



STATE MORTGAGE & INVESTMENT BANK

Annual Report 2020

Sustaining a Steady Growth





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Sustaining a Steady Growth

As the global pandemic continued in its path of destruction, strangling businesses and even economies across the world, SMIB made swift and bold moves to change course to maintain and improve our performance, while supporting the Government in the economic restoration of our country.

The unprecedented challenges faced in the past year tested our resilience, foresight and stamped our commitment to deliver value to our customers.

Despite the dire adversity in economic conditions, our bank sustained a steady growth and even improved our performance, by diversifying into uncharted territory and capitalizing on the state-owned brand name of the bank to increase our profit margins.

A traditionally housing finance and agriculture-based bank, we expanded our dimensions to service a new segment of business loans.

In support of our loyal customer base, the bank also granted moratoriums and concessionary loans under the “Saubagya”, scheme.

We will continue our new approach of providing financial services to cater to the needs of various income groups in urban and rural areas and look forward to creating an enhanced, balanced product portfolio for the bank in the near future.



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	2020 Rs.Mn	2019 Rs.Mn	Change %
Interest Income	6,077	5,982	1.58
Interest Expenses	(3,960)	(3,951)	0.23
Net Interest Income	2,116	2,030	2.92
Profit before Tax	572	500	17.51
Taxation	216	81	187.28
Profit after Tax	356	419	(15.52)
Investment in Government Securities	2,415	2,549	5.20
Loans and Advance Net	36,857	35,561	3.64
Total Assets	52,802	46,980	12.39
Customer Deposits	45,388	38,872	16.76
Borrowings	348	1,612	(78.41)
Stakeholders' Fund	6,020	5,659	6.37
Ratio Analysis			
Profitability Level	%	%	
Net Interest Margin	4.24	4.52	(6.19)
Return on Equity (ROE)	6.09	7.73	(21.22)
Return on Assets (ROA)	1.15	1.11	3.60
Capital Adequacy			
Equity / Total Assets	11.41	12.04	(5.23)
Equity / Loans & Advances	16.34	15.91	2.70
	Basel (III)	Basel (III)	
Tier 1	20.17	21.04	4.13
Tier 1 & 11	20.90	21.77	(4.00)
Liquidity			
Liquid Asset Ratio	37.29	25.09	48.62
Loans and Advances /Deposit	81.20	91.48	11.23
Borrowings/Loans and Advances	0.94	4.5	79.11
Rating			
Asset Quality			
NPL/Loans and Advances	22.94	21.21	8.16
Loans and Advance to Total Assets	72	77.47	7.06

Rs. 12.4 Billion

Loan Disbursements

Rs. 1.84
Billion



Rs. 2.6
Billion



Rs. 6.6
Billion



Rs. 12.4
Billion



Financial Review

Financial Institutions of the country remained resilient due to slow down of economic activities caused by the COVID-19 pandemic situation during year 2020 and Easter Sunday attacks. COVID-19 outbreak and associated public health concerns have been caused substantial disruptions to domestic economic and business activities. Travel restrictions across provincial borders and economic lockdowns led to a significant decline in revenues of corporates and household sector of the country in such situation position had already resulted to deterioration in asset quality and profitability of the Financial Institutions. Bank has been managed to remain at resilient and displayed moderate performance despite of tied negative outlook in the macroeconomic environment, recorded Profit Before Tax of Rs.572 Mn for the year 2020 marked the 14% increase compared to previous year.

The impact of the impressive augmentation in interest cost and the resulting change in the net interest margin were offset a massive addition in business volumes. Subsequently, the interest Income increased to Rs. 6,076.77 Mn, with a increase of 1.59% and the asset base of Rs. 52,802 Mn, which is another gigantic achievement, indicating the sound Management of its credit portfolio and excellent asset quality.

INTEREST INCOME

Interest income was increased by 1.58% when compared with 2019. The increase in interest income was mainly driven by higher income from lending, surplus liquidity and placements with banks. Compared to 2019, Even though the interest income on loans and advances and interest income from debts and other instruments were slightly declined when compared to previous year, interest income from Investment banking has been recorded a notable growth of 21.42 % when compared with 2019.

ANALYSIS OF INCOME STATEMENT

Income Statement Summary

	2020	2019	Change
	Rs (Mn.)	Rs (Mn.)	%
Interest Income	6,076.77	5,981.51	1.59%
Total Operating Income	2,300.08	2,173.66	5.82%
Profit/(Loss) before Tax	572.07	499.65	14.49%

NET INTEREST INCOME

Net interest income in the Income statement was Rs.2,116 million for 2020,4.24% higher than 2019, reflecting an increase in interest income on investment activities due to moderate yield on the rate sensitive assets in the investment portfolio back by collateralized agreements, other interest earning assets and Placements with Banks. The increase in interest income was partially offset by higher interest expense primarily due to excess liquidity derived from increasing of retail deposit base during later part of the year the impact of higher interest rates on other interest-bearing liabilities.

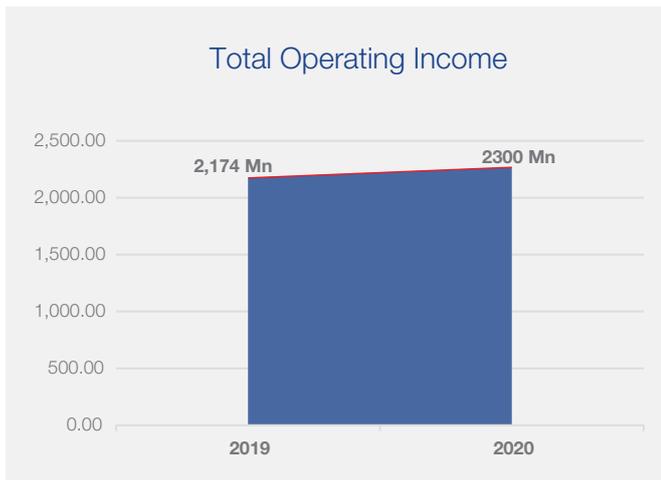
NON-INTEREST INCOME

Non-interest income comprises fee and commission, Net gain/loss from financial investments, and other operating income. Fee and commission income is the principal component of non-interest income which includes fees charged from lending, in the year of 2020. Net fee and commission income which grew by 30.70% stood at Rs. 148.12 million against Rs.113.33 million in 2019. Financial assets at fair value through profit or loss reached Rs. 1.87 million in 2020. Further the other Operating Income which includes Dividend and Sundry Income was Rs.33.85 million.

TOTAL OPERATING INCOME

Even though fee and commission income for the year has been slightly changed, increment in Net Interest Income & Other Operating Income mainly contributed for the growth of total Operating Income. At the end of the year 2020 recorded total operating income was Rs. 2,300.08 Mn denoted the notable increase of 5.82% compared with previous year.

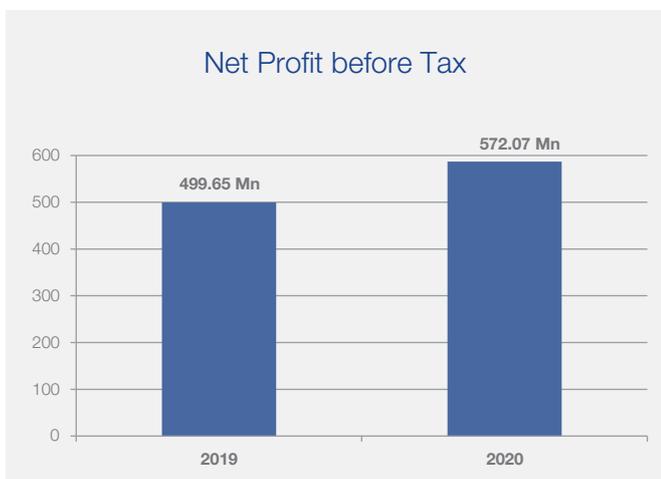
Financial Review Contd...



PROFITABILITY

Profit before tax for the Year of 2020 is Rs. 572.07 Mn which showed a notable increase of 14% compared with 2019. We are proud as we have maintained liquidity and capital adequacy ratios well about the level prescribed by the Central Bank of Sri Lanka.

ROE is a key strategic outcome in financial value creation. It serves as an indicator of the effectiveness of the management approach. Bank maintains a relatively attractive ROE of 6.09%. Further bank's Return on Assets ratio (ROA) also exhibits a 1.15% level by the end of 2020, which is a 4.50% increase compared to previous year.



CONTRIBUTION TO THE NATION

As the oldest Bank of the Nation, the Bank continues its contribution towards the Nation's development by means of special fee, dividend to the treasury and contribution to the National Insurance Trust Fund besides to the taxes and levy while maintaining required liquidity and capital adequacy ratios prescribed by the Central Bank of Sri Lanka.

However the Bank's has paid Rs.305.81 Mn as contribution to the Government through taxes such as VAT and Income Tax in the 2020.

	Rs. Mn
VAT	184.65
Income tax	121.16
Total	305.81

ANALYSIS OF FINANCIAL POSITION

ASSETS

Total reported assets base were Rs. 52,801,92 Mn and that was 12% higher than when compared with the 2019. We have maintained the strength of our balance sheet, as we continued our targeted asset growth, robustness of the focus on core business activities, the interest earning loan portfolio and financial investments accounted the total asset base.

LOANS AND ADVANCES

Net Loans and advances increased to Rs. 36,856.88 Mn which is a change of 3.64% compared to previous year 2019, Which totally backed by increased credit demand from the retail credit lines of Housing Loans, Personal loans and Refinance loans & other loans. The loans and receivables portfolio was diversified across several industry sectors focused on Agriculture, Tourism, SME , Micro finance and Housing finance sectors.

Financial Review Contd...

Gross Loans and Advances

	2020	2019	Change
	Rs	Rs	%
By product			
Mortgage	9,942,813,267	9,460,622,900	5.10%
EPF	7,685,291,335	8,282,816,696	-7.21%
Vehicle	485,400	5,799,377	-91.63%
Staff loans	1,367,929,889	1,234,564,642	10.80%
Personal Loans	18,232,060,924	16,648,653,558	9.51%
Others	1,136,699,561	1,096,396,335	3.68%
Gross loans and advances	38,365,280,376	36,728,853,508	4.46%

LIABILITIES

In the Year of 2020 total Liabilities reported as a Rs. 46,782 Mn and in 2019 it was Rs. 41,321Mn This was an increase of 13.22% compared to previous year 2019. Which was led by Customer Deposits being Rs. 45,388 Mn notably reflecting 16.76% increase compared to the year 2019 as we won new client mandates and increased balances with existing customers as well as intuitional deposits while Debt securities stood at zero.

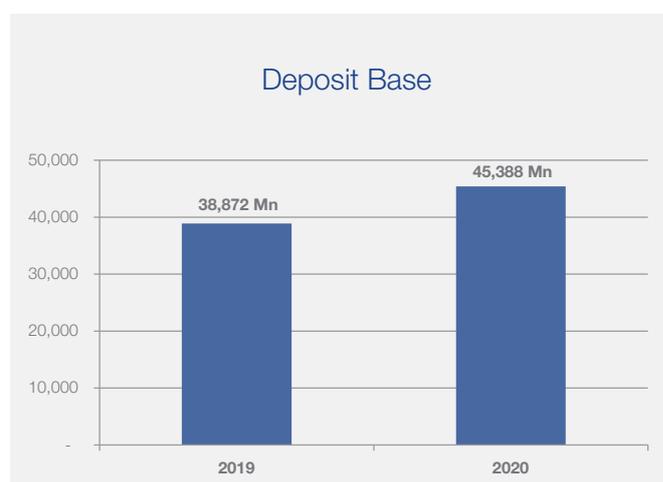
DEPOSIT BASE

With the high competition in the Niche Market and the fluctuating economy (due to Covid 19 pandemic set back), we are still able to reach an impressive figures in Savings deposits, Fixed deposits and Other deposits (Schemes), where the bank's Total Deposit base has increased to Rs. 45,388 Mn marked a notable growth of 16.76% compared to the previous year. Which reflects the prudent management practices taken through effective management policies which replicating customer deposit retention and new customer acquisitions.

LIQUIDITY COVERAGE

As a Licensed Specialized Bank (LSB) it is required to maintain a 20% minimum statutory liquidity assets ratio. The bank should compute the statutory liquidity assets in accordance with Section 86 of the Banking Act, No.30 of 1988 and Statutory

Liquidity Assets Ratio stood at 37.29% level by the end of 2020. In accordance with Basel III, The Liquidity Coverage ratio aims to ensure that a bank has sufficient unencumbered high-quality liquid assets to meet its liquidity needs in a 30-calendar-day liquidity stress scenario. HQLA consist of cash or assets that can be converted into cash at little or no loss of value, in where the banks Liquid coverage ratio amounted at 116% as at the end of the 2020 well higher than the statutory minimum of 100%. The Bank was strong supported accessibility of stable funding as per the definitions prescribed by the CBSL and net Stable Funding ratio (NSFR) stood at 138% as at 31 December 2020 against the minimum requirement of 100%.





Sustainability

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“SMIB witnessed a positive performance during the financial year with a Profit Before Tax (PBT) of Rs. 572.07Mn as opposed to Rs. 499.65 Mn in the preceding year, marking a profit growth of 14.49%. Our Total Asset Base grew by 12.39% to Rs. 52.80 Bn”

Chairman's Review

On behalf of the Board of Directors, it is my pleasure to present the Annual Report and the Audited Financial Statements of the State Mortgage & Investment Bank for the financial year 2020. I am pleased to inform that the bank completed the year with an affirmative note indicating an overall positive performance, amidst an operating environment that was deterred by the COVID-19 pandemic.

The Economy

The headwinds of the pandemic created heightened uncertainties in the global economy and the financial markets leading to a recession in global activity, with global output contracting by 3.5%. Subsequently, these shocks were conveyed to the domestic economy. Sri Lanka's experience similar consequences marked the low GDP growth of 1.3% and recorded a contracted credit growth 3.4%. Macroeconomic instability due to COVID-19 pandemic created economic turmoil exerting pressure on the domestic financial sector during the year. Measures implemented by Government to align the economy through wide-ranging stimulated packages and support measures as an accommodative monetary policy aimed at stimulating the economy through reduction in policy rates derives declining interest rate regime further supported with timely taken debt relief measures, concessionary loan schemes for impacted individuals and businesses fast-tracked the business growth.

SMIB was swift to identify the vital role to support the economic restoration. We focus in supporting Government measures quickly as, extending moratoriums for the affected businesses and individuals as well as emerged as the lending under the "Saubagya" concessionary loan scheme, ceased all litigation and repossession efforts on non-performing facilities.

Bank Performance

SMIB witnessed a positive performance during the financial year with a profit before tax (PBT) of Rs. 572.07Mn as opposed to Rs. 499.65 Mn in the preceding year, marking a profit growth of 14.49%. Our total asset base grew by 12.39% to Rs. 52.80 Bn. as at 31 December 2020 from Rs. 46.97 Bn as at 31 December 2019. The Bank continued with its strategy from the previous year of monitoring credit portfolio and quality of liquid assets. Deposit growth, 16.76% stemmed from Savings Accounts and Fixed Deposits which indicate our state-owned brand name strength and the depositor confidence. The Gross NLP ratio excluding

EPF as at 31.12.2020 was 10.72% implying an upward move against 7.73% in the previous year.

Aligned with government policies, we concentrated on capitalizing on the state-owned brand name of the bank to increase our profit margins. We delved into the possibility of diversifying into uncharted areas permitted within the SMIB Act. Since the bank has been operating in the very narrow segment of housing finance and agriculture, we explored the possibility of enhancing our customer base in the business loans segment including extending our services to unexplored areas such as financing on manufacturing or preparation of any agricultural and industrial products for the sales in the market. By providing financial services to develop such products that respond to the needs of various income groups in urban and rural areas, we look forward to creating a balanced product portfolio for the bank, at least by developing one product per year.

Corporate Governance

We are committed to excellence in corporate governance and uphold the highest standards of corporate governance in ensuring the long-term success of the bank. Our Board of Directors, and the three committees; Board Audit Committee, Board Integrated Risk Management Committee and the Board Human Resources Committee respectively form the basis of sound corporate governance system at SMIB. They ensure prudent management of the bank within a framework of relevant laws and regulations, governing bodies, and the Bank's internal policies.

Challenges

Our comparative competitive disadvantage over the customers due to the bank's limited branch network.

Bank's Asset and liability maturity (ALM) profile is characterized by significant negative cumulative mismatches in the less than 1-year bucket, as the majority of borrowings are short-term compared to the long-term nature of lending portfolio. This is basically because of the limited franchise size of the Bank.

Further, immense competition created by tech-savvy credit products associated with advance technology as well as pandemic created dramatic shift towards customer centric digital banking products evolved significant pressure on SMIB.

Chairman's Reviews Contd...

Way Forward

Going forward, we are confident of sustained progress supported by our commitment and resilience to deliver value to our customer, strong strategic foresight that is focused on expansion and embracing digital technology. Digitalization of our systems and processes is preparing SMIB to match emerging trends in the industry and to create the right platform for growth, while focusing on further diversification of its loan portfolio. Consequently, increasing the market share of the bank, thereby increasing the Return on Assets (ROA) and Return on Equity (ROE) of the bank in par with industry average.

Further we are seeking long term funds to reduce the maturity mismatch and concentration risk on short term bulk deposit. we are working towards fulfilling the minimum regulatory capital of Rs.7.5Bn before end of 31st December 2022. We will focus on reducing non-performing loan ratio to 6% (excluding EPF) 2021 maintaining in par with industry average while reducing cost to income ratio from 51% to 50% in 2021 and reducing 3% thereafter each year.

Acknowledgement

I take this opportunity to thank the members of the Board for their support and counsel. The General Manager, Senior Management, and staff of the SMIB have worked tirelessly to implement our common vision for SMIB.

I would like to express my sincere gratitude to the His Excellency the President of Sri Lanka, Gotabaya Rajapaksa, Honourable Prime Minister and Minister of Finance, Mahinda Rajapaksa; State Minister of Money & Capital and State Enterprise Reform; Secretary to the Treasury; Central Bank of Sri Lanka and Heads of other regulatory bodies for their guidance and support throughout this financial year.



Dr. Udayasri Kariyawasam
Chairman

General Manager's Review

It gives me great pleasure to present to you the Annual Report of the State Mortgage and Investment Bank for the year 2020, reporting an impressive performance supported by the strength of our principal operations and business agility. At a time of unprecedented adversity in the operating environment, we endured the obstacles with resilience and confidence driven by our commitment to service excellence and effective teamwork, creating and delivering value to all our stakeholders.

Macro-Economic Developments

The year under review was one of the toughest years in history, with the entire world coming to a standstill due to the COVID-19 pandemic and its related lockdowns. Subsequently, the global economy contracted 3.5% with its spill-over effects impacting countries across the world. The domestic economy contracted by 3.6% with key industry sectors such as construction, textile, and apparel and tourism-related economic activities such as accommodation, food and beverage service activities and transportation witnessing a growth decline during the period. The island-wide lockdown imposed from mid-March to mid-May amidst the spread of COVID-19 resulted in a low Labour Force Participation Rate (LFPR) and a high unemployment rate in the first half of 2020. While the high unemployment and loss of income disrupted private consumption, the economic uncertainty hampered investments. Subdued demand conditions and well-anchored inflation expectations helped maintain inflation broadly within the 4-6 percent range in 2020, despite the frequent escalation of food inflation.

Domestic economy began to recover in the third quarter following the successful control and containment of the first wave of the pandemic continuing the momentum to the fourth quarter as the economy was broadly kept open despite a second wave of COVID-19 infections. Both the GOSL and the Central Bank of SL took initiative to contain the situation by introducing relief measures and large-scale policy incentives which were effective in helping those individuals and the businesses that were adversely affected by the pandemic.

The performance of the financial sector was resilient and unpretentious despite the economic volatility evolving due to the COVID-19 pandemic. The banking sector demonstrated moderate growth despite risks emerging from the prevailing

challenging economic environment. However, the deterioration in credit quality and the moderation of foreign exchange inflows due to the pandemic remained major macro-prudential concerns on banking sector operations. Besides, the decline in the asset base, credit and deposits, and profitability, and the increase in non-performing loans (NPLs) mainly due to the pandemic related impediments and the deterioration in public confidence remained significant concerns for the sector during the year. In managing these adverse effects, the Central Bank of SL introduced several regulatory forbearances, including implementing extraordinary policy measures to provide relief to businesses and individuals affected by the pandemic.

Performance of SMIB

SMIB presented an impressive performance during the year, demonstrating stability in both financial and operational fronts. We maintained our Return on Assets (ROA) and Return on Equity (ROE) ratios at 1.15% and 6.09% respectively, indicating a growth compared to the previous year. Likewise, our Net Stable Funding Ratio (NSFR) remained at 137% (annual average) against a minimum of 100% indicating our stable funding profile and the Bank maintained a Liquidity Coverage Ratio (LCR) at 113.8% against a minimum requirement of 90% showing a steady reserve of High-Quality Liquid Assets.

We were successful in enhancing our Interest Income by 1.59% to Rs.6 Billion from Rs.5.9 Billion in the previous year. The Bank's Net Profit Before Tax increased to Rs.572 million representing a 14% growth compared to 2019. Similarly, loans and advances exhibited a progressive growth, standing at Rs.36.85 Billion at the end of 2020 and subsequently, the total assets of the Bank increased to Rs.52.8 Billion, an increase of 12.39%. Despite economic constraints the Bank have to maintain the Gross NPL ratio excluding EPF as at 31.12.2020 to 10.72%.

In expanding our scope, SMIB explored the possibility of venturing into offering financial assistance to SMEs and businesses through introducing business and special SME loan schemes to local manufacturing companies. Subsequently, Bank's loans and advances toward these segments increased by 156% compared to last year. Further, as a Participatory Profit Income (PFI) in the COVID-19 financial support loan schemes of the CBSL, SMIB also provided financial support to pandemic affected business entities.

General Manager's Review Contd...

Of the challenges encountered during the period, NPL ratio and remained a key concerns where we offset these challenges by strengthening our credit, recovery, and risk management functions.

Key Achievements

We were able to record some significant achievements despite the adverse impact of the pandemic. There was a considerable increase in our asset base by 12.39% and an increase in our total loan disbursement for the year to Rs.12.5 Bn, a significant achievement under the very low credit growth in the industry during the period. Further, the retail deposit base of the Bank increased by Rs. 6.2 Bn, a 106% achievement against budgetary targets.

Further, in line with the Central Bank of Sri Lanka (CBSL) measure to extend a debt moratorium to COVID-19 affected businesses and individuals, we granted moratoriums concession to 27,865 customers.

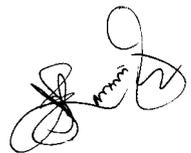
The Future

We are cognisant of the challenges that lie ahead when sustaining growth in an environment marred by the COVID-19 pandemic. Hence, moving forward, we will incessantly be re-evaluating our strategy in adapting to the challenging business environment and in ensuring sustainable progress of the Bank.

We will continue to enhance our service standards by integrating our entire branch network with a new core banking solution by 2022. Besides, we will concentrate on improving and updating the web-based knowledge sharing system, relocating our Head Office building, improving Bank's exterior and interior image while focusing on fulfilling the minimum regulatory capital of Rs 7.5 Bn before end of December in 2022.

Thank you message

I would like to offer my sincere appreciation to the Chairman and the Board of Directors for their support in leading the Bank towards sustainable growth with their continued insight and invaluable guidance. I also wish to thank the Senior Management and SMIB Team for their dedication and commitment. I express my gratitude to the Central Bank of Sri Lanka, Line Ministry, and other valued partners of SMIB for their continued support and guidance. Further, I extend my gratitude to our loyal customers who have over the years placed their trust in the SMIB for their housing financing needs.



L.I. Ranasinghe
Acting General Manager/CEO



“We were successful in enhancing our Interest Income by to cross Rs. 6 Billion milestone for the first time in the history. The Bank’s Net Profit Before Tax increased to Rs.572 Million representing a 14% growth compared to 2019.”

Board Of Directors



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01. Dr. K.W.A.U. Kariyawasam Chairman

Dr. Udayasri Kariyawasam was appointed as the Chairman of SMIB on 13th January 2020 and performing up to the date.

Dr. Kariyawasam earned Doctor of Business Administration Degree from the University of the New Castle, Australia, Master Degree in Business (Accountancy) from RMIT University of Melbourne, Australia and Bachelor of Science (B.Sc.) Business Administration (Special) Degree from the University of Sri Jayawardenepura. Dr. Kariyawasam is a member of CPA Australia and Association of Certified Fraud Examiners in the USA (CFE). He is a Fellow member of Institute of Certified Management Accountants of Sri Lanka and Registered Company Secretary of Department of Registrar of Companies in Sri Lanka. Dr. Kariyawasam is a Senior Member (SAT) of Association of Accounting Technicians of Sri Lanka as well as a Fellow member (FCA) of Institute of Chartered Accountants of Sri Lanka.

Dr. Kariyawasam served as the Chairman of Janatha Estates Development Board (JEDB), Industrial Development Board of Ceylon, Securities and Exchange Commission of Sri Lanka, Insurance Board of Sri Lanka, Ceylon Electricity Board, Bank of Ceylon, Merchant Bank of Sri Lanka, Merchant Credit of Sri Lanka, BOC Travels (Pvt.) Ltd., Hotels Colombo 1963 Ltd., Ceylease Financial Services (Pvt.) Ltd. and Property Development Management (Pvt.) Ltd. He served as an Acting Chairman of State Plantations Corporation and Deputy Chairman of Lanka Hospitals Corporation PLC (Apollo Hospitals). Dr. Kariyawasam was a member of Standing Committee on Accreditation and Quality Assurance (SCAQA), Ministry of Higher Education and Economic Policy Cluster of the National Council for Economic Development (NCED)

02. Mr. S.K.A. Galapathi Independent Non-Executive Director

Mr. Saman Galapathi had completed his secondary education from Mahinda College Galle. He entered the Faculty of Law of the University of Colombo and

Board of Directors Contd...



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graduated with honors degree. He was enrolled as an Attorney-at-Law in the year 1994. He had started his legal career in the chambers of Mr. Mohan Peiris President's Council the former Attorney General and the former Chief Justice of the Supreme Court of Sri Lanka.

After several years of private practice he had joined Mercantile Investment & Finance PLC and had served as the Director Legal. He was elected as the Chairman of the Legal Circle of Finance Houses Association and served for two years from 2007.

He had held post of Director in the National Lotteries Board from 2010 to 2015 and the Sri Lanka Land Reclamation & development Corporation from 2013 to 2015.

He has an active practice over 25 years in the fields of Commercial Law, Companies Law, Land Law, Partition in District Courts, commercial High Court, Civil Appeal High Court and Labour Law in Labour Tribunals and also in the fields of Writ Applications, Administrative Law and Fundamental Rights in Court of Appeal and Supreme Court.

Mr. Saman Galappatthi is a delegate of the Bar Association of Sri Lanka and a member of Colombo Law Society. He is also an active member of the Organization of Professional Association.

03. Ms. W.C.N. Cooray

Independent Non-Executive Director

Ms. Chamila Cooray who is a Chartered Accountant by profession was appointed as a Director to the Board of Directors of SMIB on 02nd January 2020 and performing up to the date.

Ms. Chamila Cooray is the first female elected from the Corporate Sector (Non-practicing) over the 60 years history of Chartered Accountants of Sri Lanka as a member of the Governing Council of Chartered Accountants of Sri Lanka. She was appointed to the Governing Council of Association of Accounting Technicians of Sri Lanka recently. She is also a member of the governing council of Advance Technical Education, Ministry of Higher Education, Technology and Innovation. She is also been appointed to the CIMA Sri Lanka Country

Board of Directors Contd...

Network Committee in 2021 for the 2nd term. She is the Treasurer of the MBA Alumni Association of University of Colombo and Executive member Alumni Association of Accountancy of University of Sri Jayewardenepura. Her commitment towards women empowerment, made her to be appointed as a member of the CA Women Empowerment & Leadership Development Committee, to lead the CMA Woman Leadership initiatives, and represent SAFA Women's Committee.

Ms. Chamila Cooray at present working in the capacity of General Manager - Operations, at WNS Global Services (Pvt.) Ltd.

A past pupil of Devi Balika Vidyalaya, Colombo, Ms. Chamila, started her career at KPMG and has a career, spanning 20+ years in the entire spectrum of F&A in diverse industries holding senior positions. Among these, she served as the Director / Head of Technical of CA Sri Lanka during 2009/10 and spearheaded the IFRS convergence project. During this tenure, she became the first Sri Lankan CA to be awarded a scholarship by CPA Australia and AusAids to follow a comprehensive study programme in Australia

Ms. Chamila Cooray is a fellow member of Chartered Accountants of Sri Lanka (FCA), a fellow member of Chartered Management Accountants of UK (FCMA / CGMA- UK), a full member of Certified Practising Accountants Australia (CPA - Australia), a fellow member of Certified Management Accountant of Sri Lanka (FCMA), a fellow member of Chartered Professional Managers Sri Lanka (FCPM), a fellow member of AAT Sri Lanka. She earned first-class honors in BSc Accountancy (Sp.) degree from University of Sri Jayewardenepura. She also holds a MBA from University of Colombo.

04. Mr. H.C.D.L. Silva Independent Non-Executive Director

Director Mr. H.C.D.L. Silva who is the Director General of Treasury Operations of Ministry of Finance was appointed as a Director to the Board of Directors of SMIB on 11th January 2020 and performing up to the date.

He holds a Masters degree of Public Management in Project Management from Sri Lanka Institute of Development Administration and successfully

completed B. Sc. (Hon) Degree of Public Administration (Special) from the University of Sri Jayawardenapura and he is an Associate member of the Chartered Institute of Public Finance & Accountancy (London) as well as an associate member of Association of Accounting Technicians of Sri Lanka.

Being qualified at the Chartered Professional Part I (Old Syllabus) Examination in 1992 held by ICASL, he has earned experiences more than 28 years as an Accountant in the Sri Lanka Accountants service since 1992 and has multi disciplines as a strategic level official specially in the fields such as Public Financial Management, Treasury Cash Management, Public Debt Management Auditing, Accounting and Public Procurement Management.

05. Mr. A.J.P.H.B.M.R.Senaka Bandara Independent Non Executive Director

Mr. A.J.P.H.B.M.R.Senaka Bandara, was appointed as a Director to the Board of Directors of SMIB on 2nd of January 2020 and performing up to the date.

In profession Mr. Senaka Bandara is an Attorney-at-Law, obtained 2nd Class honors at the Attorneys-at-Law final Examination and was called to the bar in December 2010 and he has completed 10 years in active practice in both Criminal and Civil areas in law. Further he has been practicing in original Courts and appellate Courts on behalf of corporate clients and Individuals. He represents Many Governments Institutes in court cases such as Bank of Ceylon, SriLanka Insurance Company, Peoples Bank, Petroleum Corporation, and Land Reform Commission.

Before he was called to the bar he worked as Principal of Certified School of Probation and Children Protection Department and he holds B.A. Criminology (special) degree with 2nd class upper pass. He was also a journalist worked in several Electronic media.

Mr. Senaka Bandara is reading for his LL.M Degree in Criminal Justice administration at Open University of Sri Lanka (OUSL).

Corporate and Senior Management



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- 01 Mr. L. I. Ranasinghe**
Deputy General Manager (Credit)
MBA (Fin), B. Sc. Mkt. Mgt, AIB, ACIM
- 02 Mr. T. M. J. Wickramasekara**
Assistant General Manager (Credit - EPF/Estate/SME & Micro)
B. Com (Special), PGD in BF
- 03 Mr. K. L. N. A. Perera**
Assistant General Manager (Finance)
MBA (Fin), FCA, B. Com. (Sp), SAT, HNDA, Dip. in RM
- 04 Mrs. Nishani P. K. Lokuge**
Assistant General Manager (Legal) /Secretary to the Board of Directors
LLB, Attorney-at-Law, Notary Public and Commissioner for Oaths, Company Secretary

- 05 Mr. B. M. D. Priyanga B. Basanayake**
Assistant General Manager (IT)
MSc (Mgt & IT), B. Sc. (MIS), MBSCS UK
- 06 Mr. K. K. Kapila Keerawella**
Assistant General Manager (Recovery)
B.Com (Sp) Hons (USJ), PG.EX.Dip. in Bank Mgt (IBSL)
- 07 Mrs. Ashmi S. K. Amarasinghe**
Assistant General Manager (HR & L)
MBA, PQHRM, Dip in Psychology, AMCIPM
- 08 Mrs. N. A. R. Niroshani De Silva**
Chief Internal Auditor
FCA, B. Sc. (Acc) Sp. (Hons.)

Corporate and Senior Management Contd...



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- 09 **Mr. L. W. Samarawickrama**
Act. Assistant General Manager (Credit)/ Chief Manager (Credit)
B. Sc. (Sp) Estate Management & Valuation, AIV, ACBF - (IBSL)
- 10 **Mr. D. M. R. Dissanayaka**
Chief Manager (Estate/EPF/SME and Micro Loans)
MA, B. Sc. -EMV (Sp) Hons, DBF, Dip in MC, Dip in CE, AIV, AIB
- 11 **Mr. S. Wickramasinghe**
Chief Manager (Credit)
B. Sc. EMV (Sp) Hons., AIV
- 12 **Mrs. W. K. Perera**
Chief Manager (Legal)
LLB, Attorney - at - Law, Company Secretary
- 13 **Mrs. W. G. S. S. K. Abeywickrama**
Chief Manager (Compliance)
Attorney at Law and Notary of Public, Commissioner for Oaths,
- 14 **Mr. D. B. Prasad Willarachchi**
Internal Auditor
MBS, P.G. Dip. In Business & Finance, B.Com. (Sp), CBA, MAAT

- 15 **Mr. R. M. U. D. Bandara**
Chief Manager (Human Resources and Logistics)
MHRM, B. Sc. BA (Sp), NDHRM. , AMGIPM
- 16 **Mr. S. A. K. A. K. Sooriyaarachchi**
Chief Manager (Risk Management)
MA Econ., PGD-App. Stat, BA Econ, ACCA - UK (part)
- 17 **Mr. I. Edirisooriya**
Chief Manager (Valuation)
M. Sc. (REMV), B. Sc. (EMV) (Sp) Hons. MRICS (UK), AIV
- 18 **Mr. M. M. Luxaman Perera**
IT Consultant (Core Banking Solution)
M. Sc. (CS), MBA, B. Sc., BCS, FCS

NOT IN PICTURE

- Mr. I. K. Gamini**
Chief Manager (Credit)
BA. Hons, CBF

Corporate Governance

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

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

The Board of Directors of the State Mortgage and Investment Bank, which is the highest decision making authority has overall responsibility for the operations and the financial soundness of the Bank and liable to ensure that the interests of depositors, creditors, employees, and other stakeholders are met.

The Board of Directors of the Bank has an active combination of professionals with practical experience in banking, finance, economics, business management, human resource management, law, marketing, etc. They have the necessary skills and experiences needed to arrive independent, impartial and direct decisions regarding issues of strategy, performance and resources. The Board continued to strengthen its oversight responsibilities on the affairs of the Bank providing the leadership to put the Institution's strategic aims into effect, supervising the management of the business and reporting shareholders on their stewardship.

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

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

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

Accountability

Since one of the keystones to the success of an institution is developing a culture of accountability, the Bank having a better understanding of the said fact has developed a culture of accepting responsibility for its action.

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

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

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

Fairness

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

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

Corporate Governance Contd...

Transparency and disclosure

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

Transparency is one of the key steps to corporate governance and ensures that management will not engage in improper or unlawful behavior since their conduct can be and will be scrutinized. To achieve transparency, the Bank strongly believes that it should adopt accurate accounting methods, make full and prompt disclosure of company information and make disclosure of conflict of interests of the directors or controlling shareholders, etc. Accordingly, the bank ensures that it has to be more transparent in its activities discloses through its annual report, the capital adequacy, key performance indicators, business concentrations, corporate governance statements, and financial statements.

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

During the year 2020, there weren't any related party transactions reported in the bank.

Board of Directors

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

representatives of the Ministry of the Minister in charge of the subject of Agriculture, the Ministry of the Minister in charge of the subject of Housing and the Ministry of the Minister in charge of the subject of Livestock Development since the purpose of the Bank is to assist the general public in the development of agricultural, industrial and housing, by providing financial and other assistance. The composition of the Board ensures that there is a sufficient balance of power and continuation of contribution guides in the decision-making process of the board. The Board of Directors of SMIB supervises and undertakes overall responsibilities and accountability of the Bank by setting high level strategic directions and has delegated the power of implementation of strategies to the General Manager /CEO who exercises executive authority through the corporate management team which he heads and to which he provides leadership and direction. The Bank has an effective leadership structure that allows the board to work collaboratively as a team.

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

The Chairman and the Board of Directors with their strong commitment and farsighted guidance manage the bank ahead. The Board of Directors meets at least once a month and in the year 2020, 11 meetings have been held.

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

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

Corporate Governance Contd...

Composition of the Board

Name of the Director	Date of Appointment	Date of Retirement or ceased to be a Director	Category of Director
Dr. K.W.A.U. Kariyawasam (Chairman)	13.01.2020		Independent non-executive director
Mr. S.K.A. Galappaththi	02.01.2020		Independent non-executive director
Mr. A.J.P.H.B.M.R.S. Bandara	02.01.2020		Independent non-executive director
Ms.W.C.N. Cooray	02.01.2020		Independent non-executive director
Mr. H.C.D.L. Silva	11.01.2020		Independent non-executive director (Treasury Representative)
Dr. P.B. W.Muneege	23.09.2020	29.01.2020	Independent non-executive director

Directors' attendance at Meetings in the Year 2020 is being given in the Director's Report of this annual report.

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

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

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

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

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

Board Sub Committees

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

The subcommittees are as follows;

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

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

The Board Audit Committee (BAC) provides oversight of the financial reporting process, the audit process, the Bank's system of internal controls and compliance with laws and regulations. It can expect to review significant accounting and reporting issues and recent professional and regulatory pronouncements to understand the potential impact on financial statements. An

Corporate Governance Contd...

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

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

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

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

The Board Audit Committee (BAC) and Board Integrated Risk Management Committee (BIRMC) assist the Board to review and make decisions on the adequacy and integrity of internal controls, review of financial information and their integrity, principal risk elements of the industry and precise risk factors and Corporate

Governance of the Bank. The Board has also retained the critical areas of operations under its purview without delegating to the operational level as per Corporate Governance practices.

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

Management Committees

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

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

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

Corporate Governance Contd....



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தேசிய கணக்காய்வு அலுவலகம்

NATIONAL AUDIT OFFICE



මගේ අංකය
எனது இல.
My No.

BAN/F/SMIB/CG/2020/1

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

13 December 2021

The Chairman,

State Mortgage and Investment Bank

Auditor General's Report of Factual Findings of State Mortgage and Investment Bank on the compliance requirement of the Corporate Governance Directive issued by the Central Bank of Sri Lanka -31 December 2020

I have performed the procedures enumerated in Annexure-1 to this report, with respect to the Governance Report of the Board of Directors prepared and presented to meet the compliance requirement of the Corporate Governance Directive issued by the Central Bank of Sri Lanka (CBSL). My engagement was undertaken in accordance with the principles set out in Sri Lanka Standards on Related Services 4400 (SLSRS 4400) applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you to meet the compliance requirement of the Corporate Governance Directive.

I report my findings in the attached Annexure-1 to this report.

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

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

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

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

W.P.C. Wickramaratne
Auditor General



Corporate Governance Contd...

Questionnaire for compliance officers of Banks

NOTE: The below mentioned numbering is used to coincide with the “section 3” of the Banking Act Direction No. 12 of 2007 issued by the Central Bank of Sri Lanka, the sections 1 & 2 are not applicable for this document.

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.1	The responsibilities of the Board					
3.1.i	Procedures to be carried out to ensure the Board have strengthened the safety and soundness of the Bank.					
3.1.i.a	Check the Board approval of the Bank's strategic objectives and corporate values.	Complied			Corporate Plan for the period 2020-2024 and Action Plan for 2020 was approved by the Board under the Board paper No.20/01/68 at the meeting held on 30.04.2020	Complied Checked the Corporate Plan for the period 2020-2024 and Action Plan for 2020 and the board paper No.20/01/68 at the meeting held on 30.04.2020
	Check whether the Bank has communicated the Bank's strategic objectives and corporate values throughout the Bank	Complied			Strategic objectives and corporate values are communicated through heads of departments at each division at the Senior Management Meetings and Branch Managers Meetings held during the year 2020	Complied Checked Branch Manager meeting on 06 July 2020
3.1.i.b	Check the Board approval of the overall business strategy of the Bank.	Complied			Overall business strategy (Corporate vision, mission and the objectives) included in the corporate plan and it was approved by the Board at the meetings held on 30.04.2020	Complied Checked board approval for the corporate plan in the board paper No. 20/01/68 at the meeting held on 30.04.2020
	Check that the overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented.	Complied			The Bank has documented the overall business strategy including the overall risk policy, risk management procedures and mechanisms.	Complied refer page 28 to 37 of the corporate plan

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
	Check that the overall business strategy contains measurable goals, for at least the next three years.	Complied			The Corporate Plan 2020-2024 is operationalized through an Action Plan with goals	Complied refer page 38-53 of the corporate plan
3.1.i.c	Check that the appropriate systems to manage the risks identified by the Board are prudent and are properly implemented.	Not Complied			<p>Board appointed Board Integrated Risk Management Committee (BIRMC) acts with the delegated authority according to the board approved TOR.</p> <p>BIRMC meets periodically to assess the identified major risk areas and review/approve the Integrated Risk Management Framework, Risk assessment framework, and Risk appetite of the Bank. BIRMC implements the systems to measure, monitor and manage principal risks.</p> <p>BIRMC submit the KRIs and Stress testing results and Risk Assessment Report of the BIRMC meetings to discuss at board meetings to take strategic decisions to mitigate the risks. Key Risk Indicators and Risk Appetite is set by the Board</p>	<p>Not Complied</p> <p>Four BIRMC meetings are held on 25 August 2020 ,24 September 2020 ,22 October 2020,11 December 2020 and discussed the areas Asset Quality, Liquidity Risk, Portfolio Risk Capital Adequacy Risk Earning and Profitability Risk and Operational Risk.</p> <p>We observed that the Bank has not performed BCPDR for the year 2020.</p> <p>Observed three reports for behavior of KRI in 2020.</p> <p>We have observed poor documentation in the BIRMC minutes in 2020 and it has be strengthen in future.</p> <p>In addition to that The Board should introduce a mechanism for identifying the risk of strategic decision evaluation and it should be properly documented.</p>

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.1.i.d	Check that the Board has approved and implemented a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	Complied			The customer charter is used for the purpose of effective communication between customers and the Bank. Further, Government has 100% ownership of the Bank and all directors are appointed by the Ministry of Finance. Therefore, effective communication between government/ shareholders depositors, creditors, borrowers and the Bank is maintained. Quarterly financial statements are published in newspapers. The Policy of Communication has been approved by the Board in Dec 2015 (Minute No.15.11.155.01 in the Board paper No. 15/11/08).	Complied Checked customer charter of the bank it is approved by the board in Dec 2015 (Minute No.15.11.155.01 in the board paper No. 15/11/08
3.1.i.e	Check that the Board has reviewed the adequacy and the integrity of the Bank's internal control systems and management information systems.	Not Complied			The adequacy and integrity of the internal controls and management information system had been reviewed by the Board Audit Committee; The BAC is assisting the Board which reviews the adequacy and integrity of the Bank's internal control system and management information system. The Internal Audit Division continuously monitors the same..	Not Complied Currently the Bank uses AS 400 as their MIS system and this system does not facilitate the industry requirement in terms of generating information and reports Therefore the bank will have to introduce proper core banking solution for adequacy and the integrity of the Bank's internal control systems and management information systems

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.1.i.f	Check that the Board has identified and designated key management personnel, as defined in the Sri Lanka Accounting Standards, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management.	Complied			The Board of Directors, and the Officers performing executive functions including the General Manager are defined as Key Management Personnel the Sri Lanka Accounting Standards (LKAS 24) have been recommended by the BNC and approved by the Board.	Complied Bank has applied LKAS 24 for BOD and KMPs
3.1.i.g	Check that the Board has exercised appropriate oversight of the affairs of the Bank by key management personnel, that is consistent with Board policy	Complied			The Board reviews the performance of the Bank against the Strategic Business Plan and receives reports from Board Subcommittees on financial reporting, internal control, risk management and other relevant matters delegated to those committees. Further, KMPs make regular presentation on the matters under their purview.	Complied Checked Board Audit Committee minutes and BAC reports in 2020 Checked BIRMC minutes in 2020
3.1.i.h	Check that the Board has defined the areas of authority and key responsibilities for the Board directors themselves and for the key management personnel	Complied			Directors' powers and authority defined in SMIB Law No.13 of 1975 under the Section 07. Each Director has been appointed to one or more Board Committee. Directors were allocated to sub committees by the Board of Directors and charter/ TOR of each committee defines responsibilities. KMPs authorities and responsibilities are listed in Job Descriptions. BHRRC discuss the areas of authority and key responsibility for Board of Directors & KMPs.	Complied Checked Charters of BAC, and TOR of BIRMC, BHRRC and BNC

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.1.i.i	Check that the Board has periodically assessed the effectiveness of the Board directors' own governance practices, including: (i) the selection, nomination and election of directors and key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary.	Complied			Selections, nominations and election of the Board of directors are done by the Minister according to the SMIB Law No.13 of 1975. Directors confirmed in their self-evaluation forms that the Board has undertaken an annual evaluation of its own governance practices. Board has taken a decision to audit the implementation of Board decisions. The effectiveness of the BODs is assessed through a questionnaire.	Complied Selections, nominations and election of the Board of directors are done by the Minister according to the SMIB Law No.13 of 1975 and observed self-evaluations forms of BOD in 2020 .
3.1.i.j.	Check that the Board has a succession plan for key management personnel.	Complied			Succession plan for key management personnel for the year 2017 is available.17.04.52.04 (Board Paper No.17.04.21) in the minutes of the Board meeting held on 28/04/2017.BOD has taken steps to revise the cadre and SOR.	Complied Checked Succession plan for key management personnel for the year 2017 and it was approved by the BOD in the meeting held on 28/04/2017. (Board Paper No.17.04.21)
3.1.i.k.	Check that the Board has scheduled regular meetings with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Complied			In each Board meeting the General Manager being attended and through that the Board has established communication lines and monitor progress towards corporate objectives. KMPs make regular presentation on the matters under their purview. Further, the Board has directed to hold management committee meeting and senior management meeting to ensure that management is working towards corporate objectives.	Complied Checked the Board meeting minutes and confirmed the General Manager's attendance in the year 2020

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.1.i.l	Check that the Board has taken measures and processes in place to understand the regulatory environment and that the Bank maintains a relationship with regulators.	Not Complied			The Bank maintains a good relationship with regulators through the Compliance officer. She maintains regular contacts with the regulators. She appraises the board and the KMPs on all regulatory requirements regularly. All changes to regulatory environment are intimated as soon as they were communicated by the relevant Regulator. Further the Compliance officer and the head of risk report on status of the compliance requirements periodically	Not Complied The Bank has separate Compliance Davion to smooth the operations and maintains a relationship with regulators. However Bank will have strengthen the relationships with regulators by achieving deadlines of reporting with relevant regulators. Ex Annual Report
3.1.i.m	Check that the Board has a process in place for hiring and oversight of external auditors.		N/A		Auditor General has been appointed as per the provision contained in the State Mortgage and Investment Bank Law No.13 of 1975 and in terms of the provisions of Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka as per such provisions Auditor General is the external auditor of SMIB.	N/A Auditor General has been appointed as per the provision contained in the State Mortgage and Investment Bank Law No.13 of 1975.
3.1.ii	Check that the Board has appointed the Chairman and the Chief Executive Officer (CEO).Check that the functions and responsibilities of the Chairman and the CEO are in line with Direction 3(5) of these Directions.	Complied			According to the SMIB Law No.13 of 1975 Section 14.1, The Chairman has been appointed by relevant Line Minister. The General Manager/CEO has been appointed by the Board of Directors. The functions and responsibilities of the Chairman and the CEO which are in line with the above said directions.	Complied Refer Para no 14 (1) SMIB Law no 13 of 1975

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.1.iii	Check that the Board has met regularly and held Board meetings at least twelve times a year at approximately monthly intervals.	Not Complied			The current Board members were appointed in January/February 2020. The Board has met 11 times during the year 2020 at approximately monthly intervals. Board minutes register and directors' attendance register are available.	Not Complied Board meetings were started on April 2020 onwards and met 11 times for the year 2020
3.1.iv	Check that the Board has a procedure in place to enable all directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank	Complied			The notice of the meeting and agenda for the meeting circulated to all directors by the secretary at least seven days prior to the meeting to provide reasonable time to study and make any proposals. Accordingly matters and proposals related to the promotion of business and the management of risks of the Bank is discussed by the Board of directors.	Complied Observed the email sent by the board secretary as the notice of the meeting and agenda to all directors at least seven days prior to the meeting
3.1.v	Check that the Board has given notice of at least 7 days for a regular Board meeting to provide all directors an opportunity to attend. And for all other Board meetings, notice has been given.	Complied			Prepared agenda is sent to each directors of the Board which is signed and approved by the secretary by post or by hand at least seven days prior to the meeting.	Complied Observed the email sent by the board secretary as the notice of the meeting and agenda to all directors at least seven 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.	Complied			The directors have attended the meetings as required and hence, no such requirement has been arisen.	Complied Checked BOD attendance of the year 2020

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.1.vii	Check that the Board has appointed a company secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and carry out other functions specified in the statutes and other regulations.	Complied			The Board has appointed the secretary to the Board in accordance with the section 43 of the Banking Act No. 30 of 1988. Further the Board has to set up a separate division for Board Secretariat.	Complied Board secretary is an attorney at law who is satisfied with section 43 of the Banking Act No. 30 of 1988 and the Companies Act No 7 of 2007 and we observed the certificate of the attorney at law.
3.1.viii	Check the process to enable all directors to have access to advice and services of the company secretary.	Complied			All directors have access to advice and obtain the service of the Board Secretary.	Complied According to the comment given by the board secretary All directors have access to advice and obtain the service of the Board Secretary
3.1.ix	Check that the company secretary maintains the minutes of Board meetings and there is a process for the directors to inspect such minutes.	Complied			All the minutes of the Board meetings are filed sequentially and kept under the Board Secretaries authority. At any time, any director shall have access to any information regarding the Board meetings.	Complied. It was observed that the all minutes of the board meetings are filed sequentially and kept under the board. As per secretary's statement at any time any director has access to any information regarding the board meetings.

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
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>(f) the decisions and Board resolutions.</p>				<p>The Board minutes are recorded in sufficient detail includes all the facts referred above. Generally, followings are included in the contents of the Board minutes.</p> <p>i. Confirmation minutes of the previous meeting</p> <p>ii. Matters arising out of the minutes of the previous meetings.</p> <p>iii. Differed from the previous meeting</p> <p>iv. Recovery matters</p> <p>v. Financial matters</p> <p>vi. Marketing and publication matters</p> <p>vii. Administration and personal matters</p> <p>viii. Credit matters</p> <p>ix. Risk Matters</p> <p>x. Legal Matters and,</p> <p>xi. Any Other Matters</p>	<p>Complied</p> <p>Checked the board minute dated 25 June 2020 and ensured that minute is recorded in sufficient details.</p>
3.1.xi	<p>Check that there are procedures agreed by the Board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense</p>	Complied			<p>Board approval is obtained enabling to seek independent professional advice whenever necessary while carrying out duties and making decisions. Bank follows Government approved tender procedures.</p>	<p>Complied</p> <p>Observed both the consultancy letters signed by the Bank with the Amarasekara Company and EY</p>

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.1.xii	Check that there is a procedure to determine, report, resolve and to take appropriate action relating to directors avoid conflicts of interests, or the appearance of conflicts of interest.	Complied			Related Party Transaction Policy was approved by the Board Paper No 16/08/35 and Board minute no 16.08.95.02 held on 26.08.2016.	Complied According to the section 28 of the SMIB Law no 13 of 1975. Related Party Transaction Policy was approved by the Board Paper No 16/08/35 & Board minute No 16.08.95.02 held on 16.08.2016
	Check that a director has abstained from voting on any Board resolution in relation to which he/she or any of his/her close relation or a concern in which a director has substantial interest, is interested.	Complied			No such situation taken place in year 2020.	Complied No such situation is noted in year 2020.
	Check that has he/she been counted in the quorum for the relevant agenda item at the Board meeting			N/A	Such a matter has not arisen during the year 2020 and therefore this section is not applicable.	N/A
3.1.xiii.	Check that the Board has a formal schedule of matters specifically reserved to it for decision to identify the direction and control of the Bank is firmly under its authority.	Complied			The Board has a formal schedule of matters, the Board maintain schedule of matters specifically reserved to it for decision to identify the direction and control of the Bank is firmly under its authority. Observed Board Paper No.16/10/40 in the minutes of 16.10.122.02	Complied Observed the board paper No.16.10.40 & minute No. 16.10.122.02 dated 24 October 2016
3.1.xiv	Check that the Board has forthwith informed the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action, if it considers that the procedures to identify when the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors.		N/A		Such situation has not occurred	N/A

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.1.xv	Check that the Board has the Bank capitalized at levels as required by the Monetary Board.	Complied			The minimum regulatory capital requirement Rs 5 Billion complied by the Bank as at 01/01/2018 (as per the letter dated on 12/07/2016 by CBSL). This has further been enhanced to Rs 7.5 Billion with effect from 31.12.2020 as per the direction No 5 of 2017 dated on 26 October 2017 and subsequently which was extended until 31.12.2022 as per the Governor of Central Bank of Sri Lanka letter dated 27 March 2020. Accordingly, The Bank expects to complied with the 7.5 Billion through the internally generated funds via expanding the business as per the provisions in the State Mortgage & Investment Bank Act no 13 of 1975 in next two years. (note 38.5.1)	Complied Refer Note no 38.5.1. in 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.	Complied			The Board publishes the annual corporate governance report setting out the compliance with direction 3 of this direction in the annual report.	Complied
3.1.xvii	Check that the Board adopts a scheme of self-assessment to be undertaken by each director annually, and maintains records of such assessments.	Complied			Self-assessment/evaluation process has been carried out by the Board of directors for the year 2020.	Complied Observed the self-evaluation forms of the BOD for the year 2020

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
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.	Not Complied			Board of Directors consisting of five fit and proper persons appointed by the Minister.	Not complied. The board consists of 05 directors as at 31 December 2020
3.2.ii.a	Check that the total period of service of a director other than a director who holds the position of CEO, does not exceed nine years.	Complied			No director has exceeded 9 years of service in the capacity of director.	Complied observed that no directors has exceeded 9 years of service
3.2.ii.b	In the event of any director serving more than 9 years, check that the transitional provisions have been applied with.		N/A		No director has exceeded 9 years of service in the capacity of director.	N/A
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.		N/A		In accordance with the provisions of the SMIB Law No.13 of 1975 the Board consists of directors appointed by the Line Ministry and all are non-executive directors.	N/A
3.2.iv	Check that the Board has at least three independent non-executive directors- or one third of the total number of directors, whichever is higher. Check if non-executive directors can be considered independent if he/ she:	Complied			All the Directors are appointed by the Minister, and all are independent and non- executive directors.	Complied According to the SMIB Law No.13 of 1975, All the Directors are appointed by the Minister, and all are independent and non-executive directors
3.2.iv.a	Holds a direct and indirect shareholding of more than 1 per cent of the Bank;		N/A		There is no such situation has arisen as the Bank fully owned by the Government.	N/A
3.2.iv.b	currently has or had during the period of two years immediately preceding his/her appointment as director, any business transactions with the Bank as described in Direction 3(7) hereof, exceeding 10 per cent of the regulatory capital of the Bank.		N/A		According to note 32 of the financial statement 2020 no such transaction occurred. Also no such transaction has been disclosed or identified .	N/A
3.2.iv.c	has been employed by the Bank during the two-year period immediately preceding the appointment as director.		N/A		There are no such non-executive directors who were employed by the Bank.	N/A

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.2.iv.d	has had a close relation; who is a director, CEO, a member of key management personnel, a material shareholder of the Bank or another Bank. (For this purpose, a "close relation" means the spouse or a financially dependent child)			N/A	There is no such non-executive director has had a close relation according to the self-declaration made by the directors according to the section 42 of the Banking act and declaration made by KMPs.	N/A
3.2.iv.e	represents a specific stakeholder of the Bank			N/A	The Bank is fully owned by the government	N/A
3.2.iv.f	is an employee or a director or a material shareholder in a company or business organization:					
3.2.iv.f.I	which currently has a transaction with the Bank as defined in Direction 3(7) of these Directions, exceeding 10 per cent of the regulatory capital of the Bank, or			N/A	There was no transaction in which a Director is directly or indirectly interested during the year 2020.	N/A No transaction is noted in which a Director is directly or indirectly interested during the year 2020.
3.2.iv.f.II	in which any of the other directors of the Bank are employed or are directors or are material shareholders; or			N/A	No incident was arisen in this regard.	N/A
3.2.iv.f.III	in which any of the other directors of the Bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10 per cent of regulatory capital in the Bank.			N/A	No incident was arisen in this regard.	N/A
3.2.v	In the event an alternate director was appointed to represent an independent director, Check the person so appointed meet the criteria that applies to the independent director.			N/A	No alternative directors were appointed during the year.	N/A
3.2.vi	Check that the Bank has a process for appointing independent directors.	Complied			Directors are appointed by the Minister according to the section 7 of SMIB Law No.13 of 1975.	Complied Directors are appointed by the Minister according to the section 7 of SMIB Law No.13 of 1975.

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.2.vii	Check that the stipulated quorum of the Bank includes more than 50% of the directors and out of this quorum more than 50% should include non-executive directors.	Complied			All directors are non-executive Directors.	Complied All directors are non-executive Directors.
3.2.viii.	Check that the Bank discloses the composition of the Board, by category of directors, including the names of the Chairman, executive directors, non-executive directors and independent non-executive directors in the annual corporate governance report.	Complied			The Bank has disclosed the composition of the Board, including the names of the Chairman and directors. It had disclosed directors' category as independent non-executive directors of the annual report.	Complied Refer Draft the annual report of 2020
3.2.ix	Check the procedure for the appointment of new directors to the Board.	Complied			The appointment of directors is done by the Minister in accordance with the SMIB Act No.13 of 1975.	Complied According to the section 7 of SMIB Law No.13 of 1975, Directors are appointed by the Minister.
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.			N/A	The directors are appointed by the Minister in accordance with the SMIB Law No.13 of 1975.	N/A The directors are appointed by the Minister in accordance with the SMIB Law No.13 of 1975
3.2.xi	Check if a director resigns or is removed from office, the Board					
3.2.xi.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	Complied			The removal of the directors is done by the minister of relevant Line Ministry in accordance with the SMIB Law No.13 of 1975.	Complied The removal of the directors is done by the minister of relevant Line Ministry in accordance with the SMIB Law No.13 of 1975
3.2.xi.b	Issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.			N/A		N/A

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.2.xii	Check if there is a process to identify whether a director or an employee of a Bank is appointed, elected or nominated as a director of another Bank.	Complied			As per section 76H read with section 42 of the Banking Act, Director of Bank Supervision of CBSL has accepted the assessment of fitness and propriety of the directors of SMIB.	Complied Observed letter send by the Director of Bank Supervision of CBSL has accepted the assessment of fitness and propriety of the directors of SMIB.
3.3	Criteria to assess the fitness and propriety of directors					
3.3.i	Check that the age of a person who serves as director does not exceed 70 years.	Complied			Checked and ensured through the declarations That all directors are below the age of 70.	Complied Observed self-declaration forms of the BOD and no such director is observed.
3.3.i.a	Check that the transitional provisions have been complied with.			N/A	Since no directors exceed age of 70 years, this section does not apply.	N/A
3.3.ii	Check if a person holds office as a director of more than 20 companies/ entities/ institutions inclusive of subsidiaries or associate companies of the Bank.	Complied			No director holds office as a director of more than 20 companies/entities/ institutions.	Complied Observed self-declaration forms of the BOD and no such director is observed.
3.3.iii	Check that A Director or a Chief Executive Officer of a licensed Bank operating in Sri Lanka shall not be appointed as a Director or a Chief Executive Officer of another licensed Bank, operating in Sri Lanka before the expiry of a period of 6 months from the date of cessation of his/her office at the previous Bank.			N/A	No such appointment has taken place	N/A
3.4	Management functions delegated by the Board					
3.4.i	Check that the delegation arrangements have been approved by the Board.	Complied			Power delegation by the BOD to the General Manager /CEO to manage the business is done according to the SMIB Law -section 20, 21. The Board appointed sub committees are in place and delegate powers accordingly.	Complied Checked SMIB Law -section 20, 21 and the board appointed sub committees and delegate powers accordingly

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.4.ii	Check that the Board has taken responsibility for the matters in 3 (1) (i) even in the instances such actions are delegated.	Complied			The Board limits delegation of any function to Board committees, CEO or key management personnel to an extent that will not reduce the ability of the Board to discharge its function	Complied Checked the sub- committee charters or TOR
3.4.iii	Check that the Board review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	Complied			The Board reviews the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	Complied Refer the board meeting held on 25 June 2020_HR matters
3.5	The Chairman and CEO					
3.5.i	Check that the roles of Chairman and CEO is separate and not performed by the same individual	Complied			The role of the Chairman and CEO are separate and not performed by the same individual.	Complied Two persons are performed as Chairman and CEO
3.5.ii	Check that the Chairman is a non-executive director.	Complied			Chairman is a non -executive independent director and he is appointed by the relevant Line Ministry, Under the SMIB Law. No.13 of 1975.	Complied Chairman is a non -executive director and observed his appointment letter
	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	Complied			The Chairman is an independent director hence, no such requirement has arisen.	Complied
	Check that the designation of the senior director be disclosed in the Bank's Annual Report	N/A				N/A
3.5.iii	Check that the Board has a process to identify and disclose in its corporate governance report, which shall be a part of its Annual Report, any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairman and the CEO and Board members and the nature of any relationships including among members of the Board.	Complied			This has been disclosed in the self-declaration made by the directors in accordance with the term of section 42 of the Banking Act.	Complied Observed draft annual report of 2020

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.5.iv	Check that the Board has a self-evaluation process where the Chairman: (a) provides leadership to the Board; (b) ensures that the Board works effectively and discharges its responsibilities; and (c) ensures that all key and appropriate issues are discussed by the Board in a timely manner	Complied			Self-evaluation process has been carried out by the Board.	Complied Observed copies of Self Evaluation forms of BOD.
3.5.v	Check that a formal agenda is circulated by the company secretary approved by the Chairman.	Complied			The agenda was circulated to each and every director by the Board secretary with the approval of the Chairman.	Complied Observed the agenda is circulated by the company secretary approved by the Chairman dated on 17 July 2021
3.5.vi	Check that the Chairman ensures, through timely submission that all directors are properly briefed on issues arising at Board meetings	Complied			The directors are properly briefed on issues arising at the Board meetings in advance and Board papers are submitted to the Directors prepare early.	Complied Observed the agenda is circulated by the company secretary approved by the Chairman dated on 17 July 2021
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				Self-evaluation process has been carried out to assess the contribution of the Non-executive Directors by the Board in 2020.	Complied Observed Self-evaluation forms sent by the BOD to CBSL
3.5.viii	Check that the Board has a self-evaluation process that assesses the contribution of non-executive directors.	Complied			Self-evaluation process has been carried out by the Board in 2020 and it assesses the contribution of non-executive directors. Observed the self-evaluation forms.	Complied Observed Self-evaluation forms sent by the BOD to CBSL

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.5.ix	Check that the Chairman engages in activities involving direct supervision of key management personnel or any other Executive duties whatsoever.	Complied			The Chairman does not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Not Complied The Chairman is a Non-Executive Director , However we have observed that Appointment letters of the CIA, Assistant Manager (Credit) and Assistant Internal Auditor have been signed by the Chairman in 2020
3.5.x	Check that there is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	N/A			Government has the 100% ownership of the Bank and all directors are appointed by the relevant Line Ministry. The Treasury representative is a permanent member of the Board.	N/A Government has the 100% ownership of the bank. Directors are appointed by the State Ministry of Money Capital Market and Enterprise Reform and confirmed the Treasury representative is a permanent member of the board.
3.5.xi	Check that the CEO functions as the apex executive-in-charge of the day-to-day management of the Bank's operations and business.	Complied			As per the organization chart the CEO/ GM function as apex executive in charge of day to day management of the Bank operations and business.	Complied Observed the organization chart of the bank.
3.6	Board appointed committees					
3.6.i	Check that the Bank has established at least four Board committees as set out in Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions.	Complied			Bank has established following Board sub committees; o Board Audit Committee (BAC) o Board Human Resources, and Remuneration Committee (BHRRC) o Board Nomination Committee (BNC) o Board Integrated Risk Management Committee (BIRMC)	Complied Observed the Board Paper No. 20.01.03.01 - Appointment of Directors to the Board sub Committees such as BAC BHRRC, BNC,BIRMC

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
	Check that each Board committee report is addressed directly to the Board.	Complied			Each Board subcommittee reports/minutes are directly addressed to the Board.	Complied Observed the minute of the sub committees Ex BAC, BIRMC
	Check that the Board presents in its annual report, a report on each committee on its duties, roles and performance.	Complied			The Bank has disclosed details of BIRMC Board, Nomination Committee BAC in the annual report	Complied Observed draft Annual Report of 2020
3.6.ii	Audit Committee:					
3.6.ii.a	Check that the Chairman of the committee is an independent non-executive director and possesses qualifications and related experience.	Complied			The Chairman of BAC was an independent non-executive director and has necessary qualifications and experience. Chairman of BAC is a Chartered Accountant.	Complied Observed the appointment letter of the Chairman in the BAC
3.6.ii.b	Check that all members of the committee are non-executive directors.	Complied			Board Audit committee consists of 3 members and one alternative member and all the members are independent non-executive directors.	Complied Observed the Board Paper No.20.01.03.01 for the appointment of Directors to the Board sub Committees.
3.6.ii.c	Check that the committee has made recommendations on matters in connection with				The External Auditor is the Auditor General who has been appointed in accordance with the Constitution of Sri Lanka, Finance Act/ Audit Act and Section 65 of SMIB Law No. 13 of 1975.	N/A The External Auditor is the Auditor General who has been appointed in accordance with the Finance Act and SMIB Law No 13 of 1975
3.6.ii.c.I	The appointment of the external auditor for audit services to be provided in compliance with the relevant statutes			N/A		N/A
3.6.ii.c.II	the implementation of the Central Bank guidelines issued to auditors from time to time;			N/A		N/A

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.6.ii.c.III	the application of the relevant accounting standards; and				<p>Financial statements are prepared in accordance with the new Sri Lanka accounting standards (SLFRSs/LKASs) and the formats prescribed by the regulates.</p> <p>Amended financial statement were approved at the board meeting held on 24th September 2021 ratified by the board audit committee at its meeting held on 4th October 2021.</p> <p>Annual Financial Statements are disclosed in the annual report; quarterly statements are published in newspapers in all three languages.</p>	<p>Complied</p> <p>Observed the board meeting minute held on 24th September 2021</p>
3.6.ii.c.IV	the service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	N/A			The external auditor is Auditor General who has been appointed as per the Constitution of Sri Lanka, Finance Act/ Audit Act and Section 65 of SMIB Law No. 13 of 1975	N/A Auditor General who has been appointed by the Ministry of Finance according to the SMIB Law No.13 of 1975.
3.6.ii.d	Check that the committee has obtained representations from the external auditors on their independence, and that the audit is carried out in accordance with SLAUS	N/A			Not relevant. According to the SMIB Law No.13 of 1975, Auditor General is the external Auditor of the SMIB.	N/A Auditor General who has been appointed by the Ministry of Finance according to the SMIB Law No.13 of 1975.
3.6.ii.e	Check that the committee has implemented a policy on the engagement of an external auditor to provide non-audit services in accordance with relevant regulations	N/A			Not relevant. According to the SMIB Law No.13 of 1975, Auditor General is the external Auditor of the SMIB.	N/A Auditor General who has been appointed by the Ministry of Finance according to the SMIB Law No.13 of 1975.

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.6.ii.f	Check that the committee has discussed and finalized, the nature and scope of the audit, with the external auditors in accordance with SLAUS before the audit commences	N/A			The Audit committee has discussed the nature and scope of the audit with the external auditor. Audit Report States that the audit was conducted in accordance with SLAUS.	Auditor General is conducted the annual audit based on the audit plan and Auditor General's representative is in presence at the Audit Committee meetings (BAC).
3.6.ii.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; <ul style="list-style-type: none"> i. major judgmental areas; ii. any changes in accounting policies and practices; iii. the going concern assumption; and iv. the compliance with relevant accounting standards and other legal requirements, and; v. in respect of the annual financial statements the significant adjustments arising from the audit. 	Complied			The Board audit committee has reviewed the financial information of the Bank through following audit committee meetings. <ul style="list-style-type: none"> Meeting Date 24/04/2020 Meeting Date- 23/06/2020 Meeting Date- 14/09/2020 Meeting Date - 29/09/2020 Meeting Date- 19/11/2020 Meeting Date- 11/12/2020 	Complied Observed BAC minutes as follows Meeting Date 24/04/2020 Meeting Date- 23/06/2020 Meeting Date- 14/09/2020 Meeting Date - 29/09/2020 Meeting Date- 19/11/2020 Meeting Date- 11/12/2020
3.6.ii.h	Check that the committee has met the external auditors relating to any issue in the absence of the executive management with relation to the audit.	N/A			Board audit committee has not met the external auditor. Because there are no such matters arisen during the year.	N/A Refer BAC meeting minutes of the 2020
3.6.ii.i	Check that the committee has reviewed the external auditor's management letter and the management's response thereto.	Complied			The BAC reviewed the audit related issues/ quarries and management's response there to. Reviewed the Detailed Management Audit Report for the year 2019 issued under Section 12 of the National Audit Act, No.19 of 2018 and the management response here on meeting held on 19.11.2020.	Complied The BAC reviewed the audit related issues/ quarries and management's response there to and the Management Letter of 2019 on meeting held on 19.11.2020

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.6.ii.j	Check that the committee shall take the following steps with regard to the internal audit function of the Bank:					
3.6.ii.j.I	Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;	Complied			Internal Audit Plan - 2020 was approved by BAC Paper No.19/05/03 (14/11/2019). The Internal Audit Division has been delegated necessary authority to carry out their work by the Internal Audit Charter with has been approved by the Board Audit Committee and the Board of Directors Staff with required qualifications were recruited to fulfill the human resource requirements of the division	Complied Internal audit plan was approved by BAC Paper 19/05/03 (14/11/2019) and Bank has strength the Internal Audit Department by recruiting new CIA and two qualified Assistant Managers.
3.6.ii.j.II	Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;	Complied			Audit committee has reviewed the internal audit plan quarterly and the results of the internal audit process and taken the appropriate actions where those were necessary.	Complied Checked BAC minutes during the year 2020
3.6.ii.j.III	Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department	Complied			BAC Chairman evaluates the performance of the Head of the Internal Audit Division. Internal Auditor has been acting as the Head of Internal Audit division until CIA's appointment on 4.12.2020.	Complied Observed the Annual increment form of the Internal Auditor which is evaluate by the BAC chairman and Annual increment forms of the staff members of the internal audit division which are assessed by the Internal Auditor.
3.6.ii.j.IV	Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function.	Complied			The Chief Internal Auditor was appointed in December 2020 with the recommendation of the Committee. There were no terminations during the year 2020.	Complied The CIA is recruited in 2020 and no terminations during the year the year 2020.

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.6.ii.j.V	Check that the committee is appraised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;	Complied			The Chief Internal Auditor was appointed in December 2020 with the recommendation of the Committee. There were no terminations during the year 2020.	Complied No any resignations occurred during the year.
3.6.ii.j.VI	Check that the internal audit function is independent of the activities it audits				The Charter of Board audit committee mentioned, BAC ensures that internal audit functions carried out independently of audits. Internal audit function is independent of the activities it audits.	Complied Observed The Charter of Board audit committee.
3.6.ii.k	Check the minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto	Complied			Minutes of the committee has reviewed major findings and Management responses thereto during the period under review.	Complied Observed BAC minutes as follows Meeting Date 24/04/2020 Meeting Date- 23/06/2020 Meeting Date- 14/09/2020 Meeting Date - 29/09/2020 Meeting Date- 19/11/2020 Meeting Date- 11/12/2020
3.6.ii.l	Check whether the committee has had at least two meetings with the external auditors without the executive directors being present.	Complied			A representative of AG is present at all BAC meetings. The BAC members do not include any executive directors.	Complied A representative of AG is present at all BAC meetings in 2020

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.6.ii.m	<p>Check the terms of reference of the committee to ensure that there is;</p> <ul style="list-style-type: none"> i. explicit authority to investigate into any matter within its terms of reference ii. the resources which it needs to do so iii. full access to information; and iv. authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary 	Complied			Terms of References the Board audit committee includes required terms.	Checked and ensured that as per the BAC Charter the Committee has been empowered to investigate any matter, access to information, authority to obtain professional advice, re-sources to carry out its functions etc.
3.6.ii.n	Check that the committee has met, at least four times and maintained minutes	Complied			The committee has met Six times for the period of 2020 and maintains minutes of those meetings	<p>Complied</p> <p>Observed BAC minutes as follows</p> <p>Meeting Date 24/04/2020</p> <p>Meeting Date- 23/06/2020</p> <p>Meeting Date- 14/09/2020</p> <p>Meeting Date - 29/09/2020</p> <p>Meeting Date- 19/11/2020</p> <p>Meeting Date- 11/12/2020</p>
3.6.ii.o	<p>Check that the Board has disclosed in the annual report,</p> <ul style="list-style-type: none"> i. details of the activities of the audit committee; ii. the number of audit committee meetings held in the year; and iii. details of attendance of each individual director at such meetings 	Complied			The annual report contains a Board audit committee report and it includes the required details.	<p>Complied</p> <p>Observed Draft Annual Report of the Bank 2020</p>
3.6.ii.p	Check that the secretary of the committee is the company secretary or the head of the internal audit function.	Complied			The Secretary of the committee is the secretary to the Board of Directors	<p>Complied</p> <p>Observed the Charter of the BAC</p>

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.6.ii.q	<p>Check that the "whistle blower" policy covers the process of dealing with;</p> <p>i. 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>	Complied			The Whistle Blower policy has been introduced and reviewed by the BAC dated 24.06.2019. A revised policy will be introduced after obtaining the approval from the BOD.	<p>Complied</p> <p>Observed the Whistle blower policy of the bank.</p>
3.6.iii	Does the following rules apply in relation to the Human Resources and Remuneration Committee					
3.6.iii.a	Check that the committee has implemented a policy to determine the remuneration (salaries, allowances and other financial payments) relating to directors, CEO and key management personnel of the Bank by review of the "Terms of reference" and minutes.	Complied			<p>Presently remunerations are decided as follows.</p> <p>Circular of the Public Enterprises No. PED 3/2015-Directors and Chairman and Pub. Ent. Circular No. PED01/2020</p> <p>The remuneration of the KMPs is decided in par with the collective agreement considering salary increment of three main government Banks and approved by the BOD of the Bank.</p>	<p>Complied</p> <p>Checked through Circular of the Public Enterprises No. PED 3/2015 and Pub. Ent. Circular No. PED01/2020.</p>

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.6.iii.b	Check that the goals and targets for the directors, CEO and the key management personnel are documented	Complied			<p>Goals and target for the directors, CEO /GM and for the key management personnel are documented in the Revised Corporate Plan and Action Plan 2020 - 2024.</p> <p>Further, KPIs are processing in order to evaluate performance of CEO and KMPs against the set targets and goals periodically. With the approval of the Board of Directors, KPIs have been reported on Quarterly basic to Heads of divisions and the actual achievements were reported to the Board Quarterly.</p>	<p>Complied</p> <p>Checked through the Corporate Plan for 2020 - 2024 and Action Plan for 2020.</p>
3.6.iii.c	Check that the committee has considered evaluations of the performance of the CEO and key management personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Not Complied			<p>The Board of directors evaluate the performance of the CEO annually. Performance of the Key Management Personnel are evaluated by monitoring their performance against the set KPIs.</p> <p>Performance Evaluation of Internal Auditor is reviewed by BAC, Performance Evaluation of CM- Compliance is reviewed by BIRMC and Performance Evaluation of CM- Risk Management is reviewed by BIRMC.</p> <p>Remuneration of the CEO and key management personnel are decided are based on the collective agreement by the Board Human Resources and Remunerations Committee and the Board .</p>	<p>Not Complied</p> <p>We have observed that Evaluations of KMPs in 2020 done by the BOD and Performance Evaluation of Internal Auditor is reviewed by BAC, Performance Evaluation of CM- Compliance is reviewed by BIRMC and Performance Evaluation of CM- Risk Management is reviewed by BIRMC.</p> <p>However Bank has not consider goals and target set at the beginning for the performance evaluation of the CEO and KMPs.</p> <p>The Bank will have to strength this process by evaluating performance of CEO and KMPs against set goals and targets through Human Resources and Remuneration Committee going forward for better governance.</p>

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.6.iii.d	Check that the "Terms of reference" provides that the CEO is not present at meetings of the committee, when matters relating to the CEO are being discussed by reviewing the minutes.	Complied			Terms of Reference" of human re-sources and remuneration committee stated that CEO is not present at the meeting when matters relate to him are being discussed.	Complied Observed TOR of the HRRMC of the Bank
3.6.iv	Does the following rules apply in relation to the Nomination Committee:					
3.6.iv.a	Check that the committee has implemented a procedure to select/appoint new directors, CEO and key management personnel.	Complied			The directors are appointed by the Ministry as per provisions in the SMIB Law No13 of 1975. KMPs are selected as per the Scheme of Recruitment of the Bank.	Complied The directors are being appointed by the Ministry as per provisions in the SMIB Law No13 of 1975. KMP are selected as per the scheme of recruitment (SOR).
3.6.iv.b	Check that the committee has considered and recommended (or not recommended) the reelection of current directors.	Complied			Five Directors have been appointed by the Minister, one director is the Treasury representative.	Complied Observed BNC TOR of the bank.
3.6.iv.c	Check that the committee has set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the key management personnel, by review of job descriptions	Complied			SOR contains the qualifications and experience required for appointment of CEO and KMPs.	Complied SOR contains the qualifications and experience required for appointment of CEO and KMPs.
3.6.iv.d	Check that the committee has obtained from the directors, CEO and key management personnel signed declarations that they are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes.	Complied			All completed declarations of directors have been obtained by Board secretary and forwarded to CBSL. Completed declaration of CEO and Key Management Personnel have been obtained by HR division and forwarded to CBSL	Complied All completed declarations of directors have been obtained by Board secretary and forwarded to CBSL. Completed declaration of CEO and Key Management Personnel have been obtained by HR division and forwarded to CBSL

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.6.iv.e	Check that the committee has considered a formal succession plan for the retiring directors and key management personnel.	Complied			The appointment of directors are governed by the SMIB Law No 13 of 1975, and accordingly, the Minister periodically nominate /appoint directors to the board . The succession plan for the KMPs had been considered by the committee in the year 2017 for next 5 years .	Complied Directors are appointed by the Minister. Formal succession plan of KMPs had been considered by the committee in the 1st quarter of 2017 for next five years.
3.6.iv.f	Check that the Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.	Complied			All the directors (including Chairman) are independent non -executive directors who are appointed by the Minister. The CEO presented meetings by invitation. The Board of Directors have appointed members to Board Nomination Committee.	Complied All the directors including chairman are independent non-executive directors who are appointed by the minister. The board of directors have appointed members to board nomination committee
3.6.v	Does the following rules apply in relation to the Integrated Risk Management Committee (IRMC)					
3.6.v.a	The committee shall consist of at least three non- executive directors, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.	Complied			BIRMC consist of three Non - Executive Directors, one alternative member CEO /GM, Head of Risk Management, BIRMC - secretary.	Complied Checked through the Board Paper No.20.01.03 - Appointment of Directors to the Board sub Committees

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.6.v.b	Check that the committee has a pro-cess to assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a Bank basis and group basis	Complied			Risk management Division (RMD) asses the credit market operational risk, strategic risk, liquidity risk adequately and submit reports to the committee on quarterly basis, In addition, RMD uses RCSA mechanism to let the risk owners identify their own risk.	Complied Due to Covid 19 pandemic situation bank was unable to conduct meetings on quarterly basis but bank conduct four meetings in 2020 such as 25 August 2020 24 September 2020 22 October 2020 11 December 2020 And we observed the minutes of such meetings
	The committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset and Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee	Complied			The committee reviews reports of management level committees such as the credit Committee, and the as-sets and liability management committee (ALCO) to assess the adequacy and effectiveness in addressing specific risks and to ensure those risks are managed within quantitative and qualitative risk limits as specified by the risks appetite level of the bank. The adequacy and effectiveness and of all management.	Complied The committee reviews re-ports of management level committees such as the credit Committee, and the assets and liability management committee (ALCO).
3.6.v.d	Check that the committee has re-viewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	Complied			Committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits. In the summary paper of KRIs submitted to the BIRMC, the committee has given special attention for the risk indicators which have gone beyond the prudential limits and has given due directions.	Complied Due to Covid 19 pandemic situation bank was unable to conduct meetings on quarterly basis but bank conduct four meetings in 2020 such as 25 August 2020 24 September 2020 22 October 2020 11 December 2020 And we observed the minutes of such meetings.

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.6.v.e	Check how many times the committee has met at least quarterly.	Complied			BIRMC has met four times during the year 2020.	Complied Due to Covid 19 pandemic situation bank was unable to conduct meetings on quarterly basis but bank conduct four meetings in 2020 such as 25 August 2020 24 September 2020 22 October 2020 11 December 2020 And we observed the minutes of such meetings
3.6.v.f	Check that the committee has re-viewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.	Complied			All disciplinary actions are governed by the SMIB rules in disciplinary management and committee is in-formed the events where such actions need to be initiated. As the committee meets on quarterly basis such events are initially in-formed to GM (the Disciplinary authority) and disciplinary actions are initiated.	Complied Checked the manual of Disciplinary Rules of the bank and confirmed through the schedule given by the HR division mentioning that present situation of the disciplinary actions against the loan fraud in the bank.
3.6.v.g	Check that the committee submits a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Complied			The committee submitted the risk assessment report to the Board.	Complied Observed Risk Assessment Report of the BIRMC meeting held on 24 September 2020
3.6.v.h	Check that the committee has establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations and that there is a dedicated compliance officer selected from key management personnel to carry out the compliance function a report to the committee periodically.	Complied			The Board has appointed Chief Manager-Compliance for the compliance function. The Chief Manager-Compliance reports the compliance function regularly to the Board and quarterly to the BIRMC	Complied Observed Appointment letter and duty list of compliance officer and letter of the fit and proper obtained from the CBSL to the Chief Manager-Compliance to perform the compliance function of the Bank.

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.7	Related party transactions					
3.7.i	<p>Check that there is an established and documented process by the Board to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as “related parties” for the purposes of this Direction:</p> <p>a. Any of the Bank’s subsidiary companies;</p> <p>b. Any of the Bank’s associate companies;</p> <p>c. Any of the directors of the Bank;</p> <p>d. Any of the Bank’s key management personnel;</p> <p>e. A close relation of any of the Bank’s directors or key management personnel;</p> <p>f. A shareholder owning a material interest in the Bank;</p> <p>g. A concern in which any of the Bank’s directors or a close relation of any of the Bank’s directors or any of its material shareholders has a substantial interest.</p>	Complied			An established process is always available to identify related parties prior carrying out transactions to avoid conflict of interest; Related Party Transaction Policy is approved by the Board. Board Paper No 16/08/35 Board minute no 16.08.95.02 dated 16/08/2016.	Complied Observed the related party policy and approval Board Paper No 16/08/35 Board minute no 16.08.95.02 dated 16/08/2016
3.7.ii	Check that there is process to identify and report the following types of transactions been identified as a trans-action with the related parties that is covered by this direction.	Complied			Related Party Transaction Policy has been approved by the Board. Board Paper No 16/08/35 Board minute no 16.08.95.02 dated 16/08/2016.	Complied Related Party Transaction Policy has been approved by the Board. Board Paper No 16/08/35 Board minute no 16.08.95.02 dated 16/08/2016

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.7.ii.a	The grant of any type of accommodation as defined in the Monetary Board' Directions on maximum amount of accommodation.				According to the section 28 of the SMIB Law No 1975, no loan shall be granted by the Bank to any of a director or employee or to any company or firm in which a director or employee has a substantial interest.	
3.7.ii.b	The creation of any liabilities of the Bank in the form of deposits, borrowings and investments.					
3.7.ii.c	The provision of any services of a financial or non- financial nature provided to the Bank or received from the Bank.					
3.7.ii.d	The creation or maintenance of reporting lines and information flows between the Bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.					
3.7.iii	Does the Board have a process to ensure that the Bank does not engage in transactions with related parties as defined in Direction 3(7)(i) above, in a manner that would grant such parties "more favorable treatment" than that accorded to other constituents of the Bank carrying on the same business	Complied			Related Party Transaction Policy is approved by the Board. (Board Paper No 16/08/35) Board minute no 16.08.95.02 held on 26.08.2016	Complied Related Party Transaction Policy has been approved by the Board. Board Paper No 16/08/35 Board minute no 16.08.95.02 dated 16/08/2016

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
	<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> <p>b. Charging of a lower rate of interest than the Bank’s best lending rate or paying more than the Bank’s deposit rate for a comparable transaction with an unrelated comparable counterparty</p> <p>c. Providing of preferential treatment, such as favorable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;</p> <p>d. Providing services to or receiving services from related-party without an evaluation procedure;</p> <p>e. Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions</p>	Complied			No facilities have been granted to the Directors, employee housing loan facilities obtain by the KMPs are within allowed accommodation limits.	Complied

Corporate Governance Contd...

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

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.7.v.c	Check that there is a process to identify any director who fails to comply with the above sub-directions be deemed to have vacated the office of director and has the Bank discloses such fact to the public			N/A	Not occurred	N/A
3.7.v.d	Check the process in place to ensure clause 3 (7) (v) (c) does not apply to any director who at the time of the grant of the ac Check the process in place to ensure clause 3 (7) (v) (c) does not apply to any director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such Bank accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such Bank			N/A	Not occurred	N/A
3.7.vi	Check that there is a process in place to identify when the Bank grants any accommodation or "more favorable treatment" relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such Bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3(7)(v) above.	Complied			Not occurred	Get the confirmation from the IT Department to verify that Bank did not grants any accommodation or "more favorable treatment" to RPT

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.7.vii.	Check that there is a process to obtain prior approval from the Monetary Board for any accommodation granted by a Bank under Direction 3(7) (v) and 3(7)(vi) above, nor any part of such accommodation, nor any interest due thereon been remitted without the prior approval of the Monetary Board and any remission without such approval is void and has no effect			N/A	Not occurred	N/A
3.8.	Disclosures					
3.8.i.a	Check that the Board has disclosed: Annual audited financial statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied			Annual audited financial statements are prepared in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards. Further, those statements were published in the following newspapers. 1. Daily News 2. Lankadeepa 3. Thinakural 4. Daily Mirror	Complied Observed the copy of the newspaper kept in the Finance Department
3.8.i.c	Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English	Complied			Observed that the quarterly financial statements are also published as above as per the requirements of CBSL.	Complied Observed the copy of the newspaper kept in the Finance Department
3.8.ii	Check that the Board has made the following minimum disclosures in the Annual Report					
3.8. ii.a.	The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied			These details are disclosed in the "Directors' Responsibility, for the Financial Reporting"	Complied Checked through the point 1.3 under the corporate information include in the Financial statements 2020.

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.8. ii.b	The report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements	Complied			Director's statement on Bank's internal control over Financial Reporting systems was included in the annual report	Complied Checked through the report named Director's statement on internal control over Financial Reporting include in the Annual report 2020.
3.8. ii.c	Check that the Board has obtained the external auditor's report on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii) (b) above.	Complied			Auditor General's report on Bank's Internal Control over Financial Reporting is included in the annual Report.	Complied Observed Draft Annual Report of 2020
3.8. ii.d	Details of directors, including names, qualifications, age, experience fulfilling the requirements of the guideline fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank	Complied			Directors' profile has been disclosed in the annual report. Director's remuneration disclosed in annual report.	Complied Observed in the Draft Annual Report of 2020
3.8. ii.e	Total net accommodation as defined in 3(7)(iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.	Complied			No accommodation provided to related parties	Complied Confirmed from the IT Department and the Board Secretary
3.8. ii.f	The aggregate values of remuneration paid by the Bank to its key management personnel and the aggregate values of the transactions of the Bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.	Complied			Transaction with KMPs are disclose in the annual report.	Complied Observed in the Draft Annual Report of 2020

Corporate Governance Contd...

S. No.	Details	Complied	Not Complied	N/A	Reference	Audit Observations
3.8. ii.g	Check that the Board has obtained the external auditor's report on the compliance with Corporate Governance Directions	Complied			Auditor General report on a compliance with corporate governance directions is included in the annual report	Complied Auditor General report on a compliance with corporate governance directions is included in the Draft Annual Report in 2020
3.8. ii.h	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance.	Complied			There is no separate report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance in the annual reports. However, directors' report includes the statement of compliance with applicable laws and regulations.	Complied There is no separate report setting out any material non-compliance in the draft annual reports.
3.8. ii.i	A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so, directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns	Complied			Director of Bank Supervision has not sent any reports highlighting the non-compliances during the year 2020.	Complied There is no such report issued by the Director of Bank Supervision



The Oldest State Bank Established in - 1931

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Board Audit Committee Report

Chairman's Overview 2020

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

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

The Composition of the Committee

The Board Audit Committee (BAC) consisted of following members during the year 2020 and one alternative non-executive Director.

Attendance

	Member	Status of BAC	Committee Member		Attendance of Meeting During the Year 2020
			Since	To	
1	Ms. W.C.N. Cooray	Chairman (NED)	2020 April	Up to Date	06
2	Mr. H.C. Dilip Lal Silva	Member (NED)	2020 April	Up to Date	06
3	Mr. S.K.A. Galappatthi	Member (NED)	2020 April	Up to Date	05

All members of the committee are independent non-executive directors and they are literate in financial management and each have experiences in Accounting and Finance, Auditing and Administration fields. Profiles of the members are given in this Annual Report. The Board Secretary functions as the Secretary to the Board Audit Committee as per the Board Audit Committee Charter. Representatives of the Auditor General (the External Auditor of the Bank), CEO and another senior official may normally participate in the meeting on the invitation.

Internal Audit and Board Audit Charter

The Audit Charter is used in order to assist the internal audit and board audit to discharge its duties effectively and independently. The Charter include the

scope, functions, responsibilities, authorities, reporting procedure, independence and objectivity of the internal audit.

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

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

Reporting

The Committee is directly reporting to the Board of Directors about its activities along with the minutes of the meetings. BAC provides open avenue of communication between internal audit, external audit and the Board of Directors. The Committee is of the view that Terms of Reference (TOR) of the Committee have been complied within all material aspects.

Task & Responsibility of the Committee

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

- Monitor the integrity, compliance with the LKAS of financial reporting of the bank.
- Review the soundness of the operational and financial control system.
- Monitor and review of the scope and

Board Audit Committee Report Contd...

performance appraisal of the internal audit.

- Review the adequacy of internal arrangements and control system to avoid/ minimize risks faced by the bank.
- Monitor and review the compliance with all regulatory respect.
- Liaison with external auditors in respect of their audit scope and reports.

Meetings

The committee met on Six (06) occasions during the year 2020. The Superintendent of the Government Audit as the representative of the Auditor General attended the BAC meetings by invitation. A brief overview of the matters taken up at the meetings are listed below.

Board Audit Committee Activities during the year 2020

The Committee attended to the following actions:

01. Approved and reviewed the risk-based internal audit plan quarterly for implementation of the year 2020 by the BAC.
02. Reviewed progress of replying Auditor General's Queries for the year 2019.
03. Committee reviewed the progress of the achievement of budgetary targets of the branches quarterly. The committee has made special attention on 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 2019 and quarters ended 31st March, 30th June, 30th September 2020 and recommended submitting the same to the Board of Directors.
05. The quarterly review has been performed by the committee to ensure that the financial and operational activities of the bank are conducted in line with all regulatory requirements.

06. Quarterly reviewed the performance of the Internal Audit Division.

07. Reviewed the Performance Appraisal of Senior Staff members of the Internal Audit Division.

08. The committee has monitored and reviewed the management responses for the internal audit findings on financial, administration and operational activities of the bank. Committee also reviewed the effectiveness of the performance of internal audit division and monitored the adequacy of the internal audit assignments 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 Audit during the Committee meetings. The committee ensured the provision of all information and documents required by the External Auditor for the purpose of the audit. The committee has reviewed the external audit concerns disclosed in the final audit reports and reviewed the adequacy of the corrective actions taken by the management to address the concerns of the external auditors.

The System of Internal Controls

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



W. C. N. Cooray
Chairman - Board Audit Committee/NED

Board Nomination Committee Report

Composition of the Committee

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

BNC comprised of the following Independent Non - Executive Directors as of the end of the year 2020.

Members in the year 2020

Dr. K.W.A.U. Kariyawasam - Chairman
Mr. H. C. D. L. Silva - Member
Mr. S. K. A. Galappaththi - Member
Mr. A. J. P. H. B. M. R. S. Bandara - Alternative Member

Dr. Priyath B. Wickrama was appointed as the Chairman of the BNC. However, with the changes of the Directorship of Dr. Priyath B. Wickrama, Dr. Udayasri Kariyawasam was appointed as the Chairman at the meeting held on 23.09.2020.

Meetings of Committee

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

Proceedings of the Committee meetings are regularly reported to the Board of Directors for their information. With respect to the Bank, one Committee meeting was held in the year 2020.

Attendance of the Committee Members at the Meetings

Name of the Director	Status in BNC	Number of Meetings held	Number of Meetings attended
Dr. K.W.A.U. Kariyawasam	Chairman	1	1
Dr. P. B. Wickrama	Previous Chairman	1	0
Mr. H. C. D. L. Silva	Member	1	0
Mr. S. K. A. Galappaththi	Member	1	1
Mr. A. J. P. H. B. M. R. S. Bandara	Alternative Member	1	1

Secretary

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

Scope of the Committee

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



Dr. Udayasri Kariyawasam
Chairman of the Committee

Board Human Resources and Remuneration Committee Report

Composition and Quorum during the Year 2020

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

BHRRC comprised of the following Independent Non - Executive Directors as of the end of the year 2020.

Members in the year 2020

Dr. K.W.A.U. Kariyawasam - Chairman
Mr. A. J. P. H. B. M. R. S. Bandara - Member
Mr. S. K. A. Galappaththi - Member
Ms. W. C. N. Cooray - Alternative Member

Dr. Priyath B. Wickrama was appointed as the Alternative Member of BHRRC, however, with the changes of the Directorship of Dr. Priyath B. Wickrama, Ms. W. C. N. Cooray was appointed as the Alternative member at the Meeting held on 23.09.2020.

Secretary

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

Scope of the Committee

The Committee guides and advice in developing and implementing HR policies, strategies, and plans, resolving HR-related issues, and determines the remuneration policy relating

to Directors, Chief Executive Officer (CEO) and Key Management Personnel of the Bank. The committee sets goals and targets for the Directors, CEO and the Key Management Personnel. Further, the committee evaluates the CEO and Key Management Personnel's performance against the set targets and goals periodically and determines the basis for revising remuneration, benefits, and other payments of performance-based incentives.

Meetings of Committee

The Human Recourses and Remuneration Committee shall meet at least quarterly and meetings can be convened at any time where it is necessary. Two BHRRC meetings were held during the year 2020.



Dr. Udayasri Kariyawasam
Chairman of the Committee

Attendance of the Committee Members at the Meetings

Name of the Director	Status in BNC	Number of Meetings held	Number of Meetings attended
Dr. K.W.A.U. Kariyawasam	Chairman	2	2
Mr. A. J. P. H. B. M. R. S. Bandara	Member	2	2
Mr. S. K. A. Galappaththi	Member	2	1
Ms. W. C. N. Cooray	Alternative Member	2	0
Dr. Priyath B. Wickrama	Previous Alternative Member	2	0

Board Integrated Risk Management Committee

Composition of the Board Integrated Risk Management Committee-2020

The Board Integrated Risk Management Committee comprised of four Non-Executive Directors, the General Manager/CEO of the Bank, the Head of Risk Management Division and the Secretary to the committee. Four BIRMC meetings were conducted for the year of 2020.

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

Mr. H.C.D.L.Silva	- Non-Executive Director - The Chairman to the Committee
Ms. W.C.N.Cooray	- Non-Executive Director
Mr. A.J.P.H.B.M.R.S. Bandara	- Non-Executive Director
Mr. S.Galappatthi	- Non-Executive Director
Mr. W.M. Dayasinghe	- General Manger /Chief Executive Officer
Mr.S.A.K. Sooriyaarachchi	- Chief Manager - Risk Management Division
Ms. Nishani Lokuge	- Assistant General Manager - Legal / the Secretary to the Committee

Charter of the BIRMC

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

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

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

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

Board Integrated Risk Management Committee Contd...

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

Board Integrated Risk Management Committee Contd...

The BIRMC meetings

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

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

Name of the Director	No of Meetings Attended
	No of Meeting to be attended
Mr. H.C.D.L. Silva (The Chairman to the committee)	4/4
Ms. W.C.N. Cooray	4/4
Mr. A.J.P.H.B.M.R.S. Bandara (Alternative member)	3/4
Mr. S.Galappatthi	2/4

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

Reporting

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



Mr. H.C.D.L.Silva
The Chairman
Board Integrated Risk
Management Committee



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Integrated Risk Management



State Mortgage and Investment Bank (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 across the Bank.

The fast-changing financial environment together with the adverse impacts of Covid-19 pandemic exposed the bank to various types of risks. 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. Impact of the Covid 19 and the measure taken by the Bank are explained in a separate section below.

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. This is to ensure that the Bank's risk exposure is within the limits established by Board of Directors (BOD) and that the risk-taking decisions are in line with Bank's corporate strategy and objectives.

The Banks approach to risk management is based on a three lines of defense approach which seeks to differentiate between direct responsibility for the management and control of risk, responsibility to oversee the effectiveness and integrity of the integrated risk management framework and to provide an independent assurance across the first and second lines.

Integrated Risk Management Contd...

Covid-19 pandemic and its impact

The world health organization (WHO) declared the Covid-19 outbreak as a global health emergency in January 2020. In Sri Lanka, COVID-19 emerged when the country's economy was taking its efforts to recover from the adverse economic impacts from the April 19 East Sunday terror attack. This impacted the general public and corporates all at the same time, weakening its levels of capacity for growth and sustainability. To ease this burden, the Central Bank of Sri Lanka (CBSL) introduced several financial support mechanisms such as the Saubhagya COVID-19 Renaissance Facility and the Debt Moratorium scheme to offer support to COVID-19 affected businesses and individuals to preserve the stability of the country's financial system.

The two months lockdown of the country with the view of controlling the spread of Covid-19, started the operational challenges to the Bank with restricted hours of business operations, constrained economic activity, mobility restrictions between the regional operations etc. These challenges together with measures taken by the Bank to control the spread of Covid 19 within the Bank's staff had a substantial impact on the volume of transactions carried out by the Bank during the year resulting in an adverse impact to the interest income of the Bank.

Despite the challenges, Bank took prompt actions to implement CBSL relief measures and implemented necessary measures to stay ahead of the challenges. The Banks approach was mainly focused on the following;

- > Banks strictly adhered to the safety instructions issued by government and health authorities to ensure health and safety of the Bank's staff and strengthening the disaster recovery sites as part of the business continuity plan to provide alternative working space
- > Assuring the safety of the employees and customers while continuing the business operations to provide an uninterrupted service to the customers
- > The continued operation of the branch network was essential due to the minimal capacity for digital servicing
- > The continuous review of the Board approved strategic plan for 2020 to ensure considerations of the significant changes in the economic condition of the Country
- > Banks credit quality was reviewed continuously by focusing on the Bank's non-performing asset (NPA) recovery management while ensuring the moratorium measures and stress tests carried out to understand the impact to the business profitability and capital
- > Bank gave focus to understand and review the industries that are severely impacted by the pandemic when supporting the CBSL relief measures to minimize the adverse impacts to the financial system of the country
- > Repayment options were strengthened to ease the payment methods to the Bank (i.e. payments through other State-owned banks)

Integrated Risk Management Contd...

Integrated Risk Management Framework

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

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

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

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

Risk management is a central part of the strategic management of SMIB. It is the process whereby the Bank methodically address the risks attached to the Bank's 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. SMIB's 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 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.

Risk Governance and Management Structure of the bank

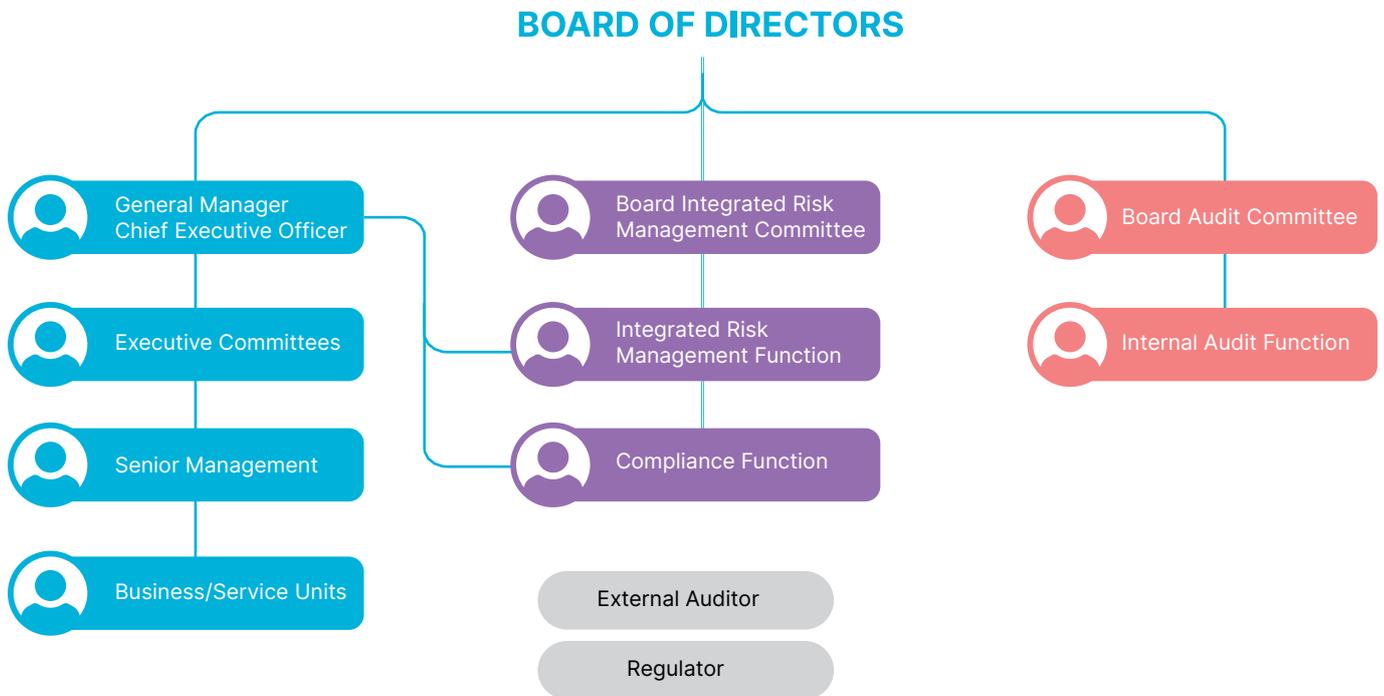
Risk management structure of SMIB includes three segments comprising of business operation, integrated risk management and audit/compliance. These three lines of defense operate under the guidelines issued by Board of Directors defending the Bank against unacceptable risk exposures. Key functionality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

SMIB has defined risk management policies and procedures with respect to the credit, market and operational risks faced by the bank. The policies and the systems are reviewed periodically to ensure 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.

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.

Risk Appetite

Risk Appetite defines the 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 and 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 have been included in the Board Integrated Risk Management Framework of the Bank.

Risk Management Methodology

Risk management methodology 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 reviewing to the management committees and the Board in taking strategic decisions.



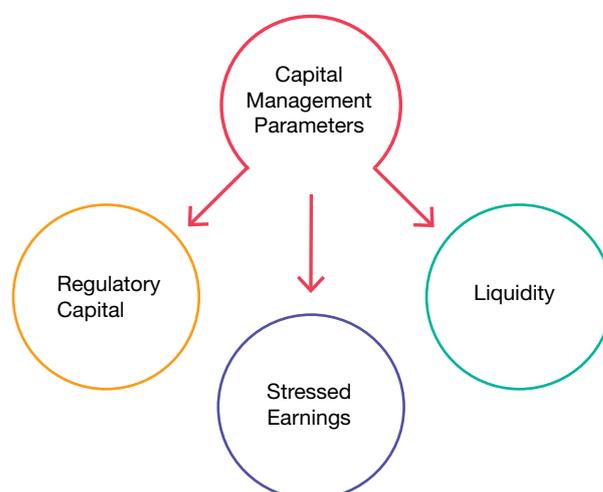
The reports which contain information on aggregate measures of risk across products and portfolios are compared with agreed policy limits providing a clear picture of the amounts, types and sensitivities of the risks identified.

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

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

Tier I capital ratio of SMIB is 21.58% and total capital ratio is 22.67% as at 31.12.2020. 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...

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 the 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 where the employees take or manage risks with clear understanding and take decisions to manage risks within the given Integrated Risk Management Framework.

Evolving Risk Management Function of SMIB

- > Integrated Risk Management Division (IRMD) of the bank was established in 2012.
- > Board Integrated Risk Management Committee (BIRMC), Executive Integrated Risk Management Committee (EIRMC) and Business Continuity Steering Committee (BCP) were formed and terms of references applicable to each committee were finalized.

- > Risk Policy, Board Integrated Risk Management Committee, Stress Testing Policy, Risk Control Self-Assessment (RCSA) policy, Loan Review Mechanism Policy were introduced covering all Credit, Market, Operational, Liquidity, interest rate risk, Product risk, strategic risk, compliance risk.
- > Board Integrated Risk Management Framework has been developed as a document including all the risk-based practices and risk appetite statement of the bank. (Risk appetite and internal tolerance limits were amended in 2019 with the Board approval)
- > Stress Testing has been developed to assess and monitor credit, capital and liquidity position of the bank under different scenarios.
- > Key Risk Indicators with tolerance limits and Board trigger limits, Memorandum items and other key ratios are tested, calculated and assessed periodically (Monthly or quarterly) and reported to the BIRMC.

Credit Risk

Credit risk is most simply defined as the potential that a Bank's borrower or counterparty will fail to meet their obligations in accordance with agreed terms.

The exposure to credit risk from earnings assets increased by 13% which is mainly driven through loans and advances that grew from Rs. 35.5bn in 2019 to Rs 36.9bn in 2020 Loans and advances granted to counterparties under various product creates the main source of the credit risk of SMIB.

Bank Exposure to Credit Risk from Earning Assets			
	2020 (Rs. Mn)	2019 (Rs. Mn)	% change
Placements with Banks	11,812	7,089	67%
Financial Assets - FVPL	21	19	11%
Loans and Advances	36,857	35,561	4%
Debt and Other Instruments	2,415	2,615	-8%
Financial Assets - FVOCI	5	5	0%
Total Exposure to earning assets	51,110	45,289	13%

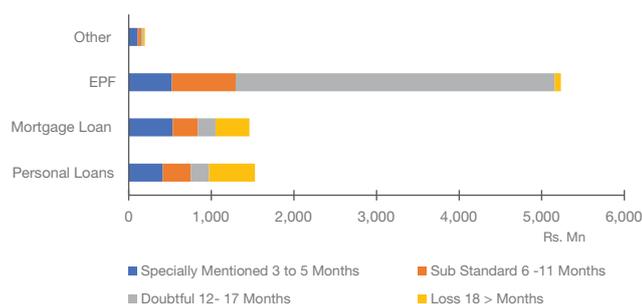
Growth in the loans and advances portfolio was dominated by personal loans reported which recorded a growth of 10% during the year together with the growth in the mortgage loans by 5%.

Integrated Risk Management Contd...

Counterparty default risk

Counterparty default risk being the most significant credit risk to the bank means the possible impact from a failure of counterparties to meet their payment obligations in accordance with the agreed terms and conditions. Banks total non-performing assets (NPA) in 2020 was Rs 8.4 bn which is dominated by EPF loans holding 62.2%. As the EPF loans are based on the individual's EPF balances, the recovery from EPF loans from the EPF division of CBSL is high which ensures a very low default risk. This high portion of NPA shown is due to timing delays of the recovery process. NPA excluding EPF accounted for 37.8% and the age analysis of 2020 NPA is given below;

Age analysis of NPA 2020



NPA is one of the main risks to SMIB and the Bank has taken several measures to improve the asset quality by strengthening the risk mitigation actions. The Bank has increased the quality of the LRM monitoring framework where the repayment capacity is strictly assessed and monitored. The Bank regularly analyses the Non-performing loan portfolio and monitors the recovery plan attached to it to strengthen the recovery process of the existing portfolio.

Movements of NPA - 2020



Even though the NPA has increased in comparison to Dec19 the peak in March 20 which is most likely due to the Covid 19 pandemic, the company has been able to maintain the NPA below that range while managing the adverse impacts due to the pandemic. With the credit risk mitigation actions discussed below the SMIB aims to further reduce the default risk and settlement risks

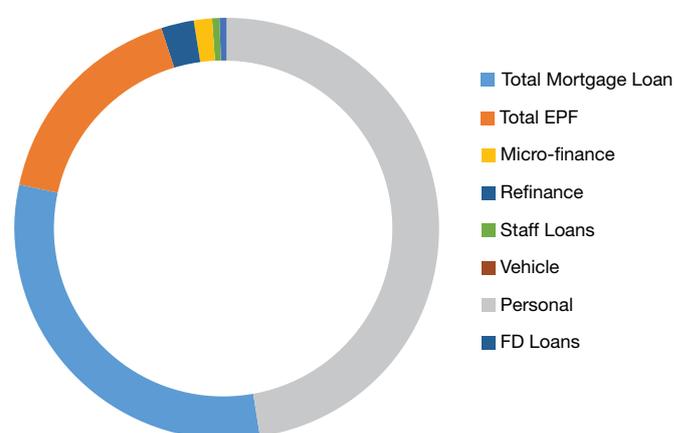
Concentration risk

This is the potential risks due to the uneven distribution of exposure or an adverse development in exposure against a specific borrower/s, industry, product, sector or geography.

The bank uses several appetite limits to measure and monitor these sub risk categories which is periodically reviewed and reported to board with recommendations to control any adverse impacts.

Credit concentration to the above categories are monitored using the Herfindahl - Hirschman Index (HHI) and the Bank has taken measures to grow the corporate loans portfolio as an intention to diversify into various sectors and industries. As positive steps to this transition, the Bank has introduced several new products and strengthening the current processes and procedures including staff capacity building

Composition of the portfolio 2020



Integrated Risk Management Contd...

Credit Risk Management

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 under economic trends that can lead to a deterioration in the credit standing of the 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 provide guidance 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 risks. The credit policy and the manual are reviewed regularly 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 all business units and unhealthy trends are addressed at all levels of the Bank where, authority levels have been delegated to different levels in the approval process. SMIB's approach to credit risk management is further strengthened based on the following key processes;

- Risk rating models developed internally to categories the facility based on the risk profile of the customer and to categories the facilities based on their risk gravity (undoubted, Low, Moderate, Acceptable, Marginal, High, Unacceptable -Reject)
- Income Source Verification Model (ISVM) is implemented to mitigate the credit risk of the Bank by providing basic guidelines to evaluate the trustworthiness of the income sources of the non-government applicants
- For the valuation of the collateral, Bank consults both the in-house valuation unit and external valuation professionals, particularly for mortgage securities (land, building, etc.).
- Credit risk exposures above a specific threshold are independently reviewed by the risk management division prior to approval and provide early warning signals to ensure continuous monitoring and follow up

- Pre-disbursement unit ensures to avoid risk of loss due negligence by carefully checking the adherence to the clauses/legal instruction, credit covenants, conditions & completion of security documentations
- Loan review mechanism is being carried out to re-assess the facilities and identify early warning signals
- Recovery Department liaise with credit risk management to ensure effective follow-up and improve the process through past experience for all problem loans and non-performing advances. Unrecovered advances are transferred to the legal division to initiate legal action as the last resort
- Recruitment of subject experts and training for the existing staff on credit evaluations and risk management in order to build the capacity of the employees within the three lines of defence
- Key Risk Indicators with tolerance limits and Board trigger limits, memorandum items and other key ratios are tested, calculated and assessed periodically (monthly or quarterly) and reported to the BIRMC. Recommendations are provided to control any adverse impacts
- RMD quarterly assesses the following key elements to analyze and measure the portfolio quality of the Bank;
 - > Stipulate board approved quantitative ceilings on aggregate exposure in specified rating categories
 - > Analysis of the Loan portfolio composition
 - > Loan portfolio and NPL growth analysis
 - > Key strategic performance

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 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.

Integrated Risk Management Contd...

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

Interest Rate Risk

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

This is a major component of market risk for the bank, since the Bank's 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.

Interest Rate Risk Management

The Bank has adopted the Modified Duration Gap approach for analyzing the changes in Economic Value of Equity, which requires the mapping of assets and liabilities into different time buckets based on their residual maturity. This approach analyses the dynamic behavior of economic value of equity with response to varying interest rate scenarios. Broadly, the EVE is defined as the difference between the economic value of assets and economic value of liabilities in response to a change in the interest rate. The linkage between the two is established via modified duration of rate sensitive assets and liabilities. The Bank monitors the interest Rate Risk in the Banking Book -IRRBB by understanding the impact to the economic value of equity and earnings which is then stressed to identify the impact from changes in the interest rates.

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 risks.

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 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 plans to introduce innovative products to reduce the maturity mismatch.

Liquidity Risk Management

- 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.
- Stress Testing and Scenario Analysis
 - > Stress testing has become an integral part of a Bank's risk management system and is used to evaluate its potential vulnerability to certain unlikely but plausible events or movements in financial variables. The vulnerability is usually measured with reference to the Bank's profitability, liquidity and/or capital adequacy.
 - > The Bank stress scenarios designed to assess the bank vulnerability on various unforeseen financial stress situations by Minor, Moderate, Major and Crisis level on Credit, Market and liquidity positions and earning capital position of the bank.

Integrated Risk Management Contd...

> The quarterly reports are submitted to BIRMC and BODs with precautionary improvements with necessary management and strategic actions to mitigate risk of unforeseeable events. 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 Related Ratios

The Bank monitors its own liquidity movements through regular cash flow forecasts, liquidity ratio and maturity gap analysis. CBSL risk direction which are discussed at ALCO and Board Integrated Risk Management Committee. Treasury department is responsible for maintaining and assuring the liquid asset ratio above the central bank stipulated levels.

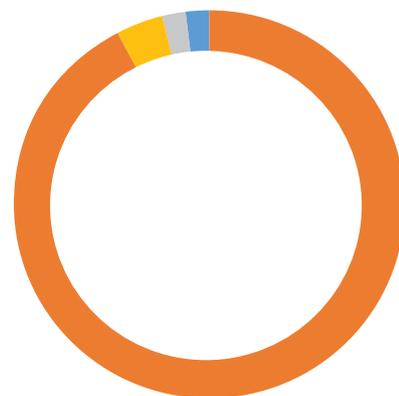
Liquidity Ratios	As at 31st Dec 2020
Investment/Deposits	31%
Loans/Deposits	81%
Loans/Assets	70%
Loans/Capital	612%
Net Borrowed Funds/Capital	5.78%
Reliance on Institutional Deposits	23%
Liquid Assets/Total Assets	29%
Available Line of Credit Rs. Bn	2.8

Composition of the portfolio
2020



- Cash and Cash Equivalents
- Investments
- Loans and Advances
- Property, Plant and Equipment
- Right-of-use Assets
- Other Assets

Liability Mix 2020



- Due to Banks/Borrowings
- Due To Depositors
- Employee Benefit Liability
- Other Liabilities

- In addition, the bank has a Liquidity Contingency Funding Plan in place in the event of a liquidity crisis and stress testing is performed on the asset and liability profile to identify the adequacy of the contingency funding.

Integrated Risk Management Contd...

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.

Operational Risk Management

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 inform them with the correct operational procedures pertinent to their functions, emphasizing their responsibility to comply at all times with these procedures. Operational risk events are reported to risk management department by appointed officers in each functional unit. Audit findings, reconciliation process, and branch visits, sample base reviews carried out by operational risk management function of the bank also feed information to risk identification process.

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

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

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

The Bank is committed to aggressively penetrate market share in alternative delivery channels and making necessary investment in people, structure and system to ensure competitive advantage. Further as an operational risk mitigation aspect of SMIB continuously conducts its Business Continuity Plan effectively to recover from an unexpected disaster as soon as possible with minimum loss. According to that following major actions were done.

- Reviewing the Business Continuity Plan of SMIB and establishing the Terms of Reference (TOR) of BCP steering committee
- Appointment of the BCP Committees
- Appointing fire warden at each level of the head office building
- Expedite the process of purchasing of document management system and provide other IT related assessments
- Arranging suitable permanent BCP recovery site to the Head Office
- Installing a Fire alarm at the Head office building
- Conducting a Disaster Recovery Drill at Head Office and main eleven branches and reporting the feedback to the BCP steering Committee and BIRMC
- Conducting a Fire drill for the Head office with the assistance of the Fire consultant and awareness program on the BCP for the Head office and branches' staff

A several Crisis management Team-CMT meetings were held during year to make necessary actions to uphold health and safety standards of the employees and largely public and customers due thread raised from ongoing global pandemic. SMIB strictly follows health and safety standards issued by the health authorities.

Integrated Risk Management Contd...

Strategic Risk Management

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

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

Legal Risk and Compliance Risk Management

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.

Whereas the compliance risk 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. Please refer the corporate governance section of the Annual Report for more details on the Compliance Risk Management activities in 2020.

Internal Capital Adequacy Process (ICAAP)

The ICCAP report is prepared and submitted to the CBSL according to the section 4.2 and 4.3 of Banking Act Directions No. 01 of 2016 Capital Requirements under Basel III (PILLAR II Supervisory Review Process (SRP)) for Licensed Commercial Banks (LCB) and Licensed Specialized Banks (LSB)

ICAAP shall, therefore, address the following risks.

- a) Risks captured under Pillar 1: credit, market and operational risks;
- b) Risks not fully captured under Pillar 1; concentration risk (credit risk), interest rate/rate of return risk in the banking book (market risk) and
- c) Risk types not covered by Pillar 1: risks which are not specifically addressed under Pillar 1, which includes liquidity risk, concentration risk, reputational risk, compliance risk, strategic and business risk, residual risk and off-balance sheet exposures and securitization risk.

ICAAP development process consists of several quantitative mechanisms such as stress testing and scenario analysis for different risk categories. Risk assessment models and scenario analysis were internally developed by RMD to assess the pillar two risk of the bank exposures. Impact to the capital and risk weighted assets were calculated and hence the variation in CAR in every scenario is assessed.

Human Resource Management

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

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

Staff Strength

The total number of staff for the year accounted as 369 which was comparatively small but they have contributed to the bank performance at greater extent. During the year, 03 staff members left the bank of which 12 retired from the bank and 1 staff member left the bank on other grounds. We recruited 07 new staff members to the Bank during the year. Filling vacancies were carried out as per our recruitment policy both internal and external.

Staff Variance

Management Level	Variance		
	Retired	Resigned/ Other	Externally Recruited
Corporate Management	2		2
Senior Management	2	1	
Executive	3	1	5
Non Executives	5	2	
Total	12	4	7

Staff Strength by Tier Wise

Management Level	No: of Employees as at 31.12.2020
Corporate Management	9
Senior Management	7
Executive	106
Non Executives	247
Total	369

Gender Profile

As an equal employee opportunity provider SMIB provided employment for both males & females in an equal manner. Gender profile of the SMIB accounted as 50% male and 50% female in the year of 2020.

Employee Age Profile

Bank utilizes the most experienced and senior staff. 49% of the staff is above 40 years.

Age category	No: of Employees as at 31.12.2020
50 or Above	78
40 - 49	102
30 - 39	102
29 or below	87
Total	369

Talent Management

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

Talent Attraction and Acquisition

New talent acquisition is addressed through the bank's recruitment procedure, which is designed to select the candidate

Human Resource Management Contd...

best suited for our business needs. The talents with the necessary skills, knowledge, capabilities and more important behaviors that fit and nurture our culture are given priority. While immediate consideration is given to internal talent, whenever vacancies occur, specialized skills are brought in at required levels if the internal talent is not available.

Training and Development

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

Considering the importance of developing a leadership pipeline, a Leadership Development Program designed to a group of qualified and young employees of the Bank. This program is designed to identify a set of high potential employees, groom and direct them through career development and succession planning and train them to be highly successful as Leaders as well as Mentors. Further, this program supports them to be more productive, enhance the ability to manage change, and build a collaborative work environment in terms of achieving corporate goals. The Leadership Development Programme focuses on developing leadership skills, negotiating skills, presentation skills, effective writing skills, performance management skills, and skills for successful mentoring and customer service. SMIB expects to expand the business volume and to achieve set milestones in the industry while developing a competent internal workforce that is well equipped with knowledge and experience.

During the year 2020, delivering and attending the training programs were challenging due to the global pandemic situation of COVID-19. However, we have managed to deliver training programs internally and externally via online. Internal and external training the year under review witnessed our employees going through 06 internal training programs and 15 external training programs. The Bank provides employees with external training opportunities to expose them to both local and international industry innovations and developments.

Below table summarizes the employee participation in different categories of training granted during 2020.

Key Area	Number of Participants
Knowledge and Skill Development Training	37
Attitude Development Training / Motivational Training	77
Seminars, Workshops, Membership Fees, Quiz Competitions	9

Employee Service

Service category (Years)	No: of Employees as at 31.12.2020
0-4	58
5-9	155
10-14	52
15-19	9
Above 20	95
Total	369

42% of the employees have been working more than 10 years in the bank and contribute their service to bank development. Not only the providing financial benefits but also non-financial benefits to the staff increased their job satisfaction.

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

Future matters

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

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

Corporate Social Responsibility

In any country, the main unit of a society is the citizen. The state machinery also functions for the overall development of these citizens. Extensive work is being done in these societies for this purpose. Physical development as well as spiritual development is a major aspiration. However, the end result of all these activities is the creation of a developed society and the creation of contented citizens. It is a major need that is most conducive to the development of a country.

The concept of “sustainable development” is one of the major development topics in the world today. Formal governments and organizations make various interventions and contributions to this. These include voluntary work as well as responsible contributions. It aims to create a healthy and contented society. The existence of such a satisfactory society is an essential factor in determining the existence of any structure that interacts with society under an accepted system. This means that the overall development of human-centered societies directly affects the structural organization of that society.

State Mortgage and Investment Bank is a leading public finance institution that is constantly focusing on social responsibility. We have identified the needs of our clients as well as the general social development as an essential factor. A formal structured public finance institution is one that has a responsible system of conduct. The nine-decade-old memories of the State Mortgage and Investment Bank is a testament to this. There is hardly an institution that has made such a commitment to meet the housing needs of the nation. That work continues to this day. As well as fulfilling the Bank’s business objectives, it also fulfills the aforementioned national responsibility.

To the extent that the business objectives are satisfied, the company also makes a positive contribution to its community. It contributes to environmental development, cultural identity preservation, revival of local education, nurturing of arts and crafts, development of sports skills as well as major national interests such as national security and national reconciliation.

The year 2020 is a time of global challenges for everyone in general. Up to this point we have been facing it more or less. In such a context, it is the intention of our financial institution to extend its fullest support to the community. The contribution of

this financial institution to the broader quote of corporate social responsibility is immeasurable. As one of its milestones, the measures taken to build the nation’s financial literacy awareness are commendable. Up to this moment maximum contribution has been directed towards this subject. For this, a formal network plan is being implemented at the national level. This is not an intervention for the sake of the profit of the company. It is simply an essential intervention for the future development of the society.

As a country, the State Mortgage and Investment Bank will continue to be responsible for fulfilling its maximum liabilities and obligations to move forward.

Our Products & 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 eager to comply with this principle. The progress achieved by our bank in year 2020 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 professional to the common man. We have 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. Number of financial services are being implemented targeting traditional gem industry and other industrial sectors.

The Micro, Small and Medium Enterprises (MSMEs) play an important role in promoting inclusive growth of the country. SMIB as a government owned entity has identified to foster the sector through financial inclusion by partnering of government policy of promoting and strengthening the MSME sector to develop the economy.

A huge service diversification has been carried out aiming the officials in the public service. 2020 was the planning year of the 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 2020. 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 won the hearts of people for more than 89 years due to the reason of maintaining a proper advertising campaign to make the people aware of the services it offers to direct and indirect customers. Various marketing techniques have been applied to win the customers through the relationship with the state mechanism and also through personal contacts. The continuous financial feasibility of the bank throughout the years

proves the fact that an omnipresent marketing methodologies have been used.

Year 2020 reported the highest number of loans issued. The amount is around seventeen billion rupees from the ministry's schemes loan. On the other hand, the profit on the interest of loans has hugely increased. This is one of the prominent milestones in the State Mortgage and Investment Bank which is a bank with financial experience of nearly 09 decades. Further, the bank had the opportunity to obtain more outstanding FD portfolio as short term and long-term fixed deposits.

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



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Directors' Report

General

The State Mortgage and Investment Bank was incorporated in Sri Lanka by State Mortgage and Investment Bank Law No: 13 of 1975 and was granted the status of Licensed Specialized Bank in terms of Banking act No. 30 of 1988 and amendments thereto. The Board of Directors of State Mortgage and Investment Bank take pleasure in presenting their report on the affairs of the Bank together with the Audited Consolidated Financial Statements for the year ended 31 December 2020 of the Bank and the Auditor General's Report on those Financial Statements, conforming to the requirements of the State Mortgage and Investment Bank Law No: 13 of 1975 as amended and Banking Act No. 30 of 1988 and amendments thereto.

Principal Activities of the Bank

The principal activities of the State Mortgage & Investment Bank were to promote housing, agricultural and industrial development finance and Mobilization of Deposits. There have been no significant changes in the nature of the principal activities during the year. The Bank has not engaged in any activity which contravenes the Laws and Regulations of the country.

Directors

Under the provisions of the State Mortgage & Investment Bank Law No. 13 of 1975 as amended, the Board consists of Nine non-executive independent directors including the Chairman appointed by the Minister in compliance with section 7 of the State Mortgage and Investment Bank Act No. 13 of 1975 as amended. There are no executive directors in the bank.

Three of the directors so appointed shall be a representative of each of;

- (a) The Ministry of the Minister in charge of the subject of Agriculture,
- (b) The Ministry of the Minister in charge of the subject of Housing
- (c) The Ministry of the Minister in charge of the subject of Livestock Development.

And one Director is appointed as the Treasury Representative

Three members out of the nine constitute a quorum at any meeting of the Board. Meetings of the Board of Directors should be held at least once a month or oftener if the Chairman deems it necessary as per the State Mortgage and Investment Bank Law and the Banking Act. It has been reported that eleven meetings were held in the year 2020.

Directors' attendance at the Board meetings:

Name of the Director	Number of meetings eligible to attend	Number of meetings attended
Dr. K.W.A.U. Kariyawasam (Chairman)	11	11
Ms. W. C. N. Cooray	11	10
Mr. A. J. P. H. B. M. R. S. Bandara	11	11
Mr. S. Galappaththi	11	10
Mr. H.C.D.L. Silva	11	11
Dr. P. B. Wickrama	11	04

Directors' interests in contracts

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

This Policy outlines the basis on which the materiality of related party transactions will be determined and the manner of dealing with the related party transactions by the Bank. The Bank followed the Related Party Transaction Policy of the bank which is in line with the directions issued by the Central Bank of Sri Lanka under the Banking Act.

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

Directors have to disclose their other directorships and connections at Board meetings to ensure that they are refrained from voting on matters in which they have an interest. Concerning the Board of Directors of the Bank, it is reported that no Director was directly or indirectly interested in any contract or proposed contract with the Bank for the year ended 31st December 2020.

Directors' Report Contd...

Review of Operations and Future Developments

An overview of the financial and operational performance and future Developments of the Bank during the financial year 2020 and results of those operations are contained in the Chairman's Report, General Manager's /CEO's Report and Financial Review appearing on pages 06 to 14 in this annual report. These reports form an integral part of this annual report.

The General Manager / Chief Executive Officer (CEO)

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

Vision, Mission and Values

Vision, mission, and values statements keep everyone focused on where the Bank is going and what it is trying to achieve. Further that they define the core values of the Bank and how people are expected to behave. The business activities of the bank are conducted at a high level of ethical standards to achieve its vision.

The Bank's Vision, Mission and Values are given on page no 03 of this Annual Report

Corporate Governance

The Board of Directors is committed to maintaining an effective Corporate Governance structure and process. The Board considers that effective governance is a precept for sustaining responsible growth. The financial, operational and compliance functions of the Bank are directed and controlled effectively within the Corporate Governance practices. Corporate Governance report appears on pages 21 to 63 of this Annual Report.

Board Sub Committees

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

o Board Audit Committee

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

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

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

Six Board Audit Committee meetings were held in the year 2020.

The BAC report is given on page 65 to page 66 of this annual report.

o Board Human Resources & Remuneration Committee

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

Directors' Report Contd...

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

The Committee meetings are held quarterly however based on the needs, meetings are fixed. Two (2) Board Human Resources & Remuneration Committee meetings were held in the year 2020.

The BHRRRC report is given on page 68 of this annual report.

o Board Integrated Risk Management Committee (BIRMC)

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

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

BIRMC comprises four Non- Executive Directors one being an alternative member, the General Manager/CEO and the Head of Risk Management who looks after the broad risk categories. Board Secretary functions as the Secretary to the Board Integrated Risk Management Committee (BIRMC). Four Board Integrated Risk Management Committee (BIRMC) meetings were held in the year 2020.

The BIRMC report is given on pages 69 to page 71 of this annual report.

o Board Nomination Committee (BNC)

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

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

The BNC meetings are held at least twice a year however based on the needs, meetings are fixed. One Committee meeting was held in the year 2020.

The BNC report is given on page 67 of this annual report.

Capital Adequacy Ratio (CAR)

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

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

Risk Management

The Board of Directors assumes overall responsibility for managing risks. The specific measures taken by the Bank in mitigating the risks are detailed on page 73 of this Annual Report.

Internal Control

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

Directors' Report Contd...

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

The Directors Report on Internal Control appears on Pages 94 in this annual report.

Profit and Appropriations

The Total Income of the Bank for the year 2020 was Rs. 6,076,716,152 Details of profit relating to the Bank are given in the following Table:

Details	Rs.
Reserves	11
Capital Expenditure	11
Market/ Fair Value of Immovable Properties	11
Contributed Capital	11
Substantial Shareholding and Share Information	11
Contributions to the government Statutory Payments	N/A
Taxation	
Events Occurring after the Balance Sheet Date	N/A
Post Balance Sheet Events	N/A
Going Concern	N/A

Compliance with Applicable Laws, Rules and Regulations

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

Equitable Treatment to all Stakeholders

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

Customers and Borrowers

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

Depositors and Suppliers

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

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

Auditor's Report

The Auditor General is the Auditor of the State Mortgage & Investment Bank. The audit of accounts of the State Mortgage & Investment Bank for the year ended 31st December 2020 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, 2020 is given on page 100 to 104 of this Annual Report.

ACKNOWLEDGMENT:

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

By order of the Board,



Ashmi S.K. Amarasinghe
Secretary to the Board

Director's Statement on Internal Control over Financial Reporting

Responsibility

The report has been issued in line with the Banking Act Directions No 12 of 2007 section 3 (8) (ii) (b), and prepared based on principles D.1.5 of Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) (Code), the Board of Directors presents this report on Internal control.

The Board of Directors ("The Board") is responsible for ensuring that the process of sound system of internal control of the Bank is in place and for reviewing its effectiveness. The 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.

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

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

- The Board has established different subcommittees to ensure the adequacy and integrity of the internal control system within the bank and delegated the authority of the board among the layers of corporate management, senior management and managers of the bank in order to assist the board in 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. Chief Internal Auditor is responsible for submitting an independent objective report to the Chairman of the Board Audit Committee in respect of the audit observations on irregularities, misstatements, frauds in financial, administration and operational affairs of the bank.
- In general, the Board Audit Committee reviews the overall effectiveness of the internal control system in place and report to the Board of directors regularly in respect of the specific observations on internal control weaknesses. In this respect, the mechanism used by the committee includes; review of the Auditor General's report, Internal Audit reports, regulatory reports, annual/ monthly Financial Statements and progress report.

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

- The Bank adopted the new Sri Lanka Accounting Standards Comprising LKAS and SLFRS in 2012. Since adoption of such Sri Lanka Accounting Standards, continuous monitoring and progressive enhancement on processes to comply with new requirements of recognition, measurement, classification, and disclosure are being made.
- The Board also has taken into consideration the requirements of the Sri Lanka Accounting Standards that are effective from 1 January 2020, Amendment to LKAS 1 Presentation of Financial Statements and LKAS 8 Accounting Policies, Changes in Accounting Estimates and errors (Amendment - Disclosure Initiative - Definition of Material), Conceptual Framework for Financial Reporting (Revised), Guidance notes on Accounting Considerations of the Covid 19 Outbreak and necessary steps have been taken to assess its impact to Financial Statements.
- The Board has reviewed whether the financial reporting processes of the bank ensure that the annual Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards and the guidance on reporting requirements issued by the Central Bank of Sri Lanka.
- Management level committees have also been functioning with appropriate empowerment to ensure effective management and supervision of Bank's core areas in the day-to-day business operations.
- A structured annual review of the design and effectiveness of the bank's internal control over financial reporting has been carried out. The Board has already approved 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.

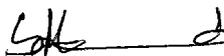
The External Auditor will review the above Directors' Statement on Internal Control over financial reporting for the year ended 31st December 2020.



Ms. W.C.N. Cooray
Chairman - Board Audit Committee/Director (NE)



Mr. H.C. Dilip Lal Silva
Director (NE)



Mr. S.K.A. Galappatthi
Director (NE)

Auditor General Report on Bank's Internal Control



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NATIONAL AUDIT OFFICE



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My No.

BAN/F/SMIB/IC/2020/01

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உமது இல.
Your No.

දිනය
திகதி
Date

29 October 2021

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 the State Mortgage and Investment Bank included in the annual report for the year ended 31 December 2020.

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 Responsibility and Compliance with SLSAE 3050 (Revised)

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

I conducted this engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 (Revised), Assurance Report for Banks on Directors' Statement on Internal Control, issued by the institute of Chartered Accountants of Sri Lanka . This Standard required that I plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material aspects, the Statement on Internal Control.

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

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இல. 306/72, பொல்துவ வீதி, பத்தரமுல்லை, இலங்கை.

No. 306/72, Polduwa Road, Battaramulla, Sri Lanka.

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www.auditorgeneral.gov.lk

Summary of Work Performed

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

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

SLSAE 3050 (Revised) does not require me to consider whether the Statement covers all risk and controls, or to form an opinion on the effectiveness of the Bank 's risk and control procedures.

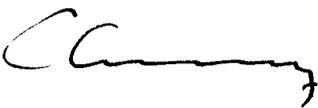
SLSAE 3050 (Revised) also does not require me to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

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

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

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 system over the financial reporting of the Bank.



W.P.C. Wickramaratne
Auditor General

Directors' Responsibility for Financial Reporting

Directors' Responsibility for Financial Reporting

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

The Board of Directors of the Bank confirm that the Financial Statements of the Bank will reflect a true and fair view of the state of affairs as at 31st December 2020 and the financial performance of the Bank for the financial year then ended. The Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report.

Financial Statements

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

The Financial Statements for the year 2020 prepared and presented in this Annual Report are consistent with the underlying books of accounts and are in conformity with the requirements of Generally Accepted Accounting Principles, Sri Lanka Accounting Standards' and Sri Lanka Financial Reporting Standards that give a true and fair view of the financial position of the Bank at the end of each financial year in compliance with the relevant statutory requirements.

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

1. The appropriate accounting policies have been selected, adopted and applied to prepare the Financial Statements

according to the existing financial reporting framework in a consistent manner, material departures, if any, have been disclosed and explained;

2. All applicable accounting standards as relevant have been followed;
3. Judgments and estimates have been made which are reasonable and prudent.

The Bank has published quarterly audited financial statements, including key performance indicators in the newspapers, in all three languages, within two months of the end of each period and also published them on the Bank's 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 65 of this annual report. The Board of Directors ensures that the Financial Statements comply with the prescribed format issued by the Central Bank for Licensed Specialized Banks.

Going Concern

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

Internal Controls and Risk Management

The Board of Directors of SMIB is responsible for taking reasonable measures and care to safeguard the assets of the Bank detect frauds and other irregularities and has also instituted an effective and comprehensive system of internal financial controls, an effective system of monitoring its effectiveness which includes the internal audit and risk management and places considerable importance on maintaining a strong control environment to protect and safeguard the Bank's assets and prevent fraud and mismanagement.

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

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

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

A report by the Directors on the Bank's internal control mechanism is given on page 94 to page 95 of this Annual Report.

Compliance Report

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

Audit Report

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

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

The responsibilities of the Auditor in relation to the Financial Statements are set out in the Report of the Auditor General on page 100 of this Annual Report.

Directors' interests in contracts of significance

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

Statutory payments

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

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

By Order of the Board,



A. S. K. Amarasinghe
Secretary to the Board

Report of the Auditor General



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BAF/G/SMIB/FA/2020/2

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உமது இல.
Your No. }

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Date }

28 September 2021

The Chairman
State Mortgage and investment Bank

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the State Mortgage and Investment Bank for the year ended 31 December 2020 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the State Mortgage and Investment Bank ("The Bank") for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No.38 of 1971. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, the accompanying financial statements of the Bank give a true and fair view of the financial position of the Bank as at 31 December 2020, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

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





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1.3 Other information included in the Bank's 2020 Annual Report.

The other information comprises the information included in the Bank's 2020 Annual Report but does not include the financial statements and my auditor's report thereon, which I have obtained prior to the date of this auditor's report. Management is responsible for the other information.

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

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

If based on the work I have performed on the other information that I have obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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

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

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

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

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



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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.



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- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

2. Report on Other Legal and Regulatory Requirements

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

2.1.1. I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Bank as per the requirement of section 12 (a) of the National Audit Act, No. 19 of 2018.

2.1.2. The financial statements presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.

2.1.3. The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

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

2.2.1 to state that any member of the governing body of the Bank has any direct or indirect interest in any contract entered into by the Bank which are out of the normal cause of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018.

2.2.2 to state that the Bank has not complied with any applicable written law, general and special directions issued by the governing body of the Bank as per the requirement of section 12 (f) of the National Audit Act, No. 19 of 2018.

2.2.3. to state that the Bank has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018.



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NATIONAL AUDIT OFFICE

2.2.4. to state that the resources of the Bank had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018.

W.P.C. Wickramaratne

Auditor General

Statement of Financial Position

	Note	2020 Rs.	2019 Rs.
Assets			
Cash and Cash Equivalents	13	195,817,542	121,239,625
Placements with Banks	14	11,811,735,024	7,088,742,434
Financial Assets - FVPL	15	21,350,000	19,475,000
Financial Assets - AC			
- Loans and Advances	16	36,856,886,670	35,560,992,158
- Debt and Other Instruments	17	2,414,814,588	2,615,182,916
Financial Assets - FVOCI	18	5,379,078	5,379,078
Property, Plant and Equipment	19	52,102,138	56,067,712
Right-of-use Assets	33	104,493,362	112,674,031
Deferred Tax Assets	20	234,711,041	221,648,675
Other Assets	21	1,104,631,205	1,178,156,939
Total Assets		52,801,920,648	46,979,558,568
Liabilities			
Due to Banks	22	67,348,787	12,412,879
Financial Liabilities at Amortised Cost			
- Due to Depositors	23	45,388,490,392	38,872,216,979
- Due to Debt Securities Holders		-	110,180,822
- Due to Other Borrowers	23	348,093,800	1,501,680,632
Employee Benefit Liability	24	449,258,424	390,291,731
Other Liabilities	25	529,220,557	434,106,979
Total Liabilities		46,782,411,960	41,320,890,022
Equity			
Stated Capital/Assigned Capital	26	889,812,899	889,812,899
Statutory Reserve Fund	27	283,911,475	270,921,034
Retained Earnings	28	3,767,975,310	3,420,125,609
Other Reserves	29	1,077,809,004	1,077,809,004
Total Equity		6,019,508,688	5,658,668,546
Total Equity and Liabilities		52,801,920,648	46,979,558,568
Contingent Liability and Commitments	30	87,742,347	76,477,573

The Notes to the Financial Statements from pages 33 to 71 form an integral part of these Financial Statements

Certification:

These Financial Statements give a true and fair view of the state of affairs of the State Mortgage and Investment bank as at 31 December 2020 and its profit for the year then ended



Ms. G.H.N. Kodikara
Deputy General Manager (Finance & Planning)

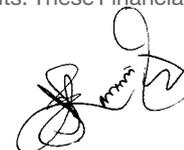
The Board of Directors is responsible for the preparation and presentation of these Financial Statements. These Financial Statements have been approved by the Board of Directors and signed on their behalf.



Dr. Udayasri Kariyawasam
Chairman



Mr. S.K.A. Galappatthi
Director



Mr. L.I. Ranasinghe
Actg. CEO/General Manager

Statement of Profit or Loss

	Note	2020 Rs.	2019 Rs.
Interest Income	4	6,076,716,152	5,981,510,158
Interest Expenses		(3,960,479,767)	(3,951,342,868)
Net Interest Income	4	2,116,236,385	2,030,167,290
Fee and Commission Income		148,120,735	113,332,608
Fee and Commission Expenses		-	-
Net Fee and Commission Income	5	148,120,735	113,332,608
Net Fair Value Gains/(Losses) from FA at FVPL	6	1,875,000	1,840,000
Net Other Operating Income	7	33,852,096	28,318,619
Total Operating Income		2,300,084,216	2,173,658,517
Impairment Charges	8	(270,320,795)	(131,528,308)
Net Operating Income		2,029,763,421	2,042,130,209
Personnel Expenses	9	(872,736,805)	(882,138,042)
Depreciation and amortization expenses	10, 33.2	(52,576,301)	(57,301,152)
Other Expenses	10	(314,173,773)	(286,785,299)
Operating profit/(loss) before VAT, NBT & DRL		790,276,542	815,905,716
Value Added Tax (VAT) on Financial Services	34	(218,205,322)	(171,063,330)
Nation Building Tax (NBT) on Financial Services		-	(26,555,943)
Debt Repayment Levy (DRL) on Financial Services		-	(118,632,641)
Profit/(Loss) before Tax		572,071,220	499,653,802
Income tax expenses	11	(216,236,762)	(80,580,258)
Profit/(Loss) for the Year		355,834,458	419,073,544

Statement of Comprehensive Income

	Note	2020 Rs.	2019 Rs.
Profit/(Loss) for the Year		355,834,458	419,073,544
Items that will be reclassified to income statement			
Gains and Losses on Re-Measuring Financial Assets		-	-
Items that will not be reclassified to income statement			
Re-measurement of post-employment benefit obligations		(24,741,748)	17,009,388
Deferred Tax effect on Actuarial Gains/Losses on defined benefit obligations		6,927,690	(4,762,629)
Total Comprehensive Income for the Year		338,020,400	431,320,303

Statement of Changes in Equity

	Assigned Capital	Statutory Reserve	Capital Reserve	General Reserve	Title Indemnity Fund	Retained Earnings	Total
Balance as at 31.12.2018	889,812,899	261,668,385	393,498,004	683,280,000	1,031,000	2,957,693,676	5,186,983,964
Net Profit for the Year	-	-	-	-	-	419,073,544	419,073,544
Deemed Dividend							
Tax Over Payment/Provision	-	-	-	-	-	40,364,278	40,364,278
Other Comprehensive Income	-	-	-	-	-	12,246,759	12,246,759
Transfer During the Year	-	9,252,649	-	-	-	(9,252,649)	-
Transfer to Consolidated Fund	-	-	-	-	-	-	-
Balance as at 31.12.2019	889,812,899	270,921,034	393,498,004	683,280,000	1,031,000	3,420,125,609	5,658,668,546
Prior Period Adjustments	-	-	-	-	-	22,819,743	22,819,742
OCI Reserve Transfer to RE	-	-	-	-	-	-	-
Impairment Adjustment	-	-	-	-	-	-	-
Net Profit for the Year	-	-	-	-	-	355,834,458	355,834,458
Deemed Dividend							
Tax Over Payment/Provision	-	-	-	-	-	-	-
Other Comprehensive Income	-	-	-	-	-	(17,814,059)	(17,814,059)
Transfer During the Year	-	12,990,441	-	-	-	(12,990,441)	-
Transfer to Consolidated Fund	-	-	-	-	-	-	-
Balance as at 31.12.2020	889,812,899	283,911,475	393,498,004	683,280,000	1,031,000	3,767,975,310	6,019,508,686

Statement of Cash Flows

	Note	2020 Rs.	2019 Rs.
Cash flows from operating activities			
Interest Received		4,340,182,198	4,820,061,666
Interest Payments		(3,523,797,215)	(4,143,156,182)
Net commission receipts		142,634,398	113,332,608
Payments to Employees		(776,830,997)	(824,099,815)
VAT, DLR & NBT ,ESC on financial services		(214,861,853)	(343,765,347)
Receipts from Other Operating Activities		4,982,596	3,530,149
Payments on Other Operating Activities		(300,509,429)	(347,767,572)
		(328,200,303)	(721,864,493)
Operating profit before changes in Operating Assets & Liabilities			
(Increase)/Decrease in Operating Assets			
Financial assets at amortised cost - loans & advances		(1,154,091,422)	(1,704,102,406)
Other Assets		104,627,378	(44,116,479)
		(1,049,464,044)	(1,748,218,885)
Increase/(Decrease) in Operating Liabilities			
Financial liabilities at amortised cost - due to depositors		6,075,785,860	4,674,406,103
Financial liabilities at amortised cost - due to other borrowers		(1,153,586,832)	(371,051,710)
Other liabilities		(9,278,559)	-
		4,912,920,470	4,303,354,393
		3,535,256,123	1,833,271,015
Net cash generated from operating activities before Income Tax			
Income Taxes Paid		(121,163,775)	(163,771,708)
Net Cash from Operating Activities		3,414,092,348	1,669,499,307
Cash flows from investing activities			
Dividend Received		28,869,500	21,771,330
Proceeds from the sale of property, plant and equipment		1,192,874	207,650
Purchase of financial investments		(4,524,499,262)	(2,556,558,579)
Purchase of Property ,Plant & Equipment		(14,217,784)	(18,104,855)
Proceeds from the sale and maturity of financial investments		1,114,204,334	908,028,176
Net cash (used in)/from investing activities		(3,394,450,339)	(1,644,656,277)
		19,642,009	24,843,030
Net increase/(decrease) in cash & cash equivalents			
Cash and cash equivalents at the beginning of the period		108,826,746	83,983,716
Cash and cash equivalents at the end of the period		128,468,755	108,826,746
Reconciliation of Cash and Cash Equivalents			
Cash and Short Term Funds		195,817,542	121,239,625
Borrowings from Banks (OD)		(67,348,787)	(12,412,879)
Cash and cash equivalents at the end of the period		128,468,755	108,826,746

Accounting Policies

1. Corporate Information

1.1. General

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

1.2. Principal Activities and Nature of Operations

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

1.3. Directors' Responsibility Statement

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

1.4. Date of Authorization

These Audited Financial Statements of the Bank for the year ended 31st December 2020 were authorized for issue in accordance with the approval given by the Board of Directors of the Bank at the meeting held on 24.09.2021.

The staff strength of the Bank as at December 31, 2020 was 365 (386 as at December 31, 2019)

2. Accounting Policies

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

2.1. Basis of Preparation

2.1.1. Statements of compliance

These Financial Statements for the year ended 31 December 2020 were prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRS and LKAS) laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and are in compliance with the information required by the Banking Act No. 30 of 1988 and subsequent amendments thereto. These Financial Statements, except for the information in cash flow have been prepared following the accrual basis of accounting. The formats used in the preparation of Financial Statements and the disclosures made therein also comply with the specified formats prescribed by the Central Bank of Sri Lanka for the preparation, presentation and publication of Annual Audited Financial Statements of Licensed Banks.

2.1.2. Presentation of Financial Statements

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

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

2.1.3. Significant Accounting Judgments, Estimates and Assumptions

In the process of applying the Bank's accounting policies, management has exercised judgement and estimates in determining the amounts recognised in the financial statements. The key significant accounting judgements, estimates and

Accounting Policies Contd...

assumptions involving uncertainty are discussed below, whereas the respective carrying amounts of such assets and liabilities are given in related Notes.

2.1.3.1. Classification of financial assets and liabilities

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

2.1.3.2. Fair value of financial instruments

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

2.1.3.3. Impairment losses on financial assets

The measurement of impairment losses both under SLFRS 9 and LKAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. Accordingly, the Bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be provided in the Income Statement. In particular, the Management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and hence actual results may differ, resulting in future changes to the impairment allowance made. The individual impairment provision applies to financial assets evaluated individually for impairment and is based on Management's best estimate of the present value of the future cash flows that are expected to be received. In estimating these cash flows, Management makes judgements about a borrower's financial situation and the net realisable value of any underlying collateral. Each impaired

asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable. A collective impairment provision is established for homogeneous loans and advances that are not considered individually significant; and groups of assets that are individually significant but that were not found to be individually impaired.

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

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

2.1.4. Rounding

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

Accounting Policies Contd...

2.1.5. Basis of measurement

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

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

2.1.6. Going Concern

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

2.1.7. Materiality and aggregation

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

2.1.8. Comparative information

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

2.2. Significant accounting policies - Recognition of income and expenses for financial instrument

2.2.1 Interest Income and Expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Details of "income and expenses" are given in Notes 3 & 4

The Effective Interest Rate Method

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

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges). If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk. The adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the Statement of Financial Position with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest and similar income in the income statement.

Accounting Policies Contd...

2.2.2. Dividend Income

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

2.2.3. Net Trading Income

Results arising from trading activities include all realised gains or losses from investment in equities and fixed income securities classified as Financial Assets measured at Fair Value through Profit or Loss and unrealised gains and losses due to changes in fair value of such instruments. Note number 6

2.2.4. Other Income

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

2.2.5. Other Expenses

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

2.2.6. SLFRS 15 - Revenue from Contracts with Customers

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

2.3. Significant accounting policies - Tax Expenses

The Bank is subject to income tax and other taxes including VAT on financial services. Significant judgment was required to determine

the total provision for current, deferred and other taxes pending the issue of tax guidelines on the treatment of the adoption of SLFRS in the Financial Statements and the taxable profit for the purpose of imposition of taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these financial statements.

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

2.3.1 IFRIC 23 - Uncertainty over income tax treatment

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

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

Accounting Policies Contd...

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

2.3.2 Amendments to the Income Tax Law Announced by the Government

As per notice dated April 08, 2020 issued by the Inland Revenue Department on "Implementation of Proposed Changes to the Inland Revenue Act No. 24 of 2017", effective from January 01, 2020 Corporate Income Tax rate was revised from 28% to 24%. However, such revisions were not considered in computing the income tax liabilities, pending legal enactment and formal amendments to the Inland Revenue Act. Details of current income tax expenses are given in the note number 11

2.3.3. Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies. Details of deferred tax disclosed in the note number 20

2.3.4. Value Added Tax on Financial Services (VAT)

VAT on financial services is calculated in accordance with Section 25A of Value Added Tax Act No. 14 of 2002 and subsequent amendments thereto. VAT on financial services is payable at 15% on operating

profit before value added tax and nation building tax on financial services adjusted for emoluments of employees and economic depreciation. Details of VAT expense is disclosed in the note number 34

2.3.5. Nation Building Tax (NBT) on Financial Services

In accordance with Nation Building Tax (NBT) Act No. 9 of 2009, the Bank calculated and paid NBT on financial services at 2% of the value addition used for the purpose of VAT on Financial Services with effect from 1 January 2014. However, as per Nation Building Tax (Amendment) Act No. 3 of 2020 dated 12 October 2020, the Bank is exempt from NBT on Financial Services with effect from 1 December 2019.

2.3.6. Debt Repayment Levy (DRL) on Financial Services

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

2.3.7. Economic Service Charge (ESC)

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

2.3.8 Crop Insurance Levy (CIL)

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

Accounting Policies Contd...

2.4. Significant accounting policies - Recognition of assets and liabilities

2.4.1. Employee Benefit Liability- Gratuity

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

Normal and Early Retirement	A participant is eligible for Normal retirement at age 55 provided that he/she has 3 years of service. All participants are eligible for extensions up to the attainment of age 60.
Interest Cost	Interest cost is the expected increase due to interest during the period in the present value of the plan liabilities because the benefits are one year closer to settlement.
Funding Arrangements	The Gratuity liability is not externally funded.
Actuarial Valuation	The cost of the defined benefit plan gratuity, is determined using an actuarial valuation. Actuarial valuation involves making assumptions about inter-alia discount rates, future salary increases, remaining working life of employees and mortality rates. Due to the long term nature of these obligations, such estimates are subject to significant uncertainty. The assumptions used are as follows.

	2020	2019
Interest Rate	8.00%	10.50%
Rate of Annual Salary Increase	6.50%	6.50%
Retirement Age	55-60 years	55-60 years

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

2.4.2. Employee Benefit Liability - Medical Benefit

Details of Actuarial Valuation on medical benefit is disclosed in the note number 24. Permanent employees and their families and retirees of State Mortgage & Investment Bank are eligible for medical reimbursement provided that they have adopted to participate in the Scheme and have paid their membership dues. Family members of a retired member is only eligible for benefits under special

treatment (either any one of retired member or his/her family member is eligible).

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

	2020	2019
Discount Rate	8.00%	10.50%
Medical Expense Escalation	6.50%	6%
Participant Data (Actives) census information at	31.12.2020	31.12.2019

Accounting Policies Contd...

Recognition of Actuarial Losses / Gains	Actuarial losses / gains are recognized in OCI.
Expected Return on Assets	Expected return on assets is zero as the plan is not pre funded.
Interest Cost	Interest Cost is the time value of Present Value of the Defined Benefit Obligation(PVDBO) and the Current Service Cost (CSC).
Funding Arrangements	The Medical Benefit Scheme is not externally funded

2.4.3. Defined Contribution Plan

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

2.4.3.1. Employees' Provident Fund

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

2.4.3.2. Employees' Trust Fund

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

2.4.4. Leases

The Bank has adopted SLFRS 16 Leases retrospectively from 1 January 2019, According to SLFRS 16, Bank recognised leases as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date

- Amounts expected to be payable by the group under residual value guarantees
- The exercise price of a purchase option if the group is reasonably certain to exercise that option
- Payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

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

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

2.4.4.1. Identifying a lease

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

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

Accounting Policies Contd...

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

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

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

2.4.5. Cash and Cash Equivalents

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

2.4.6. Property, Plant and Equipment

Details of Property plant and equipment are given in the note number 19. Property, plant and equipment is stated at cost or valuation excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

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

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

2.4.6.2. Basis of Recognition

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

2.4.6.3. Basis of Measurement

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

2.4.6.4. Depreciation

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

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

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

2.4.6.5. Subsequent Cost

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

2.4.6.6. Restoration Cost

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

Accounting Policies Contd...

2.4.6.7. Capital Work-in-Progress

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

2.4.6.8. De-recognition

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

2.4.7. Intangible Assets

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

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

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

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

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

2.4.8. Impairment of Non-Financial Assets

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

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

2.4.9. Financial Guarantees

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

Accounting Policies Contd...

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

2.4.10 Provisions

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

2.4.11. Financial Instruments - Initial Recognition

2.4.11.1. Date of Recognition

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

2.4.11.2. Initial Measurement of Financial Instruments

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

2.4.11.3. Day 1 Profit or Loss

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

2.4.11.4. Measurement Categories of Financial Assets and Liabilities

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

- > Amortised cost
- > FVOCI
- > FVPL

2.4.12. Financial Assets and Liabilities

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

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

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

The details of these conditions are outlined below.

Accounting Policies Contd...

2.4.12.2. Business Model Assessment

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

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

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

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

2.4.12.3. The SPPI Test

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

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

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

2.4.12.4. Debt Instruments at FVOCI

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

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

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

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

Bank does not hold debt instrument measured at FVOCI for the year ended 2020.

Accounting Policies Contd...

2.4.12.5. Equity Instruments at FVOCI

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

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

Bank hold unquoted equity instrument of Fitch rating company and Credit information Bureau for the year ended 2020. Note number 18

2.4.12.6. Debt Issued and Other Borrowed Funds

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

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

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

- The designation eliminates, or significantly reduces, the inconsistent treatment that would

otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.

Or

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

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

Bank hold Unit trust as at 31.December 2020 and measured at FVPL.

2.4.12.8. Reclassification of Financial Assets and Liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2019 & 2020.

2.4.12.9. De-recognition of Financial Assets and Liabilities

Accounting Policies Contd...

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

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

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

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

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

2.4.12.9.2. De-recognition Other than for Substantial Modification

Financial Assets

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

- The Bank has transferred its contractual rights to receive cash flows from the financial asset
- or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received

cash flows in full without material delay to a third party under a 'pass-through' arrangement

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

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

In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients. A transfer only qualifies for de recognition if either:

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

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

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also

Accounting Policies Contd...

recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

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

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

Financial liabilities

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

2.4.12.10. Impairment of Financial Assets

Provision for possible impairment losses is made on the basis of a continuous review of all loans and advances to customers in accordance with the Sri Lanka Financial Reporting Standard (SLFRS) No. 09 on 'Financial Instruments: Recognition and measurement in the Financial Statements of the Banks. The following valuation techniques were used to calculate fair value of loans as it is necessary which are as follows.

i. Individual Impairment Method

Individual Impairment is made for the loans excluding cash back loans including all loans over Rs 5 Mn or 0.1% of the capital base is considered as individually significant. Facilities

for individual impairment test shall be selected based on availability of objective evidences of impairment.

ii. Collective Impairment Method

Collective impairment provisions for possible loan losses are made in accordance with the Sri Lanka Financial Reporting Standard No. 09 on 'Financial Instruments : Recognition and measurement in the Financial Statements of the Bank. The Bank used to make the Collective impairment provision according to ECL principle. Where the Individual impairment is not material.

Details of the impairment of the financial assets are disclosed in the note number 14 and 16

2.4.12.10.1. Overview of the ECL Principles

As per SLFRS 9, the Bank records an allowance for expected credit losses (ECL) for forward-looking ECL approach. The Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under SLFRS 9.

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

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

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

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

Accounting Policies Contd...

Stage 1	When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
Stage 2	When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
Stage 3	Loans considered credit-impaired (as outlined in Note 16).The bank records an allowance for the LTECLs.
POCI	Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

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

2.4.12.10.2. The Calculation of ECLs

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

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

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

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

Accounting Policies Contd...

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

2.4.12.11. Debt Instruments Measured at Fair Value through OCI

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

2.4.12.12 Purchased or Originated Credit Impaired Financial Assets (POCI)

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

2.4.12.13. Forward Looking Information

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

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

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

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

2.4.12.14. Collateral Valuation

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

2.4.12.15. Collateral Repossessed

The Bank's accounting policy under SLFRS 9 remains the same as it was under LKAS 39. The Bank's policy is to determine whether a repossessed asset can be best used for its internal

Accounting Policies Contd...

operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

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

2.4.12.16. Write-offs

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

2.4.13. Events after the Reporting Period

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

2.4.14. Related Party Transactions with Government and Government Related Entities

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

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

2.5.1. Interest Income

Details interest income are given in the note number 3

2.5.2. Interest and Similar Income

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

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

2.5.3. Fee and commission income

Details of "Commission income and expenses" are given in note number 5

2.6. Amendments to LKAS 1 and LKAS 8 with effect from 01.01.2020

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

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

Accounting Policies Contd...

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

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

The amendments provide relief to lessees from applying SLFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 Pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from COVID-19 related rent concession the same way it would account for the change under SLFRS 16, if the change were not a lease modification. The amendment pronouncement is not expected to have a material impact on the Bank's financial statements.

2.8 Impact due to the COVID-19

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

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

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

Notes to the Financial Statement

3. Gross income

Accounting Policy

Gross 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 specific recognition criteria must also be met before revenue recognition.

	2020 Rs.	2019 Rs.
Interest Income	6,076,716,152	5,981,510,158
Fee and Commission Income	148,120,735	113,332,608
Net Fair Value Gains/(Losses) from FA at FVPL	1,875,000	1,840,000
Net Other Operating Income	33,852,096	28,318,619
Gross Income	6,260,563,983	6,125,001,385

4. Net Interest Income

Accounting Policy is disclosed in Note 2.2.1

	2020 Rs.	2019 Rs.
Interest Income		
Placements with Banks (Fixed+Savings Accounts)	886,811,595	730,365,096
Financial Assets at Amortised Cost		
- Loans and Advances	5,004,888,109	5,042,348,392
Less-First Day Impact of Moratorium Loans	(23,483,202)	-
- Debt and Other Instruments	208,499,650	208,796,670
Total Interest Income	6,076,716,152	5,981,510,158
Interest Expenses		
Due to Banks	9,397	27,417
Financial Liabilities at Amortised Cost		
- Due to Depositors	3,806,143,353	3,722,392,841
- Due to Debt Securities Holders	2,569,178	2,757,535
- Due to Other Borrowers	151,757,839	226,165,075
Total Interest Expenses	3,960,479,767	3,951,342,868
Net Interest Income	2,116,236,385	2,030,167,290
Net Income from Sri Lanka Government Securities		
	2020 Rs.	2019 Rs.
Interest Income	73,803,782	110,239,073
(Less):Interest Expenses	-	-
Net Interest Income	73,803,782	110,239,073

Notes to the Financial Statement Contd...

5 Net Fee and Commission Income

Accounting Policy

Bank earns fee and commission income from range of services which are provided over the periods of time, accrue over the period of time and providing transaction services. Fees and commission Recognised on accrual basis

	2020 Rs.	2019 Rs.
Fee and Commission Income	148,120,735	113,332,608
Fee and Commission Expenses	-	-
Net Fee and Commission Income	148,120,735	113,332,608
Comprising		
Bank Service Charges - Loans and Advances	134,033,283	104,823,332
Legal & Technical Fees - Loans and Advances	341,650	401,260
Other Charges	8,259,464	8,108,016
Deferred 7% interest Income on Moratorium interest	5,486,338	-
Net Fee and Commission Income	148,120,735	113,332,608

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

Accounting Policy

Net Fair Value Gains/(Losses) from Financial Instruments at Fair Value Through Profit or Loss(FVPTL) includes all gains and losses and related dividend for "financial assets recognised through profit or loss" other than interest income

	2020 Rs.	2019 Rs.
Gains on financial assets at fair value through profit or loss	1,875,000	1,840,000
Losses on financial assets at fair value through profit or loss	-	-
Total	1,875,000	1,840,000

7 Other Operating Income (net)

Accounting Policy

Dividend earned from financial assets measured at fair value through other comprehensive income is recognised when the Bank's right to receive the payment is established.

	2020 Rs.	2019 Rs.
Dividend Income	28,869,500	21,771,330
Sundry Income	4,982,596	6,547,289
Other Operating Income (net)	33,852,096	28,318,619

Notes to the Financial Statement Contd...

8. Impairment Charges/ (Reversal) for Loans and Other Losses**Accounting Policy**

The Bank recognise the changes in the impairment provisions for all financial instruments, which are assessed as per Sri Lanka Financial Reporting Standard – SLFRS 9 on “Financial Instruments”. The measurement of impairment losses under SLFRS 9 on all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. adopted for impairment is explained in Note 16 to the Financial Statements

	2020 Rs.	2019 Rs.
Financial Assets at AC - Loans and Advances		
Stage 1	94,476,212	13,770,764
Stage 2	24,501,626	7,740,486
Stage 3	148,491,725	109,437,584
Other Financial assets at amortised cost		
Stage 1	(10,580)	135,598
Stage 2	2,861,812	443,876
Stage 3	-	-
Total	270,320,795	131,528,308

9 Personnel Expenses**Accounting Policy****Defined contribution plans**

Bank operate under mentioned Defined Contribution plan contributions made were recorded as an expense under “Personnel expenses”. Unpaid contributions are recorded as a liability.

Employees’ Provident Fund

Accounting policy is disclosed in the 2.4.1

Employees’ Trust Fund

Accounting policy is disclosed in the 2.4.1

	2020 Rs.	2019 Rs.
Salaries and Bonus	591,969,198	588,537,495
Contribution to Defined Contribution/Benefit Plans	85,629,411	85,179,105
Provision and paid for defined benefit obligations	62,938,918	61,609,947
Others	132,199,278	146,811,495
Total	872,736,805	882,138,042

Notes to the Financial Statement Contd...

9.1 Contribution – Retired staff medical scheme

	2020 Rs.	2019 Rs.
Amount recognised as expense	25,846,298	26,525,646

Retired staff medical scheme has been established for the all employees of the Bank. Actuarial valuation was carried out by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries, on 31 December 2020. (Refer Note 24)

9.2 Contribution – Gratuity

	2020 Rs.	2019 Rs.
Amount recognised as expense	37,092,620	35,084,300

Actuarial valuation was carried out by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries, on 31 December 2020. (Refer Note 24)

10. Other Expenses

Accounting Policy

Other operating expenses are recognised in the Statement of Profit or Loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and maintaining the property, plant and equipment in a state of efficiency has been charged to the Statement of Profit or Loss in arriving at the profit of the year. Provisions in respect of other expenses are recognised when the bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Expenses of depreciation and amortisation of property plant and equipment and intangible assets are separated from other expenses and disclosed in the face of income statement.

	2020 Rs.	2019 Rs.
Directors' Emoluments	2,966,933	2,601,651
Auditors' Remuneration	4,165,250	5,273,734
Professional and Legal Expenses	747,567	1,359,613
Office Administration and Establishment Expenses	145,295,101	148,221,814
Advertising and Promotional Expenses	3,052,395	7,785,485
Motor Vehicle Maintenance & Travelling	12,426,551	7,779,123
General Expense	10,650,386	15,918,509
District Rep's Commission	-	8,750
Other Losses, Bad Debts and Write Offs	28,838,238	3,686,529
CBSL Deposit Insurance	38,693,214	32,544,377
Other Expenses	67,338,139	61,605,715
Depreciation/Amortisation of Property, Plant and Equipment	17,589,271	25,988,195
Total	331,763,045	312,773,495

Notes to the Financial Statement Contd...

Expenses Details

	2020 Rs.	2019 Rs.
Advertising Expenses	1,354,690	3,219,339
Promotional Expenses	1,697,705	4,566,146
	3,052,395	7,785,485
Other Expenses - Other Category		
	2020 Rs.	2019 Rs.
Computer Maintenance	15,577,392	7,303,332
Bank Commission	1,717,911	1,581,565
Newspapers & Periodicals	447,125	556,070
Loan Related Expenses	2,657,402	3,751,716
Credit Information Bureau Charges	5,042,625	3,931,086
Insurance - Cash-in-Transit	27,053	-
Fuel	2,391,801	2,072,910
Insurance - Motor Vehicles	396,022	524,076
Subscriptions to Institutions	7,953,061	7,763,363
Consultancy Fees	3,511,258	3,409,672
ACL Charges	1,184,000	1,970,500
Crop Insurance Levy	4,667,873	2,330,441
Travelling paid to Valuers	3,936,666	4,474,625
Corporate Social Responsibility	140,000	91,750
Interest capitalized on rescheduled loans	117,960	-
Donations	-	100,000
Loss on Disposal of Assets	-	86,122
Capital Write Off (Mortgage Loans)	11,437,562	11,901,834
Capital Write Off (EPF Loans)	1,438,550	1,343,037
NSB Commitment Fee Expenditure A/C	4,693,878	1,955,782
Unrecocile Control write off	-	6,457,833
Total	67,338,139	61,605,715

11. Tax Expenses**Accounting Policy****Current Tax Expenses -Tax Rate 28%**

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

Notes to the Financial Statement Contd...

Deferred taxation-Tax Rate 28%

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

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

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

Current Tax Expense

	2020 Rs.	2019 Rs.
Current Year	222,371,439	199,540,377
Deferred Tax Expense/(Credit)	(6,134,677)	(118,960,119)
Total	216,236,762	80,580,258
Effective tax rate	37.80%	16.13%

11.1 Reconciliation of Tax Expenses

Profit/(Loss) before Tax	790,276,542	815,905,716
Adjustment in Respect of Current Income Tax of Prior Periods		
Add: Tax Effect of Expenses/income reductions that are not Deductible for Tax Purposes	425,175,722	282,061,551
(Less): Tax Effect of Expenses that are Deductible for Tax Purposes	(391,420,762)	(393,232,495)
Dividends	(30,744,500)	(23,611,330)
Adjusted Profits for the Year	793,287,002	681,123,442
Taxation Based on Profit for the Year	222,120,361	190,714,563
Transfer to/from Deffered Taxation	(6,134,677)	(118,960,119)
(Over)/Under Provision in Previous years	251,078	8,825,814
Tax Expense for the Period	216,236,762	80,580,258

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

Deferred Tax Assets

	2020 Rs.	2019 Rs.
Property, Plant & Equipment	(5,779,740)	(6,529,482)
Employee Benefit Obligations	125,792,359	109,281,685
Impairment Provision	109,185,597	120,158,724
Right to use Assets	(1,062,471)	(1,262,252)
Moratorium First Day Impact	6,575,296	-
Total	234,711,041	221,648,675

Notes to the Financial Statement Contd...

12. Analysis of Financial Instruments by Measurement Basis - Bank - Current Year (2020)**Accounting Policy**

The carrying amounts of financial instruments by category as defined in Sri Lanka Financial Reporting Standard – SLFRS 9 on “Financial Instruments” under headings of the Statement of Financial Position are summarised below.

	AC	FVPL	FVOCI	Rs Total
ASSETS				
Cash and cash equivalents	195,817,542	-	-	195,817,542
Placements with banks	11,811,735,024	-	-	11,811,735,024
Loans and advances	36,856,886,670	-	-	36,856,886,670
Reverse Repos	1,434,214,178	-	-	1,434,214,178
Treasury Bills	815,010,484	-	-	815,010,484
Treasury Bonds	165,589,926	-	-	165,589,926
Unit Trusts	-	21,350,000	-	21,350,000
Unquoted Shares	-	-	5,379,078	5,379,078
Total Financial Assets	51,279,253,824	21,350,000	5,379,078	51,305,982,902
LIABILITIES				
Due to banks	67,348,787	-	-	67,348,787
Financial liabilities				
- Due to depositors	45,388,490,392	-	-	45,388,490,392
- Due to debt security holders	-	-	-	-
- Due to other borrowers	348,093,800	-	-	348,093,800
Total Financial Liabilities	45,803,932,979	-	-	45,803,932,979

AC - Financial assets/liabilities measured at amortised cost

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

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

Notes to the Financial Statement Contd...

Bank - Previous Year (2019)

	AC	FVPL	FVOCI	Rs Total
ASSETS				
Cash and cash equivalents	121,239,625	-	-	121,239,625
Placements with banks	7,088,742,435	-	-	7,088,742,435
Loans and advances	35,560,992,158	-	-	35,560,992,158
Debt instruments	65,983,517	-	-	65,983,517
Reverse Repos	1,385,517,561	-	-	1,385,517,561
Treasury Bills	994,878,307	-	-	994,878,307
Treasury Bonds	168,803,531	-	-	168,803,531
Unit Trusts	-	19,475,000	-	19,475,000
Unquoted Shares	-	-	5,379,078	5,379,078
Total Financial Assets	45,386,157,134	19,475,000	5,379,078	45,411,011,212
LIABILITIES				
Due to banks	12,412,879	-	-	12,412,879
Financial liabilities				
- Due to depositors	38,872,216,979	-	-	38,872,216,979
- Due to debt security holders	110,180,822	-	-	110,180,822
- Due to other borrowers	1,501,680,631	-	-	1,501,680,631
Total Financial Liabilities	40,496,491,311	-	-	40,496,491,311

13. Cash and Cash Equivalents

Accounting Policy

Cash and cash equivalents includes cash in hand, balances with banks, money at call and short notice that are subject to an insignificant risk of change in their value. Cash and cash equivalents are carried at amortised cost less impairment in the Statement of Financial Position. Balances with banks, and money at call and short notice are subject to the impairment as per SLFRS 9 on "Financial Instrument"

	2020 Rs.	2019 Rs.
Cash in hand	83,476,991	51,038,006
Balances with banks	112,340,551	70,201,619
Total	195,817,542	121,239,625

Notes to the Financial Statement Contd...

14. Placements with Banks**Accounting Policy**

Placement with banks include short-term deposits placed in banks that are subjected to insignificant risk of changes in fair value, and are used by the Bank in the management of its short-term commitments. They are recorded in the Financial Statements at their face values or the gross values less impairment, where appropriate. The Bank has calculated impairment provision as per SLFRS 9 on "Financial Instrument" based on external rating of particular bank.

	2020 Rs.	2019 Rs.
Fixed Deposits		
NDB	5,281,921,250	5,472,505,060
NSB	748,722,752	481,358,048
PB	1,372,313,231	-
SDB	1,710,081,403	541,651,018
BOC	1,385,999,614	595,226,980
Savings Accounts-Investments		
SDB	207,125,177	-
NDB	1,110,421,500	-
Gross Total	11,816,584,927	7,090,741,106

14.1 Movements in impairment during the year

	2020 Rs.	2019 Rs.
Stage 1		
Opening balance as at 01/01/2020	468,813	333,215
Charge/(Write back) to income statement	(10,580)	135,598
Write-off during the year	-	-
Other movements	-	-
Closing balance at 31/12/2020	458,233	468,813
Stage 2		
Opening balance as at 01/01/2020	1,529,858	1,085,983
Charge/(Write back) to income statement	2,861,812	443,876
Write-off during the year	-	-
Other movements	-	-
Closing balance at 31/12/2020	4,391,670	1,529,859
Stage 3		
Opening balance as at 01/01/2020	-	-
Charge/(Write back) to income statement	-	-
Write-off during the year	-	-
Other movements	-	-
Closing balance at 31/12/2020	-	-
C. Net Placement with banks	11,811,735,024	7,088,742,434

Notes to the Financial Statement Contd...

15. Financial Assets Recognized Through Profit or Loss

	2020 Rs.	2019 Rs.
Unit Trusts (NDB)	21,350,000	19,475,000
Total	21,350,000	19,475,000

15.1 Analysis

	2020 Rs.	2019 Rs.
By collateralisation		
Pledged as collateral	-	-
Unencumbered	21,350,000	19,475,000
Gross total	21,350,000	19,475,000

16 Financial Assets at Amortised Cost - Loans and Advances

Accounting Policy

Loans and advances include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, The bank measures Financial assets at Amortized Cost loans and advances, debt and other instruments if both of the following conditions are met:

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

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

	2020 Rs.	2019 Rs.
Gross loans and advances	37,983,822,580	36,396,975,304
Stage 1	26,750,299,799	25,793,379,361
Stage 2	2,087,873,904	1,915,952,809
Stage 3	9,145,648,877	8,687,643,134
(Less): Accumulated impairment under:	1,103,452,708	835,983,146
Stage 1	247,904,755	153,428,543
Stage 2	89,207,499	64,705,873
Stage 3	766,340,454	617,848,730
Net Loans and Advances	36,880,369,872	35,560,992,158
Less - First Day impact of Moratorium Loans	23,483,202	-
Carrying Value of Loans and Advances	36,856,886,670	35,560,992,158

Notes to the Financial Statement Contd...

16.1 Analysis

	2020 Rs.	2019 Rs.
By product		
Mortgage	9,942,813,267	9,460,622,900
EPF	7,685,291,335	8,282,816,696
Vehicle	485,400	5,799,377
Staff loans	1,367,929,889	1,234,564,642
Personal Loans	18,232,060,924	16,648,653,558
Others	1,136,699,561	1,096,396,335
Less-		
Allowance for Day 1 Difference - Staff Loans	(381,457,796)	(331,878,204)
Gross Total	37,983,822,580	36,396,975,304
By collateralization		
Collateral held as Security	18,727,951,333	18,798,261,460
Other Credit Enhancements	19,255,871,247	17,930,592,044
Gross Total	37,983,822,580	36,396,975,304

16.2 Movements in impairment during the year

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

The bank assesses ECLs individually for financial assets that are individually significant to the bank. If the asset is impaired, the amount of the loss is measured by discounting the expected future cash flows of a financial asset at its original effective interest rate & determine the present value, there on it compare with current carrying value cash flows of a collateralised financial asset cash flows from Forsale value less any less costs of foreclosure is considered.

Collective Assessment of Impairment

If bank is determined that no objective evidence of impairment exists for an individually assessed financial asset, base on homogeneity of of the product features of the asset and of financial assets with similar credit risk characteristics and collectively assesses them for impairment

Notes to the Financial Statement Contd...

	2020 Rs.	2019 Rs.
Stage 1		
Opening balance as at 01/01/2020	153,428,543	139,657,779
Charge/(Write back) to income statement	94,476,212	13,770,764
Write-off during the year	-	-
Closing balance at 31/12/2020	247,904,755	153,428,543
Stage 2		
Opening balance as at 01/01/2020	64,705,873	56,965,387
Charge/(Write back) to income statement	24,501,626	7,740,486
Write-off during the year	-	-
Closing balance at 31/12/2020	89,207,499	64,705,873
Stage 3		
Opening balance as at 01/01/2020	617,848,730	508,411,145
Charge/(Write back) to income statement	148,491,725	109,437,584
Write-off during the year	-	-
Closing balance at 31/12/2020	766,340,454	617,848,730
Total	1,103,452,708	835,983,146

17. Financial Assets at Amortised Cost - Debt and Other Instruments

Accounting Policy

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

	2020 Rs.	2019 Rs.
Treasury Bills	815,010,484	994,878,307
Treasury Bonds	165,589,926	168,803,531
Debenture	-	65,983,517
Reverse Repos	1,434,214,178	1,385,517,561
Gross total	2,414,814,588	2,615,182,916
17.1 Analysis		
By collateralization		
Pledged as collateral	-	-
Unencumbered	2,414,814,588	2,615,182,916
Gross total	2,414,814,588	2,615,182,916

Notes to the Financial Statement Contd...

18. Financial Assets at Fair Value Through Other Comprehensive Income**Accounting Policy**

Equity and debt securities are classified under Financial Assets Fair Value Through other Comprehensive income. Equity investments classified as Fair Value through Other Comprehensive Income are those which are held as strategic investment. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

Equity instruments fair value through other comprehensive income

Bank has to classified some equity investments under FVOCI when they meet the definition of Equity under LKAS 32 on "Financial Instruments: Presentation" and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

	2020 Rs.	2019 Rs.
Unquoted Shares		
CRIB	4,754,078	4,754,078
Fitch Rating	625,000	625,000
Gross total	5,379,078	5,379,078
18.1 Analysis		
By collateralization		
Pledged as collateral	-	-
Unencumbered	5,379,078	5,379,078
Gross total	5,379,078	5,379,078

19. Property, Plant and Equipment**Accounting Policy****Basis of Recognition**

Property, plant and equipment are recognised if it is probable that future benefits associated with the asset will flow to the bank and cost of the asset can be reliably measured. Property, plant and equipment are initially measured at cost including costs directly attributable to the acquisition of the asset.

Basis of measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs. The self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bring the asset to a working condition for its intended use and the cost of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software which is integral to the functionality of the related equipment is capitalised as part of computer equipment.

Cost model

The Bank applies cost model to property, plant and equipment except for freehold land and buildings and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

Notes to the Financial Statement Contd...

19.1 Property, Plant and Equipment

In Rs	Vehicles	Furniture & Fittings & Office Equipment	Computer Equipment	Computer Software	Total
2020 (Current Year)					
Cost/Fair Value					
Opening Balance as at 01/01/2020	70,798,254	133,822,736	133,410,760	7,055,348	345,087,098
Additions	-	9,999,824	4,217,960	-	14,217,784
Disposals/Adjustments	-	(2,371,692)	(332,236)	(2,650,830)	(5,354,759)
Adjustments	-	-	-	-	-
Closing Balance as at 31/12/2020	70,798,254	141,450,868	137,296,484	4,404,518	353,950,123
(Less): Accumulated Depreciation					
Opening Balance as at 01/01/2020	70,798,254	87,404,366	123,858,168	6,958,598	289,019,385
Charge for the Year	-	13,017,997	4,474,524	96,750	17,589,271
Disposals/Adjustments	-	(1,777,605)	(332,236)	(2,650,830)	(4,760,671)
Closing Balance as at 31/12/2020	70,798,254	98,644,758	128,000,456	4,404,518	301,847,985
(Less): Impairment Charges	-	-	-	-	-
Net Book Value as at 31/12/2020	-	42,806,110	9,296,028	-	52,102,138

In Rs	Vehicles	Furniture & Fittings & Office Equipment	Computer Equipment	Computer Software	Total
2019 (Current Year)					
Cost/Fair Value					
Opening Balance as at 01/01/2019	70,798,254	129,546,278	130,855,448	7,055,348	338,255,328
Additions	-	9,224,149	8,880,706	-	18,104,855
Disposals / Adjustments	-	(4,947,691)	(6,325,394)	-	(11,273,085)
Closing Balance as at 31/12/2019	70,798,254	133,822,736	133,410,760	7,055,348	345,087,098
(Less): Accumulated Depreciation					
Opening Balance as at 01/01/2019	70,798,254	79,055,708	117,465,787	6,690,756	274,010,505
Charge for the Year	-	13,002,578	12,717,775	267,842	25,988,194
Disposals	-	(4,653,919)	(6,325,394)	-	(10,979,313)
Adjustments	-	-	-	-	-
Closing Balance as at 31/12/2019	70,798,254	87,404,367	123,858,168	6,958,598	289,019,386
(Less): Impairment Charges	-	-	-	-	-
Net Book Value as at 31/12/2019	-	46,418,371	9,552,592	96,750	56,067,712

Notes to the Financial Statement Contd...

20. Deferred Tax Assets/(Liabilities)**Accounting Policy**

Accounting Policy on Defered tax disclosed in the Note 11

	2020 Rs.	2019 Rs.
Opening Balance 01/01/2020	221,648,675	107,451,184
Charge for the year Recognized in		
- Profit/(Loss)	6,134,677	118,960,120
- Other Comprehensive Income	6,927,689	(4,762,629)
Closing Balance 31/12/2020	234,711,041	221,648,675

21 Other Assets

	2020 Rs.	2019 Rs.
Stationary Stock	12,995,612	18,197,038
Deposits and Prepayments	3,042,427	6,193,643
Prepaid Staff Loans	381,457,796	331,878,204
VAT Receivable	7,440,500	33,183,621
NBT Receivable	3,603,588	-
DRL Receivable	15,591,023	-
7% Interest Receivable on Moratorium Interest	5,486,337	-
Interest Receivable - Senior Citizens Fixed Deposits	589,508,675	617,374,536
Others	85,505,247	171,329,897
Total	1,104,631,205	1,178,156,939

22 Due to Banks

	2020 Rs.	2019 Rs.
Borrowings (ODs)	67,348,787	12,412,879
Total	67,348,787	12,412,879

Notes to the Financial Statement Contd...

23. Financial liabilities at amortised cost

Accounting Policy

Due to depositors include savings deposits and term deposits. Subsequent to initial recognition deposits are measured at their amortised cost using EIR method. Interest paid/payable on deposits are recognised in the Income Statement under interest expense.

	2020 Rs.	2019 Rs.
Due to depositors	45,388,490,392	38,872,216,979
Debt securities issued by the bank	-	110,180,822
Other borrowings	348,093,800	1,501,680,632
Total	45,736,584,192	40,484,078,433

23.1 Analysis of amount due to depositors

	2020 Rs.	2019 Rs.
By Product		
Savings deposits	2,262,441,333	1,669,895,646
Fixed deposits	41,984,985,100	36,104,411,121
Other deposits (Schemes)	1,141,063,959	1,097,910,212
Total	45,388,490,392	38,872,216,979

23.2 Analysis of other borrowings

	2020 Rs.	2019 Rs.
Bank Loans	-	1,202,349,370
AHF	1,110,904	3,540,664
CBSL Refinance Loans	260,156,083	212,235,156
Lease Liability	86,826,813	83,555,442
Total	348,093,800	1,501,680,632

Notes to the Financial Statement Contd...

24. Employee Benefit

"The Bank measures the Present Value of Defined Benefit Obligation (PVDBO) which is a defined benefit plan with the advice of an actuary using the Projected Unit Credit Method. The actuarial valuation involves making assumptions about discount rate, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The employee benefit obligation as at 31st December 2020 is calculated based on the actuarial valuation report as of 31st December 2020, carried out by Actuarial & Management Consultants (Pvt) Ltd. The key assumptions used by the actuary include the following:"

	2020 Rs.	2019 Rs.
Rate of Interest	8.00%	10.50%
Rate of Salary Increase	6.50%	6.50%
Retirement Age	55-60 years	55-60 years
Gratuity		
	2020 Rs.	2019 Rs.
Provision for Gratuity		
Balance at the Beginning of the Year	195,531,358	192,331,682
Current Service Cost	16,561,827	12,966,157
Interest Cost	20,530,793	22,118,143
Benefit Paid	(18,313,429)	(27,114,159)
Actuarial (Gains)/Losses	14,034,971	(4,770,465)
Total	228,345,520	195,531,358

Sensitivity Analysis of Present Value of Defined Benefit Obligation**Assumption changed (while all other assumptions remain unchanged)****PV-DBO (Rs.)**

A one percentage point increase (+1%) in the discount rate	211,364,613
A one percentage point decrease (-1%) in the discount rate	248,111,722
A one percentage point increase (+1%) in the salary/wage increment rate	249,248,506
A one percentage point decrease (-1%) in the salary/wage increment rate	210,102,918

Notes to the Financial Statement Contd...

Medical

	2020 Rs.	2019 Rs.
Provision for Medical Benefit		
Balance at the Beginning of the Year	194,760,373	190,167,950
Current Service Cost	5,396,459	4,656,332
Interest Cost	20,449,839	21,869,314
Actuarial (Gain)/Losses	10,706,778	(12,238,922)
Benefit Paid	(10,400,545)	(9,694,301)
Total	220,912,904	194,760,373
Total Employee Benefit Liability	449,258,424	390,291,731

25. Other Liabilities

Accounting Policies

Other liabilities include provisions made in account of , fees and expenses, tax payable unappropriated customer receipt, leave encashment and other expenses. These liabilities are recorded at amounts expected to be payable at reporting data.

	2020 Rs.	2019 Rs.
Taxes Payable	119,284,281	128,672,000
Accrued Expenditure	59,868,419	55,766,284
Other liabilities	251,287,882	97,478,848
less- Notional UR adjutmnet on Loan Book	(68,971,423)	-
Margin Account	82,698,997	90,166,384
Margin Account-Waste Managemnet	12,949,120	2,387,337
Customer Refund-Closed Loan	72,103,281	59,636,126
Total	529,220,557	434,106,979

25.1 Taxes Payable

	2020 Rs.	2019 Rs.
Income Tax	118,534,702	85,127,903
Payee Tax	720,477	6,081,882
WHT Payable	29,102	10,592,263
NBT Payable	-	3,263,572
DRL Payable	-	16,256,759
ESC Payable	-	7,349,621
Taxes Payable	119,284,281	128,672,000

Notes to the Financial Statement Contd...

26. Stated Capital/Assigned Capital

	2020 Rs.	2019 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 2020

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.

27. Statutory Reserve Fund

	2020 Rs.	2019 Rs.
Opening Balance as at 01st January	270,921,034	261,668,385
Transfer During the Period	12,990,441	9,252,649
Closing Balance as at 31st December	283,911,475	270,921,034

Notes to the Financial Statement Contd...

28. Retained Earnings

	2020 Rs.	2019 Rs.
Opening Balance as at 1 January	3,420,125,609	2,957,693,676
Prior Period Adjustments	22,819,743	-
Impairment 1st day Adjustment	-	-
OCI Reserve Transfer	-	-
Profit for the Year	355,834,458	419,073,544
Transfers to Other Reserves	(12,990,441)	(9,252,649)
Other Comprehensive Income	(17,814,059)	12,246,759
Deemed Dividend Tax	-	40,364,278
Closing Balance as at 31 December	3,767,975,310	3,420,125,609
Prior Period Adjustments		
NBT amendment as per the Final Tax return	6,867,160	-
DRL amendment as per the Final Tax return	16,797,751	-
Adjustments made for previous year disposal	96,065	-
Error occurred due to classification of other liabilities	(941,234)	-
Total	22,819,743	-

29. Other Reserves

29.1 Bank - Current year (2020)

	Opening Balance as at 01/01/2020	Movements/ Transfers	Opening Balance as at 31/12/2020
General reserve	683,280,000	-	683,280,000
Capital Reserve	393,498,004	-	393,498,004
Title Indemnity Fund	1,031,000	-	1,031,000
Total	1,077,809,004	-	1,077,809,004

29.1 Bank - Current year (2020)

	Opening Balance as at 01/01/2019	Movements/ Transfers	Opening Balance as at 31/12/2019
General reserve	683,280,000	-	683,280,000
Capital Reserve	393,498,004	-	393,498,004
Title Indemnity Fund	1,031,000	-	1,031,000
Total	1,077,809,004	-	1,077,809,004

Bank has transferred funds to General Reserve as per the provision in the section 10(2)(C) of Finance No 38 of 1971 with the concurrence of the Ministry of Finance

Notes to the Financial Statement Contd...

30 Contingent Liabilities and Commitments**Accounting Policy**

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future event or present obligation where the transfer of economic benefit is not probable or cannot be reliably measured as defined in the Sri Lanka Accounting Standard – LKAS 37 on “Provisions, Contingent Liabilities and Contingent Assets”.

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of finance guarantees and other undrawn commitments to lend.

	2020 Rs.	2019 Rs.
Guarantees issued	-	-
Other commitments	87,742,347	76,477,573
Total	87,742,347	76,477,573

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.

31. Related party disclosures**Accounting Policy**

The Bank carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as related parties as per the Sri Lanka Accounting Standard – LKAS 24 on “Related Party Disclosures” i.e. Government of Sri Lanka, subsidiaries, post employment benefit plans for the Bank's employees, Key Management Personnel (KMPs). Those transactions include lending activities, placements, off-balance sheet transactions and provision of other banking and financial services that are carried out in the ordinary course of business on an arm's length basis at commercial rates, other than, transactions that the Key Management Personnel (KMP) have availed under schemes uniformly applicable to all staff at concessionary rates. Particulars of transactions with related parties are tabulated below

31.1 Transactions with Government of Sri Lanka (Parent) and state controlled entities

As at 31 December	2020 Rs.	2019 Rs.
Investments made on Government Securities	980,600,410	1,163,681,838
Investments on state and state-controlled entities	3,507,035,597	1,076,585,028
Securities purchased under resale agreements	1,431,118,091	1,385,517,561
Other receivables from Government	589,508,675	617,374,536
Total	6,508,262,773	4,243,158,963
Liabilities		
Tax paid		
Income tax	121,163,775	190,965,243
Value added tax	184,652,462	344,785,050
Total	305,816,237	535,750,293

Notes to the Financial Statement Contd...

32 Transactions with Key Management Personnel(KMPs)

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

32.1 Compensation to Key Management Personnel

	2020 Rs.	2019 Rs.
Short - Term Employment Benefits	43,622,046	41,705,807
Post - Employment Benefits	7,872,151	7,287,004
Total	51,494,197	48,992,812

32.2 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.

	2020 Rs.	2019 Rs.
Income Statement		
Interest Earned (From Loans)	2,914,378	1,557,493
Interest Paid (To Deposits)	1,640,499	1,426,182
Payment made as shown in 33 (A)	51,494,197	48,992,812
Statement of Financial Position		
Assets		
Loans and Advances	59,734,955	31,752,208
Liabilities		
Deposits	20,011,602	26,305,767

33 Leases

Accounting Policy

Basis of Recognition

The Bank recognises right-of-use assets at the commencement date of the lease (i.e. the date as specified in the Lease Agreement), which is the present value of lease payments to be made over the lease term.

Basis of measurement

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, and lease payments made at or before the commencement date less any lease incentives received

Useful economic life and amortisation

Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Notes to the Financial Statement Contd...

33.1 Amounts recognised in the balance sheet

The statement of financial position shows the following amounts relating to leases:

	2020 Rs.	2019 Rs.
Right-of-use Assets		
Cost		
Opening Balance	143,986,988	-
Additions- Buildings	26,806,360	143,986,988
Closing Balance	170,793,348	143,986,988
Accumulated Depreciation		
Opening Balance	31,312,957	-
During the year charge	34,987,029	31,312,957
Closing Balance	66,299,986	31,312,957
Net Book Value	104,493,362	112,674,031
Lease liabilities		
Opening Balance	83,555,442	-
Additions	19,845,440	98,177,188
Interest Charge	9,292,421	8,329,582
Payments	(25,866,489)	(22,951,328)
Closing Balance	86,826,814	83,555,442

33.2 Amounts recognised in the statement of profit or loss

The Income Statement shows the following amounts relating to leases:

	2020 Rs.	2019 Rs.
Depreciation charge of right-of-use assets		
Building	34,987,030	31,312,957
Interest Expense	9,292,421	8,329,582

Notes to the Financial Statement Contd...

34. Reconciliation of VAT Expense

	2020 Rs.	2019 Rs.
Profit/(Loss) before Tax	790,276,542	815,905,716
Adjustment in Respect of Current period		
Add: Expenses/income reductions that are not Deductible for VAT Purposes	953,581,367	941,789,776
(Less): Expenses that are Deductible for VAT Purposes	(59,227,077)	(62,943,481)
Adjusted Profits for the Year	1,684,630,832	1,694,752,011
VAT Based on Profit for the Year	219,734,456	217,590,791
(Over)/Under Provision in Previous years	(1,529,134)	(46,527,461)
Tax Expense for the Period	218,205,322	171,063,330

VAT Payable Reconciliation

	2020 Rs.	2019 Rs.
Opening VAT Receivable	(33,183,621)	456,507
payments made	(192,462,201)	(204,703,459)
Provision made	188,828,140	186,986,885
During the year tax addition to P&L	29,377,182	(15,923,555)
Closing VAT Receivable	(7,440,500)	(33,183,622)

35. Events occurring after the Date of Statement of Financial Position Accounting policy

Events after the reporting period are those events that occur between the reporting date and the date when the Financial Statements are authorised for issue. There has been no material event after the date of Statement of Financial Position that requires adjustments or disclosure in the Financial Statement.

Notes to the Financial Statement Contd...

36. Fair Value of Financial Instruments

Determination of Fair Value and Fair Value Hierarchy

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

Technique

Level 1	Quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2	Valuation technique using observable inputs: quoted prices for similar assets and liabilities in active markets or quoted prices.
Level 3	Valuation techniques with significant unobservable inputs: assets and liabilities valued using valuation techniques where one or more significant

31st December 2020	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Financial investments FVPL				
Quoted investments - Unit Trust	21,350,000	-	-	21,350,000
Financial investments FVOCI				
CRIB	-	-	4,754,078	4,754,078
Fitch Rating	-	-	625,000	625,000
Total Financial Assets	21,350,000	-	5,379,078	26,729,078
Financial Liabilities	-	-	-	-

37. Fair Value of Financial Assets and Liabilities not carried at Fair Value

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

Assets and Liability of which Fair Value Approximates Carrying Value

For financial assets and liabilities that have a short term maturity, it is assumed that the carrying amounts approximate their fair values such as placement with bank, other assets, due to customers and other liabilities. This assumption is also applied to demand deposits and savings deposits which do not have a specific maturity.

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing market interest rates for debts with similar credit risk and maturity. For quoted debt issued, the fair values are determined based on quoted market prices

Variable Rate Financial Instruments

Variable rate is a fair measure which reflects market movements. Hence the carrying value represents the fair value of the variable rate instruments

Notes to the Financial Statement Contd...

Assets Amount	2020		2019	
	Carrying Value Rs	Fair Amount Rs	Carrying Value Rs	Fair Rs
Cash and Cash Equivalents	195,817,542	195,817,542	121,239,625	121,239,625
Placements with Banks	11,811,735,024	11,811,735,024	7,088,742,434	7,088,742,434
Loans and receivables to customers	36,856,886,670	39,719,603,639	35,560,992,158	37,218,396,616
Debt and Other Instruments	2,414,814,588	2,424,126,178	2,615,182,916	2,613,086,460
Financial Assets – FVPL	21,350,000	21,350,000	19,475,000	19,475,000
Financial Assets – FVOCI	5,379,078	5,379,078	5,379,078	5,379,078
Other assets	1,495,937,746	1,495,937,746	1,568,547,356	1,568,547,356
Total Financial Assets	52,801,920,648	55,673,949,207	46,979,558,567	48,634,866,569
Liabilities				
Due to banks	67,348,787	67,348,787	12,412,879	12,412,879
Due to customers	45,388,490,392	45,388,490,392	38,872,216,979	38,872,216,979
Other borrowings	348,093,800	348,093,800	1,611,861,453	1,611,861,453
Other liabilities	978,478,981	978,478,981	1,156,276,914	1,156,276,914
Total Financial Liabilities	46,782,411,960	46,782,411,960	41,652,768,225	41,652,768,225

38. Risk Management

Bank has established formal risk management practices to manage its inherent risk such process includes identification, measurement and monitoring subject to risk appetited and risk tolerance limits of the bank. The Bank is mainly exposed to Credit Risk, Liquidity Risk, Market Risk and Operational Risk.

38.1 Risk Management Structure

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

- Executive Integrated Risk Management Committee (EIRMC)
- Executive Credit Committee (ECC)
- Asset and Liability Committee (ALCO)

Notes to the Financial Statement Contd...

Board Integrated Risk Management Committee (BIRMC)

Board Integrated Risk Management Committee (BIRMC) which is responsible for developing and monitoring Bank's risk management policies. The Committee comprises four Non-Executive Directors.

Executive Integrated Risk Management Committee (EIRMC)

EIRMC is chaired by General Manager/ CEO of the bank and committee is responsible for review and monitoring of the risk exposures of the bank and setting of the risk tolerance limits and recommending of development and revision of the risk management policy of the bank, the EIRMC 12 key managerial persons.

Executive Credit Committee (ECC)

Credit committee is chaired by GM/CEO of the bank and committee is responsible develop and periodical review of the credit policy, credit manual, monitoring and managing of the credit risk of the bank. The committee comprises seven Key managerial persons.

Asset/Liability Management Committee (ALCO)

ALCO is chaired by GM/CEO of the bank and the committee is responsible to manage and monitoring of the interest rate risk of the bank, monitoring and managing of the assets and liability of the Bank and monitoring and managing of the overall liquidity position of the bank.

38.2 Risk Management and reporting

Credit risk

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

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

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

38.2.1. Impairment Assessment

Definition of Default and Cure

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

Notes to the Financial Statement Contd...

Individually Assessed Allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis if there is any objective evidence of a potential loss. The Bank has currently set individually significant threshold for any Customer with total exposure (Outstanding Balance) exceeding Rs. 5.00Mn or 0.1% of capital base. Items considered when determining allowance amounts include the sustainability of the counterpart's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected pay-out should bankruptcy arise, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows.

Collectively assessed allowances

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

Stage 1: 12 - Months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognized. Bank determines 12 month ECL from customers whom are not significantly credit deteriorated (i.e. Less than 30 days past due).

Stage 2: Lifetime ECL - not credit impaired

For exposures where there has been a significant increase in credit risk since initial recognition but is not credit impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognized. In consistent with the policies of the bank, significant deterioration is measured through the rebuttable presumption of 30 days past due other than the credit facilities categorized under Stage 3, in line with the requirements of the standard. Bank also have considered all restructured loans, which are restructured up to two times, other than credit facilities/ exposures upgraded credit facilities from a higher stage to a lower stage consider under stage 2 as per the guidance issued by the Central Bank.

Stage 3: Lifetime ECL - credit impaired

Exposures are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognized and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount. Bank determines credit facilities where contractual payments of a customer are more than 90 days past due which are subject to the rebuttable presumption as stated in SLFRS 9 together with all NPL classifications as per Central Bank classification, All restructured loans which are restructured more than twice and all rescheduled loans other than credit facilities/exposures upgraded credit facilities from a higher stage to a lower stage and all credit facilities/customers classified as non-performing as per CBSL Directions under stage 3.

Notes to the Financial Statement Contd...

PD estimation process

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

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

The exposure at default (EAD)

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. The Bank uses Credit Conversion Factors (CCF) which explains the historical utilization of defaulted facilities at the time of default to calculate the EAD of revolving facilities in which customers have the ability to increase their exposure. For non-revolving facilities, already utilized amount plus any accrued interest over same is considered as EAD.

Loss given default (LGD)

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

38.2.2. Analysis of the total impairment for expected credit losses is as follows

As at 31 December	Note	2020				2019			
		Rs 000 State 1	Rs 000 Stage 2	Rs 000 Stage 3	Rs 000 Total	Rs 000 State 1	Rs 000 Stage 2	Rs 000 Stage 3	Rs 000 Total
Cash & cash equivalents		-	-	-	-	-	-	-	-
Placements with banks	14	458	4,392	-	4,850	469	1,530	-	1,999
Financial Assets at amortized cost									
Loans & Advances	16	247,904	89,207	766,340	1,103,453	153,428	64,706	617,849	835,983
Debt & Other instruments		-	-	-	-	-	-	-	-
Total allowance for expected credit losses		248,362	93,599	766,340	1,108,303	153,897	66,236	617,849	837,982

Notes to the Financial Statement Contd...

Credit loss expense

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

31st December 2020	Stage 1	Stage 2	Stage 3	Total
Cash & cash Equivalents	-	-	-	-
Cash & Balances with Central Bank	-	-	-	-
Sri Lanka Government Securities	-	-	-	-
Placement with other Banks	(10,580)	2,861,812	-	2,851,232
Loans & Advances to Customers	94,476,212	24,501,626	148,491,725	267,469,563
Total Impairment Loss	94,465,632	27,363,438	148,491,725	270,320,795
31st December 2019	Stage 1	Stage 2	Stage 3	Total
Cash & cash Equivalents	-	-	-	-
Cash & Balances with Central Bank	-	-	-	-
Sri Lanka Government Securities	-	-	-	-
Placement with other Banks	135,598	443,876	-	579,474
Loans & Advances to Customers	13,770,764	7,740,486	109,437,584	130,948,834
Total Impairment Loss	13,906,362	8,184,362	109,437,584	131,528,308

Notes to the Financial Statement Contd...

38.2.3 Analysis of Risk Concentration

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

As at 31.12.2020	Financial Services	Government Securities	Construction and Housing	Consumers	Other	Total
Financial Assets						
Cash and cash equivalents	195,817,542					195,817,542
Placement with other banks	11,811,735,024					11,811,735,024
Loans and receivables to customers						
Mortgage			9,942,813,267			9,942,813,267
EPF			7,685,291,335			7,685,291,335
Vehicle				485,400		485,400
Staff loans			986,472,093			986,472,093
Personal Loans				18,232,060,924		18,232,060,924
Others					1,136,699,561	1,136,699,561
Financial investments – FVPL	21,350,000					21,350,000
Financial investments – AC	1,434,214,178	980,600,410				2,414,814,588
Financial investments – FVOCI	5,379,078					5,379,078
Total	13,468,495,822	980,600,410	18,614,576,695	18,232,546,324	1,136,699,561	52,432,918,812
As at 31.12.2020						
Financial Assets						
Cash and cash equivalents	121,239,625					121,239,625
Placement with other banks	7,090,741,107					7,090,741,107
Loans and receivables to customers						
Mortgage			9,577,227,772			9,577,227,772
EPF			8,282,816,696			8,282,816,696
Vehicle				5,799,377		5,799,377
Staff loans			1,117,959,770			1,117,959,770
Personal Loans				16,648,653,558		16,648,653,558
Others					1,096,396,335	1,096,396,335
Financial investments – FVPL	19,475,000					19,475,000
Financial investments – AC	1,451,501,078	1,163,681,838				2,615,182,916
Financial investments – FVOCI	5,379,078					5,379,078
Total	8,688,335,888	1,163,681,838	18,978,004,238	16,654,452,935	1,096,396,335	46,580,871,234

Notes to the Financial Statement Contd...

38.3 Liquidity Risk and Funding Management

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

Liquidity Ratios

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

	2020	2019
Year - End	37.29%	25.09%
Maximum	39.35%	29.70%
Minimum	29.02%	22.01%
Average	35.02%	25.86%

38.4 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarises the maturity profile of the undiscounted cash flows of the bank's financial assets and liabilities as at 31 December 2020
Contractual maturities of undiscounted cash flows of financial assets and liabilities.

As at 31. December 2020 Assets or Liability	Less than 7 Days		7-30 Days		1-3 Months		3-6 Months		6-12 Months		1-3 Years		3-5 Years		Over 5 years		Total		
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	
Total Financial Assets	4,475,025	7,350,390	7,224,479	5,140,391	7,882,439	12,077,844	9,414,794	12,220,383	65,785,745										
Cash and Cash Equivalents	195,818	-	-	-	-	-	-	-	195,818										
Placements with Banks	1,696,072	4,134,541	3,741,564	657,000	1,766,861	-	-	-	11,996,038										
Debt and Other Instruments	810,407	726,350	225,000	500,000	-	150,000	-	26,729	2,438,486										
Loans & Advances	1,772,728	2,489,499	3,257,915	3,983,391	6,115,578	11,927,844	9,414,794	12,193,654	51,155,403										
Total Financial Liabilities	4,374,129	3,283,806	7,529,589	8,221,544	17,191,864	2,842,642	3,185,030	1,106,535	47,667,790										
Due to Bank	67,349	-	-	-	-	-	-	-	67,349										
Due to Depositors	4,230,933	3,111,514	7,336,538	8,073,526	17,094,759	2,531,846	3,018,387	943,713	46,341,217										
Due to Other Borrowers	-	-	1,379	38,102	38,102	135,256	135,256	-	348,095										
Other Liabilities	75,847	172,292	191,672	109,916	59,003	175,540	31,387	162,822	978,479										
Maturity Gap	100,896	4,066,584	(305,111)	(3,081,153)	(9,309,426)	9,235,202	6,229,764	11,113,848	18,117,955										

Notes to the Financial Statement Contd...

38.4.1 Maturity analysis

Following table shows the movement of the short term and long term maturities of the assets and liabilities of the bank compared to previous year.

Assets or Liability (a)	2020			2019		
	Rs 000 Less than 12 months	Rs. 000 More than 12 months	Rs. 000 Total	Rs.000 Less than 12 months	Rs. 000 More than 12 months	Rs.000 Total
Total Assets	26,505,005	26,296,915	52,801,920	21,395,733	25,583,825	46,979,558
Cash and Cash Equivalents	195,818	-	195,818	121,240	-	121,240
Placements with Banks	11,811,735	-	11,811,735	7,088,742	-	7,088,742
Financial Assets - FVPL		21,350	21,350		19,475	19,475
Financial Assets - AC						
Debt and Other Instruments	2,243,748	171,066	2,414,814	2,245,401	369,156	2,614,557
Loans & Advances	11,224,037	25,632,850	36,856,887	10,925,565	24,635,427	35,560,992
Financial Assets - FVOCI		5,379	5,379		5,379	5,379
Property, Plant and Equipment	-	52,102	52,102	-	56,068	56,068
Right-of-use Assets		104,493	104,493		112,674	112,674
Deferred Tax Assets		234,711	234,711		221,649	221,649
Other Assets	1,029,667	74,964	1,104,631	1,014,785	163,997	1,178,782
Total Liabilities	40,005,400	12,796,520	52,801,920	32,432,932	14,221,046	46,979,558
Total Equity	-	6,019,509	6,019,509	-	5,658,668	5,658,668
Due to Banks	67,349		67,349	12,413		12,413
Financial Liabilities at Amortised Cost						
Due to Depositors	39,534,099	5,854,390	45,388,489	31,887,828	6,984,389	38,872,217
Due to Other Borrowers	70,800	277,294	348,094	532,691	1,079,171	1,611,862
Employee Benefit Liability	-	449,258	449,258	-	390,292	390,292
Other Liabilities	333,152	196,069	529,221	325,580	108,526	434,106
Maturity Gap	(13,500,395)	13,500,395		(11,037,199)	11,362,779	

38.5 Capital Management**38.5.1 Minimum Regulatory capital**

Bank has complied with Rs. 5 Billion Minimum regulatory capital requirement as at 31.12.2019 as per the letter dated 23 December of Central Bank of Sri Lanka. The minimum capital requirement has further been enhanced to Rs 7.5 Billion with effect from 31.12.2022 by the Central Bank as per direction dated 27.03.2020. Recorded shortfall of meeting with minimum regulatory capital as at 31.12.2020 was Rs. 1,715.20 Million. Bank expects to fulfil the recorded shortfalls through the internally generated funds and capital infusion as per the provisions in the State mortgage Act no 13 of 1975 in forthcoming years.

Notes to the Financial Statement Contd...

38.5.2. Capital Adequacy Ratio and Regulatory Capital of the bank

All license specialised bank shall maintain, at all time, minimum Tier I capital including capital conservation buffer of 8.5% and total capital ratio of 12.5% with effect from 01 January 2019. Detail of the coregulatory capital and capital adequacy ratio of the bank are given below.

i. Capital Base

Capital Adequacy Item	Rs.000 31.12.2020	Rs.000 31.12.2019
Common Equity Capital after adjustment	5,784,797	5,424,773
Total Tier 1 Capital	6,077,306	5,610,554
Minimum regulatory capital to be fulfilled as at 31.12.2022	7,500,000	7,500,000
Capital shortfall	1,715,203	2,075,227
Total Tier I capital	1,422,694	1,889,446
Capital Adequacy ratio		
Common Equity Tier 1 Capital Ratio	21.58%	21.04%
Total Capital Ratio	22.67%	21.77%

ii. Risk Adjusted on Balance Sheet Exposures

	Principal Amount of On-Balance Sheet Items	Risk Weighted Assets Amount 2020	Principal Amount of On-Balance Sheet Items	Risk Weighted Assets Amount 2019
Exposures				
Claims on Central Bank of Sri Lanka	2,409,184	-	2,549,199	-
Claims on Public Sector Entities (PSEs)				
Claims on Banks Exposures	-	-	136,441	136,441
Due From local Banks Less Than 03 Months (AAA to BBB)	9,173,959	2,221,287	4,178,516	835,703
Due From local Banks More than 03 Months (A+ to BBB)	2,765,306	1,697,098	3,005,409	1,502,705
Claims in Financial Institutions Regulated by CBSL	-	-	65,984	13,197
Claims on Other Financial Institutions	10,379	10,379	10,379	10,379
Retail Claims				
Individual exposures	16,797,685	12,598,264	15,826,931	11,870,198
Claims Secured by Residential Property				
Claims that qualify for regulatory capital purposes	-	-	9,566,182	4,783,091
Non-Performing Assets (NPAs)				
Specific Provisions are equal to or more than 20%	1,030,474	1,030,474	803,008	803,008
Specific Provisions are less than 20%	671	1,007	-	-
Non-Performing Assets Secured by Residential Property				
Specific Provisions are less than 20%	1,333,700	1,325,387	853,515	853,515
Cash Items and Other Assets				
Notes and Coins in own vault	86,672	-	51,038	-
Property Plant and Equipment	39,805	39,805	54,230	54,230
Other Assets/Exposures	1,284,626	1,284,626	870,704	870,704
Risk Weighted Amount for Credit Risk	44,324,789	24,904,489	37,971,536	21,733,171

Notes to the Financial Statement Contd...

38.6 Market Risk

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

38.6.1. Market risk – none trading**Interest Rate Risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The bank's policy is to monitor positions on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

Sensitivity of the income statements of the bank for the year ended 2020 in response to reasonable changes in the interest rates of the rate sensitive assets and liabilities of the bank are summarised below

As at 31 December	2020 Rs 000	2019 Rs 000
Rate Sensitive Assets - RSA	17,456,473	13,086,060
Rate Sensitive Liabilities RLA	39,495,977	32,403,171
RSA - RLA	(21,984,435)	(19,317,111)
Impact of income statements due to interest rate shock		
As at 31 December	2020 Rs 000	2019 Rs. 000
0.50%	(47,934)	(47,193)
1%	(95,586)	(94,151)
-0.50%	47,793	47,075
-1%	95,586	94,151

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.

38.7 Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The bank cannot expect to eliminate all operational risks, but it 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 Statement Contd...

39 The Events Occurring After the Balance Sheet Date

Central Bank of Sri Lanka issued circular no 05 of 2021 in May 2021 with a view of facilitating to meet the challenges face by business & individuals due to COVID 19 pandemic third wave. It was further extended on September 2021 as per circular no 08 of 2021. Accordingly bank already offered the concessions in May 2021 and currently bank is in the process of assessing the requests send by eligible borrowers for the extended relief measures.

40 Assets Pledged

No assets have been pledged as security for liability.

41 Related Party Transactions

State Mortgage and Investment Bank is a state controlled enterprise. In the normal course of business it engages in transactions with other state controlled enterprises which are disclosed in line with paragraph 4(d) of Sri Lanka Accounting Standard No.30 Related Parties.

42 Directors' Interest in Contracts and Proposed Contracts

As per the State Mortgage and Investment Bank law, No 13 of 1975, a Director who, or whose spouse or dependent child is directly or indirectly interested in any business transacted or proposed to be transacted by the Board shall disclose the nature of such interest discussed. The disclosure shall be recorded in the minutes of the Board, and such Director shall not take part in any deliberation or decision of the Board with respected with that business, and shall withdraw from such meeting while such deliberation is in progress or decision is being made. As per the Act, No loan shall be granted by the bank to any Director or employee of the bank or to the spouse or a dependent child of a Director or employee or to any company or firm in which a Director or employee has a substantial interest: "Provided however that the bank may grant to its employees loans for the purchase of any land for the construction of a dwelling house or for the purchase, construction, repair, renovation of or any extension to, a dwelling house or for any other purpose prescribed by the rules made under this law. Outstanding balance of loans given to employees as per this paragraph is disclosed in note number 32 in the Financial Statements. The Directors of SMIB were not directly or indirectly interested.

43 Value Added Statement

For the Year Ended 31 December	2020 Rs.	2019 Rs.
Interest Income	6,076,716,152	5,981,510,158
Other Income	183,847,831	143,491,226
Total Revenue	6,260,563,983	6,125,001,385
Interest Expenses	(3,960,479,767)	(3,951,342,867)
Cost of Services	(532,379,095)	(603,037,213)
Impairment Provision	(270,320,795)	(131,528,308)
Total Distribution of Value Added	1,497,384,326	1,439,092,997

Notes to the Financial Statement Contd...

For the Year Ended 31st December	2020 Rs.	2019 Rs.
To Employees		
Salaries and other benefits	872,736,805	882,138,042
To Government		
Corporate Tax	216,236,762	80,580,258
Depreciation	52,576,301	57,301,152
Retained Profit	355,834,458	419,073,545
Total	1,497,384,326	1,439,092,997

44 Source of Utilisation

For the Year Ended 31st December	2020 Rs.	2019 Rs.
Sources of Income		
Loans and Advances	4,981,404,907	5,042,348,392
Government Securities & Other Investments	1,095,311,245	939,161,767
Fee and Commission Income	148,120,735	113,332,608
Other Income	35,727,096	30,158,619
Total	6,260,563,983	6,125,001,385
Utilisation of Income		
Employees		
Salaries and other payment to staff	872,736,805	882,138,042
Suppliers		
Interest paid	3,960,479,767	3,951,342,868
Other Expenses	855,276,191	791,866,673
Government		
Corporate Taxes	216,236,762	80,580,258
Retained Profit	355,834,458	419,073,545
Total	6,260,563,983	6,125,001,386

Ten Year Statistical Summary

Year ended 31st December (Rs.Million)	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Income Statement										
Interest Income	6,076	5,982	5,524	4,745	4,241	3,879	3,633	3,635	2,879	2,611
Interest Expenditure	3,960	3,951	3,577	3,102	2,425	2,057	2,214	2,459	1,725	1,214
Net Interest Income	2,116	2,030	1,947	1,643.17	1,815.44	1,821.69	1,419.29	1,176.04	1,154.00	1,397.28
Other Operating Income	184	142	134	171	131	120	113	102	79	76
Total Operating Income	2,300	2,174	2,081	1,814	1,947	1,941	1,532	1,278	1,233	1,473
Non Interest Expenses	1,239	1,226	1,164	1,435	1,240	1,260	1,119	935	803	785
Net Profit before Tax	572	500	480	379	706	681	413	343	430	689
Taxation	216	(81)	(235)	200	270	271	140	110	158	178
Net Profit after Tax	356	419	244	179	436	410	273	232	272	510
Assets										
Investment Securities	21	19	18	18	17	432	19	17	14	5
Loans and Advances	36,857	35,560	34,225	32,987	28,164	26,523	24,038	21,186	18,550	16,170
Other Assets	1,104	1,178	932	8,946	7,073	7,201	6,148	5,556	3,928	4,276
Property, Plant and Equipment	52	56	64	71	94	74	96	67	51	58
Total Assets	52,802	46,979	42,597	42,022	35,347	34,232	30,301	26,825	22,543	20,509
Fund Employed										
Capital Contributed	889.8	889.8	889.8	890	890	890	890	890	890	890
Reserves	5,130	4,768.9	4,297.2	4,067	4,028	3,373	3,128	3,040	2,920	2,753
Total Equity	6,020	5,658.7	5,187.0	4,957	4,918	4,263	4,018	3,930	3,810	3,643
Liabilities										
Deposits	45,388	38,872	34,272	33,620	28,845	27,836	24,146	21,201	17,237	15,088
Debentures	-	110	110	110	110	110	195	195	195	195
Other Liabilities	1,394	2,338	3,028	3,336	1,474	2,022	1,942	1,499	1,301	1,583
Total Liabilities	52,802	46,979	42,597	42,022	35,347	34,232	30,301	26,825	22,543	20,509
Ratio										
Return on Average Assets-NPBT% (ROA)	1.15	1.11	1.13	0.98	2.03	2.11	1.44	1.39	2.01	3.65
Return on Average Funds Employed% (ROE)	6.09	7.73	4.82	3.62	9.50	9.90	6.87	6.00	7.31	16.21
Number of Employees(no.)	369	378	385	392	392	392	407	334	323	302
Net Profit per Employee (Rs. Mn)	0.96	1.11	0.63	0.46	1.11	1.05	0.67	0.70	0.84	1.69
Advances to Deposits(Times)	0.81	0.92	1.00	0.98	0.98	0.95	1.00	1.00	1.08	1.07
Debt to Equity Ratio(Times)	0.06	0.28	0.38	0.50	0.10	0.23	0.28	0.23	0.19	0.18
Equity Assets Ratio(Times)	0.11	0.12	0.12	0.12	0.14	0.12	0.13	0.15	0.17	0.18
Total Assets per Rupee Contributed	59.34	52.79	47.87	47.22	39.72	38.46	34.05	30.14	25.33	23.04
Effective Deemed Dividend Rate%	-	-	25.00	25.00	25.00	25.00	25.00	25.00	20.00	19.84
Deemed Dividend Cover	-	-	-	1.91	2.52	2.44	3.57	3.16	3.46	3.14
Our Contribution to the Nation										
Deemed Dividend Tax	-	-	-	93.27	173.35	167.86	76.42	73.60	79.00	177.00
Payments to Consolidated Fund	-	-	-	10.00	10.00	10.00	10.00	40.00	25.00	-

Corporate Information

Name of the Bank

State Mortgage & Investment Bank

Legal Form

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

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