



CHANGING THE PHASE OF **BANKING**



STATE MORTGAGE & INVESTMENT BANK
Annual Report 2021

CHANGING THE PHASE OF BANKING

The year was a period of reform and recovery in the aftermath of the global pandemic which had a devastating impact on the world economy. Overall sentiments on economic revival of the country, brought renewed hope for the banking industry, which experienced one of its most challenging periods in 2020.

In 2021, Sri Lanka's Gross Domestic Product (GDP) recorded an increase of 3.7% compared to a negative result of -3.6% growth in 2020, indicating the slow but sure recovery from the deepest recession since independence, caused mainly by the global economic meltdown in 2020.

The introduction of Pro growth policy reforms across the fiscal and monetary policy fronts, saw Sri Lanka's economy turn around by the second half of 2020.

During the year under review, the banking sector overall was compelled to grapple with a series of challenges which impacted the performance of all banks negatively.

The unprecedented devaluation in the foreign exchange rate by the Central Bank of Sri Lanka (CBSL) resulted in banks experiencing a significant decline in foreign exchange income, foreign exchange remittances, low foreign investments and lending.

A steady decline in government revenue caused by the contraction in the global economy and the downturn of economic activity in the domestic market was compounded by spiraling inflation which rose to an all-time high since independence, recording 12.1% CCPI in December 2021.

The lethal combination of these parameters placed the entire economy, the banking sector and SMIB under a great deal of pressure.

Despite these challenges and the continuation of the COVID-19 pandemic, the Bank displayed its unwavering resilience and dedication towards achieving a satisfactory level of success, meeting the expectations of its stakeholders and sustaining their confidence in the bank.

Going forward, in the next few years of operation, digitalization is a key focus and priority for the bank. Lessons learnt from the whole Covid-19 pandemic experience with the disruption of normal banking services due to the frequent lock down periods has fortified the Bank's focus on the increased demand for services through customer centric digital channels.

In Years to come SMIB plans to consolidate its branch presence further with upgrades that permit digital-enabled touch points, ensuring greater convenience and accessibility to all customers, including to its MSME clientele.



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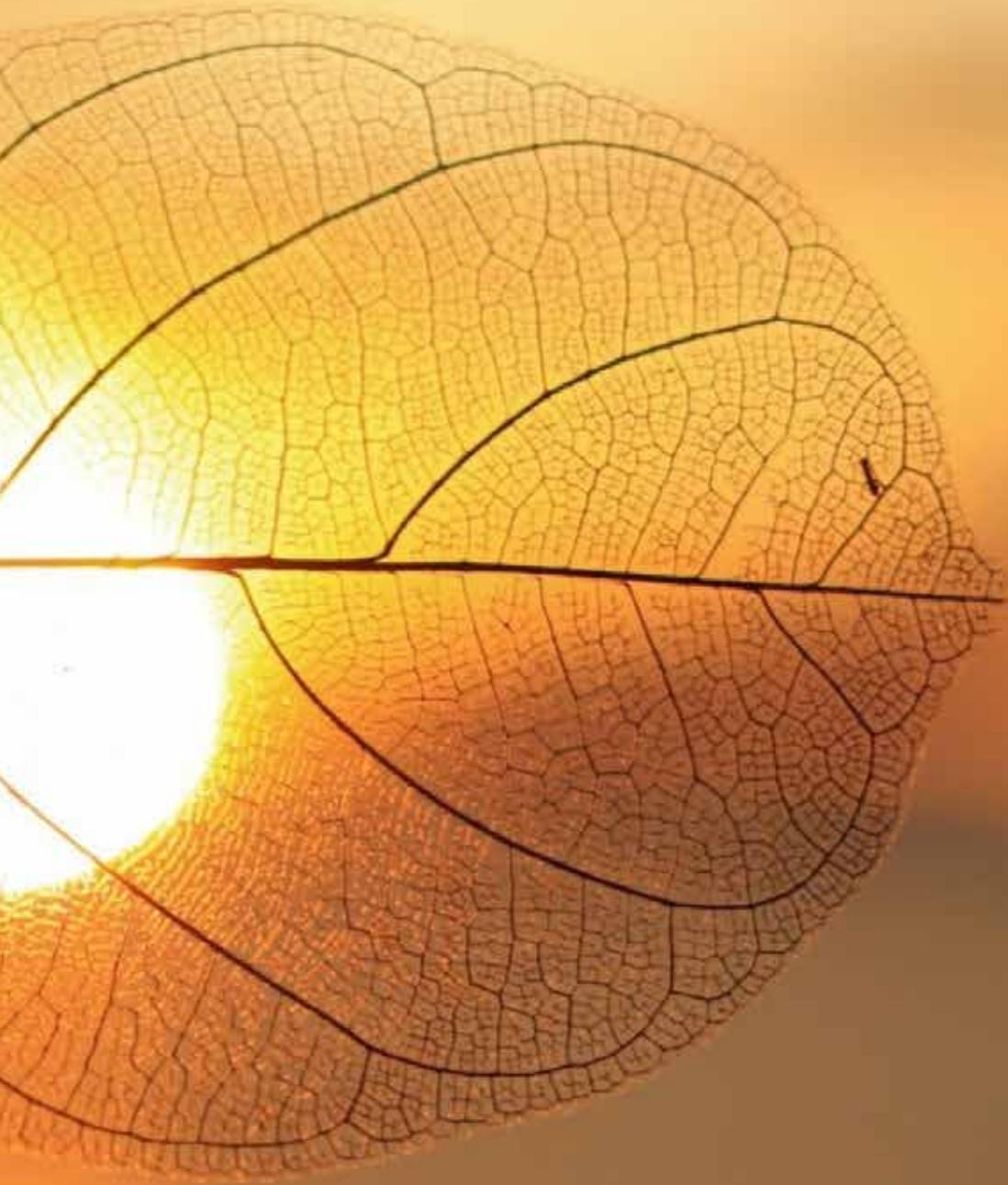
Vision

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

Mission

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

- Customer** : We are committed to serve all our customer with attractive financial solutions to suit their housing and development financial needs through superior customer service, innovation, quality and state of art technology.
- Business Partners** : We will offer best returns for investments with solid security and flexibility.
- Employees** : We shall provide opportunities for our employees to grow their fullest potentials and to improve their quality of life while creating a healthy and productive work environment with an appreciative team interests.
- Shareholders** : We are committed to enhance shareholders value through profitable growth while safeguarding stakeholders' interests.
- Technology** : We are bound to provide external customers with value added services through automation and technological applications to leverage speed, quality and convenience. We provide internal customers with speed and accurate information to enhance the efficiency of the decision making process.
- Society** : Being a partner in national development we acknowledge to serve in enhancing the life style of our community.



Corporate Values

What we stand for

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

Financial Highlights

Financial Statement Analysis	2021 Rs.Mn	2020 Rs.Mn	Change %
Interest Income	5,254	6,082	-13.62%
Interest Expenses	(2,951)	(3,960)	-25.48%
Net Interest Income	2,302	2,122	8.48%
Profit before Tax	405	572	-29.20%
Taxation	152	216	-29.63%
Profit after Tax	253	356	-28.90%
Investment in Government Securities	1,992	2,415	-17.51%
Loans and Advance Net	38,103	36,857	3.38%
Total Assets	53,323	52,802	0.99%
Customer Deposits	45,738	45,388	0.77%
Borrowings	270	348	-22.41%
Stakeholders' Fund	6,284	6,020	4.39%
Ratio Analysis			
Profitability Level	%	%	%
Net Interest Margin	4.34	4.24	2.36%
Return on Equity (ROE)	4.11	6.09	-32.51%
Return on Assets (ROA)	0.76	1.15	-33.91%
Capital Adequacy			
Equity / Total Assets	11.78	11.41	3.24%
Equity / Loans & Advances	16.49	16.34	0.92%
	Basel (III)	Basel (III)	
Tier 1	21.91%	22.25%	0.99%
Tier 1 & 11	23.97%	23.36%	2.70%
Liquidity			
Liquid Asset Ratio	32.88	37.29	-12.63%
Loans and Advances /Deposit	83.31	81.20	2.60%
Borrowings/Loans and Advances	0.71%	0.94%	-24.80%
Rating			
Asset Quality			
NPL/Loans and Advances	19.84	22.94	-13.51%
Loans and Advance to Total Assets	71.46%	69.80%	2.38%

Rs. 12.27 Billion
Loan Disbursements



**Rs. 12.27
Billion**

**Rs. 6.6
Billion**

**Rs. 2.6
Billion**

**Rs. 1.84
Billion**

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. 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.

Financial Review

This section provides the details of the Bank's financial performance which analyses how the Bank grew its financial and other capitals in relation to its strategic imperatives. Net Interest Income of the Bank for the year 2021 increased to Rs.2,302 Mn from Rs.2,122 Mn reported in 2020 recording a growth of 8.48%. Even though the Interest Income on Loans and Advances and Interest Income from debts and other instruments were declined when compared to previous year, Interest Expenses on deposits also recorded a notable decline of 25% when compared with 2020.

During the financial year under review, SMIB recorded a Profit Before Tax (PBT) of Rs. 405 Mn., Which declined in comparison to the previous year due to salary increments granted as per revised collective agreement. Total Assets base of the bank was Rs. 53,323mn marked the 1.05% increase when compared to last year. SMIB displayed moderate performance and a healthy business model that leverages on its strengths for sustainable value creation during the financial year 2021.

INTEREST INCOME

Interest Income decreased by 13.62% when compared with 2020. The reduction of Interest Income was mainly driven by extended moratorium facilities mandated by CBSL and extended bank driven financial concessions provided for both individuals and businesses in the SME sector.

ANALYSIS OF INCOME STATEMENT

Income Statement Summary

	2021 Rs (Mn.)	2020 Rs (Mn.)	Change %
Interest Income	5,254	6,082	(13.62)%
Total Operating Income	2,474	2,300	7.55%
Profit/(Loss) before Tax	405	572	(29.17)%
Profit After Tax	253	356	(29)%

NET INTEREST INCOME

Net Interest Income in the Income Statement was Rs. 2,302 million for 2021, recorded the significant increase of 8.48% compared with year 2020. Even though the Interest Income on Loans and Advances and Interest Income from debts and other instruments were declined when compared to previous year, Interest Expenses on deposits also has been recorded a notable decline of 25% when compared with 2020.

NON-INTEREST INCOME

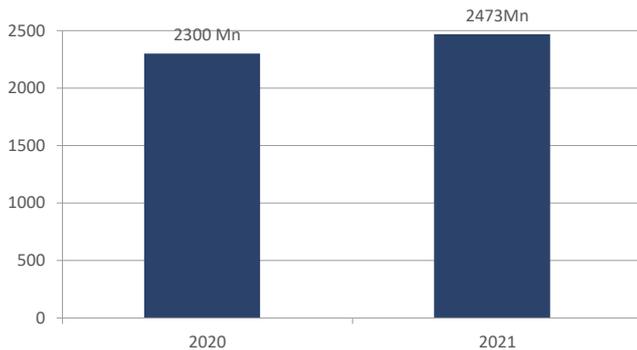
Non-Interest Income comprises Fee and Commission, Net Gain/Loss from Financial Investments, and Other Operating Income. Fee and Commission Income is the principal component of Non-Interest Income which includes fees charged from lending, in the year of 2021. Fee and Commission Income which drop by 2.7% stood at Rs. 138 million against Rs.142 million in 2020. Financial Assets at fair value through profit or loss reached Rs. 4 million in 2021. Other Operation income for the year was Rs.28.7 Million which comprises dividend income from investment on security and other income from non financial activity.

TOTAL OPERATING INCOME

Even though Fee and Commission Income for the year has been slightly decreased, increment in Net Interest Income was a mainly contributed for the growth of Total Operating Income. At the end of the year 2021 recorded Total Operating Income was Rs. 2,474 Mn acknowledged the notable increase of 7.5% compared with previous year.

Financial Review Contd...

Total Operating Income



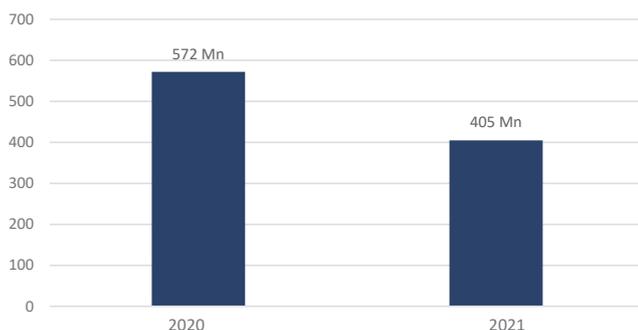
PROFITABILITY

Profit Before Tax for the Year of 2021 is Rs.405 Mn which showed a notable decrease of 29% compared with 2020. Total Personal Expenses increased by 24% as we honored our commitment to the CBEU collective agreement impacting the overall profitability of the company.

We are proud as we have maintained Liquidity and Capital Adequacy Ratio well above the level prescribed by the Central Bank of Sri Lanka. In the financial year 2021 recorded Tier I and Tier II Capital were 23.97% and 21.91% respectively.

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 4.11. Further bank's Return on Assets ratio (ROA) also exhibits a 0.76% level by the end of 2021, which is a 33.91% decrease compared to previous year.

Profit before tax



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.430Mn as contribution to the Government through taxes such as VAT and Income Tax in the 2021.

	Rs. Mn
VAT	218
Income tax	212
Total	430

ANALYSIS OF FINANCIAL POSITION

ASSETS

Total reported Assets base were Rs. 53,323 Mn and that was 1% higher than when compared with the 2020. 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. 38,102.85 Mn which is an increase of 3% compared to previous year 2020, 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 and Micro finance and housing finance sectors.

Financial Review Contd...

Gross Loans and Advances

	2021	2020
	Rs	Rs
By product		
Mortgage	10,607,559,455	9,942,813,267
EPF	6,830,450,037	7,685,291,335
Vehicle	-	485,400
Staff loans	1,410,660,258	1,367,929,889
Personal Loans	20,062,117,026	18,232,060,924
Others	1,167,569,324	1,136,669,561
Less-		
Allowance for Day 1 Difference - Staff Loan	(487,966,369)	(381,457,796)
Gross Total	39,590,389,732	37,983,822,580

LIABILITIES

Total Liabilities as at the current yearend increased to Rs. 47,039 Mn. from Rs. 46,782 Mn. in 2020. The insignificant increase in Deposit Liabilities when compared to the lower growth in Loans and Advances meant that the Bank had excess liquidity during most part of the year. As a result, the Bank reduced its external borrowings during the year which helped the Bank to reduce its Interest expenses and improve its net interest income and the interest margins as mentioned earlier.

DEPOSIT BASE

With the high competition in the Niche Market, the fluctuating economy (due to Covid 19 pandemic outbreak) and existing shocks derived from high debt burden of the Country, 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. 45,738Mn marked a stable position 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 government bank (LSB) of Democratic Socialist Republic of Sri Lanka, 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 average Statutory Liquidity Assets Ratio stood at 32.88% level for the end of 2021. 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 115% as at the end of the 2021 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 136% as at 31 December 2021 against the minimum requirement of 100%.





Sustainability

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“ SMIB recorded a positive Profit After Tax (PAT) in the financial year 2021 of Rs. 253 million (mn) in comparison with a PAT result of Rs. 356 mn in 2020. This PAT result though positive was however lower than the previous year’s result having decreased by 29%. ”

Chairman's Review

On behalf of the Board of Directors, I am pleased to present the annual report and audited financial statements of the State Mortgage and Investment Bank (SMIB) for the financial year ended 2021.

In 2021, despite the continuation of the COVID-19 pandemic and a number of significant economic challenges, the Bank was successful in meeting the expectations of its varied stakeholders especially in the areas of assisting millions of its customers in manifold ways, customising products and services, delivering shareholder value, working on better streamlining technology, and undertaking measures that promote corporate social responsibility.

Economic Conditions

By the end of the year 2021, the economy recorded a decent growth in the Gross Domestic Product of 3.7% compared to a negative result of -3.6% in 2020. This was the deepest recession since independence but fortunately due to the strong signs of economic recovery during the second half of 2020 in response to the pro-growth policy initiatives across the fiscal and monetary policy fronts, the economy improved.

During the 2021 year the foreign exchange rate was hugely impacted due to low foreign exchange income, low foreign exchange remittances, low foreign investments and lending. Contraction in the global economy and resultant impact on the domestic market caused the economic activities to slow-down in turn leading to a reduction in government revenue.

Inflation on the other hand recorded an upward trend since October 2021 and rose to 12.1 CCPI in December 2021. The combination of these factors put the entire economy, the banking sector and SMIB under a great deal of pressure.

Challenges

Our results are noteworthy considering that our Bank has operated within significant constraints in the economy caused primarily by the third wave of the pandemic and the resulting lockdowns. Internally, we have continued to grapple with a number of issues that have accounted for a weakening in our performance.

Operating within its current 25 branch network has meant encountering challenges in the expansion of the reach of the Bank. This has caused an excessive reliance on institutional deposits, and severely constrained SMIB's ability to raise public deposits, especially in the form of savings deposits and other low-cost deposits.

As at the end of 31 December 2021, the regulatory capital of the bank was Rs. 6.07 billion (bn), which marked a shortfall of Rs. 1.43 bn in meeting with the minimum regulatory capital requirements. Our bank has already positioned its capital augmentation plan to meet the requisite minimum regulatory capital within the next two years. This poses challenges however due to the restrictions imposed on the State Mortgage Investment Bank Law in its ability to raise capital, and is a serious impediment to our Bank's ability to fully meet its mandate.

However, our Bank is in the process of enhancing the Tier 1 minimum regulatory capital of Rs. 7.5 billion as at 31 December 2023 in accordance with Base III regulations that prescribe the minimum regulatory capital requirements. As noted above these restrictions in raising capital under Tier I and Tier II from the public has caused significant restrictions in the expansion of the operational activities of the Bank but steps have been taken to rectify these concerns during the year under review.

The awarding of contracts on the implementation of new state-of-the-art technology is another significant achievement that was made during the year 2021. This can be recognised as a long overdue technological advancement that our Bank has made to date. The implementation of this new system will enable the Bank to move into the realm of internet banking and mobile banking, establish ATM's to improve the network experience and align itself with modern methods that are bound to capture and attract a broader customer base including the younger generation, professionals and high-income customers.

Summary of overall performance

The year 2021 appeared to be a far more promising year after the onset of the COVID-19 pandemic in 2020. The emergence of the variants of the virus in 2021 however, and the subsequent lockdowns, together with the contraction in the global economy, and Sri Lanka's response to the pandemic caused uncertainty in the economy. Fortunately, mass vaccination efforts played a part in the slowing down of the impact of the virus, and the Sri Lankan economy was poised to recover and expand from the pandemic induced contraction in 2020.

The Government facilitated the continuity of economic activity to ensure socioeconomic wellbeing in the face of the several outbreaks of the numerous variants of COVID-19.

Chairman's Review Contd...

Quantifying financial statements

Despite the sense of economic gloom, the Bank remained resilient, and worked tirelessly towards achieving results as noted below.

Net Interest Income

The net interest income of Rs. 2,302 Mn for this year as compared with the preceding year figure amounting to Rs. 2,121 Mn noted a growth of 8.48%.

Total Operating income

Despite the slight decrease in Fees and Commissions income, the interest in net interest income contributed towards an increase in the total operating income by 7.55% in comparison with the previous year.

Profitability

Profit before tax for the 2021 is Rs. 405 mn which showed a notable decline of 29% compared with 2020 of Rs. 572 mn. The total personal expenses increased by 24%, negatively impacting our overall profitability but attesting to our commitment in honoring the CBEU collective agreement

Net Profit and Operating Profit

SMIB recorded a positive Profit After Tax (PAT) in the financial year 2021 of Rs. 253 million (mn) in comparison with a PAT result of Rs. 356 mn in 2020. This PAT result though positive was however lower than the previous year's result having decreased by 29%.

Contribution to Sri Lanka

In its role as one of the premier State Bank in Sri Lanka, our Bank continued to make contributions to Sri Lanka's development by means of special fees, dividend to the treasury and contribution to the National Insurance Trust Fund besides the taxes and levies while maintaining the requisite Liquidity and Capital Adequacy Ratios that are prescribed by the Central Bank of Sri Lanka.

our Bank paid Rs. 430 mn as contribution to the Government through taxation such as Value Added Tax (Rs. 218 mn) and Income Tax payments (Rs. 212 mn) in 2021.

Risk and Corporate Governance

The Bank faces stiff competition from its competitors as it navigates itself within the industry. To counter this competition,

SMIB is working towards customising its range of products and services. It is expected that these measures will enable the capture of a greater customer base and lead to a corresponding increase in both profitability, and market share.

SMIB took necessary steps to mitigate the risk across the enterprise through its governance bodies which are instrumental in achieving the objectives of our Bank in the respective areas of their specialisation. The Board Integrated Risk Management Committee, Executive Integrated Risk Management Committee and Business Continuity Steering Committee identified clear KPIs which enabled it to fulfil their obligations under the four key pillars of market risk, credit risk, liquidity risk and operational risk. The Senior Management Committee concentrates on major policy decisions of operational and non-operational activities of the bank. The Executive Credit Committee designs, develops, maintains, reviews and controls the credit and lending framework, credit risk appetite, credit risk tolerance limits, delegation of authority, and generally assists with decision making on lending process.

Several independent committees within our Bank serve to reinforce the principles of transparency, integrity and accountability that underlie the carrying out of all operational and management activities. The Board Audit Committee is one such committee given its role in ensuring the maintenance of sound internal control systems, and its adherence to and compliance with best banking practices.

New developments for the years to come

SMIB identified the promoting and strengthening of Micro, Small & Medium Enterprises (MSME) sector consistent with the Sri Lankan Government's policy agenda of supporting micro, small and medium business enterprises. SMIB took steps to nurture this sector by providing customised financial services and solutions to assist and foster entrepreneurial development. Essentially, SMIB did this through the implementation of financial inclusive strategies that included partnering with the MSMEs and working with the entities within this sector to find solutions that meet the varying needs of the customers. SMIB is not in a position to offer fixed solutions to every MSME but where possible assists in the development of financial solutions that addresses some of the key issues faced by this sector.

SMIB also undertook steps to diversify an important portfolio, the 'loans and receivables' to ensure the inclusion of the MSME sector, while enlisting several other industry sectors such as Tourism and Micro Finance.

The diversification of our portfolio, especially the introduction of new financial products amid an unexpected COVID-19 pandemic ensured the broadening of our scope of services beyond the standard services within the 'housing, finance and agriculture' segments that we were previously locked into. Our new offer of "in demand" financial products such as savings deposits, fixed deposits and other deposit schemes have been positively welcomed by our clientele.

SMIB has been able to deliver its suite of services via a network of 25 branches that are strategically located island-wide. The onset of COVID-19 had significant ramifications in that it increased demand for services through the use of customer centric digital channels. This prompted SMIB to take steps to enhance its digital networks to enable it to efficiently serve the needs of the retail banking sector. SMIB has plans to consolidate its branch presence further in the banking market by carrying out relevant upgrades that permit digital-enabled touch points. This will ensure greater convenience and accessibility to all customers, including to its MSME clientele.

Appreciation

I am pleased to note that our clientele has looked very favorably on many of these cost-effective financing options, and is appreciative of our wide range of advisory services.

I am also pleased to note that our Bank continued with its policies of extending the moratorium facility as mandated by the Central Bank of Sri Lanka. SMIB also extended financial concessions to our borrowers, and with our lending program under the 'Saubhagya' concessionary scheme.

Our bank has extended support to all employees by providing a number of opportunities for training. Our employees have helped us translate our vision into tangible outcomes. Our Bank continues to working towards ensuring that we provide them with an inclusive and inspiring workplace to excel in, develop and shine. We continue to focus our attention on attracting, nurturing and retaining our best talent to drive SMIB towards excellence.

I thank my SMIB colleagues and staff for their dedication to these tasks as we look forward to achieving new challenges and delivering consumer benefit through the banking regime that we administer.



Dr. Udayasri Kariyawasam
Chairman



“ The net interest income of Rs.2,302 billion (bn) for this year as compared with the preceding year figure amounting to Rs.2,121 billion (bn) noted a growth of 8.48 percent. ”

General Manager's Review

Dear Stake Holders,

I am pleased to note that our Bank, the State Mortgage and Investment Bank (SMIB) reported commendable results during the year under review despite the unprecedented challenges that we faced. In 2021, SMIB continued to focus on building resilience through sound liquidity management, prudent lending, acquiring low-cost funds and building healthy portfolios over the Corporate, Retail, Small and Medium Enterprises, and Banking segments whilst taking requisite precautions to mitigate any potential risks.

This to us is testament to the quality and the collective strength of our people, our ability to drive a strategy that is both competitive and focused on enhancing our potential. I am exceedingly proud to commend how our Bank remained resilient and stable through these difficult times, and to me this reflects how well we have worked together to secure favorable results.

Progress in the face of a turbulent environment

In 2021, despite the continuation of the COVID-19 pandemic and a number of significant economic challenges, the Bank was successful in meeting the expectations of its stakeholders especially in the areas of meeting customer expectations by customising products and services, working on implementing user-friendly and modern technology, and undertaking measures that promotes effective corporate social responsibility.

Resilience amidst Challenges

The future of banking lies in technology and especially the need to innovate. The pandemic highlighted the need for customers to be afforded better digital capability. This has accounted for a surge in the need for effective technology. Our Bank appreciates that the younger generation is tech savvy and prefers digital banking over the traditional face to face banking that has been practiced in the past.

To meet these needs our Bank is carrying out improvements to the current IT systems by implementing core banking solutions which are expected to be introduced by 2023. A joint with common ATM switch is expected to be implemented in 2023. This will change the way we bank and will assist our customers greatly in being able to withdraw monies from their SMIB account using another Bank's ATM machine.

Towards this end, our Bank has taken steps to invest not only in technology but also in the human capital to train, and up skill its employees to work with technology.

Human Capital

Staff development has remained our primary focus throughout this year as in the past. This year we were proactive in ensuring that we undertake a timely review of our HR policies, provide the requisite training and development aimed at enhancing the employee's knowledge, competencies, skills, attitudes and performance. Our bank understands that the productivity of the bank depends on creating and maintaining a highly qualified professional, diverse and responsive workforce. This year we managed to achieve our Bank's outcomes with a comparatively small staff strength of 363.

Our Bank implemented a Leadership Development Program for a group of qualified and young Bank employees designed to groom them to be future leaders and mentors through imparting an understanding of career development and succession planning. The program focused on developing the requisite skills in leadership, negotiation, presentation, effective writing, performance management, and skills for successful mentoring and customer service. It is expected that these skills will translate into more productive employees who have the ability to successfully navigate change, build a collaborative work environment to achieve corporate goals.

Despite the ongoing COVID-19 pandemic, our Bank was instrumental in delivering training programs both internally and externally resulting in one internal training program and 20 external training programs. SMIB is keen to provide external training opportunities to its staff to provide them with exposure to the latest in international banking industry development and an appreciation of the latest innovative solutions.

Financial indicators

Despite the sense of economic gloom, the Bank remained resilient, and worked tirelessly towards achieving results.

The net interest income of Rs.2,302 Mn for this year as compared with the preceding year figure amounting to Rs. 2,121 Mn noted a growth of 8.48 percent. The Bank persevered with its strategy from the previous year of monitoring its credit portfolio and quality of liquid assets to record an asset base of Rs.53,323 million (Mn) reflecting 1 percent growth.

The prevailing uncertainties in the economy and the operating environment had consequences, for the Bank. This coupled with the high credit risk caused the profitability of the Bank to decline by 28.9% during the 2021 financial year. SMIB noted

General Manager's Review Contd...

an increase in loan impairment mainly due to the deterioration in credit quality despite the Bank's proactive stance and its prudent provisioning under the anticipated credit loss model.

In light of the prevalent economic conditions, the Bank did not pursue an aggressive recovery strategy, litigation or repossession as it would have in the past, focusing instead on a softer strategy of rehabilitating customers through a variety of means that included proactive engagement, debt restructuring, and flexible payment plans.

The increase in the rate of inflation, and the economic pressures resulted in significant decline in both lending and recoveries. This contributed to an asset growth of 1 percent compared to the growth recorded in the previous year. However, SMIB managed to post a healthy Capital adequacy ratio well above the minimum requirement of 12%, recorded Tier I and Tier II ratio as at 31 December 2021 were 21.91% and 23.97% respectively year.

Regaining optimism with Digital space

SMIB plans to launch a digital Banking platform that is customer-friendly, and will enable the customer to interact easily, and at their own convenience with the Bank. These digital devices will make life easier for customers, and enable banking facilities anywhere the customer is located.

This technology when enabled will put the Bank on par with its competitors in terms of being able to provide faster, and efficient service. This is a win-win scenario for the Bank as it will potentially mean a wider customer base, and enhanced market share.

To this end, the Bank plans to invest in technology and human resources to achieve the targeted digital transformation. SMIB is taking steps to transform its suite of products and services to align with the planned digital transformation.

New initiatives

SMIB is in the process of implementing new initiatives to strengthen its financial services in the retail banking sector, and provide much needed entrepreneurial development and assistance to Micro, Small & Medium Enterprises (MSME).

One such initiative is the broadening of its scope of services beyond its standard services within the 'housing, finance and agriculture' segments. Another initiative has been launched in its mortgage loans segment in the form of new offers of 'in demand' financial products such as savings deposits, fixed deposits and other deposit schemes to its customers.

These new and bold initiatives have been greatly welcomed by our clientele. The commencement of passbook savings account served as an impetus for SMIB to offer other customized solutions for our clientele in the form of savings facilities and fixed deposits geared to meet the varying needs of our expanding retail banking clientele.

SMIB is also seeking to expand its portfolio of lending products by extending greater support to small businesses, entrepreneurs, and to a wide range of borrowers. This support is in the form of customized financial solutions, advice and providing strategic support.

SMIB has continued to play its part in supporting national economic and enterprise development goals by pursuing strategic directions in two distinct areas. Firstly, SMIB opened support to market focused product development to include producers of various sectors in both urban and rural areas thereby going beyond the traditional sectors of housing and agriculture.

Secondly, SMIB identified the promoting and strengthening of Micro, Small & Medium Enterprises sector consistent with the Sri Lankan Government's policy agenda of supporting micro and small and medium business enterprises. SMIB took steps to nurture this sector by providing customised financial services and solutions to assist and foster entrepreneurial development. Essentially, SMIB did this through the implementation of financial inclusive strategies that included partnering with the MSMEs and working with the entities within this sector to find solutions that meet the varying needs of the customers. SMIB is not in a position to offer fixed solutions to every MSME but where possible assists in the development of financial solutions that addresses some of the key issues faced by this sector.

I am proud to note that SMIB introduced several lending schemes that coincided with the Sri Lankan Government's vision to strengthen the MSME sector by providing much needed assistance to entrepreneurs, and industrialists within the MSME sector.

SMIB also undertook steps to diversify an important portfolio, the 'loans and receivables' to ensure the inclusion of the MSME sector, while enlisting several other industry sectors such as Tourism and Micro Finance.

I am pleased to note that our clientele has looked very favorably on many of these cost-effective financing options, and is appreciative of our wide range of advisory services.

SMIB has been able to deliver its suite of services via a network of 25 branches that are strategically located island-

wide. The onset of COVID-19 had significant ramifications in that it increased demand for services through the use of customer centric digital channels. This prompted SMIB to take steps to enhance its digital networks to enable it to efficiently serve the needs of the retail banking sector. SMIB has plans to consolidate its branch presence further in the banking market by carrying out relevant upgrades that permit digital-enabled touch points. This will ensure greater convenience and accessibility to all customers, including to its MSME clientele.

SMIB in its role as a state backed licensed specialized bank is working on further strengthening its position in the banking sector. This has meant that we in SMIB have taken steps to broaden our scope by the introduction of an expanded product portfolio which goes beyond its traditional mandate of merely offering home mortgage loans.

I am also pleased to note that our Bank continued with its policies of extending the moratorium facility as mandated by the Central Bank of Sri Lanka. SMIB also extended financial concessions to our borrowers, and through our lending program under the 'Saubhagya' concessionary scheme.

Corporate Social Responsibility & Sustainability

As part of its contribution to Corporate Social Responsibility, SMIB made donations of Rs. 5 million to the COVID-19 foundation to facilitate the requisite research and education.

It is also pleasing to note that SMIB has now been rated [SL] BBB+ by the rating agency ICRA Lanka Limited.

2022 and beyond

In the year ahead, we hope to innovate and adapt to the changing conditions to position ourselves as a leader in the banking sector, and to secure sound financial and economic outcomes for our stakeholders.

Appreciation

Our success would not have been possible without the support of our stakeholders, especially our valued customers who have continued to place their trust in us and retain their partnerships with our Bank. I extend my sincere gratitude to the leadership

team, management, and staff members at all levels for their resilience and commitment during the past year, which enabled the Bank to play its vital role as an essential service provider, offering continued banking services and assistance to our customers despite the challenges. My heartfelt thanks to the Chairman, DGM- Credit, and members of the Board of Directors for their continued support and guidance.



Mr.I.T Asuramanna
General Manager/CEO

Board Of Directors



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



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



Ms. W.C.N. Cooray
Independent Non-Executive
Director



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

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. Galappaththi

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



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



Eng. K.R. Abesiriwardena
 Independent Non-Executive
 Director



Ms. H.N.N. Gunasekara
 Independent Non-Executive
 Director

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 | **Miss. W.C.N. Cooray**

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 Network Committee in 2021 for the 2nd term. She is the Assistant 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

Board Of Directors Contd...

(FCPM), a fellow member of AAT Sri Lanka. She earned first-class honors in BSc Accountancy (Sp.) degree from University of Sri Jayawardenepura. She also holds a MBA from University of Colombo.

04 | **Mr. H.C.D.L.Silva**

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 Jayawardenepura 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.S. Bandara**

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 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).

06 | **Eng. K.R. Abeysirwardhana**

Eng. Keerthi Ranjith Abeysirwardhana, The Secretary to the State Ministry of Rural Housing and Construction & Building Materials Industries Promotion was appointed to the post since August, 2020 and performing up to the date.

He holds a Bachelor of Civil Engineering degree (2nd Class Honors Upper Division) from the University of Moratuwa in 1992. He also holds a post graduate diploma in Water Resources Engineering and Management from the University of Moratuwa and has obtained his Chartered Engineer qualification from the Institution of Engineers Sri Lanka (IESL). And also, he is a Sri Lanka Engineering Service (Special Grade) Officer.

Being qualified as an Engineer in 1992 and a Chartered Engineer in 2005, he has earned professional experience over 29 years by holding various posts in various institutions such as District Engineer's (Building) Office, Hambantota as District Engineer, District Irrigation Engineer's Office, Hambantota as District Irrigation Engineer, District Engineer's (Building) Office, Matara as District Engineer, Southern Provincial Irrigation Department as Provincial Director, Rural Bridge Constructions Project/Ministry of Provincial Councils as Project Director, Southern Province Deputy Chief Secretary Office (Engineering Service) as Deputy Chief Secretary (Engineering Service). In addition to the current post of Secretary to the State Ministry of Rural Housing and Construction, he also holds the post of Chairman in Construction Guarantee Fund (CGF).

07. | **Mrs. H. N. N. Gunasekera**

Mrs. N. Gunasekera is the additional Secretary - Administration and Human Resources in the Ministry of Agriculture. She was appointed to the Board on 22nd January 2021 and continue to date.

She has earned a B.com degree in Business Administration from University of Colombo in 1992 and holds a Master of Development Studies from University of Colombo. She has LLB from the Open University of Sri Lanka.

Mrs. Gunasekera has over 27 years of experience in Government service and she has held various positions in government offices from the beginning of her career. 0.Mrs. Gunasekera has started her career in Government Service as a SLAS Cadet at Sri Lanka Institute of Development Administration in year 1995. The she has held the positions of Assistant Secretary - (Exports), Assistant Secretary - (Admin) and Director (Planning) in the Ministry of Industrial Development. Mrs. Gunasekera has been the Senior Assistant Secretary in Bimsaviya and Productivity, Secretary of National Education Commission, Secretary Ministry of Mahaweli, Development and Environment and Additional Secretary (Monitoring and Evaluation)Ministry of Mahaweli, Agriculture, Irrigation and Rural Development until she was appointed to the current position.

At present Mrs. Gunasekera serves as a board member of both Agricultural & Agrarian Insurance Board and Export Development Board.

Corporate and Senior Management



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01. Mr I T Asuramanna

General Manager/ CEO
MBA - PIM (USJP), Bsc Eng (Hons)-UOM, ACMA-UK, CGMA,
BMS - OUSL, Dip. In Mgmt (OUSL), AM(IESL), MIET-UK,
Certified Expert in SME Finance- Frankfurt School of Finance & Management.

02. Mr. L. I. Ranasinghe

Deputy General Manager (Credit)
MBA (Fin), B. Sc. Mkt. Mgt, AIB, ACIM

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)
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), MBCS 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, AMCIPI

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

AGM-(Branch Operation)
MA, B. Sc. -EMV (Sp) Hons, DBF, Dip in MC, Dip in CE, AIV, AIB

11. Mrs. R. Y. Dias

Head of Risk
ACII , MSC Risk Management (UK), SIRM, B.A (Dual Hons)
Management Science and Finance (UK) in 10 Place

12. Ms. A.M.D.S. Alahakoon

Secretary to the Bord Of Directors
ICCSLK, Dip ICSA, (UK)

13. Mr. S. Wickramasinghe

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

14. Mrs. W. G. S. S. K. Abeywickrama

Chief Manager (Compliance)
Attorney at Law and Notary of Public, Commissioner for Oaths,

15. Mr. D. B. Prasad Willarachchi

Internal Auditor
MBS, P.G. Dip. In Business & Finance, B.Com. (Sp), CBA, MAAT

16. Mr. R. M. U. D. Bandara

Chief Manager (Human Resources and Logistics)
MHRM, B. Sc. BA (Sp), NDHRM. , AMCIPM

17. Mr. S. A. K. A. K. Sooriyaarachchi

Chief Manager (Risk Management)
MA Econ., PGD-App. Stat, BA Econ, ACCA - UK (part)

18. Mr. I. Edirisooriya

Chief Manager (Valuation)
M. Sc. (REMV), B. Sc. (EMV) (Sp) Hons. MRICS (UK), AIV

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

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

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

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

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

Having understood that the concept of accountability is one of the cornerstones of good governance, the Board of Directors of the Bank, reviews and approves the annual and interim financial statements of the Bank on the recommendation of the Audit Committee and the information on financial statements

is being reported to the Bank's stakeholders and the general public in a transparent and diligent manner.

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

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

Fairness

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

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

Transparency and disclosure

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

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

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

Corporate Governance Contd...

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 2021, 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 2021, 15 meetings have been held.

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

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

Composition of the Board

	Name of the Director	Date of Appointment	Category of Director
1	Dr. K.W.A.U. Kariyawasam (Chairman)	13.01.2020	Independent non-executive director
2	Mr. S.K.A. Galappaththi	02.01.2020	Independent non-executive director
3	Mr. A.J.P.H.B.M.R.S. Bandara	02.01.2020	Independent non-executive director
4	Ms.W.C.N. Cooray	02.01.2020	Independent non-executive director
5	Mr. H.C.D.L. Silva	11.01.2020	Independent non-executive director
6	Mrs. H. N. N. Gunasekara	21.01.2021	Independent non-executive director
7	Mr. K. R. Abeyesiriwardana	16.11.2020	Independent non-executive director

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

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

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

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

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

Directors' attendance at Meetings in the Year 2021 is being given in the Director's Report of this annual report. The authority and responsibilities of the Chairman and the Chief Executive Officer are separate as per the CBSL Directions.

Board Sub Committees

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

The subcommittees are as follows;

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

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

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

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

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

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

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

Corporate Governance Contd...

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

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

Management Committees

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

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

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



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தேசிய கணக்காய்வு அலுவலகம்

NATIONAL AUDIT OFFICE



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எனது இல.
My No. }

BAN/F/SMIB/CG/2021/01

ඔබේ අංකය
உமது இல.
Your No. }

දිනය
திகதி
Date } 08 February 2023

Chairman
State Mortgage and Investment Bank



Auditor General's Report of Factual Findings of State Mortgage and Investment Bank on compliance requirement of the Corporate Governance Directives issued by the Central Bank of Sri Lanka – 31 December 2021

I have performed the procedures enumerated in Annexure - I 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 - I 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 item 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...

Compliance Requirements as per Banking Act Direction No. 11 of 2007

S. No.	Details	Level of compliance during the year 2021
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.	
(a)	Check the Board approval of the Bank's strategic objectives and corporate values.	Complied with The corporate plan (2021-2025) had been approved by the Board of Directors. Overall business strategy (Corporate vision, mission and the objectives) had been included in the corporate plan. Annual budget for the year 2021 also had been approved at the above meeting.
	Check whether the Bank has communicated the Bank's strategic objectives and corporate values throughout the Bank	Complied with 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 2021
(b)	Check the Board approval of the overall business strategy of the Bank.	Complied with Overall business strategy (Corporate vision, mission and the objectives) included in the corporate plan (2021-2025).
	Check that the overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented.	Complied with The Board had approved Integrated Risk Management (IRM) Policy, which Outlines strategic, credit, market and operational risks for identification, measurement and mitigating procedures. This policy had been reviewed by the board of Directors.
	Check that the overall business strategy contains measurable goals, for at least the next three years.	Complied with Strategic Business Plan includes the strategic goals and the Action Plan (2021-2025) which describes the measurable targets.
(c)	Check that the appropriate systems to manage the risks identified by the Board are prudent and are properly implemented.	Complied with A process is in place at the Board to discuss on new strategies and new products to be introduced during the year.

S. No.	Details	Level of compliance during the year 2021
	(d) Check that the Board has approved and implemented a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	Complied with The Communication Policy with the stake holders had been approved by the Board in 2015.
	(e) Check that the Board has reviewed the adequacy and the integrity of the Bank's internal control systems and management information systems.	Complied with Internal Control Systems A process is in placed at Board level to assesse the soundness of the internal control system. Further Internal Audit Division of the Bank adds value to the process verifying the effectiveness of the above process. Complied with Management Information Systems A valid process is in place at the Internal Audit dept./ to review the reliability and the accuracy of all financial/ non-financial information which are used by the Board of Directors and the Board sub committees.
	(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 with The Board had identified General Manager, DGMs, AGMs, Senior Accountant, Chief Internal Auditor, Compliance Officer and Board Secretary as Key Management Personnel of the bank.
	(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 with KMPs makes regular presentation to the Board and Sub Committees on matters under their purview.
	(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 with Directors' powers and authority defined in SMIB Law No.13 of 1975 under the Section 07. Directors were allocated to sub committees by the Board of Directors and charter/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. Checked TOR of BIRMC, BHRRC and BNC

Corporate Governance Contd...

S. No.	Details	Level of compliance during the year 2021
(i)	<p>Check that the Board has periodically assessed the effectiveness of the Board directors' own governance practices, including:</p> <ul style="list-style-type: none"> (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. 	<p>Complied with</p> <p>Selections, nominations and election of the Board of directors are done by the Minister according to the SMIB Law No.13 of 1975. Directors confirmed in their self-evaluation forms that the Board has undertaken an annual evaluation of its own governance practices. Board has taken a decision to audit the implementation of Board decisions.</p> <p>The effectiveness of the BODs is assessed through a questionnaire</p>
j	<p>Check that the Board has a succession plan for key management personnel.</p>	<p>Complied with</p> <p>Board approval has been given for a succession plan policy of the bank.</p>
k	<p>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.</p>	<p>Complied with</p> <p>Key Management Personnel are regularly involved in discussions at the meeting of the Board and its Sub Committees on progress towards performance, strategy, policy and other matters pertaining to their areas of responsibility</p>
l	<p>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.</p>	<p>Complied with</p> <p>The Board has taken measures and processes in place to understand the regulatory environment and that the Bank maintains a relationship with regulators.</p> <p>The Bank maintains a good relationship with regulators through the Compliance officer. She maintains regular contacts with the regulators.</p> <p>Regulatory Compliance Reports are submitted to CBSL in timely manner and when the CBSL Statutory Examination reports receive, the Board takes the necessary actions accordingly.</p>
m	<p>Check that the Board has a process in place for hiring and oversight of external auditors.</p>	<p>Not applicable</p> <p>As per the Constitution of GOSL and State Mortgage and Investment Bank Law No.13 of 1975, the Auditor General is the External Auditor of the Bank.</p>

S. No.	Details	Level of compliance during the year 2021														
3.1.(ii)	<p>Check that the Board has appointed the Chairman and the Chief Executive Officer (CEO).</p> <p>Check that the functions and responsibilities of the Chairman and the CEO are in line with Direction 3(5) of these Directions.</p>	<p>Complied with</p> <p>Chairman of the Bank is appointed by the Minister of line ministry as per the section 14 (1) of the SMIB Act and CEO (General Manager) is appointed by the board of directors as per section 20 of the SMIB Act.</p> <p>Name Of Director Date Of Appointment</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Mr. K.W.A.U.Kariyawasam</td> <td style="text-align: right;">2020.01.13</td> </tr> <tr> <td>Mr.S.K.A.Galapaththi</td> <td style="text-align: right;">2020.01.02</td> </tr> <tr> <td>Mr.A.J.P.H.B.M.R.S.Bandara</td> <td style="text-align: right;">2020.01.02</td> </tr> <tr> <td>Ms.W.C.N.Cooray</td> <td style="text-align: right;">2020.01.02</td> </tr> <tr> <td>Mr.H.C.D.L.Silva</td> <td style="text-align: right;">2020.01.11</td> </tr> <tr> <td>Mrs.H.N.N.Gunasekara</td> <td style="text-align: right;">2021.01.21</td> </tr> <tr> <td>Mr.K.R.Abeywardhana</td> <td style="text-align: right;">2020.11.16</td> </tr> </table>	Mr. K.W.A.U.Kariyawasam	2020.01.13	Mr.S.K.A.Galapaththi	2020.01.02	Mr.A.J.P.H.B.M.R.S.Bandara	2020.01.02	Ms.W.C.N.Cooray	2020.01.02	Mr.H.C.D.L.Silva	2020.01.11	Mrs.H.N.N.Gunasekara	2021.01.21	Mr.K.R.Abeywardhana	2020.11.16
Mr. K.W.A.U.Kariyawasam	2020.01.13															
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Mrs.H.N.N.Gunasekara	2021.01.21															
Mr.K.R.Abeywardhana	2020.11.16															
3.1.(iii)	<p>Check that the Board has met regularly and held Board meetings at least twelve times a year at approximately monthly intervals.</p>	<p>Complied with</p> <p>Fifteen Board meetings had been held during the year 2021.</p>														
3.1.(iv)	<p>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.</p>	<p>Complied with</p> <p>As a practice, board is enabling all directors to include matters and proposals in the agenda for regular board meetings.</p> <p>Secretary was available to get any such matter to the agenda.</p>														
3.1.(v)	<p>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.</p>	<p>Complied with</p> <p>The notice of the meeting and agenda for the meeting circulated to all directors by the secretary at least 7 days prior to the meeting.</p>														
3.1.(vi)	<p>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.</p>	<p>Complied with</p>														

Corporate Governance Contd...

S. No.	Details	Level of compliance during the year 2021
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 with The Board has appointed the secretary to the Board in accordance with the section 43 of the Banking Act No. 30 of 1988.
3.1(viii)	Check the process to enable all directors to have access to advice and services of the company secretary.	Complied with 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 with It was observed that the all minutes of the board meetings kept under the board secretary. As per secretary's statement at any time any director is able to access any information regarding the board meetings.
3.1.(x)	Check that the minutes of a Board meeting contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations (e) the understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and (f) the decisions and Board resolutions.	Complied with It was observed that the Board Minutes contains all the required details.
3.1.xi	Check that there are procedures agreed by the Board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense.	Complied with It was observed that the Board Minutes contains all the required details.

S. No.	Details	Level of compliance during the year 2021
3.1.xi	Check that there are procedures agreed by the Board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense.	Complied with Board has involved professionals for consultancy in appropriate circumstances.
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 with Directors make declarations of their interests at the appointment & annually.
	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 with As per the information received from the compliance officer, no such situation had taken place in year 2021.
	Check that has he/she been counted in the quorum for the relevant agenda item at the Board meeting.	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 with BOD has approved the formal schedule of matters specifically reserved for the decision of board submitted with the board paper.
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.	Not Applicable. No such situations were occurred during the period under review.
3.1(xv)	Check that the Board has the Bank capitalized at levels as required by the Monetary Board.	Complied with Common Equity Tier 1 Capital Ratio as 21.91 % and Total Capital Ratio 23.97% as at 31.12.2021 and Bank has complied with minimum
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 with Corporate Governance report is given on pages 27 to 82 of the annual report 2021.
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 with Observed the self-evaluation forms submitted by members of the board for the year 2021.

Corporate Governance Contd...

S. No.	Details	Level of compliance during the year 2021
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.	Complied with Board consists of 7 Independent Non-Executive Directors.
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 with observed that no directors have exceeded 9 years of service.
	(b) In the event of any director serving more than 9 years, check that the transitional provisions have been applied with.	Not applicable.
3.2.(iii)	Check that the number of executive directors, including the CEO does not exceed one-third of the number of directors of the Board.	Complied with As per the board composition given by the board secretary, all directors are Non-Executive Directors
3.2.(iv)	Check that the Board has at least three independent non-executive directors- or one third of the total number of directors, whichever is higher. Check if non-executive directors can be considered independent if he/she:	Complied with According to the SMIB Law No.13 of 1975, All the Directors had been appointed by the Minister, and all are independent, non- executive directors.
	(a) Holds a direct and indirect shareholding of more than 1 per cent of the Bank;	Not applicable.
	(a) 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.	Not applicable.
	(a) has been employed by the Bank during the two-year period immediately preceding the appointment as director.	Not applicable.
	(a) 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)	Not applicable.
	(a) represents a specific stakeholder of the Bank	Complied with Government of Treasury is the one and sole shareholder of the Bank.

S. No.	Details	Level of compliance during the year 2021
	(f) is an employee or a director or a material shareholder in a company or business organization:	
	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	Not applicable No transaction is noted in which a director is directly or indirectly interested during the year 2021
	ii. in which any of the other directors of the Bank are employed or are directors or are material shareholders; or	No incident was arisen in this regard.
	iii. in which any of the other directors of the Bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10 per cent of regulatory capital in the Bank.	No incident was arisen in this regard
3.2(v)	In the event an alternate director was appointed to represent an independent director, Check the person so appointed meet the criteria that applies to the independent director.	Not applicable since no alternate directors were appointed
3.2(vi)	Check that the Bank has a process for appointing independent directors.	Complied with Directors are appointed by the Minister according to the section 7 of SMIB Law No.13 of 1975.
3.2(vii)	Check that the stipulated quorum of the Bank includes more than 50% of the directors and out of this quorum more than 50% should include non-executive directors.	Complied with All 7 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 with Disclosures are given in page No.22 of the Draft Annual Report for the year 2021.
3.2(ix)	Check the procedure for the appointment of new directors to the Board.	Complied with 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.	Not applicable since appointments of Directors are carried out by the minister of finance as per the section 7 of SMIB Law No.13 of 1975.

Corporate Governance Contd...

S. No.	Details		Level of compliance during the year 2021
3.2(xi)		Check if a director resigns or is removed from office, the Board	Not applicable since appointments of Directors are carried out by the minister of finance as per the section 7 of SMIB Law No.13 of 1975
		(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	
		(b) Issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	
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 with
3.3		Criteria to assess the fitness and propriety of directors.	
3.3(i)	(a)	Check that the age of a person who serves as director does not exceed 70 years.	Complied with As per the information in the Affidavit, all directors are below the age of 70 years.
	(b)	Check that the transitional provisions have been complied with.	Not Applicable.
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 with As per Affidavit submitted to the Central Bank, none of the directors hold directorships more than 20 Companies.
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.	Complied with As per the information in the Affidavit, there were no director or General manager/ Chief Executive Officer appointed from another bank.
3.4		Management functions delegated by the Board	
3.4 (i)		Check that the delegation arrangements have been approved by the Board.	Complied with Power delegation by the BOD to the General Manager / CEO to manage the business is done according to the SMIB Law -section 20, 21.
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 with The Board has not delegated any matters to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.

S. No.	Details	Level of compliance during the year 2021
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 with Board review delegation of authority periodically.
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 with The roles of Chairman and the CEO/GM are performed by two separate individuals.
3.5 (ii)	Check that the Chairman is a non-executive director.	Complied with Chairman is a non –executive independent director and he is appointed by the relevant Line Ministry in 13 January 2020, Under the SMIB Law. No.13 of 1975
	In the case where the Chairman is not an independent director, check that the Board designate an independent director as the senior director with suitably documented terms of reference.	Not applicable. Since Chairmen is an independent director
3.5.(ii)	Check that the designation of the senior director be disclosed in the Bank's Annual Report.	Not applicable
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.	not applicable. Corporate governance report published in the draft annual report on page nos. 27 to 81.
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.	by all directors
3.5(v)	Check that a formal agenda is circulated by the Company Secretary approved by the Chairman.	Complied with. The agenda circulated by the company secretary had not approved by the chairman.
3.5(vi)	Check that the Chairman ensures, through timely submission that all directors are properly briefed on issues arising at Board meetings	Complied with The Directors are properly briefed on issues arising at the Board meetings and Board papers are circulated to Directors in advance to prepare for the board meetings

Corporate Governance Contd...

S. No.	Details	Level of compliance during the year 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	Complied with. The Board has a self- evaluation process that encourages all Directors to make a full and active contribution. This is evidence by the self- evaluation forms submitted by each Director at the end of the year.
3.5 (viii)	Check that the Board has a self-evaluation process that assesses the contribution of non-executive directors.	Complied with. The Board has a self-evaluation process that assess the contribution of Non-Executive Directors as well. This is evidence by the self-evaluation forms submitted by each Director at the end of the year.
3.5 (ix)	Check that the Chairman engages in activities involving direct supervision of key management personnel or any other Executive duties whatsoever.	Complied with. The Chairman is a Non - Executive Director and does not get involved in activities involving direct supervision of key management personnel or any other executive duties.
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.	Complied with. Government has the 100% ownership of the Bank and all directors are appointed by the relevant Line Ministry. The Treasury representative is a permanent member of the Board.
3.5 (xi)	Check that the CEO functions as the apex executive-in-charge of the day-to-day management of the Bank's operations and business.	Complied with. As per the organization chart of the bank the CEO /GM function as apex executive-in-charge of the day-to-day management of the Bank's operations and business.
3.6	Board appointed committees	
3.6 (i)	Check that the Bank has established at least four Board committees as set out in Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions.	Complied with. Appointment of Directors to the Board sub-Committees such as BAC BHRRC, BIRMC, BNC
	Check that each Board committee report is addressed directly to the Board.	Complied with. All committees directly submit reports through the Chairman of the board committees to the Board.
	Check that the Board presents in its annual report, a report on each committee on its duties, roles and performance.	Observed the reports of each committee on its duties, roles and performance in the draft Annual Report of the Bank. Board nomination committee- Pages 83-84 BHRRC-pages 85-86 BIRMC-pages 87- 91 BAC-Pages-125-127.

S. No.	Details	Level of compliance during the year 2021
3.6(ii)	Audit Committee:	
(a)	Check that the Chairman of the committee is an independent non-executive director and possesses qualifications and related experience.	Complied with. The Chairman of BAC was an independent non-executive director and has necessary qualifications and experience. Chairman of BAC is a Chartered Accountant.
(b)	Check that all members of the committee are non-executive directors.	Complied with. Board Audit committee consists of 3 members and one alternative member and all the members are independent non-executive directors.
(c)	Check that the committee has made recommendations on matters in connection with,	Complied 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
	i. The appointment of the external auditor for audit services to be provided in compliance with the relevant statutes.	
	i. the implementation of the Central Bank guidelines issued to auditors from time to time;	
(d)	v. Check that the committee has obtained representations from the external auditors on their independence, and that the audit is carried out in accordance with SLAUS	Not applicable
(e)	vi. Check that the committee has implemented a policy on the engagement of an external auditor to provide non-audit services in accordance with relevant regulations	Not applicable No such service has been obtained during the year.

Corporate Governance Contd...

S. No.	Details	Level of compliance during the year 2021
	(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	Not Applicable since the scope and the extent of the audit have been determined by the Auditor General as the External Auditor.
	(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 with. The Board Audit Committee has reviewed annual draft financial accounts before submission to the auditor general. BAC has reviewed its annual report, accounts and quarterly reports prepared for disclosure for they year 2021. and a process in place to receive from the CFO as mentioned.
	(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.	Complied with. No any meetings had been held with the external auditor in the absence of executive management with relation to the audit for the year 2021
	(i) Check that the committee has reviewed the external auditor's management letter and the management's response thereto.	Complied with. The Board Audit Committee reviews the External Auditor's management report annually and the Management response thereon.
	(j) Check that the committee shall take the following steps with regard to the internal audit function of the Bank:	
	(i) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work	Complied with. Board audit committee reviews the scope, functions and resources of the internal audit department at their meetings. Internal audit plan 2021 was approved by BAC.
	(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 with. Board audit committee reviews the internal audit programme, audit reports and taken actions on them.
	(i) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department	Complied with. Annual Performance Appraisal of Head of the Internal Audit was carried out by the Board Audit Committee.

S. No.	Details	Level of compliance during the year 2021
	(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function.	No such situation has arisen during the year.
	(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;	
	(vi) Check that the internal audit function is independent of the activities it audits	Complied with. Internal audit function is independent of the activities it audits and directly report to the Board Audit Committee.
(k)	Check the minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto	Complied with. Board Audit Committee, has reviewed major findings of internal investigations and management responses thereto
(l)	Check whether the committee has had at least two meetings with the external auditors without the executive directors being present.	Not complied No any meetings had been held with the external auditor in the absence of executive management with relation to the audit for the year 2021
(m)	Check the terms of reference of the committee to ensure that there is; (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Terms of Reference (TOR) of the board audit committee is not available with the bank
(n)	Check that the committee has met, at least four times and maintained minutes	Complied with. Committee has met 08 times during the year 2021 and minutes have been maintained.
(o)	Check that the Board has disclosed in the annual report, details of the activities of the audit committee; the number of audit committee meetings held in the year; and details of attendance of each individual director at such meetings	Details included in -page no.52 of the t annual report for the year 2021.

Corporate Governance Contd...

S. No.	Details	Level of compliance during the year 2021
	(p) Check that the secretary of the committee is the company secretary or the head of the internal audit function.	Complied with. The Board Secretary acts as the Secretary of the Board Audit Committee.
	(q) Check that the "whistle blower" policy covers the process of dealing with; The improprieties in financial reporting, internal control or other matters. In relation to (i) the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters, and Appropriate follow-up action.	Complied with. The Whistle Blower policy is in place and it has been reviewed by the Board Audit Committee.
3.6 (iii)	Does the following rules apply in relation to the Human Resources and Remuneration Committee?	
	(a) Check that the committee has implemented a policy to determine the remuneration (salaries, allowances and other financial payments) relating to directors, CEO and key management personnel of the Bank by review of the "Terms of reference" and minutes.	Complied with. The Remuneration for Directors is decided by the Ministry of Finance as per PED circulars (PED 3/2015 dated 17 June 2015). The remuneration of the General Manager/CEO and KMPs are decided based on the Collective Agreement recommended by BHRRC and approved by the Board of the bank (BHRRC dated 21.09.2021, BHRRC Paper No 21/hr.02.04) and forwarded to the Ministry of Finance for approval.
	(b) Check that the goals and targets for the directors, CEO and the key management personnel are documented	Complied with. Goals and targets for different KMP's are incorporated in the action plan approved by the board for the year for respective units/ departments under their purview.
	(c) Check that the committee has considered evaluations of the performance of the CEO and key management personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Complied with. Performance appraisals of KMPs had not been done by the BHRRC of the bank. Remuneration of the CEO and Key Management Personnel are decided based on the collective agreement by the Board Human Resources and Remunerations Committee and the Board
	(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 with. Terms of Reference of the Committee covers this requirement by mentioning that "GM/CEO shall be present at all meetings of the committee, except when matters relating to the CEO are being discussed."

S. No.	Details	Level of compliance during the year 2021
3.6(iv)		Does the following rules apply in relation to the Nomination Committee:
	(a) Check that the committee has implemented a procedure to select/appoint new directors, CEO and key management personnel.	<p>Not applicable</p> <p>since directors are appointed by the finance minister.</p> <p>The directors are being appointed by the Minister as per provisions in the section no 07 of SMIB Law No 13 of 1975.</p> <p>As per Section 20 of the SMIB ACT, the Board shall appoint a fit and proper person to be the General Manager of the Bank who shall be the Chief Executive Officer of the Bank KMP are selected as per the scheme of recruitment (SOR) approved by the BHRRC.</p>
	b Check that the committee has considered and recommended (or not recommended) the re-election of current directors.	<p>Not Applicable</p> <p>since directors are appointed by the finance minister.</p>
	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	<p>Complied with.</p> <p>The Board shall appoint a fit and proper person to be the General Manager/ CEO of the Bank</p> <p>Board of Directors appoints KMPs with the recommendation of Board Nomination Committee.</p>
	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.	<p>Complied with.</p> <p>Signed affidavit and declarations of Directors and General Manager/CEO and KMPs are obtained by the Board Secretary at their appointments.</p>
	e Check that the committee has considered a formal succession plan for the retiring directors and key management personnel.	<p>Complied with.</p> <p>Appointment of Directors, chairmen, and CEO is stipulated in the SMIB Act.</p> <p>The Board approved succession plan is available KMP's for the year 2019/2020.</p>

Corporate Governance Contd...

S. No.	Details	Level of compliance during the year 2021
	f	<p>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.</p> <p>Complied with. 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.</p>
3.6.(v)		Does the following rules apply in relation to the Integrated Risk Management Committee (IRMC)
	a	<p>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.</p> <p>Complied with. Committee consists of three non- executive directors, CEO and Chief Risk Officer of the bank.</p>
	b	<p>Check that the committee has a process to assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a Bank basis and group basis</p> <p>Complied with. Risk Management Division (RMD) submits quarterly risk reports to the Integrated Risk Management Committee.</p>
	c	<p>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.</p> <p>Complied with. The Integrated Risk Management Committee has reviewed the quantitative and qualitative risk limits of all management level committees.</p>
	d	<p>Check that the committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.</p> <p>Complied with. BIRMC has reviewed and considered all risk indicators.</p>
	e	<p>Check how many times the committee has met at least quarterly.</p> <p>Complied with. During the year, the Committee has held five meetings. The details of the meetings and attendance are given on page No. 60 of Draft Annual Report of 2020.</p>
	f	<p>Check that the committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.</p> <p>Complied with. Documented disciplinary action procedure is available with the bank.</p>

S. No.	Details	Level of compliance during the year 2021
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 with. Observed Risk Assessment Report of the each BIRMC submitted to the board within a week.
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 with. The Compliance function has been established by appointing a Compliance Officer (CO).
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.	Not applicable Since monetary Board has not directed any disclosures to be made public during the year.
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> <ul style="list-style-type: none"> a. Any of the Bank's subsidiary companies; b. Any of the Bank's associate companies; c. Any of the directors of the Bank; d. Any of the Bank's key management personnel; e. A close relation of any of the Bank's directors or key management personnel; f. A shareholder owning a material interest in the Bank; g. A concern in which any of the Bank's directors or a close relation of any of the Bank's directors or any of its material shareholders has a substantial interest. 	Complied with. 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.

Corporate Governance Contd...

S. No.	Details	Level of compliance during the year 2021
3.7.(ii)	Check that there is process to identify and report the following types of transactions been identified as a transaction with the related parties that is covered by this direction.	Complied with. This is covered by the Related Party Transaction Policy has been approved by the Board under the topic of “types of transaction with related parties)
a	The grant of any type of accommodation as defined in the Monetary Board’ Directions on maximum amount of accommodation.	
b	The creation of any liabilities of the Bank in the form of deposits, borrowings and investments.	
c	The provision of any services of a financial or non- financial nature provided to the Bank or received from the Bank.	
d	The creation or maintenance of reporting lines and information flows between the Bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.	
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 with. This is covered under the topic of “definition of more favorable treatment” the Related party transaction policy.
a	Granting of “total net accommodation” to related parties, exceeding a prudent percentage of the Bank’s regulatory capital, as determined by the Board. For purposes of this sub-direction: “Accommodation” shall mean accommodation as defined in the Banking Act Directions, No.7 of 2007 on Maximum Amount of Accommodation. The “total net accommodation” shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Bank’s share capital and debt instruments with a maturity of 5 years or more.	
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	

S. No.	Details		Level of compliance during the year 2021
	c	Providing of preferential treatment, such as favorable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;	
	d	Providing services to or receiving services from related-party without an evaluation procedure;	
	e	party without an evaluation procedure; Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions	
3.7.iv		Check that the Bank has a process for granting accommodation to any of its directors and key management personnel, and that. such accommodation is sanctioned at a meeting of its Board of directors, with not less than two-thirds of the number of directors other than the director concerned, voting in favor of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary Board as well.	<p>Complied with.</p> <p>Related party transaction policy mentioned that “no directors shall participate in any discussion of a proposed RP transaction for which he or she is a related party”.</p>
3.7.(v)	a	Check that the Bank has a process, where any accommodation has been granted by a Bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a director of the Bank, that steps have been taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a director.	No such accommodation granted. Accommodations granted to the Directors are governed by the Section 17 of the SMIB Act and section 47 of the Banking Act.

Corporate Governance Contd...

S. No.	Details	Level of compliance during the year 2021
	<p>b</p> <p>Check where such security is not provided by the period as provided in Direction 3(7)(v)(a) above, has the Check where such security is not provided by the period as provided in Direction 3(7)(v)(a) above, has the Bank taken steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such director, whichever is earlier Bank taken steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such director, whichever is earlier.</p>	No such accommodation granted
	<p>c</p> <p>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.</p>	
	<p>d</p> <p>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.</p>	Not occurred
3.7.(vi)	<p>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.</p>	Not occurred

S. No.	Details	Level of compliance during the year 2021
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	Not occurred
3.8.	Disclosures	
3.8 (i)	a	<p>Complied with.</p> <p>Annual audited financial statements and quarterly financial statements are prepared in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards.</p> <p>Those quarterly financial Statements and annual audited financial statements are published in newspapers in the specified formats, in Sinhala, Tamil and English</p>
	b	<p>Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English</p>
3.8.(ii)		Check that the Board has made the following minimum disclosures in the Annual Report
	a	<p>Complied with.</p> <p>The Financial Statements have been prepared in accordance with Sri Lanka Accounting Standards and in compliance with the regulatory requirements.</p>
	b	Director's statement on internal control over Financial Reporting includes in the pages 121 to 123 of the draft Annual report 2021
	c	Auditor General's Report on Bank's internal control may include in the draft Annual report 2021 page no 116.

Corporate Governance Contd...

S. No.	Details	Level of compliance during the year 2021
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	Profiles of the Directors are disclosed on page No. 11 to 16 of the Draft Annual Report for the year 2021.
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 with. As per the compliance officer's information, no accommodation has been provided to the related parties during the year under review.
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.	Details mentioned regarding key management personnel had been disclosed in note number 32 of the financial statements in the draft annual report.
g	Check that the Board has obtained the external auditor's report on the compliance with Corporate Governance Direction	Complied with. The external auditor's report on the compliance with Corporate Governance Directions will be issued.
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 with. Directors' report includes the statement of compliance with applicable laws and regulations.
i	A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so, directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns	Complied with. There is no such report issued by the Director of Bank Supervision during the year 2021



The Oldest State Bank Established in - 1931

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Board Audit Committee Report

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 2021 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	8
2	Mr. H.C. Dilip Lal Silva	Member (NED)	2020 April	Up to Date	8
3	Mr. S.K.A. Galappatthi	Member (NED)	2020 April	Up to Date	7

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 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 aspect.
- Liaison with external auditors in respect of their audit scope and reports.

Meetings

The committee met on eight (08) occasions during the year 2021. The Superintendent of the Government Audit as the representative of

Board Audit Committee Report Contd...

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 2021

The Committee attended to the following actions:

01. Approved and reviewed the risk-based internal audit plan for implementation of the year 2021 by the BAC.
02. Reviewed progress of replying Auditor General's Queries for the year 2020.
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 2020 and quarters ended 31st March, 30th June, 30th September 2021 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. Gooray
Chairman - Board Audit Committee/NED

Board Nominations Committee Report

Scope of the Committee

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

Composition of the Committee

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

BNC comprised of the following Independent Non - Executive Directors as of the end of the year 2021.

#	Name of the Member	Designation
1.	Dr. K.W.A.U. Kariyawasam - Chairman	Committee Chairman
2.	Mr. H. C. D. L. Silva - Member	Member
3.	Mr. S. K. A. Galappaththi - Member	Member
4.	Mr. A. J. P. H. B. M. R. S. Bandara - Alternative Member	Member

Meetings of Committee

It is required for the Committee to meet at least once a year, and meetings can be conveyed when necessary. The quorum is two members, both of whom must be independent Non-Executive Directors present through the meeting 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 2021.

Attendance of the Committee Members at the Meetings

	Name of the Committee Member	Status in BNC	Number of Meetings Held	Number of Meetings attended
1	Dr. U Kariyawasam	Chairman	02	02
2	Mr. D L Silva	Member	02	01
3	Mr. S Galappaththi	Member	02	02
4	Mr. A J P H B M R S Bandara (Alternate)	Member	02	02

Secretary

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



Dr. Udayasri Kariyawasam
Chairman of the Committee

Board Human Resources and Remuneration Committee Report

Composition and Quorum during the Year 2021

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 2021.

Members in the year 2021

Dr. Udayasri 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

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 Resources 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 2021.

Attendance of the Committee Members at the Meetings

Name of the Director	Status in BHRRC	Number of Meetings held	Number of Meetings attended
Dr. Udayasri Kariyawasam	Chairman	02	02
Mr. A. J. P. H. B. M. R. S. Bandara	Member	0	0
Mr. S. K. A. Galappaththi	Member	02	02
Ms. W. C. N. Cooray	Alternative Member	0	0



Dr. Udayasri Kariyawasam
Chairman of the Committee

Board Integrated Risk Management Committee

Composition of the Board Integrated Risk Management Committee-2021

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 2021.

The Committee composition is as follows [For the 1st, 2nd, 3rd, 4th & 5th 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. S.Galappathi	- Non-Executive Director
Mr. A.J.P.H.B.M.R.S. Bandara	- Non-Executive Director
Mr. W.M. Dayasinghe	- General Manger/ Chief Executive Officer (Until BIRMC meeting held in March 2021)
Mr. L. Ranasinghe	- Acting General Manger/ Chief Executive Officer (From BIRMC meeting held in May 2021)
Mrs. R. Y. Dias	- Head of Risk Management Division
Mrs. A. Amarasinghe	- Acting Deputy General Manager- HRD &M / the Secretary to the Committee (Until BIRMC meeting held in May 2021)
Mrs. D. Alahakoon	- Board Secretary (from BIRMC held in August 2021)

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.
 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 & 5th BIRMCs -

Name of the Director	No of Meetings Attended
	No of Meetings to be attended
Mr. H.C.D.L. Silva (The Chairman to the Committee)	4/5
Ms. W.C.N. Cooray	4/5
Mr. S.Galappatthi	4/5
Mr. A.J.P.H.B.M.R.S. Bandara (Alternative member)	Excused

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

Reporting

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



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



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Integrated Risk Management



We, at State Mortgage and Investment Bank (SMIB) recognize the importance of an effective Risk Management towards the growth in a business and to achieve its commercial aspirations.

During 2021 we continued our efforts to develop and implant an Enterprise-wide Risk Management Framework (ERMF) in order to further improve robust yet efficient risk management. This plays an integral role in achieving the strategic goals while protecting the Bank against unplanned financial and operational challenges and protecting the customers from unfair outcomes, demonstrating credibility to all the stakeholders.

The ERMF creates a variety of processes fit together to create a consistent and effective way of managing risk across the Bank. The key elements of risk management encompass the activities relating to the assessment, control, monitoring and reporting of risk. The Board Integrated Risk Management Committee reviews and approves the Risk Management framework and it consists of;

- o Risk culture - Set priorities for Risk Management to create values and behaviours that shape the Bank's risk decisions.
- o Risk appetite - how much risk the Bank can absorb to ensure sustainability and credibility towards the Bank's customers and to deliver the Bank's strategic initiatives by operating as a safe and secure Bank.
- o Policy and governance - how the Bank is organized on making effective decisions and take approved risks.
- o Risk assessment and control - how the Bank assess and view the risks/opportunities and limit the risk of occurrence through adequate control mechanisms.
- o Risk events - how the Bank has prepared itself to respond to unexpected events and undesirable outcomes that are generated from such events and take actions to respond when things go wrong and prevent the same things happening again.
- o Monitoring and assurance - how the Bank check the adequacy and effectiveness of the controls in place.

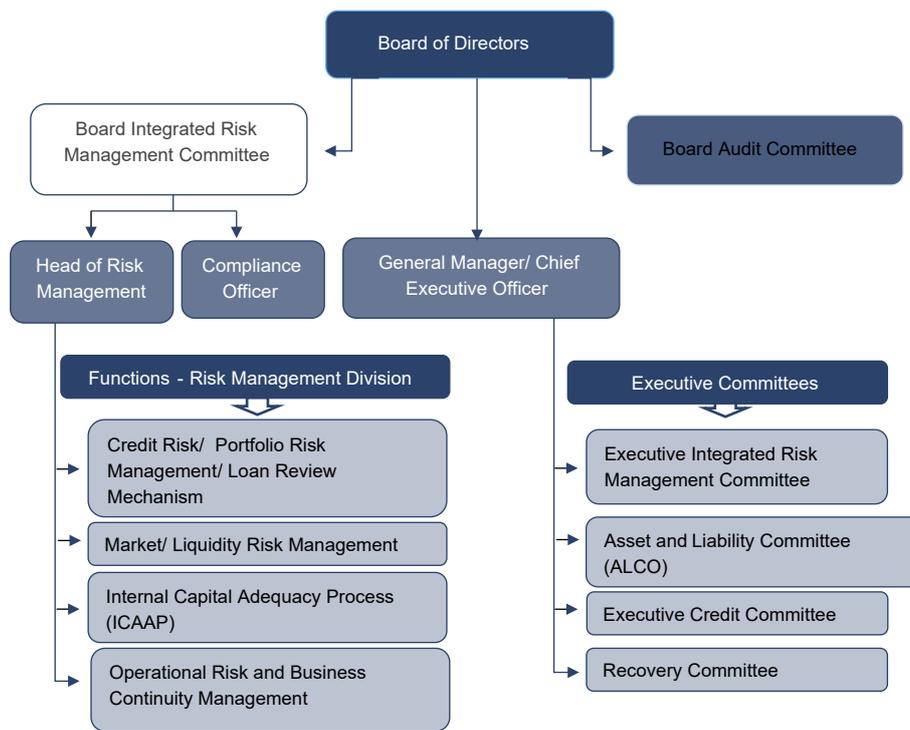
The Banks approach to risk management is based on a three lines of defence approach which seeks to differentiate between direct responsibility for the management and control of risk, responsibility to oversee the effectiveness and integrity of the integrated risk management framework and to provide an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

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 defence 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 defence.

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 adopt the risk management concepts within the Bank through capacity building and review mechanisms.

Integrated risk management function of the Bank has the following structure in place to look at risk interrelationships across the organization.



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.

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.

Integrated Risk Management Contd...

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.

Risk appetite statements have been included in the Board Integrated Risk Management Framework of the Bank.

Risk Culture

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.

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 BOD that in turn must trigger appropriate corrective measures by the senior management. 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.

Providing a thorough understanding of the risks relevant to the specialized roles performed by the Bank's staff is an important component to strengthen the first line of defence, enabling process efficiencies and overall stability of the Bank.

A Global Pandemic

Ongoing impacts of COVID-19 pandemic throughout 2021 continued to raise concerns regarding human health and wellbeing and negatively impacted economies around the world. Businesses and individuals faced immense challenges due to the consequences of the pandemic, weakening its levels of capacity for growth and sustainability.

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;

Ensuring Health and Safety

- 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

Continuous Service to the Customers

- The continued operation of the branch network was essential due to the minimal capacity for digital servicing
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)

Reaching Strategic Initiatives

- The continuous review of the Board approved strategic plan for 2021 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

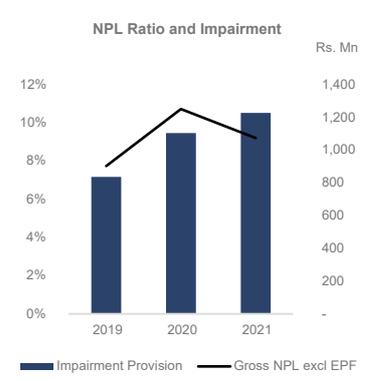
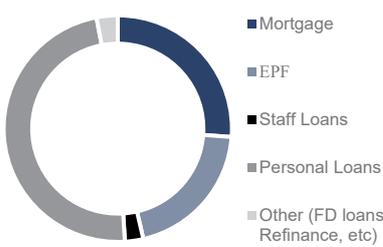
In addition to the negative outcomes of the Covid 19 pandemic, Policy changes giving rise to inflation and interest rates, Bank's weaknesses in the digital footprint were few of the additional burdens faced by the Bank during year 2021. These challenges together with the curtailed credit growth and increase in cost of living due to the strained economy and operational gaps/system issues created due to frequent changes in regulatory directives resulted in additional stress on the Banking Sector.

Principal Risks and how we mitigate them

Our principal risks and our risk profile evolve as we move through the economic cycle. These risks are set out below along with how we manage and measure the risk and the progress that has been achieved in 2021:

Credit Risk

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

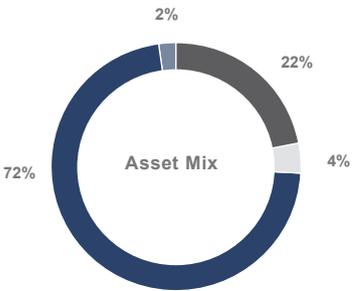
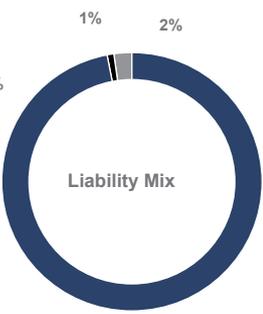
Risk Mitigation	Key Risk Indicators	Commentary																								
<ul style="list-style-type: none"> Credit Policy and Credit Manual provides the ground level guidance and directions for prudent lending A robust credit risk framework ensures that lending remains within risk appetite limits and appropriate remedial action is taken if a breach occurs. Adherence is monitored regularly through governance committees. Robust procedures are followed on customer screening including a special unit on income inspections including an Income Source Verification Model to ensure trustworthiness of the income sources and separate unit for pre-disbursement reviews to ensure credit quality. Borrower rating is applied on all retail customers and independent reviews are performed by the Risk Management Division for all exposures above a Board approved threshold and continue to increase the quality of the LRM monitoring framework Portfolio analysis including sector, product and risk rating grade-wise exposure monitoring 	<p style="text-align: center;">NPL Ratio and Impairment</p>  <table border="1"> <caption>NPL Ratio and Impairment Data</caption> <thead> <tr> <th>Year</th> <th>Impairment Provision (Rs. Mn)</th> <th>Gross NPL excl EPF (%)</th> </tr> </thead> <tbody> <tr> <td>2019</td> <td>~700</td> <td>~7.1%</td> </tr> <tr> <td>2020</td> <td>~1,100</td> <td>10.71%</td> </tr> <tr> <td>2021</td> <td>~1,200</td> <td>9.19%</td> </tr> </tbody> </table> <p style="text-align: center;">Composition of the Portfolio 2021</p>  <table border="1"> <caption>Composition of the Portfolio 2021</caption> <thead> <tr> <th>Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Mortgage</td> <td>44%</td> </tr> <tr> <td>EPF</td> <td>~10%</td> </tr> <tr> <td>Staff Loans</td> <td>~1%</td> </tr> <tr> <td>Personal Loans</td> <td>~25%</td> </tr> <tr> <td>Other (FD loans, Refinance, etc)</td> <td>~20%</td> </tr> </tbody> </table>	Year	Impairment Provision (Rs. Mn)	Gross NPL excl EPF (%)	2019	~700	~7.1%	2020	~1,100	10.71%	2021	~1,200	9.19%	Category	Percentage	Mortgage	44%	EPF	~10%	Staff Loans	~1%	Personal Loans	~25%	Other (FD loans, Refinance, etc)	~20%	<ul style="list-style-type: none"> 44% of the loan portfolio is collateralised through Mortgage and cash backed EPF loans where the growth in the loans and advances portfolio was dominated by personal loans reported which recorded a growth of 10% during the year. While there was a peak in the NPL rates during 2020, the strengthened recovery procedures resulted in a drop in the NPL ratio during 2021, where the gross NPL excluding EPF stood at 9.19% in comparison to 10.71% in the preceding year. The Bank has increased its focus on SME/Business Loans in the view of diversifying into various sectors and industries. All Borrower Rating models were enhanced through a comprehensive review and will be following a parallel run to ensure an effective implementation. Business Loan risk rating model was introduced and currently in the testing stage prior to implementation
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Integrated Risk Management Contd...

Risk Mitigation	Key Risk Indicators	Commentary
<ul style="list-style-type: none"> Key Risk Indicators with tolerance limits and other key ratios are assessed periodically and reported to the BIRMC. Strengthening the recovery function and introduction of watch list handling /early warning classification of sick loans. 		<ul style="list-style-type: none"> In 2022, the Bank is focused to improve, post-disbursement monitoring and follow up under the Credit, Risk Management.

Market Risk including Liquidity Risk

Market risk is the risk that the value of, or income derived from the Banks’s assets and liabilities changes unfavourably due to movements market rates or prices. Liquidity risk is the risk of having inadequate cash flow to meet current or future requirements and expectations.

Risk Mitigation	Key Risk Indicators	Commentary
<ul style="list-style-type: none"> ALCO and Investment Policy together with the integrated risk management framework provides guidelines and the key control parameters on the Market Risk Management practiced at the Bank Monitoring of tolerance limits and any breaches are reported to relevant authorities for necessary actions ALCO of SMIB is responsible to monitor the structure/composition of Bank’s assets and liabilities and make decisions on product pricing for deposits and advances while deciding on required maturity profile and mix of incremental assets and liabilities. Continuously assess Liquidity Risk and Interest Rate Risks to identify necessary corrective actions Closely monitor the market developments and trends to take preventive measures and strategic decision making 	<div style="text-align: center;">  <p>Asset Mix</p> <ul style="list-style-type: none"> Cash in hand Investments Fixed Assets Balance due from Banks Loans and Advances Other Assets </div> <div style="text-align: center;">  <p>Liability Mix</p> <ul style="list-style-type: none"> Deposits Borrowings Other Liabilities </div>	<ul style="list-style-type: none"> Interest rate risk is a main component of market risk for the Bank, since the Bank’s primary source of funding is through deposits. The Banks deposit portfolio tends 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.

Risk Mitigation	Key Risk Indicators	Commentary																												
<ul style="list-style-type: none"> The Bank operates a range of internal stress tests to ensure that market risk is within an acceptable range over a series of rate scenarios including negative rates and non-parallel shifts. The Bank monitors the liquidity movements through regular cash flow forecasts, liquidity ratio and maturity gap analysis. The Bank maintains a contingency funding plan in place to deal with liquidity issues Treasury department is responsible for maintaining and assuring the liquid asset ratio above the central bank stipulated levels. 	<p style="text-align: center;">Net Interest Margin per Rate Shift</p> <table border="1"> <caption>Net Interest Margin per Rate Shift</caption> <thead> <tr> <th>Scenario</th> <th>Net Interest Margin (%)</th> </tr> </thead> <tbody> <tr> <td>(+0/+200 bp)</td> <td>~3.5</td> </tr> <tr> <td>(-200/-200 bp)</td> <td>~4.8</td> </tr> <tr> <td>(-100/-100 bp)</td> <td>~4.5</td> </tr> <tr> <td>Unchanged rate scenario</td> <td>~4.3</td> </tr> <tr> <td>(+100/+100 bp)</td> <td>~4.1</td> </tr> <tr> <td>(+200/+200 bp)</td> <td>~3.9</td> </tr> <tr> <td>(+300/+300 bp)</td> <td>~3.7</td> </tr> </tbody> </table> <p style="text-align: center;">SLAR & LCR</p> <table border="1"> <caption>SLAR & LCR</caption> <thead> <tr> <th>Year</th> <th>Statutory liquid asset ratio (%)</th> <th>Liquidity coverage ratio (%)</th> </tr> </thead> <tbody> <tr> <td>2019</td> <td>25.09%</td> <td>121%</td> </tr> <tr> <td>2020</td> <td>37.29%</td> <td>116%</td> </tr> <tr> <td>2021</td> <td>32.58%</td> <td>115%</td> </tr> </tbody> </table>	Scenario	Net Interest Margin (%)	(+0/+200 bp)	~3.5	(-200/-200 bp)	~4.8	(-100/-100 bp)	~4.5	Unchanged rate scenario	~4.3	(+100/+100 bp)	~4.1	(+200/+200 bp)	~3.9	(+300/+300 bp)	~3.7	Year	Statutory liquid asset ratio (%)	Liquidity coverage ratio (%)	2019	25.09%	121%	2020	37.29%	116%	2021	32.58%	115%	<ul style="list-style-type: none"> The accessibility to retail deposits has increased through increased branch network. Hence reliance on wholesale deposits has reduced.
Scenario	Net Interest Margin (%)																													
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Capital Risk

The risk that the Bank is not able to meet regulatory capital requirements or deliver on its strategic plans due to insufficient capital resources.

Risk Mitigation	Key Risk Indicators	Commentary								
<ul style="list-style-type: none"> Capital risk is constrained by a Board approved risk appetite, which is further governed through the Capital Strategy. Current and projected capital positions are regularly monitored and also considered in stress scenarios as part of the ICAAP. The Bank operates a range of internal stress tests to ensure that sufficient capital is available at all times to allow the Bank to maintain its minimum capital requirements even in a stress scenario. 	<p style="text-align: center;">Capital Adequacy Ratio</p> <table border="1"> <caption>Capital Adequacy Ratio</caption> <thead> <tr> <th>Year</th> <th>Capital Adequacy Ratio (%)</th> </tr> </thead> <tbody> <tr> <td>2019</td> <td>21.77%</td> </tr> <tr> <td>2020</td> <td>22.67%</td> </tr> <tr> <td>2021</td> <td>25.20%</td> </tr> </tbody> </table>	Year	Capital Adequacy Ratio (%)	2019	21.77%	2020	22.67%	2021	25.20%	<ul style="list-style-type: none"> Tier I capital ratio of SMIB is 23.9% and total capital ratio is 25.2% as at 31.12.2021. These ratios are well above the industry average and indicate a stronger capacity for risk absorption. The Bank maintains a strong capital position both currently and in forecast however, the Bank is currently taking adequate measures to meet the minimum capital requirement of Rs. 7.5 Bn to be met by end of 2022
Year	Capital Adequacy Ratio (%)									
2019	21.77%									
2020	22.67%									
2021	25.20%									

Integrated Risk Management Contd...

Risk Mitigation	Commentary
<ul style="list-style-type: none"> Operational risk events are reported to risk management department by appointed officers in each functional unit and its governed by the Enterprise wide Risk Management Framework (ERMF). A loss tracking database has been designed where the loss incidents will be collected and analyzed based on business function. Theses information will be analyzed to propose preventive measures on the lessons learnt. 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. A Risk & Control Self-Assessment (RCSA) process outlines the controls that must be followed and the frequency of assurance in order to determine whether the current set of controls is appropriate to manage The Bank continuously conducts its Business Continuity Plan effectively to recover from an unexpected disaster as soon as possible with minimum loss Compliance and Conduct risk, including financial crime risk, is constrained by a Board approved risk appetite, which is further governed through the ERMF. 	<ul style="list-style-type: none"> The key priority has been to improve the control framework of the key Risk Categories and to ensure the continued embedding of these across the business. Alongside this our Operational Resilience initiative continues to further strengthen the resilience of the Bank and its ability to meet an ever-changing threat landscape. The Bank Plans to further improve the Risk and Control Assessment and Operational risk monitoring to ensure enterprise wide input in managing the control framework adequately Covid-19 Pandemic was a significant challenge in terms of business continuity and health and safety of the employees and customers. The Bank took necessary and appropriate measures to control the situation. The Bank plans to further improve the complaints monitoring system through process enhancements and planned upgrades in the core system will enhance service quality to the customers.

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 key uses of stress testing are:

- To test the robustness of the Bank’s financial plan to adverse economic conditions, ensuring a sustainable financial performance within our risk appetite.
- Scenario analysis of the Bank’s recovery plan and contingency funding options.
- To support the production of the ICAAP and to manage the capital position, informing the setting of regulatory capital and liquidity requirements.
- To assess new product and other initiatives.

Future Developments

While good progress has been made in 2021 with the continued embedding of our risk management framework across the Bank, the current macroeconomic outlook and recurring waves of Covid 19, will continue to challenge the Bank to reach strategic initiatives. Areas of future focus will now include how our risk management teams will support the delivery of the strategic blueprint through improvements in the digital footprint of the Bank. This in turn will cover the continued embedding of current risk management initiatives, ensure the safe delivery of the strategic initiatives, with customer experience and outcomes prioritised as part of all risk management interventions.

Human Resource Management

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

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

Staff Strength

The total staff for the year accounted for 367, which was comparatively small; however, they have contributed to the bank performance to a greater extent. During the year, 18 staff members left the Bank, of which 11 were retired from the Bank and 07 staff members left the Bank due to resignation and other grounds. We recruited 16 new staff members to the Bank during the year. Filling of vacancies were carried out as per the recruitment policy of the bank.

Staff Variance

Management Level	Variance		
	Retired	Resigned/ Other	Externally Recruited
Corporate Management	1	2	3
Senior Management		1	1
Executive		1	3
Non Executives	10	3	7
Contract Basis			2
Total	11	7	16

Staff Strength by Tier Wise

Management Level	No: of Employees as at 31.12.2021
Corporate Management	10
Senior Management	6
Executive	111
Non Executives	238
Contract Basis	2
Total	367

Gender Profile

As an equal employment opportunity provider, SMIB employed both males and females in an equal manner. The gender profile of the SMIB accounted for 50% male and 50% female in the year 2021.

Employee Age Profile

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

Age category	No: of Employees as at 31.12.2021
50 or Above	74
40 - 49	104
30 - 39	120
29 or below	69
Total	367

Talent Management

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

Talent Attraction and Acquisition

New talent acquisition is addressed through the Bank’s recruitment procedure, designed to select the candidate best suited for our business needs. The talents with the necessary skills, knowledge, capabilities, and, more importantly, behaviors that fit and nurture our culture are prioritized. 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 enhancing an employee’s knowledge, competencies, skills, attitudes, and performance is a key tool with which SMIB achieves growth. Our employees are offered training and development opportunities to enhance their skills and knowledge whilst fortifying their brand. Bank endeavors to train and develop employees of all levels in different functions to perform their duties better and prepare them for future responsibilities.

Based on the importance of developing a leadership pipeline, a Leadership Development Program was designed for a group of qualified and young employees of the Bank. This program is

Human Resource Management Contd...

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 and Mentors. Further, this program supports them to be more productive, enhance the ability to manage change, and build a collaborative work environment to achieve 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 achieve set milestones in the industry while developing a competent internal workforce that is well equipped with knowledge and experience.

During 2021, 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 online. Internal and external training the year under review witnessed our employees going through 01 internal training programs and 20 external training programs. The Bank provides employees with external training opportunities to expose them to local and international industry innovations and developments.

The below table summarizes the employee participation in different categories of training granted during the year 2021.

Key Area	Number of Participants
Knowledge and Skill Development Training	114
Attitude Development Training / Motivational Training	3
Seminars, Workshops, Membership Fees, Quiz Competitions	13

Employee Service

Service category (Years)	No: of Employees as at 31.12.2021
0-4	67
5-9	152
10-14	8
15-19	49
Above 20	91
Total	367

82% of the employees have been working for more than 5 years in the Bank and contribute their service to bank is development. Providing financial as well as non-financial benefits to the staff, has catered for increased job satisfaction.

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

Future matters

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

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

A way forward

SMIB was inaugurated as the Ceylon State Mortgage Bank (CSMB) in December 1931 and later was transformed to the State Mortgage & Investment Bank by Act No. 13 of 1975, by amalgamation of the Ceylon State Mortgage Bank and the Agricultural and Industrial Credit Corporation. SMIB commenced operations under the name of “SMIB” in January 1979 and was recognized as a Licensed Specialized Bank (LSB) by the Central Bank of Sri Lanka in April 1998.

After 90 years of continued services to the nation, today SMIB has grown to become a government backed financial institution offering a wide range of services including retail banking products that have been appreciated by its growing clientele.

SMIB’s two competitive advantages as a Licensed Specialized Bank (LSB) -the state-owned brand name strength and depositors’ confidence - have been leveraged considerably in its new phase of growth.

It is the Marketing Division of SMIB that took the lead / spearheaded / played an instrumental role in leveraging its competitive advantages and the heavy promotion of strategic diversification of its products and services in the Sri Lankan market.

The diversification of SMIB portfolio and introduction of new financial products -amid a raging COVID Pandemic- resulted in the bank stepping up to offer services beyond its narrow, “housing finance and agriculture” segments and mortgage loans that it was previously locked into. SMIB’s new offer of “in demand” financial products such as savings deposits, fixed deposits and other deposit schemes has been positively welcomed by the clientele. Especially, the introduction of the Passbook Savings account in October 2001 broadened SMIB’s product and services scope greatly. This was a new beginning that went on to offer other savings facilities and fixed deposits that are customized for varying needs of SMIB’s retail banking customers. Similar to broadening of savings offerings, the Bank also expanded its portfolio of lending products thus increasing its coverage of support for small businesses, entrepreneurs and other borrowers.

Importantly, SMIB also ventured in two new directions that support national economic and enterprise development goals. For the first time SMIB opened support to market focused product development in many other business sectors beyond housing and agriculture, to producers of various sectors in both urban and rural areas. Again for the first time SMIB shaped several of its financial services to MSME sector of Sri Lanka, helping entrepreneurship development. SMIB has identified to foster this sector through financial inclusion by partnering with them thus fulfilling the government’s policy of promoting and strengthening MSMEs. SMIB’s MSME products are tailored to the varying needs of the customer and it does not offer a fixed solution to every MSME. SMIB’s inclusive financing strategy

to strengthen MSMEs in various industries with cost-effective financing options and advisory services has been positively welcomed by many of its SME clientele.

In this, the bank has introduced several lending schemes to help the SME entrepreneurs, industrialists in support of the governments vision to strengthen this sector. Even an important SMIB portfolio, the “loans and receivables”, too was diversified to include MSMEs while enlisting several other industry sectors such as Tourism and Micro Finance.

The Bank delivers its suite of services via a network of 25 branches situated in strategic locations island-wide. With the onslaught of the COVID Pandemic, the increased demand for delivery of SMIB’s services through customer centric digital channels was felt greatly. As a result, the SMIB network has been further strengthened to serve the needs of retail banking clients as well. SMIB now plans to upgrade its branch presence with digital-enabled touch points, thus creating greater convenience and accessibility to customers-even its MSME clients.

A state backed Licensed Specialized Bank, It SMIB has strengthened its position by extending the product portfolio beyond home mortgage loans to meet the diverse consumer banking and development banking needs of our customers.

Despite commercial operations were being significantly widened in this way, SMIB did not ‘forget’ its social obligations and responsibilities to the Sri Lanka community. SMIB took note of the impact of the raging Pandemic within the Sri Lankan society and donated Rs 5 Mn to the COVID19 Foundation.

SMIB is now rated [SL]BBB+ by the rating agency ICRA Lanka Limited.



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Directors' Report

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

The Board of Directors of State Mortgage and Investment Bank take pleasure in presenting their report on the affairs of the Bank together with the Audited Consolidated Financial Statements for the year ended 31 December 2021 of the Bank and the Auditor General's Report on those Financial Statements, conforming to the requirements of the State Mortgage and Investment Bank Law No: 13 of 1975 as amended and Banking Act No. 30 of 1988 and amendments thereto.

Principal Activities of the Bank

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

Three members out of the nine constitute a quorum at any meeting of the Board. Meetings of the Board of Directors should be held at least once a month or oftener if the Chairman deems it necessary as per the State Mortgage and Investment Bank Law and the Banking Act. It has been reported that Fifteen meetings were held in the year 2021.

Directors' attendance at the Board meetings:

#	Name of the Director	Number of Meetings eligible to attend	Number of Meetings attended
1	Dr. K.W.A.U. Kariyawasam - Chairman	15	15
2	Mr. H.C.D.L.Silva	15	15
3	Ms. W.C.N.Cooray	15	15
4	Mr. S.K.A. Galappaththi	15	15
5	Mr. A.J.P.H.B.M.R.S. Bandara	15	15
6	Ms. H. N. N. Gunasekera	7	7
7	Mr. K. R. Abeysirirwardana	7	7

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 2021.

Review of Operations and Future Developments

An overview of the financial and operational performance and future Developments of the Bank during the financial year 2021 and results of those operations are contained in the Chairman's Report, General Manager's /CEO's Report and Financial Review appearing on pages 6 to 17 in this annual report. These reports form an integral part of this annual report.

The General Manager / Chief Executive Officer (CEO)

The General Manager/ Chief Executive Officer (CEO) is the highest-ranking individual in the Bank and is appointed by the Board of Directors. His primary responsibilities include the managerial and operational activities of the bank. He carries

Directors' Report Contd...

out the day to day management of the bank's business in line with board approved strategic objectives, corporate values, and overall risk policy and risk management procedures to achieve sustainable development of the Bank.

Vision, Mission and Values

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

Corporate Governance

The Board of Directors is committed to maintaining an effective Corporate Governance structure and process. The Board considers that effective governance is a precept for sustaining responsible growth. The financial, operational and compliance functions of the Bank are directed and controlled effectively within the Corporate Governance practices. Corporate Governance report appears on pages 23 to 50 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.

Eight Board Audit Committee meetings were held in the year 2021. The BAC report is given on page 52 to page 53 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.

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

The Committee is required to meet at least once a year and during the year 2021 the Committee met once. The BHRRC report is given on page 55 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).

Five Board Integrated Risk Management Committee (BIRMC) meetings were held in the year 2021. The BIRMC report is given on pages 56 to page 58 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 is required to meet at least once a year and based on the needs, more meetings can be fixed. Two Committee meeting was held in the year 2020. The BNC report is given on page 54 of this annual report.

Capital Adequacy Ratio (CAR)

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

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

Risk Management

The Board of Directors assumes overall responsibility for managing risks. The specific measures taken by the Bank in mitigating the risks are detailed on page 60 to 66 of this Annual Report.

Internal Control

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

compliance with laws, regulations and policies.

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

The Directors Report on Internal Control appears on Pages 75 in this annual report.

Profit and Appropriations.

The Total Income of the Bank for the year 2021 was Rs. 5,254 Mn Details of profit relating to the Bank are given in the following Table:

Details	Rs. (Mn)
Reserves	5,393.76
Capital Expenditure	17.59
Contributed Capital	889.81
Contributions to the government Statutory Payments	430
Taxation	430
Events Occurring after the Balance Sheet Date	N/A
Post Balance Sheet Events	N/A
Going Concern N/A	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

Directors' Report Contd...

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 2021 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, 2021 is given on page 81 to 85 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 our Bank. Directors are also thankful for the co-operation and assistance received from regulatory and Governmental authorities in Sri Lanka.

By order of the Board,



Dilani Alahakoon
Secretary to the Board

Director's Statement on Internal Control over Financial Reporting

Responsibility

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

The Board of Directors ("The Board") is responsible for ensuring that the process of 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.
- 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 2021 and necessary steps have been taken to assess its impact to Financial Statements.

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

- The Board has reviewed whether the financial reporting processes of the bank ensure that the annual Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards and the guidance on reporting requirements issued by the Central Bank of Sri Lanka.
- Management level committees have also been functioning with appropriate empowerment to ensure effective management and supervision of Bank's core areas in the day-to-day business operations.
- A structured annual review of 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.

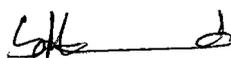
The External Auditor will review the above Directors' Statement on Internal Control over financial reporting for the year ended 31st December 2021.



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



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



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



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தேசிய கணக்காய்வு அலுவலகம்

NATIONAL AUDIT OFFICE



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எனது இல.
My No.

BAN/F/SMIB/IC/2021/1

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

09 February 2023

The Chairman
State Mortgage & Investment Bank



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

Introduction

This report is to provide assurance on the Directors' Statement on Internal Control over financial reporting ("Statement") of State Mortgage & Investment Bank included in the annual report for the year ended 31 December 2021.

Management's Responsibility

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

My Responsibilities and Compliance with SLSAE 3050 (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 & Investment Bank

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

This standard 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.



Summary of Work Performed

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

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

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

The Procedures selected depend on my 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 2021, 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 2021 prepared and presented in this Annual Report are consistent with the underlying books of accounts and are in conformity with the requirements of Generally Accepted Accounting Principles, Sri Lanka Accounting Standards' and Sri Lanka Financial Reporting Standards that give a true and fair view of the financial position of the Bank at the end of each financial year in compliance with the relevant statutory requirements.

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

1. The appropriate accounting policies have been selected, adopted and applied to prepare the Financial Statements according to the existing financial reporting framework in a consistent manner, material departures, if any, have been disclosed and explained;

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

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

The Board of Directors also approves the Interim Financial Statements prior to their release, following a review and recommendation by the Board Audit Committee. The Board Audit Committee report appears on Page 69 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.

Directors' Responsibility for Financial Reporting Contd...

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 60 to page 66 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 81 to 85 of this Annual Report.

Directors' interests in contracts of significance

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

bank was a party and in which a director of the bank had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Statutory payments

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

By Order of the Board,



Dilani Alahakoon
Secretary to the Board

Report of the Auditor General



ජාතික විගණන කාර්යාලය தேசிய கணக்காய்வு அலுவலகம் NATIONAL AUDIT OFFICE



මගේ අංකය
எனது இல.
My No.

BAN/F/SMIB/2021/01

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

14 October 2022

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 2021 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 2021 comprising the statement of financial position as at 31 December 2021 and statement of Income, statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the financial statements, including 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 the 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 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.





1.2 Basis for Opinion

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

1.3 Other information included in the Bank's 2021 Annual report.

The other information comprises the information included in the Banks 2021 Annual Report but does not include the financial statements and my auditor's report thereon, which is expected to be made available to me after the date of this auditor's report. Management is responsible for the other information.

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

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

When I read the Bank's 2021 Annual Report, if I conclude that there are material misstatements therein, I am required to communicate that matter to those charged with governance for correction. If further material uncorrected misstatements are existed those will be included in my report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution that will be tabled in due course.

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as 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 intend 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.
- 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 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
- 2.2 Based on the procedures performed and evidence obtained which 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;
- 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	2021 Rs.	2020 Rs.
Assets			
Cash and Cash Equivalents	13	143,854,162	195,817,542
Placements with Banks	14	11,774,900,238	11,811,735,022
Financial Assets - FVPL	15	25,450,000	21,350,000
Financial Assets - AC			
- Loans and Advances	16.1	38,102,856,586	36,856,886,670
- Debt and Other Instruments	17	1,991,908,289	2,414,814,588
Financial Assets - FVOCI	18	5,379,078	5,379,078
Property, Plant and Equipment	19	55,855,764	52,102,138
Right-of-use Assets	33.1	108,902,663	104,493,362
Deferred Tax Assets	20	222,859,204	234,711,041
Other Assets	21	891,087,350	1,104,631,205
Total Assets		53,323,053,333	52,801,920,647
Liabilities			
Due to Banks	22	31,476,885	67,348,787
Financial Liabilities at Amortised Cost			
- Due to Depositors	23	45,738,377,529	45,388,490,392
- Due to Debt Securities Holders		-	-
- Due to Other Borrowers	23	270,354,226	348,093,800
Employee Benefit Liability	24	437,588,888	449,258,424
Other Liabilities	25	561,683,230	529,220,558
Total Liabilities		47,039,480,757	46,782,411,961
Equity			
Stated Capital/Assigned Capital	26	889,812,899	889,812,899
Statutory Reserve Fund	27	296,560,939	283,911,474
Retained Earnings	28	4,019,389,735	3,767,975,310
Other Reserves	29	1,077,809,004	1,077,809,004
Total Equity		6,283,572,576	6,019,508,686
Total Equity and Liabilities		53,323,053,333	52,801,920,647

Certification:

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

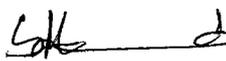


Mr. K. L. N. A. Perera
Assistant General Manager (Finance)

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



Dr. Udayasri Kariyawasam
Chairman



Mr. S. K. A. Galappaththi
Director



Mr. I. T. Asuramanna
General Manager/CEO

Statement of Profit or Loss

	Note	2021 Rs.	2020 Rs.
Interest Income	4	5,253,662,217	6,082,202,489
Interest Expenses	4	(2,951,466,283)	(3,960,479,767)
Net Interest Income	4	2,302,195,934	2,121,722,722
Fee and Commission Income	5	138,785,088	142,634,398
Fee and Commission Expenses	-	-	-
Net Fee and Commission Income	5	138,785,088	142,634,398
Net Fair Value Gains/(Losses) from FA at FVPL	6	4,100,000	1,875,000
Net Other Operating Income	7	28,728,618	33,852,096
Total Operating Income		2,473,809,641	2,300,084,216
Impairment Charges	8	(362,120,776)	(270,320,795)
Net Operating Income		2,111,688,865	2,029,763,421
Personnel Expenses	9	(1,083,959,864)	(872,736,805)
Depreciation and amortization expenses	10, 33.2	(100,035,067)	(52,576,301)
Other Expenses	10	(306,273,537)	(314,173,774)
Operating profit/(loss) before VAT, NBT & DRL		621,420,396	790,276,542
Value Added Tax (VAT) on Financial Services	34	(216,222,958)	(218,205,322)
Nation Building Tax (NBT) on Financial Services		-	-
Debt Repayment Levy (DRL) on Financial Services		-	-
Profit/(Loss) before Tax		405,197,439	572,071,220
Income tax expenses	11	(152,208,129)	(216,236,762)
Profit/(Loss) for the Year		252,989,310	355,834,458

Statement of Comprehensive Income

	2021 Rs.	2020 Rs.
Profit/(Loss) for the Year	252,989,310	355,834,458
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	13,334,869	(24,741,748)
Deferred Tax effect on Actuarial Gains Losses on defined benefit obligations	(3,200,369)	6,927,690
Total Comprehensive Income for the Year	263,123,811	338,020,399

Statement of Changes in Equity

	Assigned Capital	Statutory Reserve	Capital Reserve	General Reserve	Title Indemnity Fund	Retained Earnings	Total
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						22,819,742	22,819,742
Net Profit for the Year						355,834,458	355,834,458
Other Comprehensive Income						(17,814,059)	(17,814,059)
Transfer During the Year		12,990,439				(12,990,439)	-
Transfer to Consolidated Fund					-	-	-
Balance as at 31.12.2020	889,812,899	283,911,474	393,498,004	683,280,000	1,031,000	3,767,975,310	6,019,508,686
Prior Period Adjustments						940,079	940,079
Net Profit for the Year						252,989,310	252,989,310
Other Comprehensive Income						10,134,501	10,134,501
Transfer During the Year		12,649,465				(12,649,465)	-
Transfer to Consolidated Fund						-	-
Balance as at 31.12.2021	889,812,899	296,560,939	393,498,004	683,280,000	1,031,000	4,019,389,735	6,283,572,576

Statement of Cash Flows

Note	2021 Rs.	2020 Rs.
Cash flows from operating activities		
Interest Received	4,703,618,055	4,340,182,198
Interest Payments	(2,899,519,464)	(3,523,797,215)
Net commission receipts	142,015,360	142,634,398
Payments to Employees	(860,975,948)	(776,830,997)
VAT, DLR & NBT ,ESC on financial services	(263,455,214)	(214,861,853)
Receipts from Other Operating Activities	5,279,618	4,982,596
Payments on Other Operating Activities	(236,784,669)	(300,509,429)
Operating profit before changes in Operating Assets & Liabilities	590,177,738	(328,200,303)
(Increase)/Decrease in Operating Assets		
Financial assets at amortised cost - loans & advances	(1,613,363,454)	(1,154,091,422)
Other Assets	403,702,195	104,627,378
	(1,209,661,259)	(1,049,464,044.24)
Increase/(Decrease) in Operating Liabilities		
Financial liabilities at amortised cost - due to depositors	349,887,137	6,075,785,860
Financial liabilities at amortised cost - due to other borrowers	(91,129,018)	(1,153,586,832)
Other liabilities	127,029,624	(9,278,559)
	385,787,743	4,912,920,470
Net cash generated from operating activities before Income Tax	(233,695,777)	3,535,256,123
Income Taxes Paid	(147,002,986)	(121,163,775)
Net Cash from Operating Activities	(380,698,763)	3,414,092,348.02
Cash flows from investing activities		
Dividend Received	23,449,000	28,869,500
Proceeds from the sale of property, plant and equipment	-	1,192,874
Purchase of Property ,Plant & Equipment	(21,165,457)	(14,217,784)
Net Proceeds from the sale and maturity of financial investments	414,718,845	(3,410,294,929)
Net cash (used in)/from investing activities	417,002,388	(3,394,450,339.00)
Cash flows from financing activities		
Repayment of subordinated debt	-	-
Payments to Consolidated Fund	-	-
Net cash from financing activities	-	-
Net increase/(decrease) in cash & cash equivalents	(16,091,476)	19,642,009
Cash and cash equivalents at the beginning of the period	128,468,755	108,826,746
Cash and cash equivalents at the end of the period	112,377,277	128,468,754.99
Reconciliation of Cash and Cash Equivalents		
Cash and Short Term Funds	143,854,162	195,817,542
Government of Sri Lanka Treasury Bills	-	-
Borrowings from Banks (OD)	(31,476,885)	(67,348,787)
Cash and cash equivalents at the end of the period	112,377,277	128,468,754.99

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 2021 were authorized for issue in accordance with the approval given by the Board of Directors of the Bank at the meeting held on 12.10.2022.

The staff strength of the Bank as at December 31, 2021 was 363 (365 as at December 31, 2020)

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 2021 were prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRS and LKAS) laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and are in compliance with the information required by the Banking Act No. 30 of 1988 and subsequent amendments thereto. These Financial Statements, except for the information in cash flow have been prepared following the accrual basis of accounting. The formats used in the preparation of Financial Statements and the disclosures made therein also comply with the specified formats prescribed by the Central Bank of Sri Lanka for the preparation, presentation and publication of Annual Audited Financial Statements of Licensed Banks.

2.1.2. Presentation of Financial Statements

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

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

2.1.3. Significant Accounting Judgments, Estimates and Assumptions

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

2.1.3.1. Classification of financial assets and liabilities

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

2.1.3.2. Fair value of financial instruments

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

2.1.3.3. Impairment losses on financial assets

The measurement of impairment losses both under SLFRS 9 and LKAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. Accordingly, the Bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be provided in the Income Statement. In particular, the Management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and hence actual results may differ, resulting in future changes to the impairment allowance made. The individual impairment provision applies to financial assets evaluated individually for impairment and is based on Management's best estimate of the present value of the future cash flows that are expected to be received. In estimating these cash flows, Management makes judgements about a borrower's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable. A collective impairment provision is established for homogeneous loans and advances that are not considered individually significant; and groups of assets that are individually significant but that were not found to be individually impaired.

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

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

2.1.4. Rounding

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

2.1.5. Basis of measurement

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

- i. Financial assets measured at fair value through other comprehensive income
- ii. Financial assets and liabilities recognised through profit or loss

Accounting Policies Contd...

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

2.1.6. Going Concern

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

2.1.7. Materiality and aggregation

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

2.1.8. Comparative information

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

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

2.2.1 Interest Income and Expenses

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

2.2.2. Dividend Income

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

2.2.3. Net Trading Income

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

2.2.4. Other Income

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

2.2.5. Other Expenses

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

2.2.6. SLFRS 15 - Revenue from Contracts with Customers

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

2.3. 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.

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

Accounting Policies Contd...

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 not 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 liability 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.

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.

	2021	2020
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 21 Permanent employees and their families and retirees of State Mortgage & Investment Bank are eligible for medical reimbursement provided that they have adopted to participate in the Scheme and have paid their membership dues. Family members of a retired member is only eligible for benefits under special treatment (either any one of retired member or his/her family member is eligible).

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

The assumptions used are as follows.

	2021	2020
Discount Rate	11.50%	8.00%
Medical Expense Escalation	6.50%	6.50%
Participant Data (Actives) census information at	31.12.2021	31.12.2020

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

Expected Return on Assets	Expected return on assets is zero as the plan is not pre funded.
Interest Cost	Interest Cost is the time value of Present Value of the Defined Benefit Obligation (PVDBO) and the Current Service Cost (CSC).
Funding Arrangements	The Medical Benefit Scheme is not externally funded

2.4.3. Defined Contribution Plan

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

2.4.3.1. Employees' Provident Fund

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

2.4.3.2. Employees' Trust Fund

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

2.4.4. Leases

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

Until the 2018 financial year, leases of property, plant and

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equipment were classified as either finance leases or operating leases.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank according to SLFRS 16 Leases.

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

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

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

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

2.4.4.1. Identifying a lease

A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Hence, at inception of a contract, Group assesses whether the contract is, or contains, a lease by considering following aspects. Availability of identified asset, right to control the use of the identified asset, right to obtain substantially all economic benefits from use of the identified asset, right

to direct the use of the identified asset Accordingly, Bank identifies all the Rent Agreements (except short term agreements, less than twelve months and low value agreements) entered by the Group for operating a branch and for using machineries contain a lease under SLFRS 16: Leases

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

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

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

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Details of the cash and short term funds are given in Note 34 to the Financial Statements.

2.4.5. Cash and Cash Equivalents

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

2.4.6. Property, Plant and Equipment

Details of Property plant and equipment are given in the note number 16 Property, plant and equipment is stated at cost or valuation excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

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

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

2.4.6.2. Basis of Recognition

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

2.4.6.3. Basis of Measurement

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

2.4.6.4. Depreciation

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

The estimated useful lives are as follows

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

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

2.4.6.5. Subsequent Cost

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

embodied within that part will flow into the Bank and its cost can be reliably measured.

2.4.6.6. Restoration Cost

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

2.4.6.7. Capital Work-in-Progress

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

2.4.6.8. De-recognition

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

Details are disclosed in the note number 19.

2.4.7. Intangible Assets

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

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

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing

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the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

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

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

2.4.8. Impairment of Non-Financial Assets

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

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

2.4.9. Financial Guarantees

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

the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

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

2.4.10 Provisions

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

2.4.11. Financial Instruments - Initial Recognition

2.4.11.1.Date of Recognition

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

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

- Amortised cost
- FVOCI
- FVPL

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

2.4.12. Financial Assets and Liabilities

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

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

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

The details of these conditions are outlined below.

2.4.12.2. Business Model Assessment

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

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

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

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

2.4.12.3. The SPPI Test

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

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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 2021.

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 2021. 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 2021 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 2020 & 2021.

2.4.12.9. De-recognition of Financial Assets and Liabilities

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

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

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full recovery of the amount lent plus accrued interest at market rates

- The Bank cannot sell or pledge the original asset other than as security to the eventual recipient.
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay.

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

A transfer only qualifies for de recognition if either:

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

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

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

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

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase.

In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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

2.4.12.10. Impairment of Financial Assets

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

Details of the impairment of the financial assets are disclosed in the note number 16 & 17

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.

2.4.12.10.1. Overview of the ECL Principles

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

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

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

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

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

Stage 1	When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
Stage 2	When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
Stage 3	Loans considered credit-impaired (as outlined in Note 13). The bank records an allowance for the LTECLs.
Stage 4	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:

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

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

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

2.4.12.10.3. The Mechanics of the ECL Method are Summarised Below:

Stage 1

The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the four scenarios, as explained above.

Stage 2

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

Stage 3

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

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

2.4.12.11. Debt Instruments Measured at Fair Value through OCI

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

2.4.12.12. Purchased or Originated Credit Impaired Financial Assets (POCI)

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

2.4.12.13. Forward Looking Information

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

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

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

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

2.4.12.14. Collateral Valuation

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

2.4.12.15. Collateral Repossessed

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

In its normal course of business, the Bank does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover

funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the Statement of Financial Position.

2.4.12.16. Write-offs

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

2.4.13. Events after the Reporting Period

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

2.4.14. Related Party Transactions with Government and Government Related Entities

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

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

2.5.1. Interest Income

Details interest income are given in the note number 03

2.5.2. Interest and Similar Income

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

When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Bank calculates

Accounting Policies Contd...

interest income by applying the effective interest rate to the net amortised cost of the financial asset.

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

2.5.3. Fee and commission income

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

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

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

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

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

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

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

change were not a lease modification. The amendment pronouncement is not expected to have a material impact on the Bank's financial statements.

2.7 Impact due to the COVID-19

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

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

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

Details of day one loss on moratorium interest income are disclosed in the note number 04 &16

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.

	2021 Rs.	2020 Rs.
Interest Income	5,253,662,217	6,082,202,489
Fee and Commission Income	138,785,088	142,634,398
Net Fair Value Gains/(Losses) from FA at FVPL	4,100,000	1,875,000
Net Other Operating Income	28,728,618	33,852,096
Gross Income	5,425,275,924	6,260,563,983

04 Net Interest Income

Accounting Policy is disclosed in Note 2.2.1

	2021 Rs.	2020 Rs.
Interest Income		
Placements with Banks (Fixed+Savings Accounts)	635,320,394	886,811,595
Financial Assets at Amortised Cost		
- Loans and Advances	4,470,896,211	5,004,888,109
First Day Impact of Moratorium Loans	5,125,093	(23,483,202)
Deferred 7% interest Income on Moratorium interest	3,230,271	5,486,337
less-7% moratorium bank charges of 1st wave recovered to income	(1,495,605)	
- Debt and Other Instruments	140,585,854	208,499,650
Total Interest Income	5,253,662,217	6,082,202,489
Interest Expenses		
Due to Banks	33,260	9,397
Financial Liabilities at Amortised Cost		
- Due to Depositors	2,933,607,391	3,806,143,353
- Due to Debt Securities Holders	-	2,569,178
- Due to Other Borrowers	17,825,632	151,757,838
Total Interest Expenses	2,951,466,283	3,960,479,767
Net Interest Income	2,302,195,934	2,121,722,722

a. Net Income from Sri Lanka Government Securities

	2021 Rs.	2020 Rs.
Interest Income	55,278,205	73,803,782
(Less):Interest Expenses	-	-
Net Interest Income	55,278,205	73,803,782

Notes to the Financial Statement Contd...

05 Net Fee and Commission Income

Accounting Policy

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

	2021 Rs.	2020 Rs.
Fee and Commission Income	138,785,088	142,634,398
Fee and Commission Expenses	-	-
Net Fee and Commission Income	138,785,088	142,634,398
Comprising		
Bank Service Charges - Loans and Advances	127,228,221	134,033,283
Legal & Technical Fees - Loans and Advances	320,325	341,650
Other Charges	11,236,543	8,259,464
Net Fee and Commission Income	138,785,088	142,634,398

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

Accounting Policy

Net trading income includes all gains and losses and related dividend for "financial assets recognised through profit or loss" other than interest income

	2021 Rs.	2020 Rs.
Gains on financial assets at fair value through profit or loss	4,100,000	1,875,000
Losses on financial assets at fair value through profit or loss	-	-
Total	4,100,000	1,875,000

07 Other Operating Income (net)

Accounting Policy

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

	2021 Rs.	2020 Rs.
Dividend Income	23,449,000	28,869,500
Sundry Income	5,279,618	4,982,596
Other Operating Income (net)	28,728,618	33,852,096

08 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

	2021 Rs.	2020 Rs.
Financial Assets at AC - Loans and Advances		
Stage 1	84,595,623	94,476,212
Stage 2	60,460,538	24,501,626
Stage 3	220,666,168	148,491,725
Other Financial assets at amortised cost		
Stage 1	(203,003)	(10,580)
Stage 2	(3,398,550)	2,861,812
Stage 3	-	-
Total	362,120,776	270,320,795

09 Personnel Expenses

Accounting Policy

01. 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.

(a) Employees’ Provident Fund

Accounting policy is disclosed in the 2.4.1

(b) Employees’ Trust Fund

Accounting policy is disclosed in the 2.4.1

	2021 Rs.	2020 Rs.
Staff Expenses		
Salaries and Bonus	723,390,830	591,969,198
Defined Contribution Plan- EPF & ETF	104,649,263	85,629,411
Defined Benefits Plans - Gratuity Provision	32,329,459	37,092,620
Encashment of Sick Leave	30,081,413	24,124,585
Overtime and Out of Pocket Allowance	14,221,750	14,780,186
Staff Study and Training	475,409	415,300
Medical Scheme - Payments	57,262,827	44,040,591
Medical Scheme - Provision (IFRS)	8,048,748	15,445,753
Welfare	4,031,347	7,058,994
Insurance	901,657	844,361
Staff Loan day 1 Difference (IFRS)	106,508,572	49,579,593
PAYE Tax on Employment Income	2,058,589	1,756,213
Total	1,083,959,864	872,736,805

Notes to the Financial Statement Contd...

9.1 Contribution – Retired staff medical scheme

	2021 Rs.	2020 Rs.
Amount recognised as expense	22,211,888	25,846,298

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)

9.2 Contribution – Gratuity

	2021 Rs.	2020 Rs.
Amount recognised as expense	32,329,458.60	37,092,619.59

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 2019. (Refer Note 25)

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

	2021 Rs.	2020 Rs.
Directors' Emoluments	3,612,740	2,966,933
Auditors' Remuneration	3,000,000	4,165,250
Office Administration and Establishment Expenses	106,349,210	145,295,101
Advertising and Promotional Expenses	8,363,236	3,052,395
Motor Vehicle Maintenance & Travelling	18,041,603	12,426,551
General Expense	13,938,047	10,650,386
District Rep's Commission	-	-
Other Losses, Bad Debts and Write Offs	3,920	28,838,238
CBSL Deposit Insurance	42,175,161	38,693,214
Other Expenses	107,865,980	67,338,139
Depreciation/Amortisation of Property, Plant and Equipment	17,592,171	17,589,271
Total	323,865,708	331,763,045

11 Tax Expenses

Accounting Policy

Current Tax Expenses -Tax Rate 24%

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

Deferred taxation-Tax Rate 24%

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 recognise to the extent that is probable that future taxable profit will allow the deferred tax asset to be recovered.

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

	2021 Rs.	2020 Rs.
Current Tax Expense		
Current Year	143,556,660	222,371,439
Deferred Tax Expense/(Credit)	8,651,469	(6,134,677)
Total	152,208,129	216,236,762
11.1 Reconciliation of Tax Expenses		
Profit/(Loss) before Tax	621,420,396	790,276,542
Adjustment in Respect of Current Income Tax of Prior Periods		
Add: Tax Effect of Expenses/income reductions that are not Deductible for Tax Purposes	534,797,717	425,175,722
(Less): Tax Effect of Expenses that are Deductible for Tax Purposes	(418,984,170)	(391,420,762)
Disposal of Assets	-	-
Dividends	(27,549,000)	(30,744,500)
Adjusted Profits for the Year	709,684,944	793,287,002
Taxation Based on Profit for the Year	170,324,386	222,120,361
Taxation based on dividend income at 14%	3,282,860	-
Transfer to/from Deffered Taxation	8,651,469	(6,134,677)
(Over)/Under Provision in Previous years	(30,050,587)	251,079
Tax Expense for the Period	152,208,129	216,236,762

Notes to the Financial Statement Contd...

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

	2021 Rs.	2020 Rs.
Deferred Tax Assets		
Property, Plant & Equipment	(4,708,134)	(5,779,740)
Employee Benefit Obligations	105,021,333	125,792,359
Impairment Provision	118,944,358	109,185,597
Right to use Assets	(804,299)	(1,062,471)
Moratorium First Day Impact	4,405,946	6,575,297
Deferred Tax Assets	222,859,204	234,711,041

12 Analysis of Financial Instruments by Measurement Basis - Bank - Current Year (2021)

Accounting Policy

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

In Rs.	AC	FVPL	FVOCI	Total
ASSETS				
Cash and cash equivalents	143,854,162	-	-	143,854,162
Placements with banks	11,774,900,238	-	-	11,774,900,238
Loans and advances	38,102,856,586	-	-	38,102,856,586
Debt instruments	-	-	-	-
Reverse Repos	716,130,665	-	-	716,130,665
Treasury Bills	892,573,481	-	-	892,573,481
Treasury Bonds	383,204,143	-	-	383,204,143
Unit Trusts	-	25,450,000	-	25,450,000
Unquoted Shares	-	-	5,379,078	5,379,078
Total financial assets	52,013,519,275	25,450,000	5,379,078	52,044,348,353
LIABILITIES				
Due to banks	31,476,885	-	-	31,476,885
Financial liabilities				
- Due to depositors	45,738,377,529	-	-	45,738,377,529
- Due to debt security holders	-	-	-	-
- Due to other borrowers	270,354,226	-	-	270,354,226
Total Financial Liabilities	46,040,208,640	-	-	46,040,208,640

Bank - Previous Year (2020)

In Rs.	AC	FVPL	FVOCI	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
Debt instruments	-	-	-	-
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...

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"

	2021 Rs.	2020 Rs.
Cash in hand	74,965,241	83,476,991
Balances with banks	68,888,921	112,340,551
Total	143,854,162	195,817,542

14 Placements with Banks

Accounting Policy

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

14.1	2021 Rs.	2020 Rs.
Fixed Deposits		
Sampath	-	-
NDB	2,285,356,648	5,281,921,250
NSB	2,995,786,853	748,722,752
PB	3,469,932,837	1,372,313,230
RDB	-	-
SDB	401,112,329	1,710,081,403
BOC	1,812,187,891	1,385,999,614
Savings Accounts-Investments		
SDB	877,276.78	207,125,177.42
NDB	810,894,754	1,110,421,499
Gross Total	11,776,148,590	11,816,584,927

14.2 Movements in impairment during the year

	2021 Rs.	2020 Rs.
Stage 1		
Opening balance as at 01/01/2021	458,233	468,813
Charge/(Write back) to income statement	(203,003)	(10,580)
Write-off during the year	-	-
Other movements	-	-
Closing balance at 31/12/2021	255,230	458,233
Stage 2		
Opening balance as at 01/01/2021	4,391,671	1,529,859
Charge/(Write back) to income statement	(3,398,550)	2,861,812
Write-off during the year	-	-
Other movements	-	-
Closing balance at 31/12/2021	993,122	4,391,671
Stage 3		
Opening balance as at 01/01/2021	-	-
Charge/(Write back) to income statement	-	-
Write-off during the year	-	-
Other movements	-	-
Closing balance at 31/12/2021	-	-
C. Net Placement with banks	11,774,900,238	11,811,735,022

15 Financial Assets Recognized Through Profit or Loss

	2021 Rs.	2020 Rs.
Unit Trusts (NDB)	25,450,000	21,350,000
Total	25,450,000	21,350,000
a. Analysis		
By collateralisation		
Pledged as collateral	-	-
Unencumbered	25,450,000	21,350,000
Gross total	25,450,000	21,350,000

Notes to the Financial Statement Contd...

16 Financial Assets at Amortised Cost - Loans and Advances

Accounting Policy

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

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

16.1	2021 Rs.	2020 Rs.
Gross loans and advances	39,590,389,732	37,983,822,580
Stage 1	28,134,980,807	26,750,299,799
Stage 2	2,559,981,285	2,087,873,904
Stage 3	8,895,427,640	9,145,648,877
(Less): Accumulated impairment under:	1,469,175,037	1,103,452,708
Stage 1	332,500,378	247,904,755
Stage 2	149,668,036	89,207,499
Stage 3	987,006,623	766,340,454
Net Loans and Advances	38,121,214,695	36,880,369,872
Less - First Day impact of Moratorium Loans	18,358,109	23,483,202
Carrying Value of Loans and Advances	38,102,856,586	36,856,886,670

16.2 Analysis	2021 Rs.	2020 Rs.
By product		
Mortgage	10,607,559,455	9,942,813,267
EPF	6,830,450,037	7,685,291,335
Vehicle	-	485,400
Staff loans	1,410,660,258	1,367,929,889
Personal Loans	20,062,117,026	18,232,060,924
Others	1,167,569,324	1,136,699,561
Less-		
Allowance for Day 1 Difference - Staff Loans	(487,966,369)	(381,457,796)
Gross Total	39,590,389,732	37,983,822,580
By collateralization		
Collateral held as Security	17,438,009,492	18,727,951,333
Other Credit Enhancements	22,152,380,240	19,255,871,247
Gross Total	39,590,389,732	37,983,822,580

16.3 Movements in impairment during the year

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

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

a Collective Assessment of Impairment

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

b Individual assessment of impairment

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as financial assets at amortised cost – debt and other instruments), the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an impairment provision account and the amount of the loss is recognised in the Income Statement. Interest income continues to be accrued on the carrying amount at the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest and similar income"

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the bank reclassified trading assets to loans and receivables, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increased or decreased because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the "Credit loss expense"

The Bank accounting policy for write-off under SLFRS 9 remains the same as it was under LKAS 39. Loans (and the related impairment allowance accounts) are normally written off, either partially or in entirety, when there is no realistic prospect of recovery and all possible steps have been exhausted in recovering dues. Where loans are secured, this is generally after receipt of any proceeds from the realization of security. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. If a write-off is later recovered, the recovery is credited to "other operating income"

Notes to the Financial Statement Contd...

	2021 Rs.	2020 Rs.
Stage 1		
Opening balance as at 01/01/2021	247,904,755	153,428,543
Charge/(Write back) to income statement	84,595,623	94,476,212
Write-off during the year	-	-
Closing balance at 31/12/2021	332,500,378	247,904,755
Stage 2		
Opening balance as at 01/01/2021	89,207,499	64,705,873
Charge/(Write back) to income statement	60,460,538	24,501,626
Write-off during the year	-	-
Closing balance at 31/12/2021	149,668,036	89,207,499
Stage 3		
Opening balance as at 01/01/2021	766,340,454	617,848,730
Charge/(Write back) to income statement	220,666,168	148,491,725
Write-off during the year	-	-
Closing balance at 31/12/2021	987,006,623	766,340,454
Total	1,469,175,037	1,103,452,708

16.3.2 Impact of COVID-19 to Loan and Advances and ECL provision

a Overview

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

Uncertainties in macroeconomic environment is being continued as of end of the 2021 resulting resilient in arresting expected credit loss(ECL) compared to last year. high delinquencies and changing of the assumptions in Economic Factor Adjustment (EFA) and reduction of the impairment charges in the individually significant loans were main contributing factors reduction of impairment Charged to Income Statements ECL.,where we recognised a lower of credit impairment of Rs. 267 Mn. pre-tax in the 2021 financial year compared Rs. 270 in corresponding year. During 2020 the non-Performing loans increase was Rs. 868 Mn. (NPL was Rs. . 8,412 Mn in 2020) and 2021 non-performing loan decreased by 815 Mn. (NPL was Rs. Mn.7,597 Mn 2021). This has directly impacted on the reduction of incurred loss (impairment) part during 2021 financial year

b Allowance for credit impairment for moratorium Facilities

To determine as to whether a significant increase in credit risk (SICR) has occurred on COVID-19 pandemic, it is required to follow management judgments in evaluation of macroeconomic variables and moratorium relief packages granted under waive 1 to 4 to retail and corporate clients. Interest or principal deferrals and associated other relief programmes were resulted to SICR which would trigger migration of facilities from stage 1 to Stage 2 by reason only that a deferral under the programme was granted.

Relief programs granted to customers may not result to migration stage 2 unless determined that there was evidence for SICR based on our assessment of the changes in the risk of a default occurring over the expected life of a loan which requires additional provision for impairment. Judgment is being used to identify of the business segment and individual customers highly affected by COVID-19, associated credit risk of such groups which are classified in the both 12-month and lifetime expected credit losses based on SICR.

c Use of Management overlays

Management overlays are being used for ECL to capture variables which do not capture all relevant risk factors under existing assumption and model use for impairment. By occurrence of ECL sensitive information such as sudden changes of the macroeconomic variables or political events with associated expected changes on parameters, models or data which are not incorporated in our current parameters such as forward-looking information are considered under management overlays.

To arrest the impact of the COVID-19 pandemic and associated uncertainties embedded with current environment, Management overlays are being used with respect to assess the migration of risk of certain business and individual customers which are exposed to risks and the resulting measurement of the ECL for those exposures. In normalising of relief granted under Government support measures was considered in the determination of these overlays to the extent not already reflected in our models. Management overlays were applied with respect to the impact of Government support and client relief measures on the migration of retail exposures and the resulting measurement of the ECL for those exposures. The use of Management overlays requires the application of significant judgment that impacts the amount of ECL allowances recognised. Actual credit losses could differ materially from those reflected in our estimates. The forward PDs are applied to all the customers despite of their category in the debt moratorium or payment deferral.

d. Move loans and advances from Stage 1 to Stage 2

	Stage 1	Stage 2	Net impact
Exposure	(1,241,451,045)	1,241,451,045.27	-
Impairment Provision	(8,160,833.28)	65,563,877.04	57,403,043.76

Retail loans and advances of selected sectors which were initially grouped under Stage 1 moved to Stage 2. As a result, Loans and Advances amounting to Rs. 1,241.45 Mn. were moved from Stage 1 to Stage 2 and provision for impairment was increased by Rs. 57.4 Mn. for the year ended 31 December 2021.

Notes to the Financial Statement Contd...

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

	2021 Rs.	2020 Rs.
Treasury Bills	892,573,481	815,010,484
Treasury Bonds	383,204,143	165,589,926
Debenture	-	-
Reverse Repos	716,130,665	1,434,214,178
Commercial Paper	-	-
Gross total	1,991,908,289	2,414,814,588
17.1 Analysis		
By collateralization		
Pledged as collateral	-	-
Unencumbered	1,991,908,289	2,414,814,588
Gross total	1,991,908,289	2,414,814,588

18 Financial Assets at Fair Value Through Other Comprehensive Income

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

Financial Assets at Fair Value Through Other Comprehensive Income

	2021 Rs.	2020 Rs.
Unquoted Shares		
CRIB	4,754,078	4,754,078
Fitch Rating	625,000	625,000
Gross total	5,379,078	5,379,078
a. 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 Group 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.

19.1 a. Property, Plant and Equipment

In Rs.	Vehicles	Furniture & Fitting & Office Equipment	Computer Equipment	Computer Software	Total
2021 (Current Year)					
Cost/Fair Value					
Opening Balance as at 01/01/2020	70,798,254	141,450,868	137,296,484	4,404,518	353,950,124
Additions	-	15,965,617.11	5,199,840		21,165,457
Disposals/Adjustments	-	-			
Adjustments	-			(9,000)	(9,000)
Closing Balance as at 31/12/2021	70,798,254	157,416,485.36	142,496,324	4,395,518	375,106,581
(Less): Accumulated Depreciation					
Opening Balance as at 01/01/2020	70,798,254	98,644,759	128,000,455	4,404,518	301,847,986
Charge for the Year	-	12,686,886	4,905,286		17,592,171
Disposals/Adjustments	-	1,155,649	(1,335,989)	(9,000)	(189,340)
	-				-
Closing Balance as at 31/12/2021	70,798,254	112,487,293	131,569,752	4,395,518	319,250,817
(Less): Impairment Charges					
Net Book Value as at 31/12/2021	-	44,929,192	10,926,572	-	55,855,764

Notes to the Financial Statement Contd...

In Rs.	Vehicles	Furniture & Fitting & 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	353,950,124
(Less): Accumulated Depreciation					
Opening Balance as at 01/01/2020	70,798,254	87,404,366	123,858,168	6,958,598	289,019,386
	-	-	-		-
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	98,644,759	128,000,455	4,404,518	301,847,986
(Less): Impairment Charges					
Net Book Value as at 31/12/2020	-	42,806,109	9,296,028	-	52,102,138

19.2 Fully Depreciated Property Plant and Equipment

Fully Depreciated Property Plant and Equipment which still are in use as follows

As at 31 December	2021 Rs.	2020 Rs.
Vehicles	70,798,254	70,798,254
Furniture & Fittings & Office Equipment	73,068,183	46,923,202
Computer Equipment	124,197,818	120,672,618
Computer Software	4,395,518	4,395,518
Total	272,459,773	242,789,592

19.3 Temporarily Idle Property Plant and Equipment

There were no temporarily idle property plant and equipment as at reporting date

19.4 Property Plant and Equipment Retired from Active Use there were not property plant and equipment retired from active use which were not classified as held for sale in accordance with SLFRS 5 - Non current assets held for sale and discontinued operations.

20 Deferred Tax Assets/(Liabilities)

Accounting Policy

Accounting Policy on Defered tax disclosed in the Note 11

	2021 Rs.	2020 Rs.
Opening Balance 01/01/2021	234,711,041	221,648,675
Charge for the year Recognized in		
- Profit/(Loss)	(8,651,469)	6,134,677
- Other Comprehensive Income	(3,200,369)	6,927,690
Closing Balance 31/12/2021	222,859,204	234,711,041

21 Other Assets

	2021 Rs.	2020 Rs.
Other Assets		
Stationary Stock	13,027,940	12,995,612
Deposits and Prepayments	6,262,681	3,042,427
Prepaid Staff Loans	487,966,369	381,457,796
VAT Receivable	17,855,075	7,440,500
NBT Receivable	3,603,588	3,603,588
DRL Receivable	15,591,023	15,591,023
7% Interest Receivable on Moratorium Interest	7,221,003	5,486,337
Interest Receivable - Senior Citizens Fixed Deposits	313,337,784	589,508,674
Deferred Moratorium Interest Receivable	(0.00)	0.00
Others	26,221,887	85,505,247
Total	891,087,350	1,104,631,205

22 Due to Banks

	2021 Rs.	2020 Rs.
Borrowings (ODs)	31,476,885	67,348,787
Repo agreements	-	-
Others	-	-
Total	31,476,885	67,348,787

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.

	2021 Rs.	2020 Rs.
Due to depositors	45,738,377,529	45,388,490,392
Debt securities issued by the bank	-	-
Repo agreements	-	-
Other borrowings	270,354,226	348,093,800
Total	46,008,731,755	45,736,584,192

23.1 Analysis of amount due to depositors

	2021 Rs.	2020 Rs.
By Product		
Savings deposits	2,621,046,652	2,262,441,333
Fixed deposits	42,041,071,375	41,984,985,100
Other deposits (Schemes)	1,076,259,502	1,141,063,959
Total	45,738,377,529	45,388,490,392

23.2 Analysis of other borrowings

	2021 Rs.	2020 Rs.
Bank Loans	-	-
AHF	220,183	1,110,904
CBSL Refinance Loans	169,914,570	260,156,083
Lease Liability	100,219,472	86,826,813
Total	270,354,226	348,093,800

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 Acturial & Management Consultants (Pvt) Ltd. The key assumptions used by the actuary include the following:”

	2021	2020
Rate of Interest		8.00%
Rate of Salary Increase		6.50%
Retirement Age	55-60 years	55-60 years
Gratuity		

	2021 Rs.	2020 Rs.
Provision for Gratuity		
Balance at the Beginning of the Year	228,345,520	195,531,358
Current Service Cost	14,061,817	16,561,827
Interest Cost	18,267,642	20,530,793
Benefit Paid	(38,712,873)	(18,313,429)
Acturial (Gains)/Losses	(9,722,513)	14,034,971
Total	212,239,593	228,345,520

	2021	2021
Sensitivity Analysis of Present Value of Defined Benefit Obligation		
Assumption changed (while all other assumptions remain unchanged)	PV-DBO (Rs.)	PV-DBO (Rs.)
A one percentage point increase (+1%) in the discount rate	199,181,690	211,364,613
A one percentage point decrease (-1%) in the discount rate	227,117,808	248,111,722
A one percentage point increase (+1%) in the salary/wage increment rate	228,689,546	249,248,506
A one percentage point decrease (-1%) in the salary/wage increment rate	197,625,763	210,102,918

Maturity Profile of the Gratuity Provision as at 31.12.2021

AGE GROUP	No_Emps	TOT_Basic Salary (Rs.)	TOT_COLA (Rs.)	AVG_Futur Working Lifetime (years)	TOT_Provision (PV-DBO) (Rs.)
XV: 20 to 24	3	103,815	114,210	25.0	0
XV: 25 to 29	66	2,779,035	2,398,402	22.3	6,838,715
XV: 30 to 34	51	2,941,675	1,941,563	20.2	8,352,113
XV: 35 to 39	68	4,673,400	2,588,751	17.0	18,631,975
XV: 40 to 44	57	4,453,385	2,169,983	13.7	27,880,739
XV: 45 to 49	45	4,037,335	1,637,004	10.0	28,117,434
XV: 50 to 54	32	3,197,080	1,218,236	5.8	45,735,951
XV: 55 to 59	42	3,398,585	1,522,795	2.3	76,682,666
TOTAL	364	25,584,310	13,590,944	14.4	212,239,593

Medical

	2021 Rs.	2020 Rs.
Provision for Medical Benefit		
Balance at the Beginning of the Year	220,912,904	194,760,373
Current Service Cost	4,538,856	5,396,459
Interest Cost	17,673,032	20,449,839
Actuarial (Gain)/Losses	(3,612,357)	10,706,777
Benefit Paid	(14,163,140)	(10,400,545)
Total	225,349,295	220,912,904
Total Employee Benefit Liability	437,588,888	449,258,424

Notes to the Financial Statement Contd...

Sensitivity Analysis of Present Value of Benefit Obligation

Category	+1% Discount Rate PV-DBO (Rs.)	-1% Discount Rate PV-DBO (Rs.)
Active employees -Pensioner Medical benefits (Medical Fund)	59,963,133	83,631,512
Pensioners -Medical benefit (Medical Fund)	143,730,108	167,799,110
TOTAL	203,693,241	251,430,622

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 The key assumptions used by the actuary include the following:"

	2021 Rs.	2020 Rs.
Taxes Payable	115,939,488	119,284,281
Accrued Expenditure	121,158,723	59,868,419
Other liabilities	126,797,056	251,287,882
less- Notional UR adjutmnet on Loan Book	-	(68,971,423)
Estate Refund Creditors	23,769,113	-
Margin Account-SP.Loan for ETF board (BETWEEN 2MN&3M)	42,128,349	-
Margin Account	56,673,793	82,698,997
Margin Account-Waste Managemnet	24,845,923	12,949,120
Customer Refund-Closed Loan	50,370,784	72,103,281
Total	561,683,230	529,220,558
25.1 Taxes Payable		
Income Tax	115,088,376	118,534,702
Payee Tax	848,165	720,477
WHT Payable	2,947	29,102
VAT Payable	0.00	-
NBT Payable	-	-
DRL Payable	-	-
ESC Payable	-	-
Taxes Payable	115,939,488	119,284,281

Oldest State Bank Established in 1931*Housing Bank to the Nation***26 Stated Capital/Assigned Capital**

	2021 Rs.	2020 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

	2021 Rs.	2020 Rs.
Opening Balance as at 01st January	283,911,474	270,921,034
Transfer During the Period	12,649,465	12,990,439
Closing Balance as at 31st December	296,560,939	283,911,474

28 Retained Earnings

	2021 Rs.	2020 Rs.
Opening Balance as at 01st January	3,767,975,310	3,420,125,609
Prior Period Adjustments	940,079	22,819,742
Impairment 1st day Adjustment	-	-
OCI Reserve Transfer	-	-
Profit for the Year	252,989,310	355,834,458
Transfers to Other Reserves	(12,649,465)	(12,990,439)
Other Comprehensive Income	10,134,501	(17,814,059)
Deemed Dividend Tax	-	-
Closing Balance as at 31st December	4,019,389,735	3,767,975,310
Prior Period Adjustments		
NBT amendement as per the Final Tax return		6,867,160.25
DRL amendement as per the Final Tax return		16,797,751.17
Adjutments made for previous year disposal		96,064.49
Error occurred due to over under provision of liabilities	426,043	
Over provision of accumulated deperaciation	180,341	
Error occurred due to reversal of interest receivable	333,696	
Error occurred due to classification of other liabilities		(941,233.69)
Total	940,079	22,819,742.22

Notes to the Financial Statement Contd...

29 Other Reserves

a. Bank - Current year (2021)

	Opening balance as at 01/01/2021	Movements/ Transfers	Closing Balance as at 31/12/2021
General reserve	683,280,000	-	683,280,000
Capital Reserve	393,498,004	-	393,498,004
Title Indemnity Fund	1,031,000	-	1,031,000
Total	1,077,809,004	-	1,077,809,004

29.1 b. Bank – Previous year (2020)

	Opening balance as at 01/01/2020	Movements/ Transfers	Closing 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

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.

	2021 Rs.	2020 Rs.
Guarantees issued	-	-
Other commitments	127,979,661.75	87,742,347.30
Total	127,979,661.75	87,742,347.30

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.

Oldest State Bank Established in 1931*Housing Bank to the Nation***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	2021 Rs.	2020 Rs.
Investments made on Government Securities	1,264,605,168.03	963,044,596.85
Investments on state and state-controlled entities	8,277,907,581.07	3,492,728,703.52
Securities purchased under resale agreements	716,000,000.96	1,431,118,090.76
Other receivables from Government	313,337,784.47	589,508,674.14
Total	10,571,850,534.53	6,476,400,065.27
Liabilities		
Tax paid		
Income tax	147,002,986.00	121,163,775.00
Value added tax	263,455,214.11	184,652,462.00
Total	410,458,200.11	305,816,237.00

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

	2021 Rs.	2020 Rs.
Short - Term Employment Benefits	40,331,967	43,622,046
Post - Employment Benefits	25,781,299	7,872,151
Total	66,113,266	51,494,197

Notes to the Financial Statement Contd...

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

	2021 Rs.	2020 Rs.
Income Statement		
Interest Earned (From Loans)	2,345,594	2,914,378
Interest Paid (To Deposits)	919,757	1,640,499
Payment made as shown in 33 (A)	66,113,266	51,494,197
Assets		
Loans and Advances	41,814,794	59,734,955
Liabilities		
Deposits	19,879,605	20,011,602

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

33.1 Amounts recognised in the balance sheet

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

	2021 Rs.	2020 Rs.
Right-of-use Assets		
Cost		
Opening Balance	170,793,348	143,986,987.91
Additions- Buildings	86,852,198	26,806,360
Closing Balance	257,645,546	170,793,348
Accumulated Depreciation		
Opening Balance	66,299,986	31,312,957
During the year charge	82,442,896	34,987,030
Closing Balance	148,742,882	66,299,986
Net Book Value	108,902,663	104,493,362
Lease liabilities		
Opening Balance	86,826,813	83,555,442
Additions	78,405,189	19,845,440.14
Interest Charge	11,070,850	9,292,420.53
Payments	(76,083,379)	(25,866,489.44)
Closing Balance	100,219,472.43	86,826,813.02

33.2 Amounts recognised in the statement of profit or loss

The Income Statement shows the following amounts relating to leases:

	2021 Rs.	2020 Rs.
Depreciation charge of right-of-use assets		
Building	82,442,896	34,987,030
Interest Expense	11,070,850	9,292,421

33.3 Impact of income statements due to interest rate shock

	Impact to profitability
1%+ Senarion 01	54,832
1% - Senario 01	(68,175)

34 Reconciliation of VAT Expense

	2021 Rs.	2020 Rs.
Profit/(Loss) before Tax	621,420,396	790,276,542
Adjustment in Respect of Current period		
Add: Expenses/income reductions that are not Deductible for VAT Purposes	1,100,658,020	953,581,367
(Less): Expenses that are Deductible for VAT Purposes	(15,985,322)	(59,227,077)
Adjusted Profits for the Year	1,706,093,094	1,684,630,832
VAT Based on Profit for the Year	222,533,881	219,734,456
(Over)/Under Provision in Previous years	(6,310,924)	(1,529,134)
Tax Expense for the Period	216,222,958	218,205,322

VAT Payable Reconciliation

	2021 Rs.	2020 Rs.
Opening VAT Receivable	(7,440,500.27)	(33,183,621.37)
payments made	(226,637,532.00)	(192,462,201.25)
Provision made	234,345,575.51	188,828,140.51
During the year tax addition to P&L	(18,122,618.00)	29,377,181.84
Closing VAT Receivable	(17,855,074.76)	(7,440,500.27)

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.

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 2021	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Financial investments FVPL				
Quoted investments - Unit Trust	25,450,000	-	-	25,450,000
Financial investments FVOCI				
CRIB	-	-	4,754,078	4,754,078
Fitch Rating	-	-	625,000	625,000
Total Financial Assets	25,450,000	-	5,379,078	30,829,078
Financial Liabilities	-	-	-	-

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

37 Assets	2021		2020	
	Carrying Amount Rs	Fair Value Rs	Carrying Amount Rs	Fair Value Rs
Cash and Cash Equivalents	143,854,162	195,817,542	195,817,542	195,817,542
Placements with Banks	11,774,900,238	11,811,735,024	11,811,735,024	11,811,735,024
Loans and receivables to customers	38,102,856,586	40,003,218,925	36,856,886,670	39,719,603,639
Debt and Other Instruments	1,991,908,289	1,989,230,071	2,414,814,588	2,424,126,178
Financial Assets – FVPL	25,450,000	25,450,000	21,350,000	21,350,000
Financial Assets – FVOCI	5,379,078	5,379,078	5,379,078	5,379,078
Other assets	1,278,704,981	1,278,704,981	1,495,937,746	1,495,937,746
Total Financial Assets	53,323,053,333	55,309,535,621	52,801,920,648	55,673,949,207
Liabilities				
Due to banks	31,476,885	31,476,885	67,348,787	67,348,787
Due to customers	45,738,377,529	45,738,377,529	45,388,490,392	45,388,490,392
Other borrowings	270,354,226	270,354,226	348,093,800	348,093,800
Other liabilities	999,272,118	999,272,118	978,478,981	978,478,981
Total Financial Liabilities	47,039,480,757	47,039,480,757	46,782,411,960	46,782,411,960

37.1 Determination of Fair value hierarchy

Level 1

Inputs that are quoted market prices (unadjusted) in an active market for identical instruments. When available, the Bank measures the fair value of an instrument using active quoted prices or dealer price quotations, without any deduction for transaction costs.

Level 2

Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.

Level 03

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation

	Level 01	Level 02	Level 03	Total
31-Dec-21				
Financial Assets				
Government Treasury Bills and Bonds	1,989,230,071			1,989,230,071
Unit Trust	25,450,000			25,450,000
Loans and Advances			40,003,218,925	40,003,218,925
Total				42,017,898,996
31-Dec-20				
Government Treasury Bills and Bonds	2,424,126,178			2,424,126,178
Unit Trust	21,350,000			21,350,000
Loans and Advances			39,719,603,639	39,719,603,639
Total				42,165,079,817

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)

Board Integrated risk Management Committee

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

Executive Integrated Risk Management Committee

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

Credit Committee

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

Asset/Liability Management Committee (ALCO)

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

38.2 Risk Management and reporting

Credit risk

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

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

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

Notes to the Financial Statement Contd...

38.2.1. Measurement of Expected Credit Losses (ECL)

Key assumptions, models and techniques used for estimating of ECL under SLFRS 9 is disclosed under Accounting Policies Note 2.4.12.10

Measurement of ECL

Stage 1: 12 - Months ECL

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

Stage 2: Lifetime ECL - not credit impaired

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

Stage 3: Lifetime ECL - credit impaired

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

PD estimation process

robability 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.

Assessment of ECL model under multiple economic scenarios of the geographic region (EFA)

ECLs must reflect an unbiased and probability-weighted estimate of credit losses over the expected life of the financial instrument. Considering of the every possible amcro economic variable and senrios are not practicable hense the Bank used variable and senarios which are most likly to impact on ECL of the assets impairment. To ensure completeness and accuracy, the Bank obtained indipendant assurance from third party to validate the date used for EFA. Uncertainties in macroeconomic environment is being continued as of end of the 2021 resulting resilient negative outlook in the macro economic variable. Mangment overlay was used revised assumption of worst case scenario from 20% to 60% as at 31.12.2021.

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

As at 31 December	Note	2021			2020				
		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	255,230	993,122		1,248,351	458	4,392	-	4,850
Financial Assets at amortized cost									
Loans & Advances	16	332,500,378	149,668,036	987,006,623	1,469,175,037	247,904	89,207	766,340	1,103,453
Debt & Other instruments		-	-	-	-	-	-	-	-
Total allowance for expected credit losses		332,755,608	150,661,158	987,006,623	1,470,423,388	248,362	93,599	766,340	1,108,303

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 2021	Stage 1	Stage 2	Stage 3	Total
Cash & cash Equivalents	-	-	-	-
Cash & Balances with Central Bank	-	-	-	-
Sri Lanka Government Securities	-	-	-	-
Placement with other Banks	(203,003.33)	(3,398,549.538)	-	(3,601,552.87)
Loans & Advances to Customers	84,595,622.91	60,460,537.6	220,666,168.3	365,722,328.80
Total Impairment Loss	84,392,620	57,061,988	220,666,168	362,120,776

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	109,437,584	270,320,795

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 31.12.2021	Financial				Total	
	Services	Government Securities	Construction and Housing	Consumers		Other
Financial Assets						
Cash and cash equivalents	143,854,162				143,854,162	
Placement with other banks	11,776,148,590				11,776,148,590	
Loans and receivables to customers						
Mortgage		10,607,559,455			10,607,559,455	
EPF		6,830,450,037			6,830,450,037	
Vehicle					-	
Staff loans		922,693,889			922,693,889	
Personal Loans			20,062,117,026		20,062,117,026	
Others			1,167,569,324		1,167,569,324	
Financial investments – FVPL	25,450,000				25,450,000	
Financial investments – AC	716,130,665	1,275,777,624			1,991,908,289	
Financial investments – FVOCI	5,379,078				5,379,078	
Total	12,666,962,494	1,275,777,624	18,360,703,382	20,062,117,026	53,533,129,850	
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	18,614,576,696	18,232,546,323	1,136,699,561	52,432,918,813

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

	2021	2020
Year - End	32.88%	37.29%
Maximum	34.31%	39.35%
Minimum	31.93%	29.02%
Average	33.12%	35.02%

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 2021. Contractual maturities of undiscounted cash flows of financial assets and liabilities.

As at 31 December 2021

	Less than 7 days	7-30 days	1-3 months	3-6 months	6-12 months	1-3 years	3-5 years	Over 5 years	Total
Total Assets	2,100,050,979.98	11,651,866,329.71	7,617,256,538.79	5,011,357,725.67	2,154,231,213.52	8,096,475,156.50	6,529,365,595.00	13,014,876,671.63	56,214,542,660.96
Cash and Cash Equivalents	143,854,161.57								143,854,161.57
Placement with Banks	1,213,008,807.06	1,245,597,034.95	5,806,122,742.43	3,730,260,729.06	-	-	-	-	11,994,989,313.50
Financial Assets - FVPL & FVOCI								30,829,078.02	
Debt and Other Instruments	112,046,019.61	550,000,000.00	866,090,374.63	110,765,402.45	19,165,402.45	209,861,609.80	129,561,609.80	134,189,104.90	
Loans and Advances	143,951,147.25	9,841,042,030.75	928,835,776.24	1,147,448,637.08	2,082,078,893.54	7,614,915,104.92	6,399,803,985.20	12,890,169,290.22	41,048,244,865.19
Other Assets	487,190,844.50	15,227,264.01	16,207,645.49	22,882,957.08	52,986,917.53	271,698,441.79	-	-	866,194,070.40
Total Liabilities	4,404,629,091.85	2,652,736,429.15	8,634,050,751.18	11,786,394,742.47	14,646,545,486.21	4,436,238,322.15	1,032,393,069.36	1,869,968,355.28	7,535,343,845.38
Total Equity	31,476,884.66							6,284,490,602.97	
Due to Banks	3,927,310,512.89	2,649,876,280.97	8,618,027,387.42	11,664,219,051.21	14,613,714,238.97	4,215,437,294.44	901,068,080.39	1,949,813,811.22	48,539,466,657.52
Due to Depositors	-	220,183.14	10,743,433.69	16,991,457.03	16,991,457.03	157,441,866.86	67,965,828.12	-	270,354,225.88
Due to Other Borrowers	-	2,639,965.04	5,279,930.07	7,919,895.11	15,839,790.21	63,359,160.84	63,359,160.84	279,190,985.55	437,588,887.66
Employee Benefit Liability	445,841,694.30	-	-	115,841,535.45	-	-	-	-	561,683,229.75
Other Liabilities	(2,304,578,111.87)	8,999,129,900.56	(1,016,794,212.39)	(6,775,037,016.80)	(12,492,314,272.69)	3,660,236,834.35	5,496,972,525.64	11,144,908,316.34	
Maturity Gap	6,694,551,788.69	8,999,129,900.56	(1,016,794,212.39)	(6,775,037,016.80)	(12,492,314,272.69)	3,660,236,834.35	5,496,972,525.64	11,144,908,316.34	
cumulative M. Gap			5,677,757,576.30	(1,097,279,440.50)	(13,589,593,713.19)	(9,929,356,878.84)	(4,432,384,353.19)	6,712,523,963.15	

38.4.1 Maturity analysis

Follow in table shows the movement of the short term and long term maturities of the assets and liabilities of the Bank compared to last year

Assets or Liability (a)	2021		2020		Rs 000
	Rs 000	Rs 000	Rs 000	Rs 000	
	Less than 12 months	More than 12 months	Less than 12 months	More than 12 months	
Total Assets	28,381,357	24,941,697	53,323,053	26,505,004.87	52,801,920
Cash and Cash Equivalents	143,854	-	143,854	195,818.00	195,818
Placements with Banks	11,774,900	30,829	11,774,900	11,811,735.00	11,811,735
Financial Assets - FVPL & FVICI			30,829		26,729
Financial Assets - AC					
Debt and Other Instruments	1,608,704	383,204	1,991,908	2,243,748.28	2,414,814
Loans & Advances	14,143,213	23,959,643	38,102,857	11,224,036.54	36,856,887
Financial Assets - FVOCI					
Property, Plant and Equipment	-	55,856	55,856	-	52,102
Right-of-use Assets	104,493	4,409	108,903	104,493	104,493
Deferred Tax Assets		222,859	222,859	234,711	234,711
Other Assets	606,192	284,896	891,087	1,029,667.05	1,104,631
Total Liabilities	40,762,928.48	12,560,124.86	53,323,053	39,672,247.38	52,801,920
Total Equity	-	6,283,573	6,283,573	-	6,019,509
Due to Banks	31,476.88		31,477	67,348.79	67,349
Financial Liabilities at Amortised Cost					
Due to Depositors	40,251,504.87	5,486,872.66	45,738,378	39,534,098.98	45,388,489
Due to Other Borrowers	34,202.98	236,151.24	270,354	70,799.62	348,094
Employee Benefit Liability	-	437,588.89	437,589	-	449,258
Other Liabilities	445,743.74	115,939.49	561,683	333,151.56	529,220
Maturity Gap	(12,381,571.76)	12,381,571.76		(13,167,242.51)	13,500,395

38.5.1 Minimum Regulatory capital

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 31.12.2023 as per the Governor of Central Bank of direction number 04 of 2022. Accordingly, The Bank expects to comply with the 7.5 Billion through the internally generated funds via expanding the business as per the provisions in the State mortgage Act no 13 of 1975 in next two years.

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	2021 Rs.	2020 Rs.
Common Equity Capital after adjustment	6,454,713	5,784,797
Total Tier 1 Capital	6,047,379	6,077,306
Minimum regulatory capital to be fulfilled as at 31.12.2022	7,500,000	7,500,000
Capital shortfall	1,045,287	1,715,203
Total Tier I capital shortfall	1,452,621	1,422,694
Capital Adequacy ratio		
Common Equity Tier 1 Capital Ratio	23.95%	21.58%
Total Capital Ratio	25.23%	22.67%

ii. Risk Adjusted on Balance Sheet Exposures

	Principal Amount of On-Balance Sheet Items	Risk Weighted Assets Amount	Principal Amount of On-Balance Sheet Items	Risk Weighted Assets Amount
	2021		2020	
Exposures				
Claims on Central Bank of Sri Lanka	1,991,908	-	2,409,184	-
Claims on Public Sector Entities (PSEs)	62,090	62,090	-	-
Claims on Banks Exposures				
Due From local Banks Less Than 03 Months (AAA to BBB)	7,837,502	1,567,500	9,173,959	2,221,287
Due From local Banks More than 03 Months (A+ to BBB) A to BBB	401,990 3,572,821	200,995 954,800	2,765,306	1,697,098
Claims in Financial Institutions Regulated by CBSL	-	-	-	-
Claims on Other Financial Institutions	30,830	30,830	10,379	10,379
Retail Claims				
Individual exposures	18,961,107	14,220,830	16,797,685	12,598,264
Claims Secured by Residential Property				
Claims Secured by Residential Property Claims that qualify for regulatory capital purposes	9,796,973 -	3,428,941 -	-	-
Non-Performing Assets (NPAs)				
Specific Provisions are equal to or more than 20%	1,243,245	1,243,245	1,030,474	1,030,474
Specific Provisions are less than 20%			671	1,007
Non-Performing Assets Secured by Residential Property				
Specific Provisions are more than 20%	7,111	3,555		
Specific Provisions are less than 20%	1,359,346	1,359,346	1,333,700	1,325,387
Cash Items and Other Assets				
Notes and Coins in own vault	74,965	-	86,672	-
Property Plant and Equipment	55,856	55,856	39,805	39,805
Other Assets/Exposures	32,613	32,613	1,284,626	1,284,626
Risk Weighted Amount for Credit Risk	45,428,356	23,160,601	44,324,789	24,904,489

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 reponse to reasonable changes in the interest rates of the rate sensitive assets and liabilities of the bank are summarised below

	2021 Rs.	2020 Rs.
Rate Sensitive Assets - RSA	17,333,501	17,456,473
Rate Sensitive Liabilities RLA	39,107,613	39,495,977
RSA - RLA	(21,774,112)	(21,984,435)

Impact of income statements due to interest rate shock

	2021 Rs.	2020 Rs.
0.50%	(48,290)	(47,193)
1%	(138,348)	(94,151)
-0.50%	48,111	47,075
-1%	138,348	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.

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.

Oldest State Bank Established in 1931*Housing Bank to the Nation***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 respect to that business, and shall withdraw from such meeting while such deliberation is in progress or decision is being made. As per the Act, No loan shall be granted by the bank to any Director or employee of the bank or to the spouse or a 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 31st December	2021 Rs.	2020 Rs.
Interest Income	5,253,662,217	6,082,202,489
Other Income	171,613,707	178,361,494
Total Revenue	5,425,275,924	6,260,563,983
Interest Expenses	(2,951,466,283)	(3,960,479,767)
Cost of Services	522,496,494	(532,379,095)
Impairment Provision	(362,120,776)	(270,320,795)
Total Distribution of Value Added	1,589,192,370	1,497,384,326

For the Year Ended 31st December	2021 Rs.	2020 Rs.
To Employees		
Salaries and other benefits	1,083,959,864.40	872,736,805
To Government		
Corporate Tax	152,208,128.95	216,236,762
Depreciation	100,035,067.20	52,576,301
Retained Profit	252,989,309.95	355,834,458
Total	1,589,192,370	1,439,092,997

Ten Year Statistical Summary

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Income Statement										
Interest Income	5,254	6,082	5,982	5,524	4,745	4,241	3,879	3,633	3,635	2,879
Interest Expenditure	2,951	3,960	3,951	3,577	3,102	2,425	2,057	2,214	2,459	1,725
Net Interest Income	2,302	2,122	2,030	1,947	1,643	1,815	1,822	1,419	1,176	1,154
Other Operating Income	172	178	142	134	171	131	120	113	102	79
Total Operating Income	2,474	2,300	2,174	2,081	1,814	1,947	1,941	1,532	1,278	1,233
Non Interest Expenses	1,490	1,239	1,226	1,164	1,435	1,240	1,260	1,119	935	803
Net Profit before tax	405	572	500	480	379	706	681	413	343	430
Taxation	(152)	(216)	(81)	(235)	200	270	271	140	110	158
Net Profit after tax	253	356	419	244	179	436	410	273	232	272
Assets										
Investment Securities	25	21	19	18	18	17	432	19	17	14
Loans and Advances	38,103	36,857	35,893	34,225	32,987	28,164	26,523	24,038	21,186	18,550
Other Assets	891	1,104	1,178	932	8,946	7,073	7,201	6,148	5,556	3,928
Property, Plant and Equipment	56	52	56	64	71	94	74	96	67	51
Total Assets	53,323	52,802	47,311	42,597	42,022	35,347	34,232	30,301	26,825	22,543
Fund Employed										
Capital Contributed	890	890	890	890	890	890	890	890	890	890
Reserves	5,394	5,130	4,769	4,297	4,067	4,028	3,373	3,128	3,040	2,920
Total Equity	6,284	6,020	5,659	5,187	4,957	4,918	4,263	4,018	3,930	3,810
Liabilities										
Deposits	45,738	45,388	38,872	34,272	33,620	28,845	27,836	24,146	21,201	17,237
Debentures	-	-	110	110	110	110	110	195	195	195
Other Liabilities	1,301	1,394	2,670	3,028	3,336	1,474	2,022	1,942	1,499	1,301
Total Liabilities	47,039	46,782	47,311	42,597	42,022	35,347	34,232	30,301	26,825	22,543
Ratio										
"Return on Average Assets-NPBT% (ROA)"	0.76	1.15	1.11	1.13	0.98	2.03	2.11	1.44	1.39	2.01
"Return on Average Funds Employed% (ROE)"	4.11	6.06	7.73	4.82	3.62	9.50	9.90	6.87	6.00	7.31
Number of Employees(no.)	365.00	369.00	378.00	385.00	392.00	392.00	392.00	407.00	334.00	323.00
Net Profit per Employee (Rs. Mn)	0.69	0.96	1.11	0.63	0.46	1.11	1.05	0.67	0.70	0.84
Statutory Reserve Fund	296.56	283.91	270.92	261.67	246.64	231.36	203.05	191.36	181.15	172.98
Advances to Deposits(Times)	0.83	0.81	0.92	1.00	0.98	0.98	0.95	1.00	1.00	1.08
Debt to Equity Ratio(Times)		0.06	0.28	0.38	0.50	0.10	0.23	0.28	0.23	0.19
Equity Assets Ratio(Times)	0.12	0.11	0.12	0.12	0.12	0.14	0.12	0.13	0.15	0.17
Total Assets per Rupee Contributed		59.34	52.79	47.87	47.22	39.72	38.46	34.05	30.14	25.33
Effective deemed dividend Rate %	-	-	-	25.00	25.00	25.00	25.00	25.00	25.00	20.00
Deemed Dividend Cover	-	-	-	-	1.91	2.52	2.44	3.57	3.16	3.46
Our Contribution to the Nation										
Deemed Dividend Tax	-	-	-	(40.36)	93.27	173.35	167.86	76.42	73.60	79.00
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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CHANGING THE PHASE OF **BANKING**

STATE MORTGAGE & INVESTMENT BANK
Annual Report 2021



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