatta Road, Mathugama.
Tel: 034- 7722722/3, 034- 2243714
matugama.mgr@smib.lk

Matara Branch

No.45A/1/1 1st Floor,
Dharmapala Mw, Matara.
041- 7722722/3, 041- 2222204
matara.mgr@smib.lk

Chilaw Branch

No.15A,Bishop Edmand Peiris Mw, Chilaw.
Tel - 032 -7722722/3, 032- 2223996
chilaw.mgr@smib.lk

Kegalle Branch

No.82, Main Street, Kegalle.
Tel: 035 -7722722/3, 035-2222877
kegalle.mgr@smib.lk

Kiribathgoda Branch

No.63, Kandy Rd, Kiribathgoda.
Tel: 011- 7723575/6, 011-2908833
kiribathgoda.mgr@smib.lk

Battaramulla Branch

No.156/2, Main Street, Battaramulla.
Tel: 011- 7723570/1, 011-2882144
battaramulla.mgr@smib.lk

Horana Branch

No. 45, Rathnapura Rd, Horana.
Tel: 034- 7722733/4, 034-2265400
horana.mgr@smib.lk

Ambalantota Branch

No.122,Main Street, Ambalantota.
Tel: 047- 7722722/3, 047- 2225516
ambalantota.mgr@smib.lk

Batticaloa Branch

No.44, Station Rd, Batticaloa.
Tel: 065 -7722722/3, 065-2228480
batticaloa.mgr@smib.lk

Jaffna Branch

No.127, Stanley Rd, Jaffna.
Tel: 021- 7722722/3, 021-2220263
jaffna.mgr@smib.lk

Vavuniya Branch

No.291/1, Bazar Street, Vauniya.
Tel: 024- 7722722/3, 024-2227590
vavuniya.mgr@smib.lk

Ampara Branch

No.864,D.S.Senaniyaka St,Amapara
Tel:063-7722722/3,063-2223888
ampara.mgr@smib.lk

Rathnapura Branch

No.101,Main Street,Rathnapura
Tel:045-7722722/3, 045-2232473
rathnapura.mgr@smib.lk

Kaduruwela Branch

No.892, Batticaloa Rd,Sawmill
Junction,Kaduruwela
Tel:027-7722722/3, 027-2227427
kaduruwela.mgr@smib.lk

Hatton Branch

No.62/1/2,Main Street, Hatton
Tel:051-7722722/3, 051-2224722
hatton.mgr@smib.lk

Badulla Branch

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

Monaragala Branch

No.218,Kachcheri Rd,Monaragala
Tel:055-7722733/4 , 055-2055430
monaragala.mgr@smib.lk

Anuradhapura Branch

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

Matale Branch

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

Panadura Branch

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

Board of Directors

Mr. Tissa Jinadasa - Chairman
Mr. M.S.D.Ranasiri - Independent Non-Executive Director
Ms. L.U.N.Sumanasekara - Independent Non-Executive Director
Mr. Rajitha Halwela - Independent Non-Executive Director
Mr. Roshan Hettiaratchi - Independent Non-Executive Director
Mr. P.C. Wijayawardena - Independent Non-Executive Director
Dr. Nirosan Gamage - Independent Non-Executive Director
Ms. W.K.K.Athukorala - Independent Non-Executive Director
Mr. A. M. Peeris - Independent Non-Executive Director

New Board of Directors

Mr. Tissa Jinadasa - Chairman
Mr. Rajitha Halwela - Independent Non-Executive Director
Mr. Roshan Hettiaratchi - Independent Non-Executive Director
Dr. Nirosan Gamage - Independent Non-Executive Director
Ms. W.K.K.Athukorala - Independent Non-Executive Director
Mr. S.G. Senarathna - Independent Non-Executive Director
Mr. P.A.K. Kulasuriya - Independent Non-Executive Director
Mr. P.S.K.R. Weerakon - Independent Non-Executive Director
Mr. E.A.L. Edirisinghe - Independent Non-Executive Director

General Manager

Mr. W.M Dayasinghe

Board Secretary

Ms. W.K Perera

Audit Committee

Mr. M.S.D Ranasiri - Chairman to the Committee
(Independent Non-Executive Director)
Dr. Nirosan Gamage - Independent Non-Executive Director
Mrs.W.K.K. Athukorala - Independent Non-Executive Director

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,

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