

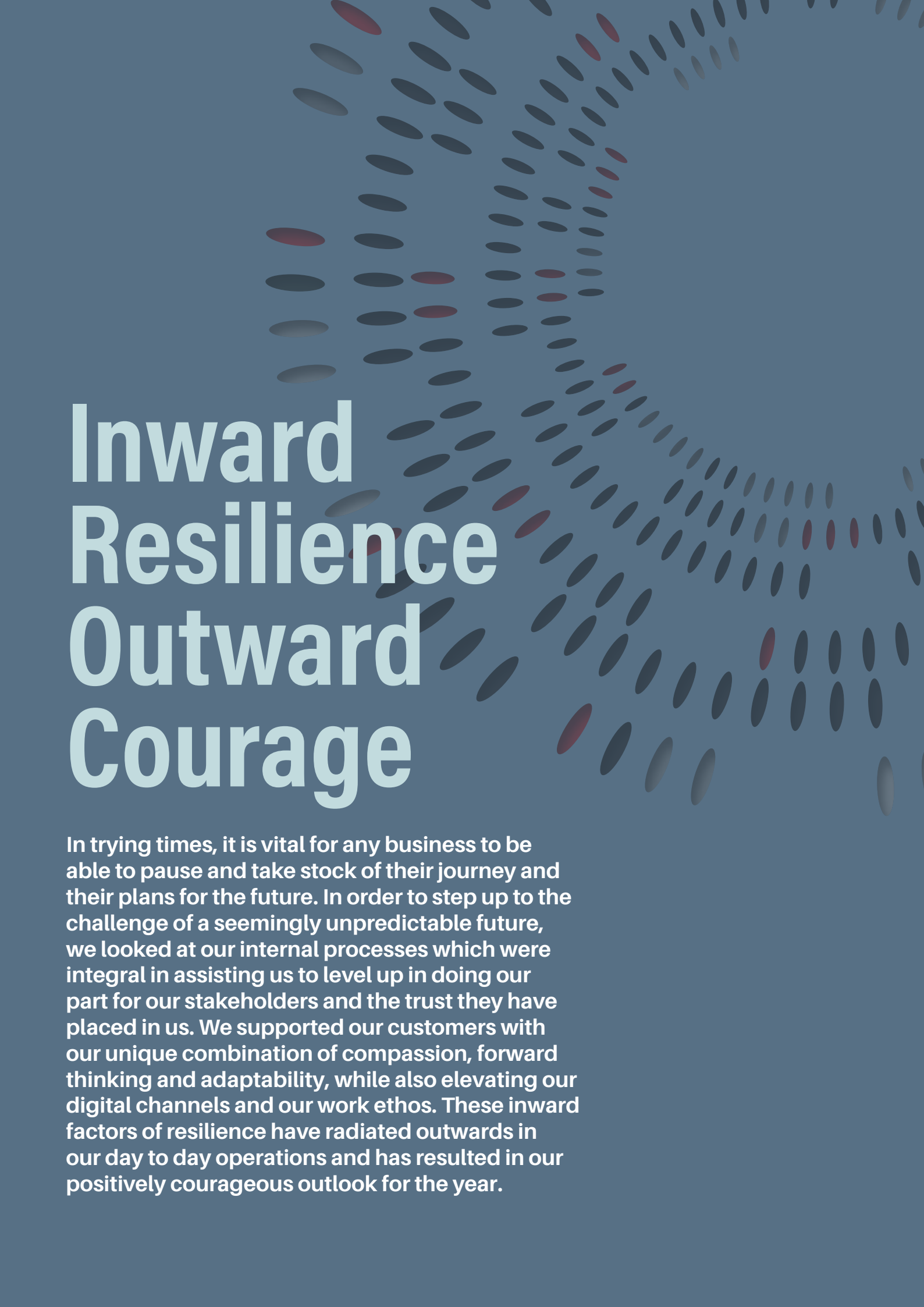
Inward Resilience Outward Courage



STATE MORTGAGE & INVESTMENT BANK
ANNUAL REPORT 2023

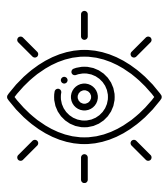
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Inward Resilience Outward Courage

In trying times, it is vital for any business to be able to pause and take stock of their journey and their plans for the future. In order to step up to the challenge of a seemingly unpredictable future, we looked at our internal processes which were integral in assisting us to level up in doing our part for our stakeholders and the trust they have placed in us. We supported our customers with our unique combination of compassion, forward thinking and adaptability, while also elevating our digital channels and our work ethos. These inward factors of resilience have radiated outwards in our day to day operations and has resulted in our positively courageous outlook for the year.



Vission

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

| | 2023 Rs. Mn | 2022 Rs. Mn | Change % |
|-------------------------------------|----------------|----------------|-------------|
| Interest Income | 9,324 | 7,402 | 25.97% |
| Interest Expenses | (8,733) | (5,463) | 59.86% |
| Net Interest Income | 591 | 1,939 | -69.52% |
| Profit before Tax | (1,165) | (89) | 1208.99% |
| Taxation | 162 | 291 | -44.33% |
| Profit after Tax | (1,003) | 202 | -596.53% |
| Investment in Government Securities | 10,256 | 2,204 | 365.34% |
| Loans and Advance Net | 38,603 | 39,267 | -1.69% |
| Total Assets | 59,067 | 56,965 | 3.69% |
| Customer Deposits | 52,138 | 49,140 | 6.10% |
| Borrowings | 179 | 278 | -35.61% |
| Stakeholders' Fund | 5,454 | 6,474 | -15.76% |
| Ratio Analysis | | | |
| Profitability Level | | | |
| | % | % | % |
| Net Interest Margin | 1.02% | 3.52% | -71.06% |
| Return on Equity (ROE) | -16.82% | 3.17% | -631.09% |
| Return on Assets (ROA) | -2.01% | -0.16% | 1144.19% |
| Capital Adequacy | | | |
| Equity / Total Assets | 9.23 | 11.36 | -18.75% |
| Equity / Loans & Advances | 14.13 | 16.49 | -14.31% |
| | Basel (III) | Basel (III) | |
| Tier 1 | 18.81% | 18.81% | -0.02% |
| Tier 1 & 11 | 18.89% | 19.76% | -4.40% |
| Liquidity | | | |
| Liquid Asset Ratio | 35.60 | 34.69 | 2.62% |
| Loans and Advances / Deposit | 74.04% | 79.91% | -7.34% |
| Borrowings/Loans and Advances | 0.46% | 0.71% | -34.50% |
| Rating | | | |
| Asset Quality | | | |
| NPL/Loans and Advances | 25.99% | 22.02% | 18.03% |
| NPL Excluding EPF | 12.32% | 10.31% | 19.45% |
| Loans and Advance to Total Assets | 69.42% | 72.18% | -3.82% |

Financial Review

Amidst the intricacies of Sri Lanka's economic landscape in 2023, State Mortgage and Investment Bank (SMIB) encountered formidable challenges that significantly impacted its overall performance, due to high negative mismatch in the less than one year asset and liability position of the bank. As a state-licensed specialized bank operating exclusively within the local market, SMIB navigated through a series of hurdles stemming from domestic economic dynamics and regulatory constraints. The lingering worst economic condition happened during the year 2022 continued to reverberate, dampening consumer sentiment and economic activity. Furthermore, a sharp increase in the cost of deposits since the second half of 2022 of which persisted until May 2023, resulting in a broadening of the negative gap between the average yield on loans and advances and the cost of deposits, resulting to a declining trend in the net interest margin of the bank. The Net interest margin of the bank declined from 3.52% as of 2022 to 1.02% by the year-end of 2023. However, the bank has managed to turn the negative gap since Q3 2023 onwards and has shifted from a month-on-month loss position to a profitable status since October 2023 onwards.

Despite its localized focus and specialization, SMIB found itself vulnerable to the broader economic pressures facing Sri Lanka. The domestic economic landscape was characterized by surging inflation, tightening fiscal controls, and diminishing consumer confidence. The government's decision to suspend servicing sovereign debts, though aimed at addressing forex concerns, added an additional layer of financial strain on the bank. Moreover, stringent regulatory requirements and limited revenue-generating opportunities within the local market posed significant obstacles to SMIB's profitability and reduction of cost of funds. In response to these challenges, SMIB implemented strategic measures focused on mitigating risks and preserving capital. Prudent risk management practices, stringent credit assessment procedures, and enhanced loan monitoring mechanisms were adopted to safeguard the bank's asset quality. Additionally, cost optimization efforts and operational efficiencies were prioritized to streamline expenses and improve cost-income ratios.

As SMIB reflects mixed financial and operational performance of 2023, its unwavering commitment to facilitating affordable housing and promoting investment in Sri Lanka's economy remains steadfast. Looking ahead, the bank is poised to enhance its operational resilience, foster innovation, and deliver value to its customers and stakeholders within the local market, positioning itself to navigate through challenges and emerge stronger in the years to come.

ANALYSIS OF INCOME STATEMENT

Income Statement Summary

| | 2023 Rs (Mn.) | 2022 Rs (Mn.) | Change % |
|--------------------------|------------------|------------------|-------------|
| Interest Income | 9,324 | 7,402 | 25.97% |
| Total Operating Income | 867 | 2,054 | -57.79% |
| Profit/(Loss) before Tax | (1,165) | (89) | 1208.99% |
| Profit After Tax | (1,003) | 202 | -596.53% |

INTEREST INCOME

The bank experienced a notable increase in interest income, reaching Rs. 9,324 million in 2023, marking a significant rise of 25.97% compared to the previous year's figure of Rs. 7,402 million. This growth underscores the effectiveness of the bank's investment strategies across various interest-generating assets, including placement with bank Investment on Debt Instrument, Money market and Government Securities.

NET INTEREST INCOME

Net interest income experienced a declining trend during the year primarily attributed to higher interest expenditures resulting from increased interest rates on various interest-bearing liabilities, collateralized financings, deposits, and long-term borrowings and Low yield on Fixed Investment Rates facilities on loan book of the bank. Despite this reduction, the impact was partially mitigated by an increase in interest income from investments, recorded interest income on investment activities was Rs.3.72 billion against Rs.2.69 billion in corresponding period marked the 38% increase.

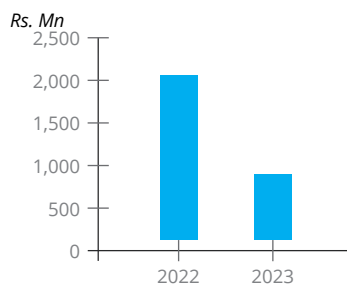
NON-INTEREST INCOME

Non-interest income, comprising fee and commission income, net gain/loss from financial investments, and other operating income, faced significant challenges. Fee and commission income experienced a substantial contraction of Rs. 96 million, reflecting subdued economic activities and regulatory uncertainties. However, other operating income, supported by dividend earnings from investments and non-financial ventures, contributed positively, amounting to Rs. 22 million.

TOTAL OPERATING INCOME

Total operating income witnessed a significant downturn, declining by 57.50% to Rs. 867 million in 2023 from Rs. 2,054 million in 2022. This decline highlights the formidable challenges encountered by the bank on managing of cost of funds and increasing of yield in the loan book in short run under stress economic condition, streams amidst adverse factors impacting both interest and non-interest income segments.

TOTAL OPERATING INCOME

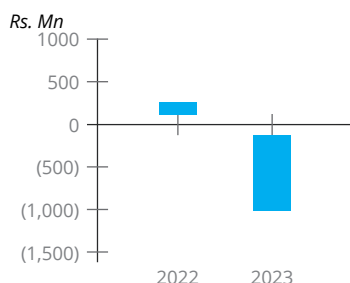


PROFITABILITY

While the fiscal year 2023 presented challenges resulting in substantial losses for the bank, it's important to recognize the resilience and determination exhibited amidst adverse conditions. Despite facing a loss before tax of Rs. (1,165) million and a loss after tax of Rs. (1,003) million, the bank's efforts to navigate through challenging market dynamics underscore its commitment to adaptability and strategic resilience. The significant increase in losses increase up to Q3 2023 had been recalibrated to effectively address prevailing uncertainties and pave the way for sustainable growth in the future.

However surplus generated Q4 of 2023 was not sufficient to absorb the cumulation loss incurred up to Q3 and additional provisions required for impairment and provision of actuarial valuation on gratuity and retired employee medical scheme. Through proactive measures and prudent management strategies, the bank remains poised to rebound from these setbacks and emerge stronger, positioning itself for long-term success in the dynamic financial landscape.

PROFIT AFTER TAX



CONTRIBUTION TO THE NATION

As the oldest bank in the nation, SMIB remains dedicated to contributing to the development of the country. In addition to maintaining required Liquidity and Capital Adequacy Ratios mandated by the Central Bank of Sri Lanka, the bank actively supports national development through various means, contributions to the National Insurance Trust Fund, alongside fulfilling tax obligations.

In 2023 alone, Bank made a significant contribution to the government, paying a total of Rs. 44.5 million in taxes such as VAT and Social Security Levy. These financial contributions underscore the bank's commitment to both its shareholders and the broader community, reinforcing its role as a key player in the nation's economic growth and stability.

| | 2023 Rs (Mn.) |
|-----------------------------|------------------|
| Value Added Tax (VAT) | 43.0 |
| Social Security Levy (SSCL) | 1.5 |
| | 44.5 |

ANALYSIS OF FINANCIAL POSITION

ASSETS

In the fiscal year 2023, SMIB reported a commendable growth in its total assets, amounting to Rs. 59,067 million. This represents a significant 3.7% increase compared to the previous year, 2022. This growth underscores the bank's commitment to maintaining a robust balance sheet and signifies its strategic efforts in expanding its asset base. Main contribution element on boosting of asset base of the bank is investment portfolio which recorded 19.6% growth compared to 2022. Throughout the year, SMIB remained focused on core business activities while effectively managing its interest-earning loan portfolios and financial investments. This targeted approach contributed to the overall strength and resilience of the bank's balance sheet, positioning it favorably for future growth and stability.

LOANS AND ADVANCES

Despite the overall growth in total assets, SMIB experienced a slight decline in net loans and advances in 2023. The net loans and advances decreased to Rs. 38,603 million, marking a modest 0.27% decrease compared to the previous year. This decline can be attributed to various factors, including shifts in credit demand and strategic lending decisions. Notably, there was increased credit demand from retail credit lines, particularly in sectors such as housing loans, personal loans, and refinance loans. Despite the decrease, SMIB maintained a well-diversified loans and receivables portfolio across multiple industry sectors, demonstrating prudent risk management practices and strategic lending initiatives.

| By product | 2023 Rs (Mn.) | 2022 Rs (Mn.) |
|--------------------|------------------|------------------|
| Mortgage | 10,179.55 | 10,836.31 |
| EPF | 8,857.46 | 6,644.20 |
| Vehicle | - | - |
| Staff loans | 1,208.08 | 1,360.48 |
| Personal Loans | 19,295.35 | 20,751.94 |
| Others | 1,864.19 | 1,973.86 |
| Gross Total | 41,006.64 | 41,117.34 |

LIABILITIES

In contrast to the modest decrease in net loans and advances, SMIB witnessed notable growth in its total liabilities during the fiscal year 2023. Total liabilities stood at Rs. 53,612 million, representing a significant 6.18% increase compared to the previous year. This increase was primarily driven by a modest uptick in deposit liabilities, which outpaced the growth in loans and advances. Notably, maintained excess liquidity throughout the year, allowing for a reduction in external borrowings. This reduction in external borrowings contributed to lower interest expenses and ultimately helped improve the bank's net interest income and interest margins.

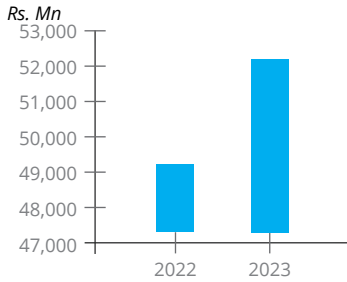
DEPOSIT BASE

Despite operating in a highly competitive niche market and contending with the economic fluctuations and the country's significant debt burden, State Mortgage and Investment Bank (SMIB) achieved noteworthy growth in its deposit base in 2023. Total deposits, encompassing savings deposits, fixed deposits, and other deposit schemes, surged to Rs. 52,138 million, representing a significant increase of 6.10% compared to the previous year. This robust growth underscores SMIB's commitment to prudent management practices and the implementation of effective policies aimed at both retaining existing customer deposits and attracting new customers. Through strategic initiatives, SMIB successfully

Financial Review

upheld its dedication to customer satisfaction, thereby fortifying its deposit base and bolstering its overall financial resilience.

DEPOSIT



LIQUIDITY COVERAGE

As a licensed specialized government bank (LSB) of the Democratic Socialist Republic of Sri Lanka, State Mortgage and Investment Bank (SMIB) is mandated to adhere to a minimum Statutory Liquidity Assets Ratio of 20%, in accordance with the regulations stipulated in Section 86 of the Banking Act, No. 30 of 1988. Throughout the fiscal year ending in 2023, SMIB demonstrated robust compliance, achieving an impressive average Statutory Liquidity Assets Ratio of 35.60%. Moreover, aligning with Basel III standards, SMIB diligently maintains liquidity resilience through the Liquidity Coverage Ratio (LCR), ensuring ample unencumbered high-quality liquid assets to meet liquidity needs in a 30-calendar-day stress scenario. By the end of 2023, SMIB's LCR stood at a reassuring 175.14%, exceeding the statutory minimum requirement of 100%.

Additionally, the bank maintained strong accessibility to stable funding, as outlined by the Central Bank of Sri Lanka (CBSL), with the net Stable Funding ratio (NSFR) reaching 129% as of December 31, 2023, significantly surpassing the minimum requirement of 100%. These metrics underscore SMIB's unwavering commitment to regulatory compliance and prudent liquidity management, safeguarding the stability and resilience of its operations in supporting the nation's financial landscape.

Inward strength outward trust

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Chairman's Message



Operating within a challenging macroeconomic landscape, SMIB continued its journey demonstrating resilience and adaptability while addressing the issues faced by the financial industry. While remaining constantly vigilant of the potential risks and promptly taking action to mitigate the same, the Bank was able to safeguard the interests of all stakeholders from customers to shareholders and employees.

On behalf of the Board of Directors, it is my pleasure to present to you the State Mortgage & Investment Bank's Annual Report and the Audited Financial Statements for the financial year 2023. During 2023 the Bank navigated a formidable year against a highly volatile operating background, demonstrating resilience and strategic agility in sustaining growth. The Bank continued to create value for the stakeholders with understanding and flexibility, ensuring a tailored approach to their diverse financial needs in the prevailing context.

A TURBULENT TERRAIN

The impact of the economic downturn in 2022 continued to overshadow the financial year 2023 with further contractions in the backdrop of escalating crises. The year under review was one of the most daunting periods in the history of the nation. Economic uncertainty gripped the nation, impacting every facet of life. Consequently, a notable downturn was witnessed in the key sectors exacerbated by tax hikes aimed at bolstering fiscal stability, alongside persistent inflationary pressures, and heightened interest rates. These obstacles echoed across the financial sector, resulting in a significant decline in financial intermediation and a concerning deterioration in credit quality. Moreover, the increased vulnerability of government entities in the face of slow credit expansion emphasized systemic imbalances, presenting significant challenges to the stability of the sector.

However, the signing of the Extended Fund Facility (IMF-EFF) in March 2023 brought a sense of optimism within the financial sector, approaching the growth trajectory with a renewed sense of confidence. Therefore, despite the obstacles, the resilience of the financial sector persisted as institutions found pathways to navigate through the turbulent waters employing a mix of prudence and adaptability. The inception of the IMF-EFF agreement provided a much-needed boost, signaling a potential turning point in restoring stability and investor confidence.

The prevailing macroeconomic situation also emphasized the need for robust risk management frameworks and proactive governance structures, to strengthen the industry's foundation for resilient progress amidst adversity. Therefore, armed by the renewed vigour acquired through the

experience of hardships and the lessons learned, we reaffirm our commitment to drive growth and stability in the financial landscape.

BUILDING RESILIENCE, EMBRACING ADAPTABILITY: OUR APPROACH TO GROWTH

Operating within a challenging macroeconomic landscape, SMIB continued its journey demonstrating resilience and adaptability while addressing the issues faced by the financial industry. While remaining constantly vigilant of the potential risks and promptly taking action to mitigate the same, the Bank was able to safeguard the interests of all stakeholders from customers to shareholders and employees.

We were able to maintain robust liquidity buffers and a solid capital position, offering a stable foundation within a volatile market setting. Therefore, notably, the Bank's key liquidity and capital adequacy ratios, including the Liquidity Coverage Ratio (LCR), remained at 175.14% and the Net Stable Funding Ratio (NSFR) at 129%, along with the Tier 1 Ratio and Total Capital Ratio are at 18.81% and 18.89% respectively, exceeding regulatory thresholds. These key statistics reflected SMIB's prudential management practices, in ensuring ample liquidity and capital reserves to weather uncertainties. Apart from that, the Bank also prioritized the financial requirements of its diverse clientele, including small and medium-sized enterprises (SMEs) and micro, small, and medium-sized enterprises (MSMEs), comprehending the challenges they were facing due to the unpredictable economic landscape. To this end, the Bank undertook collaborative efforts implementing measures aimed at supporting these segments to ensure their sustainable progress and resilience.

As economic uncertainty, competition, interest rate volatility, non-performing loans, and cost management issues continue to impact the bank's performance, SMIB assumed a conservative and prudent strategic approach during the year to minimize the impact of the prevailing headwinds and facilitate recovery. Hence, the bank continued to strengthen its capabilities to support its clientele laying the foundation for future growth and prosperity while focusing on an operational strategy that encompasses four areas: prudent liquidity management, efficient

Chairman's Message

NPL and impairment management, cost optimization and increasing earnings from loans and advances as well as investment activities.

Furthermore, the Bank implemented prudent risk management practices, adopting risk strategies to suit the market dynamics, focusing on financial resilience and customer centricity while embracing continuous improvement initiatives. As a result, the bank was able to position itself to navigate uncertainties, capitalizing on emerging opportunities in the banking industry.

NEW HEIGHTS OF ACHIEVEMENT

Aligning with the evolving banking landscape, the bank initiated several changes. One of the most critical changes was the decision to implement a Core Banking System replacing the previous legacy system. Currently, in the process of implementation, this new system enables streamlining of the internal processes, enhancing the bank's ability to deliver an efficient service to its customers. In addition, the Bank continue to enhance its digital footprint by recognizing the growing demand for digital banking transactions. In this regard, the bank is in the process of introducing various digital channels including mobile apps, online platforms, and contactless payments. Moreover, to support ongoing operations, SMIB concentrated on maintaining financial resilience through ensuring ample liquidity as per the regulatory standards. These changes were instrumental in positioning the bank as a reliable partner for stakeholders and a driving force for positive transformation in the banking industry.

UPHOLDING GOVERNANCE AND RISK MANAGEMENT

We remain committed to maintaining the highest standards of corporate governance in building trust and integrity amongst our stakeholders. As such we adhered to all prescribed corporate governance standards and statutory requirements throughout the fiscal year in ensuring accountability and transparency of our business activities.

Throughout the year, we embarked on a comprehensive review of our governance framework, aligning it with global benchmarks to ensure its

efficacy and relevance in today's dynamic business environment. By effectively utilizing committees and fostering closer collaboration between the Board and the Management, we have facilitated robust decision-making processes that prioritize the long-term interests of our stakeholders.

We also focused on intensifying our risk management practices and processes. While remaining vigilant of the challenges in the global and domestic economic front, we continually monitored and analyzed its potential impact on the Bank's financial health and reputation. In this regard, we also prioritized our investments in IT and cybersecurity, recognizing the paramount importance of safeguarding sensitive data and fortifying our systems to withstand evolving threats. This steadfast commitment to sound governance and proactive risk management has strategically positioned SIMB to traverse the complexities of the financial landscape while delivering sustainable value to our stakeholders.

SUSTAINABILITY COMMITMENT

Our commitment to sustainability extends beyond mere rhetoric, embedding it in our core values that drive our actions towards building a more inclusive and resilient future. As we comprehend the interconnectedness of environmental, social, and governance (ESG) factors, we have entwined sustainability into the fabric of our operations, ensuring that it permeates every aspect of our business. We continue to focus on inclusive banking and community resilience, which remain the core foundation of our ESG and development goals. To further strengthen our impact, we have diligently worked to strengthen and create structures that facilitate far-reaching and enhanced sustainability across all our endeavours.

The recent economic crisis and the political instability emphasized the Country's vulnerability and the pressing need for adaptive capacity, particularly in energy and food security. This makes it even more imperative to build social and economic resilience to navigate the path to recovery. Hence, with the gradual stabilization of the economy, we envision a pivotal role for SMIB in mobilizing sustainable finance to support Sri Lanka's development aspirations. To this end, we are currently engaging with clients and stakeholders to

facilitate a sustainable recovery, leveraging our expertise and resources to promote long-term resilience. As we move ahead, we will continue to uphold our steadfast commitment to sustainable finance, adopting focused strategies to drive growth aligned with our environmental and social objectives.

Moreover, we will also collaborate with development agencies and partners to access technical assistance and enhance our solutions and value propositions. By harnessing the power of sustainable finance, we will not only make a positive impact within our communities but also contribute to the broader sustainable development agenda, paving the way for a more prosperous and equitable future for all.

WAY FORWARD

As we embrace the dawn of a new era, concluding our reflection on a challenging year, we look forward with optimism permeating through the corridors of SMIB. Strengthened by the lessons learned from the adversities, we embark on a journey ahead with a renewed sense of purpose and determination. Funneled by our unwavering commitment to creating value for our stakeholders, we pledge to scrutinize our strategies meticulously, adapting them as necessary to meet the evolving needs of our dynamic environment.

We will continue with our unwavering dedication to serving the SME, MSME, and Cooperative clientele by deepening our impact and broadening our reach. By increasing our penetration while maintaining cost efficiency, we will strive to enhance the value proposition for our clients. At present, we have laid the groundwork for sustainable growth and profitability, having initiated an expansion of our value offering through a structured program designed to operate across value chains.

Furthermore, in our commitment to continued improvement, we will standardize and enhance service levels on an ongoing basis, providing a seamless and enriching experience for our clientele. Apart from that, as a key focus area in our strategy, we will consolidate our cooperative partnerships exploring opportunities in adjacent markets to

further expand our footprint. The digital drive will remain at the forefront of our transformational strategy where through strategic investments and innovation, we will leverage digitally enabled solutions to drive operational efficiency and enhance customer experiences. Our focus on smart growth underscores our commitment to quality over quantity, as we adopt lean strategies and deploy scenario-based risk assessments to anticipate and mitigate future challenges.

In this journey, we will make it a priority to establish partnerships with stakeholders, professional bodies, and government entities to reap the benefits of collaboration. Collectively, we will drive the next phase of growth delivering optimum outcomes for our clients and driving positive change in the communities we serve. In the pursuit of excellence, SMIB stands poised to embrace the opportunities of tomorrow, guided by our unwavering commitment to integrity, innovation, and sustainable growth.

ACKNOWLEDGEMENT

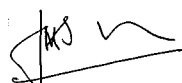
I am pleased to note that our clientele has looked very favourably at many of these cost-effective financing options and is appreciative of our wide range of advisory services. I am thankful for their continued loyalty and trust.

I extend my sincere appreciation to the Board of Directors for their sound advice and unwavering support during the year as well as the invaluable contribution of the Corporate Management, Hon. President, and the Minister of Finance. This gratitude is further extended to the Secretary, the Ministry of Finance, the Governor of the Central Bank of Sri Lanka, all officials in the above institutions, the Attorney General and the Auditor General.

The bank has extended support to all employees by providing several opportunities for training. In turn, our employees have helped us translate our vision into tangible outcomes. Hence, the bank continues to work towards ensuring an inclusive and inspiring workplace for the employees to excel, develop and shine. We also continue to focus our attention on attracting, nurturing, and retaining our best talent to drive SMIB towards excellence.

I extend my warm regards to the SMIB management and staff for their steadfast commitment and tireless contribution in continuing our operations at a formidable time period. It is this unwavering support and loyalty that enabled us to deliver continued value to our clientele via the banking system that we advocate.

Sincerely,



Joseph Soosaithasan
Chairman

CEO's Message



SMIB will continue to prioritize innovation and technology adoption to stay ahead of industry trends and enhance competitiveness. This will entail investing in emerging technologies such as artificial intelligence, blockchain, and data analytics to drive operational efficiency, improve risk management, and enhance customer engagement.

The year 2023 observed the gradual recovery of a country from its worst-ever economic downturn faced in 2022. Hope was looming as the Sri Lankan economy progressed toward macroeconomic stability with improved inflation and the resumption of economic activity supported by the easing of monetary policy conditions and the resurgence of the external sector. This was a time when every industry sector, including the banking sector, displayed remarkable resilience and strategic agility in navigating the complex labyrinth of economic uncertainties. We were no exception in this situation. SMIB continued its journey, with resilience and adaptability, fortified by its commitment to provide appropriate financial solutions to suit the customer's intricate financial needs.

Hence, I am pleased to present to you the Annual Report and the Audited Financial Statements of the State Mortgage and Investment Bank for the financial year 2023, resonating our drive to sustain the Bank's operational and financial performance in creating value for stakeholders amidst a constantly fluctuating economic landscape and a dynamic banking industry.

OPERATING LANDSCAPE

Despite the positive growth trajectory witnessed at the onset of the year, the macroeconomic challenges of the previous year continued to overshadow the economic progress compounded by the new complexities arising from the ongoing economic uncertainties and political instability. These deep-rooted economic issues that surged following the pandemic-induced downturn persisted throughout the year, ceasing the initial hopes of recovery. The Sri Lankan economy contracted by 3.1% in the second quarter of 2023 owing to the setback in industry and services activities. A high inflationary environment prevailed throughout the year adding pressure on consumer spending and impacting the consumption patterns further dampening the economic activity. Likewise, elevated interest rates posed challenges for borrowers and businesses, impacting their ability to manage debt obligations and invest in growth opportunities. The central bank's efforts to control inflation through monetary tightening contributed to higher borrowing costs, adding to the financial burden faced by borrowers across the country.

This situation was further exacerbated by the political unrest and governance challenges, leading to heightened uncertainty and investor caution. This instability impeded policy implementation and decision-making, fostering a sense of unease among businesses and individuals alike. Similarly, supply chain disruptions also emerged as a key concern, impacting various sectors of the economy. The persistent delays in the procurement of raw materials, logistical issues, and shortages of essential goods hampered production and distribution channels, adding strain to businesses that were already contending with economic headwinds.

Therefore, in 2023, the macroeconomic landscape continued to be defined by issues such as political instability, supply chain disruptions, inflationary pressures, and elevated interest rates, emphasizing the need for adaptive strategies and prudent decision-making across the banking industry, including institutions like the State Mortgage and Investment Bank (SMIB).

BANKING SECTOR PERFORMANCE

In this turbulent operating backdrop, the banking sector endured amplified credit risks, liquidity constraints, regulatory uncertainties, and interest rate volatility. Credit risk was a significant issue in the context of prevailing economic uncertainties, which necessitated the banks to implement stringent credit assessment protocols including monitoring of borrower's financial health. Maintaining a healthy liquidity stance was another challenge which required Banks to take necessary prudent strategic measures swiftly responding to the changing dynamics to ensure a robust liquidity position. Further, the changing regulatory landscape also propelled the banks to align with the evolving regulations, which required significant investments in terms of technology and personnel training.

Increasing non-performing loans (NPLs) in the industry also became a challenge and highlighted the necessity to implement prudent NPL management practices. On the other hand, the interest rate volatility posed a challenge for the borrowers and businesses, impacting their capacity to settle debts and investments. Hence, the Banks were compelled to introduce competitive interest rates while considering profitability and risk management.

CEO's Message

The banking sector also pursued the path of digital transformation, investing in technology infrastructure and employee skill enhancement to meet shifting consumer preferences towards digital banking services which in turn contributed to enhancing the customer experience and stay competitive in the digital era.

Tackling these critical challenges facing the industry required the Banks to deliberate proactive risk management and strategic adaptation including substantial investments in technology and innovation.

SMIB PERFORMANCE

In this demanding context, SMIB demonstrated remarkable resilience and adaptability, navigating the year with strategic foresight and proactive measures to mitigate risks and capitalize on emerging opportunities, positioning the bank for continued growth and success in the dynamic banking landscape.

During the financial year, one of the Bank's key strengths was its robust financial position, which was evident from the strong Capital Adequacy Ratio (CAR) of 18.89%. This ratio was well above the regulatory requirement, and thus provided a solid buffer against potential losses, ensuring the bank's financial stability amidst market volatility. Apart from that, SIMB was also able to maintain adequate liquidity buffers, surpassing the regulatory liquidity requirement, to meet short-term obligations and withstand unforeseen liquidity shocks. The Bank continued to focus on a strategic direction that reinforces its market presence and revenue stream by expanding its investment portfolio and concentrating on targeted growth efforts. Consequently, the revenue streams were diversified to mitigate the impact of economic headwinds on profitability and improve the bank's competitive position within the sector.

SIMB continued to encounter challenges from many fronts. One of the key hindrances was the gradual decline in the market share of loans and advances (declined by 0.27%) which required the bank to consider strategic adaptations to maintain market relevance and competitiveness in an evolving industry landscape. Hence, the Bank was compelled to examine the escalating competition in terms of attracting and retaining customers as well as maintaining market share amidst

aggressive pricing strategies and product offerings from competitors.

Another concern was the high-interest rate expenses that led to an increase in the cost of funds. However, the Bank remained focused on profitability despite the challenges emanating from high interest-rate expenses. Although the interest income witnessed notable growth, reaching Rs. 9,324 million, net interest income faced a declining trend due to higher interest expenditures. To address these impediments, the Bank took a proactive approach to financial management strategically repricing the loans on selective basis to optimize revenue generation and manage interest rate risks.

During the period, the non-interest income segment, particularly the fee and commission income, also witnessed substantial contraction, though other operating income, supported by earnings from investments, contributed positively to overall revenue.

The Bank's total operating income witnessed a significant downturn compared to the previous year, emphasizing the challenge of managing costs and optimizing revenue streams under the prevailing economic situation. Nevertheless, SMIB managed to achieve notable growth in its deposit base, implying strong customer confidence and loyalty to the bank's service offerings. Besides, SMIB provided insurance coverage on loans to mitigate risk for both the bank and its customers. This insurance coverage included protection against events like disability, critical illness, or death, ensuring loan repayment in unforeseen circumstances. This is a clear indication of SMIB's commitment to responsible lending and customer welfare, enhancing financial security for borrowers and reducing credit risk exposure for the bank.

Furthermore, SMIB also succeeded in maintaining liquidity reserves above the regulatory requirement in supporting ongoing operations. This emphasized the SMIB's commitment to prudent risk management and dedication to safeguarding the stability and resilience of its operations.

Investments in technology adoption and digital transformation also remained a crucial component of its strategic pathway,

where the Bank continued to carry out initiatives to enhance operational efficiency, improve customer experiences, and streamline internal processes. This included upgrading digital platforms, enhancing cybersecurity measures, and leveraging data analytics for informed decision-making.

Talent development was another priority area in its strategic agenda where the Bank provided the employees with exposure to various professional development programs in the form of training programs to equip them with the necessary skills and capabilities to navigate the changing market dynamics and deliver exceptional service to customers. To further retain their motivation and productivity, the Bank also utilized performance incentives and talent retention strategies.

SIMB's strategic path during the period centered around four main drivers. Firstly, the Bank focused on prudent liquidity management against the high interest rate environment which is evidenced by the Bank's average SLAR of 35% against 20% of the minimum percentage. Secondly, the Bank concentrated on managing NPL and impairment below the industry average maintaining an NPL ratio of 12.32% against the industry average of 13.4% at the end of 2023. Thirdly, the Bank also implemented cost management strategies to manage the increasing overhead costs. As a result of these efforts, the Bank's operating expenditure Decreased only by 4.5% against the previous financial year. Lastly, the bank focused on increasing the yield on loans and advance and investment income. As such, the interest income from loans and advances increased by 19% and income on investment activities increased by 38.2% during the year.

Backed by these strategies, SMIB managed to sustain steady loan growth, maintaining a healthy loan portfolio diversified across various sectors. The bank maintained strong asset quality, with prudent risk management practices contributing to manageable levels of non-performing loans.

On the financial front, SMIB achieved its profitability targets, driven by steady interest income, prudent cost management, and efficient utilization of resources. In terms of customer service and engagement, SMIB continued to prioritize

customer satisfaction, enhancing its digital banking offerings and streamlining processes to provide convenient and efficient services to customers.

Overall, SMIB's performance during the year reflected its commitment to prudent risk management, innovation, and customer-centricity, positioning the bank for sustainable growth and value creation in the future.

SIGNIFICANT MILESTONES

SMIB's significant milestones highlighted its ongoing commitment to digital transformation, prowess in innovation and customer-centricity as well as unwavering commitment to corporate social responsibility (CSR).

One of the standout achievements of the year was the decision taken to implement a Core Banking System, a monumental stride in SMIB's journey towards digital transformation. This modernization initiative is expected to streamline internal processes while enhancing the bank's ability to deliver seamless, efficient services to its customers in an increasingly digitized banking landscape.

In addition, SMIB's branch network, strategically dispersed across the island, played an instrumental role in fostering community engagement and nurturing meaningful relationships with residents. Going beyond their conventional role of serving as banking hubs, these branches participated in social and trade-related activities within their respective localities, fortifying SMIB's status as an integral part of the communities it serves. SMIB's branches also responded during times of crisis with empathy and support demonstrating its commitment to ensure the wellbeing of its stakeholders.

As we move ahead, our commitment to social responsibility and sustainability remains resolute and ongoing. The Bank will continue its support for impactful community and environmental projects that align with its core values and contribute to the betterment of society. Through its ongoing efforts, SMIB endeavours to uphold its reputation as a responsible corporate citizen and a catalyst for positive change in Sri Lanka's banking industry and beyond.

FUTURE AHEAD

In the next financial year, SMIB aims to pursue a strategic direction that aligns with both short-term objectives and long-term goals, focusing on sustainable growth, financial resilience, and customer-centric innovation. Therefore, in the short term, we will focus on strengthening our digital platform with continued investments in digital capabilities to meet the evolving customer preferences and market demands. This will entail further development of mobile banking apps, online platforms, and digital payment solutions including establishing an ATM network which will come into operation in the next financial year in order to streamline customer experiences and improve operational efficiency. Secondly, we will concentrate on expanding our loan portfolio by targeting key sectors such as small and medium-sized enterprises (SMEs), agriculture, and renewable energy. We believe these efforts will support the overall economic growth, promote financial inclusion, and diversify revenue streams. Thirdly, SMIB will continue its cost optimization measures optimizing operational costs through efficiency measures, process automation, and resource optimization. This will include streamlining internal processes, reducing overhead expenses, and enhancing productivity to improve overall cost-effectiveness.

Over the long term, the Bank will aim to achieve sustainable growth by balancing financial performance with social and environmental responsibility through investing in sustainable finance initiatives, promoting green lending practices, and supporting projects that contribute to environmental conservation and social welfare. Market expansion and diversification, both domestically and internationally, will also be on the agenda with identifying new markets, establishing strategic partnerships, and leveraging existing networks to expand its customer base and geographic footprint.

SMIB will continue to prioritize innovation and technology adoption to stay ahead of industry trends and enhance competitiveness. This will entail investing in emerging technologies such as artificial intelligence, blockchain, and data analytics to drive operational efficiency, improve risk management, and enhance customer engagement.

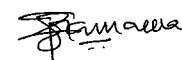
In terms of financial targets, SMIB will aim to expand its loan portfolio through targeted lending initiatives and sector-specific focus areas, to achieve significant growth in lending volumes. Secondly, reducing its cost-to-income ratio by implementing operational efficiency improvements and cost optimization measures to enhance overall financial performance will be on the agenda. In addition, SMIB will improve customer engagement and satisfaction by increasing digital adoption among its customer base through offering user-friendly digital platforms and enhanced digital banking services. Finally, the Bank will continue to sustainably improve its profitability by achieving steady revenue growth and implementing effective cost management strategies to maximize returns on investment and ensure long-term financial stability.

Overall, SMIB's future outlook and strategic direction for the new financial year will prioritize sustainable growth, innovation, customer-centricity, and financial resilience, setting the stage for long-term success and value creation for stakeholders.

APPRECIATION

I extend my sincere gratitude to the Chairman, the Board of Directors, and the entire SMIB team for their unwavering dedication and resilience throughout 2023. Our valued customers, partners, and regulators have been instrumental in our progress, and we remain committed to delivering value and sustaining our competitiveness in the evolving banking landscape. Looking ahead, we will continue to prioritize financial resilience, innovation, and stakeholder engagement, ensuring SMIB remains a trusted partner for our stakeholders and a catalyst for positive change in the communities we serve.

Sincerely,



Thushara Asuramanna
General Manager/CEO

Board of Directors



↓
B. R. Madihahewa
Independent
Non-Executive
Director

↓
S. K. A.
Galappaththi
Independent
Non-Executive
Director

↓
J. M. Soosaithasan
Chairman

↓
H. C. D. L. Silva
Non-Executive,
Ex-officio Director

↓
Professor D. A. M
Perera
Independent
Non-Executive
Director

Mr. J. M. Soosaithasan**Chairman***Independent Non-Executive Director***Tenure of Appointment:**

From 17th May 2023 to date

Skills and Experience

- ◆ A Fellow member of the Chartered Institute of Management Accountants (UK) with progressive management experience in Sri Lanka and Overseas.
- ◆ Possesses over 18 years of experience as Chief Operating Officer/ General Manager in Appeal Manufacturing & Export Sector in Sri Lanka & Overseas.
- ◆ Extensive experience in Financial and Management Consultant/ Manager for professional and Corporates including Hotel and Travel Sector in Sri Lanka and overseas.

Other appointments

- ◆ Management Consultant to the Trend Setters (Pvt) Ltd

Previous appointments

- ◆ Director of the Hotel Developers (Lanka) PLC
- ◆ Chief Operating Officer - Trend Setters (Pvt) Ltd
- ◆ General Manager of the Timex & Fergasam Group
- ◆ General Manager/Consultant of the Star Apparels (T) Limited, Tanzania
- ◆ General Manager of the L.M. Collections (Pvt) Ltd
- ◆ Management Consultant to KPMG, United States Agency for International Development, Global Transportation and logistics (Pvt) Ltd and JoLanka Group.

Mr. H. C. D. L. Silva*Non-Executive, Ex-officio Director***Tenure of Appointment:**

11th January 2020 to date

Skills and Experience

- ◆ Holds a Master's degree in Public Management from Sri Lanka Institute of Development Administration and a Bsc (Pub.Admin)Special (Hons) from the - University of Sri Jayawardarapura
- ◆ An Associate Member of the Association of Accounting Technicians
- ◆ A Fellow Member of the Association of Public Finance Accountants
- ◆ A Certified Business Accountant - Institute of Chartered Accountants of Sri Lanka(ICASL)
- ◆ A Chartered Public Financial Management Accountant - Institute of Chartered Accountants of Sri Lanka(ICASL)
- ◆ He is a Member of the Chartered Institute of Public Finance & Accountancy and counts over 30 years' experience as an Accountant in the Sri Lanka Accountants service since 1992. He 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

Other appointments

- ◆ Director General of Treasury Operations of Ministry of Finance
- ◆ Council Member of the Steering Committee of the National Innovation Agency (NIA)

Previous appointments

- ◆ Ex-Officio Director of National Lotteries Board
- ◆ Ex-Officio Director of Development Lotteries Board
- ◆ Ex-Officio Director of National Science Foundation

Mr. S. K. A. Galappaththi*Independent Non-Executive Director***Tenure of Appointment:**

First appointment – from 02nd January 2020 to 01st January 2023,
Second appointment from 07th March 2023, to date

Skills and Experience

- ◆ An Attorney-at-Law holding a LL.B from the Faculty of Law of the University of Colombo
- ◆ Over 29 years of active practice 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 as well as in the fields of Writ Applications, Administrative Law and Fundamental Rights in Court of Appeal and Supreme Court.
- ◆ Delegate of the Bar Association of Sri Lanka
- ◆ A Member of Colombo Law Society.
- ◆ A Member of the Organization of Professional Association.

Previous appointments

- ◆ Director of Sri Lanka Lands Reclamation & Development Corporation
- ◆ Director of National Lotteries Board
- ◆ Director Legal – Mercantile Investment & Finance PLC
- ◆ Chairman of the Legal Circle of Finance Houses Association
- ◆ Director in the Sri Lanka Land Reclamation & development Corporation

Board of Directors

Professor D. A. M Perera

Independent Non-Executive Director

Tenure of Appointment:

From 21st March 2023 to date

Skills and Experience

- ◆ Holder of double Ph.D.s in Business Management from the KEISEI International University and in Marketing from the Wayamba University
- ◆ Holds an MBA in Financial Management from the Indira Gandhi National Open University and a General MBA from the Wayamba University
- ◆ Holds a B.Sc. (Special) in Public Administration from the University of Sri Jayewardenepura
- ◆ Is a Member of the Association of Accounting Technicians

Other appointments

- ◆ He is the Head – Dept. of Accountancy of Wayamba University of Sri Lanka (WUSL)
- ◆ Professor in Finance Faculty of Business Studies and Finance, WUSL
- ◆ Director of the Action Valley Campus (Pvt) Ltd
- ◆ Director of Sanasa Campus (Pvt) Ltd
- ◆ Director of the Vision 2040 (Pvt) Ltd

Previous appointments

- ◆ Director of the Sustainable Energy Authority
- ◆ Director of the Building Material Corporation
- ◆ Director of People's Bank and was appointed Senior Director from 2018
- ◆ Director of the Civil Aviation Authority
- ◆ Director of the National Library and Service DB
- ◆ Project Director WUTD Project (Saudi Development Fund), Ministry of Higher Education and Highways,
- ◆ Advisor The Ministry of Public Enterprise Development
- ◆ Consultant to the BCI Campus
- ◆ National Advisor to the KEISEI International University

Mr. B. R. Madihahewa

Independent Non-Executive Director

Tenure of Appointment:

From 02nd May 2023 to date

Skills and Experience

- ◆ Holds a MBA and a Post Graduate Diploma in Business Management - Australian Institute of Business, Adelaide
- ◆ Fellow member of the Chartered Professional Managers
- ◆ Certified Member of Sri Lanka Institute of Marketing,
- ◆ Fellow member of the Chartered Management Institute
- ◆ Fellow member of the Association of Business Executives
- ◆ Member of Chartered Institute of Marketing
- ◆ Member of Institute of Management
- ◆ Possesses over 30 years of extensive experience in Senior Managerial experience in Commercial and Financial sectors

Other appointments

- ◆ Managing Director of ;
 - ◆ Swarnakalum Group (Pvt) Ltd
 - ◆ Swarnakalum Logistics (Pvt) Ltd
 - ◆ Sanka Logistics (Pvt) Ltd
 - ◆ Swarnakalum Wheel Care (Pvt) Ltd
 - ◆ Sanka Digital Wheel Care (Pvt) Ltd

Previous appointments

- ◆ Chairman Ceylon Fertilizer Company Limited
- ◆ Managing Director - Ceylon Petroleum Corporation
- ◆ Director Ceylon Petroleum Storage Terminals Ltd
- ◆ Director Ceylon Shipping Corporation
- ◆ Director Lanka Coal Company Ltd
- ◆ Director Ceylon Shipping Lines Ltd
- ◆ Director Port Services Co, Ltd
- ◆ Member of the Tertiary & Vocational Education Commission

Corporate Management



Mr. I.T. Asuramanna
General Manager / CEO
MBA-PIM (USJP), BSc Eng (Hons), ACMA, CGMA, BMS, AM (IESL), MIEE- UK



Mr. L.I. Ranasinghe
Deputy General Manager (Credit)
MBA (Fin), BSc. Mkt. Mgt, LL.B, AIB, ACIM



Mr. K.L.N.A. Perera
Deputy General Manager (Finance & Planning)
MBA (Fin), FCA, B.Com (Sp), SAT, HNDA, Dip. In RM



Mrs. Nishani P.K. Lokuge
Assistant General Manager (Legal)
LL.B, Attorney-at-Law, Notary Public and Commissioner for Oaths, Company Secretary



Mr. K.K. Kapila Keerawella
Assistant General Manager (Recovery)
B.Com (Sp) Hons (USJ), PG.EX.Dip. In Bank Mgt (IBSL)



Mr. L.W. Samarawickrama
Assistant General Manager (Credit)
BSc (Sp) Estate Management & Valuation, AIV, ACBF – (IBSL)



Mr. D.M.R. Dissanayaka
Assistant General Manager (Branch Operations)
MA, B.Sc-EMV (Sp) Hons, DBF, Dip in MC, Dip in CE, AIV, AIB



Mrs. W.G.S.S.K. Abeywickrama
Assistant General Manager (Compliance)
Attorney at Law and Notary – Public, Commissioner for Oaths



Mrs. A.M.D.S. Alahakoon
Board Secretary
LL.B, ACCS, Dip. ICSA (UK)

Corporate Management



Mr.R.M.J.C.K.Madawala
Assistant General Manager (HR & L)
*CQHRM – CIPM, MBA (Log), MBA (Gen),
BSc(Def)*



Mr.W.K.Tantrige
Assistant General Manger (IT)
MBA –PM,MDT,BSc MIS, CLSSGB,CISE



Mr.P.Kuruwita
Chief Internal Auditor
ACA, ACMA, CGMA, AAT, DIP IT, IIA Member



Mrs.R.Yushanthi Dias
Head of Risk Management
*SIRM, ACII, MSc Risk Management, BA (Dual
Hons)*

Senior Management



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



Mr.R.M.U.D.Bandara
Chief Manager (Human Resources and Logistics)
MHRM, BSc BA (Sp), NDHRM., AMCIPM



Mr.I.Edirisooriya
Chief Manager (Valuation)
MEM, B.Sc (EMV) (Sp) Hons. MRICS, AIV



Mrs.E.A.D.Varuni Sepalika
Chief Manager Finance
BSc. (Acc) , ACA



Mrs.R.K.A.N.Rathnayake
Chief Manager- Risk Management
ACMA (UK), CGMA (UK), Dip in Bus.Mgmt



Mr.N.G.D.Nuwan Thilakawardhana
Senior manager- Head of Marketing
MBA, B.Sc. Bus Admin , PG Dip (Mkt), CIM – UK, MSLIM, ACIM

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

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 behaviour since their conduct can be and will be scrutinized.

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

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

During the year 2023, 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 2023, 11 meetings have been held.

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

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

deems appropriate before approving it. The Management implements the strategy as approved and submits progress reports to the Board.

COMPOSITION OF THE BOARD

| | Name of the Director | Date of Appointment | Category of Director |
|---|----------------------------------|---------------------|------------------------------------|
| 1 | Mr. J.M. Soosaithasan - Chairman | 17-05-2023 | Independent non-executive director |
| 2 | Mr. S. K. A. Galappatthi | 07-03-2023 | Independent non-executive director |
| 3 | Mr. B. R. Madihahewa | 02-05-2023 | Independent non-executive director |
| 4 | Mr. H. C. D. L. Silva | 11-01-2020 | Non-executive director |
| 5 | Prof. D. A. M. Perera | 21-03-2023 | 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 2023 is being given in the Directors' 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.

Corporate Governance

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.

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

AUDITOR GENERAL'S REPORT ON BANK COMPLIANCE REQUIREMENT



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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE



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எனது இல. }
My No. }

BAN/F/SMIB/CG/2023/16

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Your No. }

දිනය
திகதி } 16 May 2024
Date }

The Chairman
State Mortgage and Investment Bank

Auditor General's Report of Factual Findings of State Mortgage and Investment Bank on the compliance requirement of the Corporate Governance Directive issued by the Central Bank of Sri Lanka - 31 December 2023

I have performed the procedures enumerated in Annexure to this report, with respect to the Governance Report of the Board of Directors prepared and presented to meet the compliance requirement of the Corporate Governance 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 to this report.

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

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

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

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


W.P.C. Wickramaratne
Auditor General

Corporate Governance

ANNEXURE TO THE REPORT ON FACTUAL FINDINGS

| Section No. | Details | Audit Observation |
|--------------|---|---|
| 3.1 | The responsibilities of the Board | |
| 3.1.i | Procedures to be carried out to ensure the Board have strengthened the safety and soundness of the Bank. | |
| 3.1.i.a | Check the Board approval of the Bank's strategic objectives and corporate values. | The Revised corporate plan (2023-2027) had been approved by the Board of Directors at the meeting held on 15.12.2023 (Board paper No.23/07/BD(APP)/09) |
| | Check whether the Bank has communicated the Bank's strategic objectives and corporate values throughout the Bank | 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 2023. |
| 3.1.i.b | Check the Board approval of the overall business strategy of the Bank. | Overall business strategy (Corporate vision, mission and the objectives) included in the approved corporate plan (2023-2027). Board paper No.23/07/BD(APP)/09 |
| | Check that the overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented. | The Board had approved Integrated Risk Management (IRM) Policy (Board paper no 18.09.132.04.03 dated 09 August 2018) which outlines strategic, credit, market and operational risks for identification, measurement and mitigating procedures. |
| | Check that the overall business strategy contains measurable goals, for at least the next three years. | Strategic Business Plan includes the strategic goals and the Action Plan (2023-2027) which describes the measurable targets for next three years. |
| 3.1.i.c | Check that the appropriate systems to manage the risks identified by the Board are prudent and are properly implemented. | <p>The Board has delegated this function to Board Integrated Risk Management Committee (BIRMC) to act under delegated authority granted according to the board approved TOR.</p> <p>BIRMC meets periodically to assess the identified major risk areas and review/approve the Integrated Risk Management Framework, Risk assessment framework, and Risk appetite of the Bank. BIRMC implements the systems to measure, monitor and manage principal risks. BIRMC submits KRIs, Stress testing results and Risk Assessment Report of the BIRMC meetings to discuss at board meetings and to take strategic decisions to mitigate risks. Key Risk Indicators and Risk Appetite are set by the Board.</p> |
| 3.1.i.d | Check that the Board has approved and implemented a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers; | The Communication Policy with the stake holders had been approved by the Board in 2015. (BP No 15.11.155.01-15/11/08). |
| 3.1.i.e | Check that the Board has reviewed the adequacy and the integrity of the Bank's internal control systems and management information systems. | <p>INTERNAL CONTROL SYSTEMS</p> <p>There is an annual Board mechanism at the Bank to identify the accuracy of the bank's internal control systems by the Board through the process over design and effectiveness of internal control over financial reporting. Further Internal Audit Division of the Bank adds value to the process verifying the effectiveness through their routine audits.</p> <p>MANAGEMENT INFORMATION SYSTEMS</p> <p>A valid process has to be in place initiated by the Internal Audit dept./ independent party 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.</p> |

| Section No. | Details | Audit Observation |
|-------------|--|---|
| 3.1.i.f | Check that the board has identified and designated key management personnel, as Officers Performing Executive Functions of LCBs as defined in Banking Act Determination No. 3 of 2010 as per Bank Supervision Dept. Guideline ref. 02/17/550/0002/003 on 02 December 2015. Subsequently amended by Banking Act Determination No. 01 of 2019 which was effective from 1st January 2020. | 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. We observed board minute dated 11.12.2015 as evidence. |
| 3.1.i.g | Check that the Board has exercised appropriate oversight of the affairs of the Bank by key management personnel, that is consistent with Board policy | KMPs makes regular presentation to the Board and Sub Committees on matters under their purview. Reviewed Board paper No.23/07/BD(APP)/05, BIRMC paper No.23/BR/03/11 and BHRMC paper No.23/05/BHRMC/01) |
| 3.1.i.h | Check that the Board has defined the areas of authority and key responsibilities for the Board directors themselves and for the key management personnel | Directors' powers and authority defined in SMIB Law No.13 of 1975 under the Section 07. Directors have been appointed to Board sub-Committees by the Board of Directors and charter/TOR of each committee defines responsibilities. KMP responsibilities are listed in their Job Descriptions while authority defined under delegated authority. |
| 3.1.i.i | Check that the Board has periodically assessed the effectiveness of the Board directors' own governance practices, including: (i) the selection, nomination and election of directors and key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary. | Selections, nominations and election of the Board of directors are done by the Minister according to the SMIB Law No.13 of 1975. Weaknesses and implementation of changes are being discussed and determined by the Board at the year end through the submission of the summary of annual self-evaluations. Directors confirmed in their self-evaluation forms that the Board has undertaken an annual evaluation of its own governance practices. Observed Self-evaluations forms completed by Board of Director for the year 2023. |
| 3.1.i.j. | Check that the Board has a succession plan for key management personnel. | A succession policy and board approved one to one succession plan as required by the direction was approved on 20th July 2023. |
| 3.1.i.k. | Check that the Board has scheduled regular meetings with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives. | 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. |
| 3.1.i.l | Check that the Board has taken measures and processes in place to understand the regulatory environment and that the Bank maintains a relationship with regulators. | The Board has taken measures and processes in place to understand the regulatory environment and that the Bank maintains a relationship with regulators. The company secretary had delivered the copies of recent annual report, Corporate Governance Directives and a copy of the SMIB Act to all the members of the board. 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. |

Corporate Governance

| Section No. | Details | Audit Observation | | | | | | | | | | | | |
|-------------------------|--|--|------------------|---------------------|-------------------------|------------|----------------------|------------|-------------------------|------------|------------------------|------------|----------------|------------|
| 3.1.i.m | Check that the Board has a process in place for hiring and oversight of external auditors. | Not applicable. As per the Constitution of GOSL and State Mortgage and Investment Bank Law No.13 of 1975 section 65, the Auditor General is the External Auditor of the Bank. | | | | | | | | | | | | |
| 3.1.ii | Check that the Board has appointed the Chairman and the Chief Executive Officer (CEO). Check that the functions and responsibilities of the Chairman and the CEO are in line with Direction 3(5) of these Directions. | 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. <table border="1" data-bbox="896 600 1452 828"> <thead> <tr> <th>Name Of Director</th> <th>Date Of Appointment</th> </tr> </thead> <tbody> <tr> <td>Mr. Joseph Soosaithasan</td> <td>2023.05.17</td> </tr> <tr> <td>Mr.Saman Galapaththi</td> <td>2023.03.07</td> </tr> <tr> <td>Professor Aminda Perera</td> <td>2023.03.21</td> </tr> <tr> <td>Mr.Buddhika Madihahewa</td> <td>2023.05.02</td> </tr> <tr> <td>Mr.Dilip Silva</td> <td>2023.01.01</td> </tr> </tbody> </table> | Name Of Director | Date Of Appointment | Mr. Joseph Soosaithasan | 2023.05.17 | Mr.Saman Galapaththi | 2023.03.07 | Professor Aminda Perera | 2023.03.21 | Mr.Buddhika Madihahewa | 2023.05.02 | Mr.Dilip Silva | 2023.01.01 |
| Name Of Director | Date Of Appointment | | | | | | | | | | | | | |
| Mr. Joseph Soosaithasan | 2023.05.17 | | | | | | | | | | | | | |
| Mr.Saman Galapaththi | 2023.03.07 | | | | | | | | | | | | | |
| Professor Aminda Perera | 2023.03.21 | | | | | | | | | | | | | |
| Mr.Buddhika Madihahewa | 2023.05.02 | | | | | | | | | | | | | |
| Mr.Dilip Silva | 2023.01.01 | | | | | | | | | | | | | |
| 3.1.iii | Check that the Board has met regularly and held Board meetings at least twelve times a year at approximately monthly intervals. | Twelve Board meetings had been held during the year 2023. However, the first board meeting was held on 26.06.2023 due to non-existence of a board. | | | | | | | | | | | | |
| 3.1.iv | Check that the Board has a procedure in place to enable all directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank | As a practice, board is enabling all directors to include matters and proposals in the agenda for regular board meetings. Secretary was available to be contacted to include any such matter to the agenda. | | | | | | | | | | | | |
| 3.1.v | Check that the Board has given notice of at least 7 days for a regular Board meeting to provide all directors an opportunity to attend. And for all other Board meetings, notice has been given. | 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. | | | | | | | | | | | | |
| 3.1.vi | Check that the Board has taken required action on directors who have not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held. Participation at the directors' meetings through an alternate director, however, to be acceptable as attendance. | As per the attendance details given by the board secretary, no director has been absent from two-third of the meetings in the immediately preceding 12 months or three consecutive meetings held. | | | | | | | | | | | | |
| 3.1.vii | Check that the Board has appointed a company secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and carry out other functions specified in the statutes and other regulations. | Board secretary is an Associate member of the Institute of Chartered Corporate Secretaries of Sri Lanka. | | | | | | | | | | | | |
| 3.1.viii | Check the process to enable all directors to have access to advice and services of the company secretary. | As a practice directors have access to advice and services of the company secretary | | | | | | | | | | | | |

| Section No. | Details | Audit Observation |
|-------------|--|--|
| 3.1.ix | Check that the company secretary maintains the minutes of Board meetings and there is a process for the directors to inspect such minutes. | It was observed that 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 summary of data and information used by the Board in its deliberations; the matters considered by the Board; 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; the matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations the understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and the decisions and Board resolutions. | 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. | Board has involved in obtaining professionals 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. | Related party transaction policy of the Bank and section 17 of the State Mortgage and Investment Bank Law No.13 of 1975 have relevant provisions solve conflicts of interests. |
| | 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. | As per the information received from the Compliance Officer, no such situation had taken place in year 2023. |
| | Check that has he/she been counted in the quorum for the relevant agenda item at the Board meeting | |
| 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. | BOD has approved the formal schedule of matters specifically reserved for the decision of board submitted with the board paper. (Observed the board paper No.16.10.40 & minute No. 16.10.122.02 dated 24 October 2016) By the section 7 of the SMIB Act the Board of Directors may exercise all such powers and do all such act and things as may be necessary for carrying on the business of the bank. As per section 8 the Board may exercise all or any of the powers of the Bank. |
| 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. | No such situations were occurred during the period under review |

Corporate Governance

| Section No. | Details | Audit Observation |
|-------------|---|---|
| 3.1.xv | Check that the Board has the Bank capitalized at levels as required by the Monetary Board. | The bank has not fulfilled the minimum regulatory capital of Rs 7.5Bn before end of 31.12.2023. |
| 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. | The Board publishes the annual Corporate Governance Report setting out the compliance with direction 3 of these directions in the annual report. |
| 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. | Observed the self-evaluation forms submitted by members of the board for the year 2023 |
| 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. | Board consists of Four (04) Independent Non-Executive Directors and one (01) Non-Executive Director. |
| 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. | Observed that no directors have exceeded 9 years of service. |
| 3.2.ii..b | In the event of any director serving more than 9 years, check that the transitional provisions have been applied with. | Observed that no directors have exceeded 9 years of service. |
| 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. | SMIB Law No.13 of 1975 the Board consists of directors appointed by the Line Ministry and all 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: | As per the SMIB Law No 13 of 1975, all the directors are appointed by the Minister. Four Directors are Independent non- executive directors and one Director is a non-executive director. |
| 3.2.iv.a | Holds a direct and indirect shareholding of more than 1 per cent of the Bank; | There is no such situation has arisen as the Bank is fully owned by the Government. |
| 3.2.iv.b | Currently has or had during the period of two years immediately preceding his/her appointment as director, any business transactions with the Bank as described in Direction 3(7) hereof, exceeding 10 per cent of the regulatory capital of the Bank. | No such transaction occurred. |
| 3.2.iv.c | Has been employed by the Bank during the two-year period immediately preceding the appointment as director. | There are no such non-executive directors who were employed by the Bank. |
| 3.2.iv.d | Has had a close relation; who is a director, CEO, a member of key management personnel, a material shareholder of the Bank or another Bank. (For this purpose, a "close relation" means the spouse or a financially dependent child) | There is no such non-executive director has had a close relation according to the self-declaration made by the directors according to the Section 42 of the Banking act and declaration made by KMPs. |
| 3.2.iv.e | Represents a specific stakeholder of the Bank | The Bank is fully owned by the Government. |
| 3.2.iv.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 ii. in which any of the other directors of the Bank are employed or are directors or are material shareholders; or 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 transaction is noted in which a director is directly or indirectly interested during the year 2023 according to the self-declaration made by the directors according to the Section 42 of the Banking Act. |

| Section No. | Details | Audit Observation |
|-------------|--|--|
| 3.2.v | In the event an alternate director was appointed to represent an independent director, Check the person so appointed meet the criteria that applies to the independent director. | No alternate directors were appointed |
| 3.2.vi | Check that the Bank has a process for appointing independent directors. | 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. | All directors are non –executive directors. |
| 3.2.viii. | Check that the Bank discloses the composition of the Board, by category of directors, including the names of the Chairman, executive directors, non-executive directors and independent non-executive directors in the annual Corporate Governance Report. | Disclosures are given in draft Annual Report for the year 2023 |
| 3.2.ix | Check the procedure for the appointment of new directors to the Board. | 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. |
| 3.2.xi | Check if a director resigns or is removed from office, a. the Board 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. | The removal of the directors is done by the Minister of relevant Line Ministry in accordance with the SMIB Law No.13 of 1975. |
| 3.2.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. | Annual declarations obtain from directors help to identify other directorships of the existing directors. However, there is process to identify whether an employees of the bank is appointed, elected or nominated as a director of another Bank. |
| 3.3 | Criteria to assess the fitness and propriety of directors | |
| 3.3.i | Check that the age of a person who serves as director does not exceed 70 years. | Checked and ensured through the declarations that all directors are below the age of 70. |
| 3.3.i.a | 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. | 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. | As per the information in the Affidavit, there were no director or General Manager/ Chief Executive Officer appointed from another bank. |

Corporate Governance

| Section No. | Details | Audit Observation |
|-------------|---|---|
| 3.4 | Management functions delegated by the Board | |
| 3.4.i | Check that the delegation arrangements have been approved by the Board. | As per Board minute No. 20.07.124.01 dated 23 September 2020, board has appointed 4 board sub committees to delegate powers accordingly. |
| 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. | 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. |
| 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. | Board review delegation of authority periodically. Checked delegation of authority to AGM IT in board paper 23/04/BD(APP)/05 and most recent delegated authority limits of loans granted (Administrative circular no.786 approved the board meeting held on 26.03.2021) |
| 3.5 | The Chairman and CEO | |
| 3.5.i | Check that the roles of Chairman and CEO are separate and not performed by the same individual. | 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. | Chairman is an independent non-executive director appointed by the relevant Line Ministry, Under the SMIB Law. No.13 of 1975. Section 14 |
| | 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. | Since the Chairman is an independent director, need has not arisen to appoint a senior Director. |
| | Check that the designation of the senior director be disclosed in the Bank's Annual Report | SMIB Law No. 13 of 1975 does not provide provisions to appoint senior director position. |
| 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. | This has been disclosed in the self-declaration made by the directors in accordance with the term of Section 42 of the Banking Act. No relationships were observed between the Chairman and the CEO and Board members. Furthermore, relationships were not observed among the members of the board. |
| 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 | Self-assessments-2023 had been completed by all directors in March 2024. |
| 3.5.v | Check that a formal agenda is circulated by the Company Secretary approved by the Chairman. | The board secretary prepares agendas with the consultation of the chairman and circulates. (Checked agendas of meetings dated 2023/12/15) |
| 3.5.vi | Check that the Chairman ensures, through timely submission that all directors are properly briefed on issues arising at Board meetings | 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. |
| 3.5.vii | Check that the Board has a self-evaluation process that encourages all directors to make a full and active contribution to the Board's affairs and the Chairman taking the lead to act in the best interest of the Bank | Self-evaluation process has been carried out to assess the contribution of the Non-Executive Directors by the Board in 2023. |

| Section No. | Details | Audit Observation |
|---------------|--|--|
| 3.5.viii | Check that the Board has a self-evaluation process that assesses the contribution of non-executive directors. | Self-evaluation process has been carried out by the Board in 2023 and it assesses the contribution of non-executive directors. |
| 3.5.ix | Check that the Chairman engages in activities involving direct supervision of key management personnel or any other executive duties whatsoever. | The Chairman is a Non - Executive Director was 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. | 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. | 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. | The Bank has established four committees namely Board Audit Committee (BAC), Board Integrated Risk Management Committee (BIRMC), Board Human Resources and Remuneration Committee (BHRRC) and Board Nomination Committee (BNC). Checked the Board minute No. 20.07.124.01 – 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. | 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 89-90 BHRRC-pages 91 BIRMC-pages 92- 96 BAC-Pages-86-88. |
| 3.6.ii | Audit Committee: | |
| 3.6.ii.a | Check that the Chairman of the committee is an independent non-executive director and possesses qualifications and related experience. | Chairperson of the audit committee is an independent non-executive director and possesses qualifications and related experience. |
| 3.6.ii.b | Check that all members of the committee are non-executive directors. | All the members are Non-Executive Directors. |
| 3.6.ii.c | Check that the committee has made recommendations on matters in connection with <ul style="list-style-type: none"> i The appointment of the external auditor for audit services to be provided in compliance with the relevant statute; ii the implementation of the Central Bank guidelines issued to auditors from time to time; iii the application of the relevant accounting standards; and iv the service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term. | The External Auditor is the Auditor General who has been appointed in accordance with the SMIB Law No 13 of 1975 Section number 65. |

Corporate Governance

| Section No. | Details | Audit Observation |
|-------------|---|--|
| 3.6.ii.d | Check that the committee has obtained representations from the external auditors on their independence, and that the audit is carried out in accordance with SLAUS | Since the Auditor General is the External Auditor, the independence and objectivity are maintained. |
| 3.6.ii.e | Check that the committee has implemented a policy on the engagement of an external auditor to provide non-audit services in accordance with relevant regulations | Not relevant since the Auditor General is the external auditor of the Bank. No such service has been obtained during the year. |
| 3.6.ii.f | Check that the committee has discussed and finalized, the nature and scope of the audit, with the external auditors in accordance with SLAUS before the audit commences | Scope and the extent of the audit have been determined by the Auditor General as the External Auditor. |
| 3.6.ii.g | Check that the committee has a process to review the financial information of the Bank, in order to monitor the integrity of the financial statements of the Bank, its annual report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following; major judgmental areas; any changes in accounting policies and practices; the going concern assumption; and the compliance with relevant accounting standards and other legal requirements, and; in respect of the annual financial statements the significant adjustments arising from the audit. | The Board Audit Committee has reviewed annual draft financial accounts before submission to the Auditor General. (Checked BAC meeting dated 23.01.2024-BACP no-24/BAC/01/09) |
| 3.6.ii.h | Check that the committee has met the external auditors relating to any issue in the absence of the executive management with relation to the audit. | The committee has held two meetings on 18.08.2023 and 30.10.2023 with the external auditor in the absence of executive management with relation to the audit for the year 2023. |
| 3.6.ii.i | Check that the committee has reviewed the external auditor's management letter and the management's response thereto. | The Board Audit Committee has reviewed the External Auditor's management report for the year 2022 and the Management response thereon.(BAC paper no 24/BAC/01/01) |
| 3.6.ii.j | Check that the committee shall take the following steps with regard to the internal audit function of the Bank: | |
| 3.6.ii.j.I | Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work; | Board audit committee has reviewed the scope, functions and resources of the internal audit department at their meetings. |
| 3.6.ii.j.II | Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department; | Internal Audit Plan for the year 2023 has been reviewed and approved by the BAC at its meeting held on 30 December 2022. BP 22/14/BD(APP)/13 Audit Committee has reviewed the internal audit plan quarterly and the results of the internal audit process and taken the appropriate actions on them. Observed the BAC paper no 24/01/04. |

| Section No. | Details | Audit Observation |
|--------------|---|--|
| 3.6.ii.j.III | Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department | Annual Performance Appraisal of CIA for the year 2023 has been carried out by the Board Audit Committee at its meeting held on 22nd February 2024. (Observed the BAC paper No 24/01/11) Assessment of the performance of senior staff members of the Internal Audit Department for the year 2023 are assessed by the Chief Internal Auditor on 27 November 2023. |
| 3.6.ii.j.IV | Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function. | No such situation has arisen during the year 2023. |
| 3.6.ii.j.V | Check that the committee is appraised of resignations of senior staff members of the Internal Audit Department including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning; | No such situation has arisen during the year 2023. |
| 3.6.ii.j.VI | Check that the internal audit function is independent of the activities it audits | Internal audit function is independent of the activities it audits and directly report to the Board Audit Committee. |
| 3.6.ii.k | Check the minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto | As per the minutes of the meetings of the Board Audit Committee, it has reviewed major findings of internal investigations and management responses thereto. (Observed BAC paper no 24/BAC/01/06) |
| 3.6.ii.l | Check whether the committee has had at least two meetings with the external auditors without the executive directors being present. | Two Meetings had been held with the external auditor in the absence of executive management with relation to the audit for the year 2023. |
| 3.6.ii.m | Check the terms of reference of the committee to ensure that there is; explicit authority to investigate into any matter within its terms of reference the resources which it needs to do so full access to information; and authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary | Terms of References the Board Audit Committee includes required terms. Date of recommendation by BAC – 18.08.2023 Date of approval by the Board – 28.08.2023 |
| 3.6.ii.n | Check that the committee has met, at least four times and maintained minutes | Committee has met 07 times during the year 2023 and minutes have been maintained. |
| 3.6.ii.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.86-88 of the draft annual report for the year 2023. |
| 3.6.ii.p | Check that the secretary of the committee is the company secretary or the head of the internal audit function. | The Board Secretary acts as the Secretary of the Board Audit Committee. |

Corporate Governance

| Section No. | Details | Audit Observation |
|----------------|---|--|
| 3.6.ii.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. | A Whistle-blowing policy of the bank is include in the Internal Audit manual and approved the same in Bank Audit Committee meeting held on 21.07.2023. |
| 3.6.iii | Does the following rules apply in relation to the Human Resources and Remuneration Committee | |
| 3.6.iii.a | Check that the Committee has implemented a policy to determine the remuneration (salaries, allowances and other financial payments) relating to directors, CEO and key management personnel of the Bank by review of the “Terms of reference” and minutes. | 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 and forwarded to the Ministry of Finance for approval. (Board paper No 23/02/BD(APP)/24) |
| 3.6.iii.b | Check that the goals and targets for the directors, CEO and the key management personnel are documented | Directors have been appointed to Board sub-Committees by the Board of Directors and Charter/TOR of each committee defines responsibilities. Goals and targets of CEO and KMPs’ are documented separately in the Action Plan for 2023 approved by the board. |
| 3.6.iii.c | Check that the committee has considered evaluations of the performance of the CEO and key management personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives. | Performance appraisal of General Manager was done by the board at its meeting held on 20 July 2023. Performance of CIA has been reviewed by the BAC at the meeting held on 24.02.2024 and Nomination Committee has reviewed performance appraisals of KMPs at their meeting held on 22.11.2023. |
| 3.6.iii.d | Check that the “Terms of Reference” provides that the CEO is not present at meetings of the committee, when matters relating to the CEO are being discussed by reviewing the minutes. | 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.” |
| 3.6.iv | Does the following rules apply in relation to the Nomination Committee: | |
| 3.6.iv.a | Check that the committee has implemented a procedure to select/appoint new directors, CEO and key management personnel. | Not applicable since directors are appointed by the Finance Minister. The directors are being appointed by the Minister as per provisions in the Section no 07 of SMIB Law No 13 of 1975. 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. Amended SOR of the General Manager was approved at the board meeting held on 07.02.2022. |

| Section No. | Details | Audit Observation |
|--------------|--|--|
| 3.6.iv.b | Check that the committee has considered and recommended (or not recommended) the re-election of current directors. | Not Applicable since directors are appointed by the Finance Minister. |
| 3.6.iv.c | Check that the committee has set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the key management personnel, by review of job descriptions | SOR contains the qualifications and experience required for appointment of CEO and KMPs. |
| 3.6.iv.d | Check that the committee has obtained from the directors, CEO and key management personnel signed declarations that they are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes. | Signed affidavit and declarations of Directors and General Manager/CEO and KMPs are obtained by the Board Secretary at their appointments. |
| 3.6.iv.e | Check that the committee has considered a formal succession plan for the retiring directors and key management personnel. | Appointment of Directors, Chairman, and CEO is stipulated in the SMIB Act. A board approved succession policy for KMPs was approved on 20th July 2023. |
| 3.6.iv.f | Check that the Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation. | Chairman of the committee is an independent non-executive director and majority represents independent directors. The CEO presented meetings by invitation. |
| 3.6.v | Does the following rules apply in relation to the Integrated Risk Management Committee (IRMC) | |
| 3.6.v.a | The committee shall consist of at least three non-executive directors, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee. | Committee consists of three non- executive directors, CEO and Chief Risk Officer of the bank. (BIRMC Minute dated 21st July 2023) |
| 3.6.v.b | Check that the committee has a process to assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a Bank basis and group basis | Risk Management Division (RMD) submits quarterly risk reports to the Integrated Risk Management Committee. (BIRMC paper no 23/BR/04/03). Currently there are no subsidiaries or associates established under SMIB. |
| 3.6.v.c | 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. | The Integrated Risk Management Committee has reviewed the quantitative and qualitative risk limits of all management level committees such as Credit and Assets and Liability Committee. Checked BIRMC paper no 23/BR/01/10. |

Corporate Governance

| Section No. | Details | Audit Observation |
|-------------|---|--|
| 3.6.v.d | Check that the committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits. | BIRMC has reviewed and considered all risk indicators. (Checked BIRMC paper no 23/BR/01/03) |
| 3.6.v.e | Check how many times the committee has met at least quarterly. | During the year, the Committee has held four meetings. The details of the meetings and attendance are given on page No. 91 to 95 of Draft Annual Report of 2023. |
| 3.6.v.f | Check that the committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks. | Documented disciplinary action procedure is available with the bank. BIRMC Minutes were not available to prove the reviewing of disciplinary action procedure. |
| 3.6.v.g | Check that the committee submits a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions. | Risk Assessment Report of the each BIRMC was not submitted to the board within a week. |
| 3.6.v.h | Check that the committee has establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations and that there is a dedicated Compliance Officer selected from key management personnel to carry out the compliance function a report to the committee periodically. | The Compliance function has been established by appointing a Compliance Officer (CO). Compliance Officer was retired on 15.02.2024 and the position was not replaced. |
| 3.7 | Related party transactions | |
| 3.7.i | 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: 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. | Observed the documented related party transaction policy approved by the board on 16.08.2016(Board Paper No. 16/08/35 Board minute no 16.08.95.02). |
| 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. | Related Party Transaction Policy has been approved by the Board. Board Paper No 16/08/35 Board minute no. 16.08.95.02 |
| 3.7.ii.a | The grant of any type of accommodation as defined in the Monetary Board' Directions on maximum amount of accommodation. | Obtained the confirmation from IT and no such loan is granted and KMPs are within allowed accommodation limits. |
| 3.7.ii.b | The creation of any liabilities of the Bank in the form of deposits, borrowings and investments. | Liabilities in the form of deposits, borrowings and investments were not observed during the period under review. |

| Section No. | Details | Audit Observation |
|-------------|--|--|
| 3.7.ii.c | The provision of any services of a financial or non- financial nature provided to the Bank or received from the Bank. | No such financial or non-financial services were observed during the period under review. |
| 3.7.ii.d | The creation or maintenance of reporting lines and information flows between the Bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties. | No such reporting lines created were observed during the period under review. |
| 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 | Related Party Transaction Policy has been approved by the Board. Board Paper No 16/08/35 Board minute no 16.08.95.02 dated 16/08/2016. |
| 3.7.iii. | <p>a. Granting of "total net accommodation" to related parties, exceeding a prudent percentage of the Bank's regulatory capital, as determined by the Board. For purposes of this sub-direction: "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.</p> <p>b. Charging of a lower rate of interest than the Bank's best lending rate or paying more than the Bank's deposit rate for a comparable transaction with an unrelated comparable counterparty</p> <p>c. Providing of preferential treatment, such as favorable terms, covering trade losses and/or waiving fees/ commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;</p> <p>d. Providing services to or receiving services from related-party without an evaluation procedure;</p> <p>e. Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions</p> | Obtained the confirmation from IT and no such loan is granted and KMPs were within allowed accommodation limits. |

Corporate Governance

| Section No. | Details | Audit Observation |
|-------------|---|---|
| 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. | 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. |
| 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. |
| 3.7.v.b | Check where such security is not provided by the period as provided in Direction 3(7)(v)(a) above, has the 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. | Regulated through the Related Party Transaction Policy of the Bank. No such accommodation granted. |
| 3.7.v.c | Check that there is a process to identify any director who fails to comply with the above sub-directions be deemed to have vacated the office of director and has the Bank discloses such fact to the public. | Regulated through the Related Party Transaction Policy of the Bank. Not occurred. |
| 3.7.v.d | Check the process in place to ensure clause 3 (7) (v) (c) does not apply to any director who at the time of the grant of the 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 | Regulated through the Related Party Transaction Policy of the Bank. Not occurred. |

| Section No. | Details | Audit Observation |
|-------------|---|---|
| 3.7.vi | Check that there is a process in place to identify when the Bank grants any accommodation or “more favorable treatment” relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such Bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3(7)(v) above. | Obtained confirmation from the IT Department to verify that Bank did not grants any accommodation or “more favorable treatment” employees deviating the collective agreement. |
| 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 | Regulated through the Related Party Transaction Policy of the Bank. Not occurred. |
| 3.8. | Disclosures | |
| 3.8.i.a | Check that the Board has disclosed: Annual audited financial statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English. | 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. Those quarterly financial Statements and annual audited financial statements are published in newspapers in the specified formats, in Sinhala, Tamil and English. Observed the copy of the newspaper kept in the Finance Department. |
| 3.8.i.b | Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English | Quarterly financial statements are published in the newspapers in Sinhala, Tamil and English. Financial statements for quarters ended 31.03.2023, 30.06.2023,30.09.2023 and 31.12.2023 were published on 17.07.2023, 30.08.2023, 28,11,2023 and 22.02.2024 Respectively. |
| 3.8.ii | Check that the Board has made the following minimum disclosures in the Annual Report | |
| 3.8. ii.a. | The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures. | These details are disclosed in the “Directors’ Responsibility, for the Financial Reporting” |
| 3.8. ii.b | The report by the Board on the Bank’s internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements | Director’s statement on internal control over Financial Reporting includes in the draft Annual Report 2023. |

Corporate Governance

| Section No. | Details | Audit Observation |
|-------------|--|--|
| 3.8. ii.c | Check that the Board has obtained the external auditor's report on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above. | Auditor General's Report on Bank's Internal Control over Financial Reporting is included in the Annual Report 2023. |
| 3.8. ii.d | Details of directors, including names, qualifications, age, experience fulfilling the requirements of the guideline fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank | Directors' profile and remuneration have been disclosed in the annual report. |
| 3.8. ii.e | Total net accommodation as defined in 3(7)(iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital. | As per the Compliance Officer's information, no accommodation has been provided to the related parties during the year under review. |
| 3.8. ii.f | The aggregate values of remuneration paid by the Bank to its key management personnel and the aggregate values of the transactions of the Bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank. | Details mentioned regarding key management personnel had been disclosed in note number 32 of the financial statements in the draft annual report. |
| 3.8. ii.g | Check that the Board has obtained the external auditor's report on the compliance with Corporate Governance Direction | Auditor General report on a compliance with corporate governance directions is included in the annual report 2023. |
| 3.8. ii.h | A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance. | There is no such report published in the Annual Report. However, director's statement of internal control includes the statement of compliance with applicable laws and regulations. |
| 3.8. ii.i | A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so, directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns | There is no such report issued by the Director of Bank Supervision during the year 2023. |

Inward care outward service



| Date | Concept | Payments |
|--------|-------------|----------|
| Mar 12 | Supermarket | |
| Mar 20 | Deposit | |
| Mar 23 | Electricity | +\$900 |
| Apr 4 | Restaurant | |
| Apr 15 | Internet | |
| May 2 | Coffee | |
| May 10 | Payment | +\$30 |

Board Audit Committee Report

AUDIT COMMITTEE CHARTER

The Audit Committee Terms of Reference is governed by the Audit Committee Charter which is annually reviewed and approved by the Board. The Charter of the Committee was last reviewed and approved by the Board on 28 August, 2023 to ensure the new developments relating to the Committee's function.

The Committee has full access to information, cooperation from the management and discretion to invite any Executive Officer to attend its meetings.

The Banking Act Direction No 12 of 2007 on "Corporate Governance for Licensed Specialized Banks in Sri Lanka" and its subsequent amendments issued by the Central Bank of Sri Lanka further regulate the composition, role and functions of the Committee.

PRINCIPLE FOCUS

The Audit Committee assists the Board in discharging its responsibilities and exercises oversight over financial reporting, internal controls and internal/external audits.

COMPOSITION OF THE COMMITTEE

The Board Audit Committee (BAC) comprised the following members during the year under review.

| | Member | Status of BAC | Appointed Date | Attendance |
|---|------------------------------|---------------------------------|----------------|------------|
| 1 | Prof. Aminda Methsila Perera | Chairman (Independent Director) | 26.06.2023 | 4 |
| 2 | Mr. H.C. Dilip Lal Silva | Member (Nonexecutive Director) | 26.06.2023 | 4 |
| 3 | Mr. S.K.A. Galappaththi | Member (Independent Director) | 26.06.2023 | 4 |

The quorum of the Audit Committee is two members or majority of members whichever is higher. Profiles of the members as at December 31, 2023 are given on page 16 to page 18.

The Board Secretary functions as the Secretary to the Board Audit Committee as per the authority given in the Audit Committee Charter.

General Manager/CEO, Representative of the Government Audit as an External Auditor, Assistant General Manager Finance and the Chief Internal Auditor were the regular participants of the Audit Committee by invitation.

MEETINGS HELD IN 2023

The committee met on four (04) occasions during the year 2023. The proceedings of the meetings are tabled and ratified at the Board meetings where all key issues, concerns, actions taken are discussed and Board approval obtained thereof.

AREAS OF FOCUS AND ACTIVITIES IN 2023

Reporting of Financial Position and Performance

In fulfilling its oversight responsibilities, the Committee reviewed and discussed the quarterly and annual unaudited/audited financial statements to ensure that they are prepared and published in accordance with applicable Sri Lanka accounting standards and requirements prescribed in the supervisory and regulatory authorities.

In assessing the fairness of the financial statements, the Committee discussed and evaluated the application of accounting principles, reasonableness of estimates and judgments thereon.

The Committee also assessed the adequacy and effectiveness of the internal control mechanism in place to meet the regulatory requirements of Internal Capital Adequacy Assessment (ICAAP) for the year 2023 in accordance with the requirement stipulated in the Banking Act Direction No 1 of 2016 on "Regulatory Framework on Supervisory Review Process".

REGULATORY COMPLIANCE

The Committee ensured that the Bank complies with all mandatory banking and other regulatory requirements. The Internal Audit Division has conducted independent test checks covering all regulatory compliance requirements as a further monitoring measure.

INTERNAL CONTROLS

The risk-based audit approach towards the assessments of adequacy and effectiveness of the internal control policies and procedures to identify and manage all significant risks was adopted by the Bank and the Committee reviewed the stipulated process and recommendations to improve and broaden the coverage of internal audit scope.

The Committee sought and obtained the required assurance from the business units on the remedial action in respect of the identified risks to maintain the effectiveness of internal control policies and procedures.

On a regular basis and when a specific case warranted, the committee analyzed the root cause of the control deficiency and made suggestions for due improvements.

INTERNAL AUDIT

Internal audit charter and manual relating to the function of internal audit were reviewed to assure the independence and objectivity of the internal audit function.

Annual audit plan was approved by the audit committee and reviewed the effectiveness of the implementation throughout the year.

During the year, the Committee reviewed the progress of the initiatives taken by the Internal Audit Department to monitor the internal control process and systems through the audit performed in various spectrums of the Bank.

Branch credit and deposit portfolios were evaluated by the audit committee and made recommendations to improve the performance.

Investigation carried out by the Internal Audit with respect to the complaints made by the customers and employees as per the Whistleblowing Policy were reviewed by the Audit Committee and made recommendation to improve the transparency of the bank conducts and affairs. Whistleblowing policy was reviewed to update with new developments in the industry best practices.

EXTERNAL AUDIT

By statute, the Auditor General is the External Auditor of the Bank. The committee ensured the provision of all information and documents required by the External Auditor for the purpose of annual 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 highlighted in the management letter and periodic audit queries.



Prof. Aminda Methsila Perera
Chairman - Board Audit Committee

Board Nomination 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 2023.

| | | |
|--------------------------|---|------------------|
| Mr. J.M. Soosaithasan | - | Chairman |
| Mr. S. K. A. Galappatthi | - | Member |
| Mr. H. C. D. L. Silva | - | Member |
| Prof. D. A. M Perera | - | Alternate 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. General Manager/ CEO attended meetings as an invitee on the direction of the Chairman of the Committee.

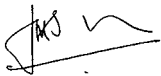
Proceedings of the Committee meetings are regularly reported to the Board of Directors for their information. Six Committee meeting were held in the year 2023.

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 | Mr. J.M. Soosaithasan | Chairman | 06 | 06 |
| 2 | Mr. S. K. A. Galappatthi | Member | | 06 |
| 3 | Mr. H. C. D. L. Silva | Member | | 06 |
| 4 | Prof. D. A. M Perera | Alternate Member | | - |

SECRETARY

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



Mr. J.M. Soosaithasan
Chairman of the Committee

Board Human Resources and Remuneration Committee Report

COMPOSITION AND QUORUM DURING THE YEAR 2023

The Board Human Resources and Remuneration Committee (BHRR) comprises of Three Independent Non-executive 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.

COMMITTEE MEMBERS DURING THE YEAR 2023

- Mr. J.M. Soosaitasan - Chairman
- Mr. S. K. A. Galappatthi - Member
- Mr. B. R. Madihahewa - Member
- Mr. H. C. D. L. Silva - Member

SECRETARY

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

SCOPE OF THE COMMITTEE

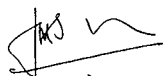
The Committee guides and advice in developing and implementing HR policies, strategies, and plans, resolving HR-related issues, and determines the remuneration policy relating to Directors, Chief Executive Officer (CEO) and Key Management Personnel of the Bank. The committee sets goals and targets for 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 Recourses and Remuneration Committee shall meet at least once a year and meetings can be convened as and when it is necessary. Five meetings were held during the year 2023.

ATTENDANCE OF THE COMMITTEE MEMBERS AT THE MEETINGS

| Name of the Director | Number of Meetings held | Number of Meetings attended |
|--------------------------|-------------------------|-----------------------------|
| Mr. J.M. Soosaitasan | 05 | 05 |
| Mr. S. K. A. Galappatthi | | 05 |
| Mr. B. R. Madihahewa | | 05 |
| Mr. H. C. D. L. Silva | | 0 |



Mr. J.M. Soosaitasan
Chairman of the Committee

Board Integrated Risk Management Committee Report

COMPOSITION OF THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE-2023

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 2023.

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

| | | |
|------------------------|---|--|
| Mr. H C D L.Silva | - | Non-Executive Director – The Chairman to the BIRMC |
| Mr. S Galappatthi | - | Non-Executive Director |
| Mr. B R Madihahewa | - | Non-Executive Director |
| Professor D A M Perera | - | Non-Executive Director |
| Mr. I T Asuramanna | - | General Manger/Chief Executive Officer |
| Mrs. R Y Dias | - | Head of Risk Management Division |
| Mrs. R K A N Ratnayake | - | Chief Manager - Risk Management Division |
| Mrs. D Alahakoon | - | Board Secretary |

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 12.12.2023 and reviewed periodically. Approved charter stipulates its authority, structure and responsibilities.

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

- Review Bank's risk appetite
- Review and approve the Bank's key risk policies on establishment of risk limits and receive reports on Bank's adherence to significant limits
- Receive reports from, review with, and provide feedback to, Management on the categories of risk the Bank faces, including credit, market, liquidity and operational risk, the exposures in each category, significant concentrations within those risk categories, the Metrix used to monitor the exposures and Management's views on the acceptable and appropriate levels of those risk exposures
- Review Bank's credit, market, liquidity and operational risk management frameworks, including significant policies, processes and systems that management uses to manage risk exposures, as well as risk measurement methodologies and approaches to stress testing
- Assess all risk types, including but not limited to Credit, Market, Liquidity, Operational and Strategic/Reputational risks to the Bank through appropriate risk indicators and management information
- Ensure risk decisions are taken in accordance with established delegated authorities and corrective actions are taken to mitigate risk taken beyond the risk tolerance set by the Committee, on the basis of Bank's policies and regulatory and supervisory requirements
- Evaluate the adequacy of risk management function, and the qualifications and background of selected risk officers
- Review the independence and authority of the risk management function
- Review Bank's Risk Capital Framework (credit, market, liquidity and operational risks), including significant inputs and assumptions
- Review Bank's balance sheet, balance sheet structure, capital, funding, interest rate and liquidity management framework, including significant policies, processes, and systems that management uses to manage exposures
- Review reports from management concerning Bank's liquidity, deposit raising, and funding activities
- Review reports from management concerning Bank's regulatory capital level and capital structure
- Review Bank's capital assessment framework, including its capital goals.
- Receive information from the 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
- 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
- Monitor the actions initiated by senior management to test the effectiveness of the measures taken by the respective Committees referred to above
- Review the annual work plan, related strategies, policies and framework of the above Committees, to ensure that the Committees have a good understanding of their mandate and adequate mechanism to identify, measure, avoid, mitigate, transfer or manage the risks within the qualitative and quantitative parameters set by the BIRMC
- Maintain continues dialogue with the Management Committees directly or indirectly dealing with specific risks, so that the BIRMC is immediately informed of any hindrance, obstacle, discouragement or constraint in the performance of their functions and / or the implementation of their decisions
- Review the risk indicators designed to monitor the level of specific risks at any given time, with a view of determining the adequacy of such indicators to serve the intended risk management objectives
- Review the actual results computed monthly against each risk indicator and take prompt corrective action(s) to mitigate the effects of specific risks, in case such risks are exceeding the prudent thresholds defined by the Board of Directors
- 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.

The BIRMC meetings

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

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

| Name of the Director | No of Meetings Attended / No of Meetings to be attended |
|---|--|
| Mr. H C D L Silva (The Chairman to the Committee) | 4/4 |
| Mr. S Galappatthi | 4/4 |
| Mr. B R Madihahewa | 4/4 |
| Professor D A M Perera (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

Inward unity outward collaboration



Integrated Risk Management

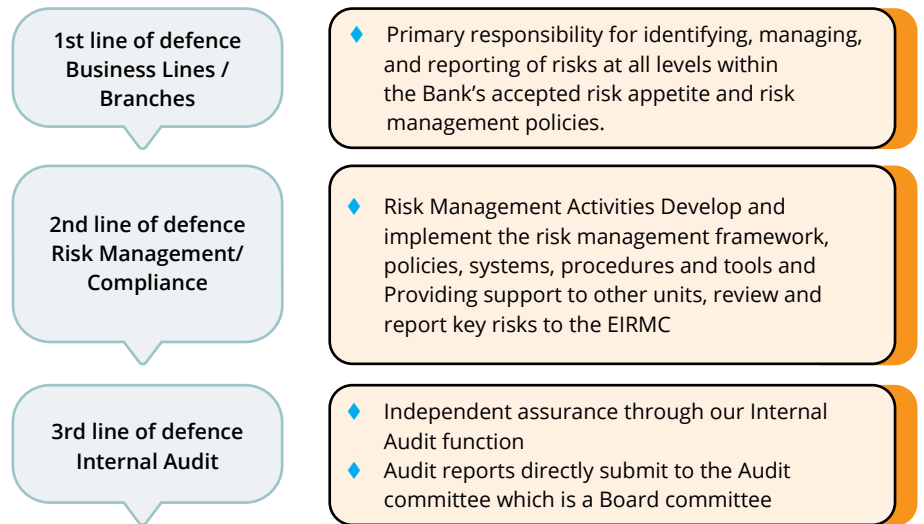
The year 2023 was challenging to the Sri Lankan economy as the longstanding structural weaknesses were elevated by several shocks leading the country into an economic crisis. Poor governance, a restrictive trade regime, a weak investment climate, episodes of loose monetary policy, and an administered exchange rate contributed to macroeconomic imbalances. Fiscal indiscipline led to high fiscal deficits and large gross financing needs, which, together with risky commercial borrowing, elevated debt vulnerabilities. The overall fiscal deficit increased in the first half of 2023, driven by a sharp rise in interest payments, despite higher total revenues and, consequently, a near closing of the primary deficit. While some of the necessary fiscal reforms, including new revenue measures, have improved overall progressivity, direct and indirect taxes, and rising energy prices are placing a disproportionate burden on the poor and vulnerable.

Under these challenging economic circumstances, the Bank continued to focus on its operations and maintained risk management initiatives to ensure such challenges are mitigated and managed to minimize the impact of any disruption to the Bank.

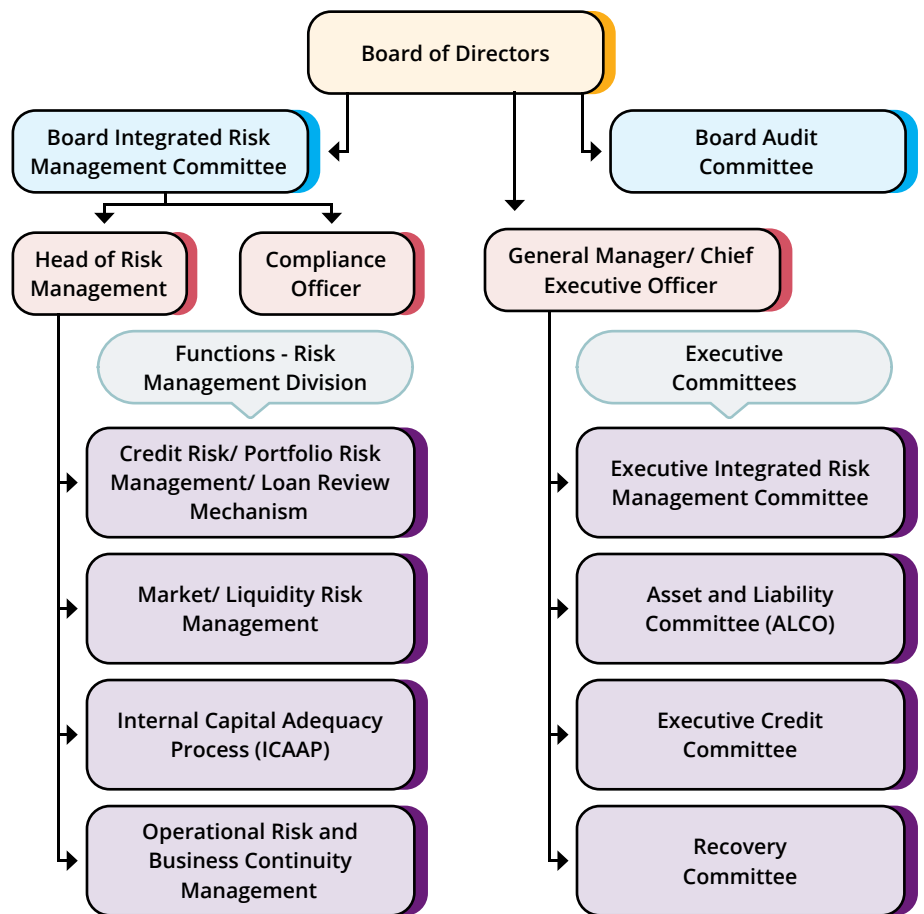
The Bank's approach to risk management is underpinned by a comprehensive Integrated Risk Management Framework to identify, assess, measure, mitigate, monitor and report risks. The Board approved framework clearly defines governance structures and the process of identifying, measuring, monitoring and controlling the Bank's risk exposures. The Integrated Risk Management Framework of the Bank comprises of four interconnected elements:

- ◆ Risk Governance which sets out a clear functional structure for risk stewardship.
- ◆ Risk Control Architecture to articulate the essential risk control procedures to guide business units and departments to enable them to address unfavorable impacts as well as to take advantage of opportunities.
- ◆ Risk Mapping to ensure all key risks faced by the Bank are identified, measured, monitored and reported.
- ◆ Risk Awareness Culture to enable shared responsibility and promote risk accountability at all levels of the Bank.

The risk management framework is based on the Three Lines of Defense Model, to ensure a structured mechanism to manage all risk exposures of the Bank.



RISK GOVERNANCE AND MANAGEMENT STRUCTURE OF THE BANK





Integrated Risk Management

RISK APPETITE

Bank’s risk appetite defines of the level of risk and it is willing to take when driving towards its strategic and financial objectives. In addition to that, risk appetite inclusive risk appetite triggers and defines specific corrective action to be taken in the event that such limits are exceeded/ triggered.

Senior management of the Bank must 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 by the risk management function and reported regularly to Board of Directors, corporate management and relevant committees. To keep these policies in line with significant changes in internal and external environment, Board of Directors periodically review these policies and make appropriate changes as and when deemed necessary.

RISK CULTURE

SMIB believes in cultivating a pro-active risk management culture within the Bank. 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 defense, enabling process efficiencies and overall stability of the Bank. These measures have helped to instill a culture of risk-awareness within the organization.

RISK REPORTING

Clearly defined risk reporting mechanisms ensure that key risk exposures are identified and escalated to the relevant personnel and ultimately to the Board of Directors, in a timely and relevant manner. Risk reporting encompasses all key risk exposures and is clearly communicated to all relevant employees across the organization.

CAPITAL MANAGEMENT

Effective capital management is crucial in protecting the Bank against insolvency while safeguarding the financial position and reputation of the Bank. The Internal Capital Adequacy Assessment Process (ICAAP) which complies with Basel requirements, guild to the process for assessing overall capital adequacy in relation to the Bank’s risk profile. As a state bank, currently SMIB has limited ability to access the equity market to raise capital and must rely primarily on internal profit generation and government injections in enhancing capital.

| | Minimum Requirement | 2023 | 2022 | 2021 |
|----------------------|---------------------|--------|--------|--------|
| Common Equity Tier 1 | 7% | 23.46% | 21.91% | 23.95% |
| Tier I Ratio | 8.5% | 23.46% | 21.91% | 23.95% |
| Total Capital Ratio | 12.5% | 23.46% | 23.80% | 25.23% |

MANAGING RISKS

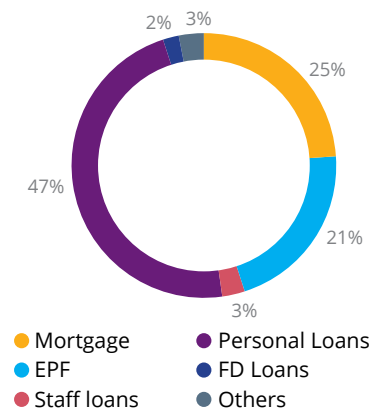
Credit Risk

Credit risk, which refers to the potential loss arising from a customer or a counterparty failing to meet their contractual obligations to the Bank as and when they fall due. We manage credit risk on an ongoing basis and Credit risk management is conducted under robust credit risk management framework approved by the Board including credit policy and credit manual procedures, segregation of delegation authority, risk ratings, collateral management and credit monitoring. 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. The internal credit rating models have been developed for each loan product category based on nature of their risk and conducted prior to offering credit facilities or increasing the credit limit and it helps to predict the probability of default and loss. Portfolio analysis including sector, product and risk rating grade-wise exposure monitoring, key risk indicators with tolerance limits and other key ratios are assessed periodically and reported to the BIRMC in line with the defined risk appetites and remedial and recovery actions. These are reviewed and updated periodically based on evolving best practices and emerging risks and opportunities.

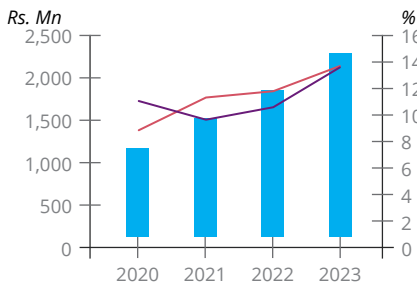
It has to be noted that while the portfolio is dominated by the personal loan portfolio, 48% of the loan portfolio is collateralized through Mortgage and cash backed EPF loans. The Bank has taken several steps to increase its focus on SME/Business Loans in the view of diversifying into various sectors and industries.

PRODUCT-WISE PORTFOLIO CONCENTRATION



The Bank continues to review and update its credit policies and processes in response to evolving dynamics to ensure that risk practices are relevant, up to date and address the changing business requirements. During the year impairment Policy and Credit Manual were reviewed and watch listing process was streamlined further with a view to strengthen Credit Risk Management of the Bank. The Bank also took steps to strengthen the recovery actions and close follow up of the portfolio, restricted the non-performing portion of loans to increase.

NPL RATIO AND IMPAIRMENT



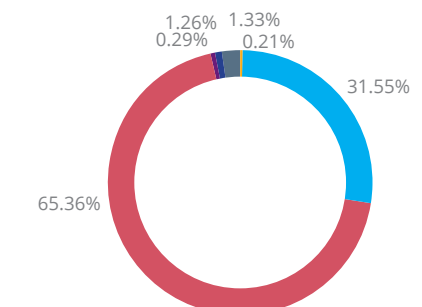
- Impairment Provision
- Impairment (Stage 3) to Stage 3 loans Ratio %
- Gross NPL excl EPF

MARKET RISK

Market risk is the risk that the value of, or income derived from the Banks' assets and liabilities changes unfavorably due to movements in market rates or prices.

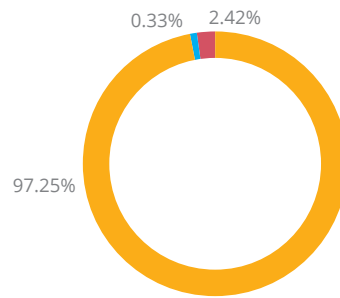
Liquidity risk is the risk of having inadequate cash flow to meet current or future requirements and expectations. The ALCO of SMIB holds apex responsibility for managing liquidity risks and consistently monitor the Bank's liquidity position. RMD continuously assess liquidity risk and interest rate risks to identify necessary corrective actions and report to the EIRMC, ALCO and BIRMC. The Treasury unit attached to the Finance Division is assigned to manage the liquidity risk and the Risk Management Department ensures same by monitoring the adherence to set limits / regulatory ratios etc. and performing other related analysis.

ASSET MIX



- Cash
- Investments
- Loans and Advances
- Property, Plant and Equipment
- Deferred Tax Assets
- Other

LIABILITY MIX

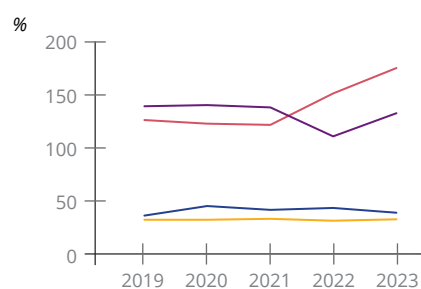


- Deposits
- Borrowings
- Others

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. In addition, the Bank operates in a predominantly fixed-rate lending environment while the majority of its liabilities are subject to frequent re-pricing. Therefore, increased interest cost during the year due to the economic condition of the country has significantly affected the margin and the Bank is considering strategies to address this mismatch.

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 liquidity movements are measured through regular cash flow forecasts, liquidity ratio and maturity gap analysis.

MARKET RISK



- Statutory liquid asset ratio
- Liquidity coverage ratio
- Net Stable Funding Ratio
- Capital Adequacy Ratio

The Bank maintains a contingency funding plan in place to deal with liquidity issues and the Treasury department is responsible for maintaining and assuring

the liquid asset ratio above the central bank stipulated levels. As precautionary measures the Bank has taken several steps to introduce new assets and liability products during the year reduce the duration mismatches and to be aligned with customer needs and market conditions.

The accessibility to retail deposits has increased through increased branch network. Hence reliance on wholesale deposits has reduced.

In addition, the Banks efforts to secure a core banking solution for the Bank was successful and this implementation will take place in year 2024 and this change may increase the level of convenience for the customer due to the additional services that gets opened up to be offered to the customer base of the Bank.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes Legal risk but excludes Strategic and Reputation risk.

A comprehensive operational risk management framework provides guidance on the effective identification and management of operational risks. The branches and Divisions, which are identified as 'First line of Defense' are responsible for the identification of risks at the point of origination. The second line of defense includes the RMD is responsible for implementing the operational risk framework and monitoring risk performance against parameters defined in the risk appetite. Assurance is provided by the Audit and Compliance units on the adequacy and effectiveness of the operational risk management processes.

Risk Identification and measurement Risk and Control Self-Assessments (RCSA) are administered to all business units by the RMD and these serve as an effective tool in the identification of operational risks. In addition, the Bank has initiated actions on incident reporting which will enable periodic identification of operational risks. The Bank ensures to conducts its Business Continuity Plan effectively to recover from an unexpected disaster as soon as possible with minimum loss.

Integrated Risk Management

The objective of the Bank is to manage, control and mitigate operational risk in a cost-effective manner consistent with the Bank's risk appetite. The Bank has ensured an escalated level of rigor in operational risk management approaches for sensitive areas of its operations.

STRESS TESTING

Stress tests are forward-looking exercises that aim to evaluate the impact of severe but plausible adverse scenarios on the resilience of a Bank. The Bank's stress testing policy has been formulated in line with regulatory guidelines and industry best practices. Stress testing is conducted periodically, to ensure that the bank has sufficient buffers of capital and liquidity to meet unexpected losses and contractual obligations and results are reported to the Board. Considering the changes in the operating environment, assumptions were critically reviewed and changes were incorporated to policy and framework as required.

The outcome of the stress testing process is monitored carefully and remedial actions taken and used by the Bank as a tool to supplement other risk management approaches.

The Stress Tests carried out as at 31.12.2023 are given below.

| | |
|---------------------------|---|
| Credit Risk | Increase in impairment due to shifts in NPL categories/ Deterioration in asset quality and adverse movements in the economic factors, probability of default etc. Fall in value of collateral |
| Credit Concentration Risk | Increase in HHI values across lending counterparties and sectors |
| Interest Rate Risk | Adverse movements in interest rates |
| Liquidity Risk | Liquidity stress scenarios with adverse movements in both assets and liabilities of the Bank Effects on SLAR , LCR and capital |

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 Bank.

STAFF STRENGTH

The total staff for the year accounted for 356, which was comparatively small; however, they have contributed to the bank performance to a greater extent. During the year, 37 staff members left the Bank, of which 14 was retired from the Bank and 23 staff members left the Bank due to resignation and other grounds. We recruited 8 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 | | 3 | 2 |
| Senior Management | 1 | | 1 |
| Executive | | 7 | 3 |
| Non Executives | 13 | 10 | 2 |
| Contract Basis / TBA | | 3 | 0 |
| Total | 14 | 23 | 8 |

STAFF STRENGTH BY TIER WISE

| Management Level | No: of Employees as at 31.12.2023 |
|----------------------|--------------------------------------|
| Corporate Management | 11 |
| Senior Management | 5 |
| Executive | 109 |
| Non Executives | 205 |
| Contract Basis/TBA | 26 |
| Total | 356 |

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 49 % male and 51% female in the year 2023.

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 31.12.2023 |
|--------------|--------------------------------------|
| 50 or Above | 69 |
| 40 - 49 | 104 |
| 30 - 39 | 136 |
| 29 or below | 47 |
| Total | 356 |

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, to be designed to select the candidate who best suited for our business needs. The talents with the necessary skills, knowledge, capabilities, and behaviors that fit and nurture our culture are prioritized. Immediate consideration is given to internal talent, whenever vacancies occur, external employee given opportunity when the internal talent is not available.

TRAINING AND DEVELOPMENT

Through the 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.

During 2023 we managed to deliver, Internal and external training the year under review witnessed our employees going through 02 internal training programs and 31 external training programs.

The under mention table summarizes the employee participation in different categories of training granted during the year 2023

Human Resource Management

| Key Area | Number of Participants |
|---|------------------------|
| Knowledge and Skill Development Training | 51 |
| Attitude Development Training / Motivational Training | 90 |
| Seminars, Workshops, Membership Fees, Quiz Competitions | 42 |

EMPLOYEE SERVICE

| Service category (Years) | No: of Employees as at 31.12.2023 |
|--------------------------|-----------------------------------|
| 0-4 | 58 |
| 5-9 | 116 |
| 10-14 | 65 |
| 15-19 | 47 |
| Above 20 | 70 |
| Total | 356 |

84% 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.

2023 - Beyond Boundaries: Corporate and Product Brands in Review

In 2023, customers and stakeholders increasingly embraced digital platforms. Meeting the demand for accessible, current information on products and services became crucial, especially given the challenges and limitations customers faced due to economic obstacles.

Product and service updates were quickly shared through digital channels to ensure easy access for customers. The focus was on enhancing brand visibility through channels like the bank website, social media, SMS notifications, direct mailers, and digital public relations efforts.

The social media platforms of the Bank were key communication platform that maintained continuously linked with customers and public for both product information, news regarding Bank initiatives as well as for generating leads. With the move towards digital the Bank also took immediate steps to enhance investments on digital communications for reach and engagement. These continuous initiatives during the year effected in significant growths in impressions, reach and engagement across the Bank's social media platforms. Further, content on social media platforms was customized for lead generation supporting the credit and branches during year. Several awareness campaigns were also carried out on the social media platforms to specified audiences and geographies especially for fixed deposits and EPF loan products

Due to the challenging economic conditions, SMIB quickly raised interest rates for both loans and deposits. The bank concentrated on sharing rate information through digital channels. Moreover, customers were encouraged to use these channels to communicate any issues or grievances related to their loan installments.

Throughout the year, the bank concentrated on expanding its EPF loan portfolio, implementing diverse promotions through both Above-The-Line (ATL) and Below-The-Line (BTL) channels. Additionally, the bank raised awareness about FD rates, encouraging customers to invest with SMIB through various media and promotional activities. Organized successful branch and street promotions across multiple cities to raise awareness

about the bank's products and services, drawing in customers and boosting branch footfall. This initiative led to significant growth in both the EPF loan portfolio and the bank's fixed deposit base.

SMIB organized a successful workshop targeting SMEs in the Kurunagala district in collaboration with the District Secretariat. This event proved to be fruitful as it provided solutions for the issues faced by SMEs, encouraging them to develop their businesses. Additionally, SMIB enhanced SMEs through various activities.

The Bank continued to strengthen its brand presence as offering financial solutions to Corporate, SME and Personal banking sectors supported by a PR strategy focusing on increasing its mark on both print and digital media.

CSR

SMIB continuously engage with community groups with a view of maintaining long-term and sustainable outcomes and nurturing healthy relations while contributing positively to the communities in which it operates.

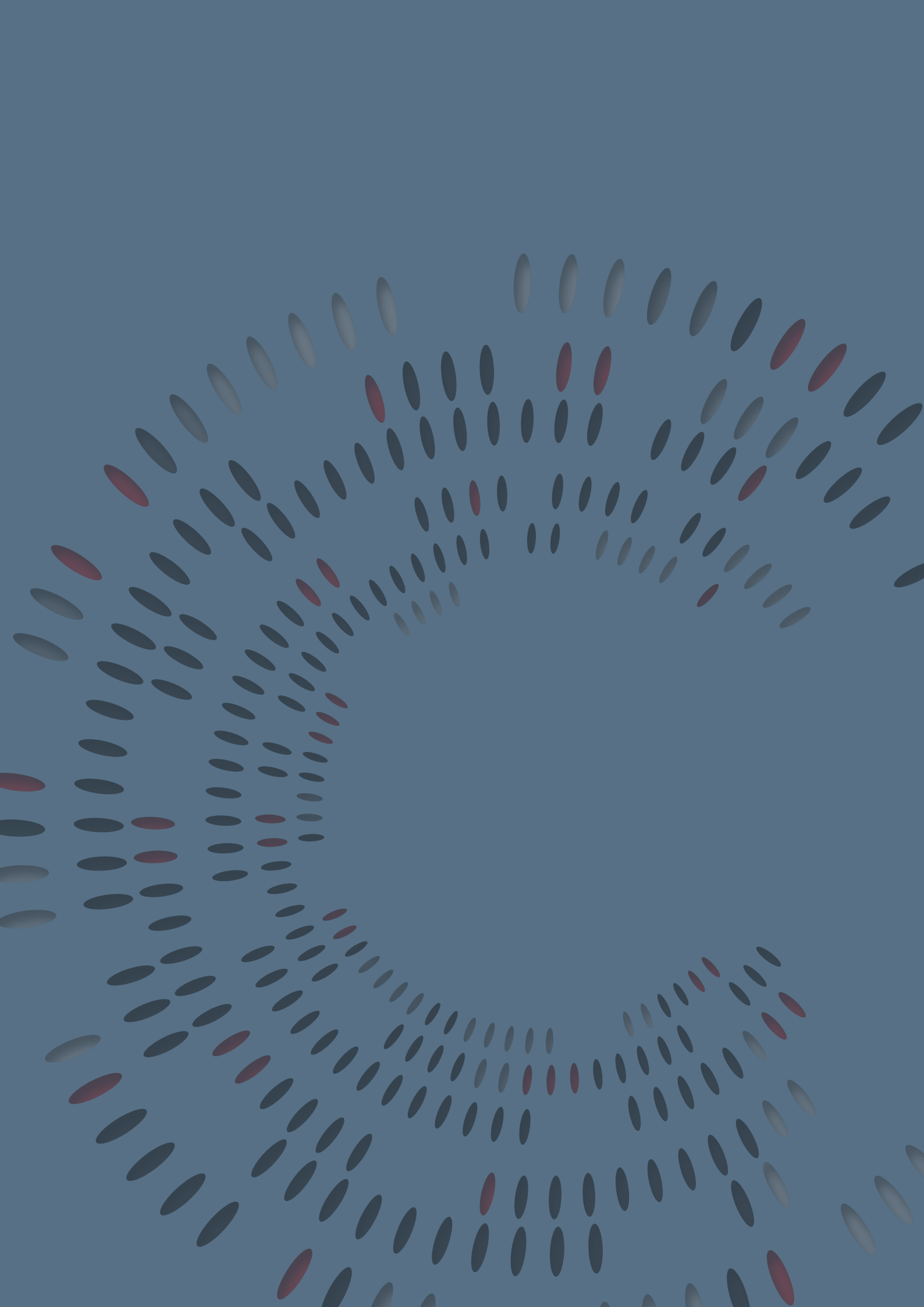
The Bank's branch networks dispersed across the island engages with their respective communities by being an active partner in the social and trade related activities in the localities while responding with empathy at times of crisis caused by natural disaster, weather phenomena etc. In engaging with the wider community, the Bank implements a focused CSR strategy that places emphasis on education and the wellbeing of children and youth of the country.

The Bank will continue to support community and environmental projects in line with the Bank policies as part of its commitment to social responsibility and sustainability. As part of its CSR initiative, SMIB collaborated with the Sri Lanka Armored Corps Camp - Rock House. The bank provided books and scholarships to students whose parents, being soldiers, sacrificed their lives during the war. Additionally, SMIB extended support to students from low-ranking army families by supplying school books and related items, contributing to their education and well-being.

Further, SMIB partnered with the Sri Lanka Army Welfare Society to support the educational aspirations of Sri Lanka Army officers' students. The bank awarded scholarships to those who were selected to attend universities, aiming to alleviate financial burdens during their higher education studies. This collaboration reflects SMIB's commitment to assisting and empowering the academic pursuits of deserving students within the Sri Lanka Army community.

Inward strategy outward action

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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 2023 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 Sixteen meetings were held in the year 2023.

Directors' attendance at the Board meetings:

| | Name of the Director | Number of Meetings eligible to attend | Number of Meetings attended |
|---|----------------------------------|---------------------------------------|-----------------------------|
| 1 | Mr. J.M. Soosaithasan - Chairman | | 11 |
| 2 | Mr. S. K. A. Galappatthi | | 10 |
| 3 | Mr. B. R. Madihahewa | 11 | 11 |
| 4 | Mr. H. C. D. L. Silva | | 11 |
| 5 | Prof. D. A. M. Perera | | 11 |

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 2023.

REVIEW OF OPERATIONS AND FUTURE DEVELOPMENTS

An overview of the financial and operational performance and future Developments of the Bank during the financial year 2023 and results of those operations are contained in the Chairman's Report, General Manager's /CEO's Report and Financial Review appearing on pages 03 to 15 in this annual report. These reports form an integral part of this annual report.

THE GENERAL MANAGER / CHIEF EXECUTIVE OFFICER (CEO)

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

VISION, MISSION AND VALUES

Vision, mission, and values statements keep everyone focused on where the Bank is going and what it is trying to achieve. Further that they define the core values of the Bank and how people are expected to behave. The business activities of the bank are conducted at a high level of ethical standards to achieve its vision. The Bank's Vision, Mission and Values are given on page no.02 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 22 to 42 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.

BOARD AUDIT COMMITTEE

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

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

BOARD SECRETARY FUNCTIONS AS THE SECRETARY OF THE BOARD AUDIT COMMITTEE.

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

Six Board Audit Committee meetings were held in the year 2023. The BAC report is given on page 44 to 45 of this annual report.

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 2023 the Committee met once. The BHRRC report is given on page no.47 of this annual report.

Board Integrated Risk Management Committee (BIRMC)

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

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

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

Four Board Integrated Risk Management Committee (BIRMC) meetings were held in the year 2023. The BIRMC report is given on pages 48 to 49 of this annual report.

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. Six Committee meeting were held in the year 2023. The BNC report is given on page 44 to 45 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 96 to 104 of this Annual Report.

INTERNAL CONTROL

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

Directors' Report

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

The Directors Report on Internal Control appears on Page 63 to 64 in this annual report.

PROFIT AND APPROPRIATIONS.

The Total Income of the Bank for the year 2023 was Rs. 9,322 Mn. Details of profit relating to the Bank are given in the following Table:

| Details | Rs. (Mn) |
|--|-------------|
| Reserves | 5,020 |
| Capital Expenditure | 115 |
| Market/ Fair Value of Immovable Properties | - |
| Contributed Capital | 889 |
| Substantial Shareholding and Share Information | - |
| Contributions to the government Statutory Payments | 124 |
| Taxation | N/A |
| 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 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 2023 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, 2023 is given on page 63 to 73 of this Annual Report.

ACKNOWLEDGMENT

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

By order of the Board,

Dilani Alahakoon
Secretary to the Board

Directors' Statement on Internal Control over Financial Reporting

RESPONSIBILITY

In line with the Banking Act Directions No 12 of 2007 section 3 (8) (ii) (b), 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 the sound internal control system of the Bank is in place and for reviewing its adequacy and effectiveness. In considering such adequacy and effectiveness, the Board recognizes that the business of banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlighting any deviations from the limits and indicators which comprise the risk appetite of the Bank. In this light, considering the adequacy and effectiveness of the controls, the Board has recognized that the internal control system has been designed to provide reasonable assurance that the assets are properly safeguarded, maintaining proper books of accounts and reliability of the financial reporting system of the bank. However, the system does not provide absolute assurance against material misstatement of financial information and records or for the elimination of irregularities and frauds due to inherent limitations.

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 in 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 achieving the corporate objectives, strategies, and the annual budget as well as implementation of policies and procedures for assessing and managing 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 profile and risk appetite of the bank.
- ◆ The Internal Audit Division of the Bank performs the tests based on the risk-based audit approach to ensure whether the financial, administrative and operational activities of the bank agree with the laid down internal control policies and procedures. Audits are carried out on all functional units and branches frequently depending on the level of risk associated with the functional units and the products of the bank. Chief Internal Auditor is responsible for objective and independent assessment on the internal control system and submitting regular reports to the Board Audit Committee in respect of the audit observations on irregularities, misstatements, frauds, 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 reports to the Board of Directors regularly in respect of the specific observations on internal control weaknesses. In this respect, the mechanism used by the committee includes; review of the Auditor General's report, Internal Audit reports, regulatory reports, annual/ monthly Financial Statements and progress reports.
- ◆ The 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 of processes to comply with new requirements of recognition, measurement, classification, and disclosure are being made.
- ◆ The Bank adhered to Sri Lanka Accounting Standards - SLFRS 9 - "Financial Instruments" with effect from 1 January, 2018. In order to comply with the requirements of SLFRS 9, the Bank developed an expected credit loss (ECL) model using a wide range of forecast economic scenarios. During the year, model validation of impairment policy was obtained from the International Firm of Chartered Accountants and reviewed by the Board. The Bank has taken adequate measures to comply with the Directions issued by the Central Bank of Sri Lanka regarding classification, recognition, and measurement of credit facilities under SLFRS 9.
- ◆ 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 the documentation of the internal control system of the bank which would facilitate review of the effectiveness of the internal controls.

Directors' Statement on Internal Control over Financial Reporting

- ◆ The Board has taken effective steps to review the information system security control policies and procedures formulated by the international firm of Chartered Accountants to strengthen the information system governance.
- ◆ The Board recognized that the changes in the technological and information system environment of the business industry are vitally important to abreast the industry best practices and improve the customer service. To address this matter, the Board has taken an effective initiative to invest in a new core banking system aiming to increase the productivity in the business operations and leverage the customer experience to achieve the best result for the organization's growth perspective.
- ◆ The comments made by the external auditor and the Central Bank on the internal control deficiencies in previous year and during the year were also considered and necessary steps were taken to address them where necessary.

CONFIRMATION

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

By Order of the Board.

Prof. D. A. M Perera
*Chairman – Board Audit Committee/
Independent Director*

Mr. H. C. D. L. Silva
*Member – Board Audit Committee/
Non-Executive Director*

Mr. S. K. A. Galappatthi
*Member – Board Audit Committee/
Independent Director*

Auditor General's report on Bank's internal Control



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எனது இல.
My No.

} BAN/F/SMIB/IC/2023/08

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உமது இல.
Your No.

දිනය
திகதி
Date

} 16 May 2024

The Chairman,
State Mortgage & Investment Bank

Independent Assurance Report of the Auditor General to the Board of Directors on the Directors' Statement on Internal Control over Financial Reporting of State Mortgage & Investment Bank

Introduction

This report is to provide assurance on the Directors' Statement on Internal Control over Financial Reporting (the "Statement") of State Mortgage & Investment Bank included in the annual report for the year ended 31 December 2023.

Management's Responsibility

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

My Responsibility and Compliance with SLSAE 3050 (Revised)

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



Auditor General's report on Bank's internal Control

This standard requires that I plan and perform procedures to obtain limited assurance about whether management has prepared, in all material respects, the Statement on Internal Control.

For 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 judgement, 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.

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

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 2023, 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 2023 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 44 to 45 of this annual report. The Board of Directors ensures that the Financial Statements comply with the prescribed format issued by the Central Bank for Licensed Specialized Banks.

GOING CONCERN

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

INTERNAL CONTROLS AND RISK MANAGEMENT

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

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

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

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

A report by the Directors on the Bank's internal control mechanism is given on page 63 page 64 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 69 of this Annual Report.

Directors' Responsibility for Financial Reporting

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

STATUTORY PAYMENTS

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

By Order of the Board,

A handwritten signature in black ink, appearing to read "Dilani Alahakoon".

Dilani Alahakoon
Secretary to the Board

Report of the Auditor General



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எனது இல.
My No.

} BAN/F/SMIB/FS/2023/12

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உமது இல.
Your No.

දිනය
திகதி
Date

} 16 May 2024

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 2023 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 2023 comprising the statement of financial position as at 31 December 2023 and the income statement, 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 material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No.38 of 1971. My report to parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, the accompanying financial statements of the Bank give a true and fair view of the financial position of the Bank as at 31 December 2023, and of their financial performance and their cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.



Report of the Auditor General

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 2023 Annual Report

The other information comprises the information included in the Bank's 2023 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 2023 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 intends to liquidate the Group 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 internal control of the Bank.

Report of the Auditor General

- 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 the National Audit Act, No. 19 of 2018.

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

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


2.2 Based on the procedures performed and evidences 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 course 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

| As at 31 December 2023 | Note | 2023 Rs. | 2022 Rs. |
|--|------|-----------------------|----------------|
| Assets | | | |
| Cash and Cash Equivalents | 13 | 122,600,853 | 126,480,437 |
| Placements with Banks | 14 | 2,923,132,097 | 13,002,272,044 |
| Financial Assets - FVPL | 15 | 3,552,533,227 | - |
| Financial Assets - AC | | | |
| - Loans and Advances | 16.1 | 38,603,322,207 | 39,267,237,754 |
| - Debt and Other Instruments | 17 | 12,162,743,730 | 2,574,993,439 |
| Financial Assets - FVOCI | 18 | 5,379,078 | 5,379,078 |
| Property, Plant and Equipment | 19 | 171,651,164 | 78,212,808 |
| Right-of-use Assets | 33.1 | 156,519,188 | 201,736,713 |
| Deferred Tax Assets | 20 | 745,677,898 | 632,156,451 |
| Other Assets | 21 | 622,951,236 | 1,076,476,258 |
| Total Assets | | 59,066,510,678 | 56,964,944,983 |
| Liabilities | | | |
| Due to Banks | 22 | 2,732,792 | 23,380,935 |
| Financial Liabilities at Amortised Cost | | | |
| - Due to Depositors | 23 | 52,138,134,453 | 49,139,971,357 |
| - Due to Debt Securities Holders | | - | - |
| - Due to Other Borrowers | 23 | 178,986,770 | 278,050,561 |
| Employee Benefit Liability | 24 | 597,674,223 | 521,826,703 |
| Income Tax Liability | 25 | - | 134,000,281 |
| Other Liabilities | 25 | 694,813,406 | 393,230,439 |
| Total Liabilities | | 53,612,341,643 | 50,490,460,277 |
| Equity | | | |
| Stated Capital/Assigned Capital | 26 | 889,812,899 | 889,812,899 |
| Statutory Reserve Fund | 27 | 306,650,839 | 306,650,838 |
| Retained Earnings | 28 | 3,179,896,294 | 4,200,211,965 |
| Other Reserves | 29 | 1,077,809,004 | 1,077,809,004 |
| Total Equity | | 5,454,169,036 | 6,474,484,706 |
| Total Equity and Liabilities | | 59,066,510,678 | 56,964,944,983 |

Certification:

These Financial Statements give a true and fair view of the state of affairs of the State Mortgage and Investment Bank as at 31 December 2023 and its profit for the year then ended.

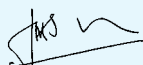


Mr. K.L.N.A. Perera

Deputy General Manager - Finance & Planning

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Approved and Signed for and on behalf of the board,



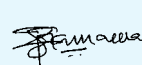
Mr. J.M. Soosaitathan

Chairman



Prof. A.M. Perera

Director



Mr. I.T. Asuramanna

General Manager / CEO

Income Statement

| For the year ended 31 December 2023 | Note | 2023 Rs. | 2022 Rs. |
|--|-------------|------------------------|-----------------|
| Interest Income | 4 | 9,324,132,408 | 7,401,968,299 |
| Interest Expenses | 4 | (8,732,594,619) | (5,462,981,408) |
| Net Interest Income | 4 | 591,537,789 | 1,938,986,892 |
| Fee and Commission Income | 5 | 96,293,245 | 91,724,320 |
| Fee and Commission Expenses | | - | - |
| Net Fee and Commission Income | 5 | 96,293,245 | 91,724,320 |
| Net Fair Value Gains/(Losses) from FA at FVPL | 6 | 157,533,227 | (2,134,408) |
| Net Other Operating Income | 7 | 21,943,478 | 25,569,713 |
| Total Operating Income | | 867,307,739 | 2,054,146,517 |
| Impairment Charges | 8 | (561,392,330) | (365,747,028) |
| Net Operating Income | | 305,915,409 | 1,688,399,489 |
| Personnel Expenses | 9 | (1,015,292,893) | (1,089,955,263) |
| Depreciation and amortization expenses | 10, 33.2 | (99,608,144) | (96,575,584) |
| Other Expenses | 10 | (355,869,747) | (353,428,278) |
| Operating profit/(loss) before VAT, NBT & DRL | | (1,164,855,374) | 148,440,364 |
| Value Added Tax (VAT) on Financial Services | 34 | (5,125,869) | (231,066,646) |
| Social Security Levy (SSCL) | | 5,200,577 | (6,378,836) |
| Profit/(Loss) before Tax | | (1,164,780,667) | (89,005,118) |
| Income tax expenses | 11 | 161,649,247 | 290,803,108 |
| Profit/(Loss) for the Year | | (1,003,131,419) | 201,797,990 |

Statement of Comprehensive Income

| For the year ended 31 December 2023 | 2023 Rs | 2022 Rs |
|--|------------------------|--------------|
| Profit/(Loss) for the Year | (1,003,131,419) | 201,797,990 |
| Items that will be reclassified to income statement | | |
| Gains and Losses on Re-Measuring Financial Assets | - | - |
| Items that will not be reclassified to income statement | | |
| Re-measurement of post-employment benefit obligations | (24,548,931) | (45,905,377) |
| Deferred Tax effect on Actuarial Gains Losses on defined benefit obligations | 7,364,679 | 13,771,613 |
| Total Comprehensive Income for the Year | (1,020,315,671) | 169,664,226 |

Statement of Changes in Equity

| For the year ended 31 December 2023 | Assigned Capital | Statutory Reserve | Capital Reserve | General Reserve | Title Indemnity Fund | Retained Earnings | Total |
|--|---------------------|----------------------|--------------------|--------------------|----------------------------|----------------------|-----------------|
| 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 |
| Prior Period Adjustments | | | | | | 21,247,904 | 21,247,904 |
| Net Profit for the Year | | | | | | 201,797,990 | 201,797,990 |
| Other Comprehensive Income | | | | | | (32,133,764) | (32,133,764) |
| Transfer During the Year | | 10,089,899 | | | | (10,089,899) | - |
| Transfer to Consolidated Fund | | | | | | - | - |
| Balance as at 31.12.2022 | 889,812,899 | 306,650,838 | 393,498,004 | 683,280,000 | 1,031,000 | 4,200,211,965 | 6,474,484,706 |
| Prior Period Adjustments | | | | | | | - |
| Net Profit for the Year | | | | | | (1,003,131,419) | (1,003,131,419) |
| Other Comprehensive Income | | | | | | (17,184,252) | (17,184,252) |
| Transfer During the Year | | - | | | | - | - |
| Transfer to Consolidated Fund | | | | | | - | - |
| Balance as at 31.12.2023 | 889,812,899 | 306,650,838 | 393,498,004 | 683,280,000 | 1,031,000 | 3,179,896,294 | 5,454,169,035 |



Statement of Cash Flows

| For the year ended 31 December 2023 | From 01/01/2023 to 31/12/2023 Rs. | From 01/01/2022 to 31/12/2022 Rs. |
|--|--|--|
| Cash flows from operating activities | | |
| Interest Received | 8,921,615,611 | 6,532,818,744 |
| Interest Payments | (9,337,465,140) | (3,983,524,366) |
| Net commission receipts | 96,293,245 | 110,156,617 |
| Payments to Employees | (846,574,251) | (1,139,105,522) |
| VAT, DLR & NBT ,ESC on financial services | (5,125,869) | (224,608,218) |
| Receipts from Other Operating Activities | 5,250,254 | 3,852,616 |
| Payments on Other Operating Activities | (302,959,071) | (393,178,818) |
| Operating profit before changes in Operating Assets & Liabilities | (1,468,965,222) | 906,411,053 |
| (Increase)/Decrease in Operating Assets | | |
| Financial assets at amortised cost - loans & advances | 448,871,346 | (1,413,593,730) |
| Other Assets | 473,203,052 | (259,037,405) |
| | 922,074,398 | (1,672,631,135) |
| Increase/(Decrease) in Operating Liabilities | | |
| Financial liabilities at amortised cost - due to depositors | 3,607,292,902 | 1,996,748,599 |
| Financial liabilities at amortised cost - due to other borrowers | (96,420,481) | (90,186,677) |
| Other liabilities | 228,785,113 | (56,713,935) |
| | 3,739,657,534 | 1,849,847,988 |
| Net cash generated from operating activities before Income Tax | 3,192,766,710 | 1,083,627,905 |
| Gratuity Paid | (62,358,388) | |
| Income Taxes Paid | (78,507,801) | (85,810,622) |
| Net Cash from Operating Activities | 3,051,900,521 | 997,817,283 |
| Cash flows from investing activities | | |
| Dividend Received | 18,765,120 | 21,324,000 |
| Proceeds from the sale of property, plant and equipment | 885,920 | 554,282 |
| Purchase of Property ,Plant & Equipment | (151,172,660) | (40,389,658) |
| Net Proceeds from the sale and maturity of financial investments | (2,903,610,343) | (1,004,675,159) |
| Net cash (used in)/from investing activities | (3,035,131,963) | (1,023,186,536) |
| 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 | 16,768,559 | (25,369,253) |
| Cash and cash equivalents at the beginning of the period | 103,099,502 | 128,468,755 |
| Cash and cash equivalents at the end of the period | 119,868,061 | 103,099,502 |
| Reconciliation of Cash and Cash Equivalents | | |
| Cash and Short Term Funds | 122,600,853 | 126,480,437 |
| Borrowings from Banks (OD) | (2,732,792) | (23,380,935) |
| Cash and cash equivalents at the end of the period | 119,868,062 | 103,099,502 |

Accounting Policies & Notes to the Financial Statements

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 2022 were authorized for issue in accordance with the approval given by the Board of Directors of the Bank at the meeting.

The staff strength of the Bank as at December 31, 2023 was 354 (387 as at December 31, 2022)

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 2023 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
- 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 considering 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

Accounting Policies & Notes to the Financial Statements

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 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 24% to 30% with effect from October 01, 2022.

Details of current income tax expenses are given in the note number 11

2.3.3 Deferred Tax Assets

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

Details of deferred tax disclosed in the note number 20

2.3.4 Value Added Tax on Financial Services (VAT)

VAT on financial services is calculated in accordance with Section 25A of Value Added Tax Act No. 14 of 2002 and subsequent amendments thereto. VAT on financial services is payable at 18% on operating profit before value added tax adjusted for emoluments of employees and economic depreciation.

Details of VAT liability is disclosed in the note number 34.

2.3.5 Social Security Contribution Levy (SSCL) 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.

| | 2023 | 2022 |
|--------------------------------|-------------|-------------|
| Interest Rate | 13.00% | 18.00% |
| Rate of Annual Salary Increase | 10% | 6.50% |
| Retirement Age | 55-60 years | 55-60 years |

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

2.4.2 Employee Benefit Liability - Medical Benefit

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

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

The assumptions used are as follows.

| | 2023 | 2022 |
|---|------------|------------|
| Discount Rate | 13.00% | 18.00% |
| Medical Expense Escalation | 12% | 6.5% |
| Participant Data (Actives) census information | 31.12.2023 | 31.12.2022 |

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.

Accounting Policies & Notes to the Financial Statements

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 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 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 33 to the Financial Statements.

2.4.5 Cash and Cash Equivalents

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

2.4.6 Property, Plant and Equipment

Details of Property plant and equipment are given in the note number 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 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.

Accounting Policies & Notes to the Financial Statements

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 marketplace. 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).

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 2023.

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 2002. 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, considering 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. Unit trust hold as at 31 December, 2023 was 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 2022 & 2023.

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.

Accounting Policies & Notes to the Financial Statements

2.4.12.9.2 De-recognition Other than for Substantial Modification

Financial Assets

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

- ◆ The Bank has transferred its contractual rights to receive cash flows from the financial asset

or

- ◆ It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement

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

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

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

A transfer only qualifies for de recognition if either:

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

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

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

2.4.12.10.1 Individual Impairment Method

- i. 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 evidence of impairment.
- ii. Individually significant assessment and not impaired individually
Loans which are individually significant but not impaired will be assessed collectively for impairment either under Stage 1 or Stage 2 based on the criteria whether there has been significant credit deterioration since origination. In establishing significant credit deterioration for the facilities classified under individual impairment following criteria are considered.

Significant financial difficulty of the issuer or the borrower, it is becoming probable that the borrower will enter bankruptcy or other financial reorganization. The disappearance of an active market for that financial asset because of financial difficulties. It is evident or probable that borrower has submitted fraudulent documents and recovery of the outstanding balance is doubtful, significant increase in credit risk on other financial instruments of the same borrower.

2.4.12.10.2 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.

2.4.12.10.2.1 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.
- POCI** Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

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

2.4.12.10.2.3 The Calculation of ECLs

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

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

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

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

Accounting Policies & Notes to the Financial Statements

2.4.12.10.2.4 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 Carrera
- ◆ 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 measure

Change in rate of VAT on financial services

As per provisions of the Government Bill issued on 7 January 2022 it has been proposed to increase the VAT on financial services.

New NPL Direction

New NPL Direction CBSL has recently issued a new set of directions pertaining to the classification, recognition and measurement of credit facilities to be effective from 1 January 2022. The classification of Non-Performing Loans (NPL), cessation of the interest in suspense, adoption of SLFRS 9 stage classification, changing the existing cross default rules, mandatory provisioning ratio for stage one loans, and new rules for moving the financial assets among the stages. However, the new direction is applicable only for the loans turn to NPL after 1 January 2022 while the old loans categorised as NPL under the earlier directions will remain as it is until it will get settled.

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 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 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.

Accounting Policies & Notes to the Financial Statements

03. GROSS INCOME

Accounting Policy

Gross revenue is recognized 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.

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|---|----------------------|----------------------|
| Interest Income | 9,324,132,408 | 7,401,968,299 |
| Fee and Commission Income | 96,293,245 | 91,724,320 |
| Net Fair Value Gains/(Losses) from FA at FVPL | 157,533,227 | (2,134,408) |
| Net Other Operating Income | 21,943,478 | 25,569,713 |
| Gross Income | 9,599,902,358 | 7,517,127,924 |

04. NET INTEREST INCOME

Accounting Policy is disclosed in Note 2.2.1

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|--|----------------------|----------------------|
| Interest Income | | |
| Placements with Banks (Fixed+Savings Accounts) | 1,975,533,930 | 2,330,660,489 |
| Financial Assets at Amortised Cost | | |
| - Loans and Advances | 5,600,330,193 | 4,709,774,315 |
| First Day Impact of Moratorium Loans | 3,031,481 | 1,478,839 |
| Deferred 7% interest Income on Moratorium interest on 5th wave | - | 1,097,973 |
| less-7% moratorium bank charges of 1,3,4,5 waves recovered | (532,942) | (1,576,156) |
| - Debt and Other Instruments | 1,745,769,745 | 360,532,839 |
| Total Interest Income | 9,324,132,408 | 7,401,968,299 |
| Interest Expenses | | |
| Due to Banks | 51,052 | 68,915 |
| Financial Liabilities at Amortised Cost | | |
| - Due to Depositors | 8,706,701,092 | 5,433,421,943 |
| - Due to Other Borrowers | 25,842,475 | 29,490,550 |
| Total Interest Expenses | 8,732,594,619 | 5,462,981,408 |
| Net Interest Income | 591,537,789 | 1,938,986,892 |
| a. Net Income from Sri Lanka Government Securities | | |
| Interest Income | 1,286,407,489 | 262,575,535 |
| (Less):Interest Expenses | - | - |
| Net Interest Income | 1,286,407,489 | 262,575,535 |



05. NET FEE AND COMMISSION INCOME

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

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|---|---------------------|---------------------|
| Fee and Commission Income | 96,293,245 | 91,724,320 |
| Net Fee and Commission Income | 96,293,245 | 91,724,320 |
| Comprising | | |
| Bank Service Charges - Loans and Advances | 84,074,511 | 84,406,618 |
| Legal & Technical Fees - Loans and Advances | 1,841,929 | 80,317 |
| Other Charges | 10,376,804 | 7,237,386 |
| Net Fee and Commission Income | 96,293,245 | 91,724,320 |

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 recognized through profit or loss" other than interest income

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|---|---------------------|---------------------|
| Gains on financial assets at fair value through profit or loss | 157,533,227 | - |
| Losses on financial assets at fair value through profit or loss | - | (2,134,408) |
| Total | 157,533,227 | (2,134,408) |

07. OTHER OPERATING INCOME (NET)

Accounting Policy

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

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|---------------------------------------|---------------------|---------------------|
| Dividend Income | 15,950,352 | 21,324,000 |
| Sundry Income | 5,993,126 | 4,245,713 |
| Other Operating Income (net) | 21,943,478 | 25,569,713 |

Accounting Policies & Notes to the Financial Statements

08. IMPAIRMENT CHARGES (REVERSAL) FOR LOANS AND OTHER LOSSES

Accounting Policy

The Bank recognize 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 judgment, 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

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|--|--------------------|--------------------|
| Financial Assets at AC - Loans and Advances | | |
| Stage 1 | (34,814,940) | 130,450,499 |
| Stage 2 | 167,142,810 | 114,418,254 |
| Stage 3 | 423,926,677 | 119,179,592 |
| Other Financial assets at amortised cost | | |
| Stage 1 | 5,137,783 | 2,691,805 |
| Stage 2 | - | (993,122) |
| Stage 3 | - | - |
| Total | 561,392,330 | 365,747,028 |

09. PERSONNEL EXPENSES

Accounting Policy

01. Defined contribution plans

Bank operate under mentioned Defined Contribution plan during the financial year 2023. 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

| For the Year ended 31 December Staff Expenses | 2023 Rs. | 2022 Rs. |
|--|----------------------|----------------------|
| Salaries and Bonus | 717,390,410 | 830,283,079 |
| Defined Contribution Plan- EPF & ETF | 126,556,908 | 118,346,815 |
| Defined Benefits Plans - Gratuity Provision | 59,542,589 | 41,353,107 |
| Encashment of Sick Leave | 29,964,922 | 31,020,486 |
| Overtime and Out of Pocket Allowance | 5,850,366 | 8,648,568 |
| Staff Study and Training | 1,944,205 | 1,044,050 |
| Medical Scheme - Payments | 62,874,231 | 70,936,477 |
| Medical Scheme - Provision (IFRS) | 54,114,387 | 15,568,572 |
| Welfare | 7,171,626 | 4,128,876 |
| Insurance | 469,387 | 1,061,997 |
| Staff Loan day 1 Difference (IFRS) | (51,453,677) | (38,525,209) |
| Compensation | 867,538 | 459,558 |
| PAYE Tax on Employment Income | - | 5,628,889 |
| Total | 1,015,292,893 | 1,089,955,263 |

| For the Year ended 31 December | 2023 | 2022 |
|------------------------------------|----------------------|---------------|
| Staff Expenses | Rs. | Rs. |
| Less - IFRS Provisions | | |
| Staff Loan day 1 Difference (IFRS) | 51,453,677 | 38,525,209 |
| Medical Scheme - Provision (IFRS) | (54,114,387) | (15,568,572) |
| Actual Total | 1,012,632,183 | 1,112,911,900 |

09.1 Contribution – Retired staff medical scheme

| For the Year ended 31 December | 2023 | 2022 |
|--------------------------------|------------|------------|
| | Rs. | Rs. |
| Amount recognized as expense | 54,114,387 | 30,993,049 |

09.2 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 2023. (Refer Note)

Contribution – Gratuity

| For the Year ended 31 December | 2023 | 2022 |
|--------------------------------|---------------|------------|
| | Rs. | Rs. |
| Amount recognized as expense | 59,542,589.00 | 41,353,107 |

10. OTHER EXPENSES

Accounting Policy

Other operating expenses are recognized 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 recognized 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.

| For the Year ended 31 December | 2023 | 2022 |
|--|--------------------|-------------|
| | Rs. | Rs. |
| Directors' Emoluments | 1,998,974 | 3,565,629 |
| Auditors' Remuneration | 5,564,435 | 3,000,000 |
| Professional and Legal Expenses | 7,399,866 | 4,338,676 |
| Office Administration and Establishment Expenses | 156,567,575 | 135,892,205 |
| Advertising and Promotional Expenses | 9,359,051 | 17,329,178 |
| Motor Vehicle Maintenance & Travelling | 7,984,571 | 11,084,248 |
| General Expense | 11,690,094 | 20,042,587 |
| Other Losses, Bad Debts and Write Offs | - | - |
| CBSL Deposit Insurance | 51,678,387 | 47,776,181 |
| Other Expenses | 103,626,794 | 110,399,574 |
| Total | 355,869,747 | 353,428,278 |

Accounting Policies & Notes to the Financial Statements

10. Other Expenses (Contd.)

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|---|-------------------|-------------|
| Depreciation/Amortisation of Property, Plant and Equipment | | |
| Depreciation - Property, Plant and Equipment | 21,007,983 | 17,994,398 |
| Depreciation - Leased Assets | 78,600,161 | 78,581,186 |
| | 99,608,144 | 96,575,584 |

11. TAX EXPENSES

Accounting Policy

Current Tax Expenses -Tax Rate 24% and 30%

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 30%

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 recognized 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 utilized. Unrecognized deferred tax asset are reassessed at each reporting date and are recognize 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 realized or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at the reporting date.

Bank's standard tax rate increased from 24.0% to 30.0% in the year 2022, and a newly implemented Social Security Contribution Levy of 2.5% came in to effect, while VAT on financial services increased from 15.0% to 18.0% w.e.f. 1st January 2022. Increase in deferred tax asset as a result of unused tax losses and substantial impairment charges recognized along with the reversal of previous years' tax provisions with the settlement of past tax assessments, the Bank recognized a tax credit of Rs 442 Mn for the current year

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|--------------------------------|----------------------|---------------|
| Current Tax Expense | | |
| Current Year | (55,492,480) | 104,722,527 |
| Deferred Tax Expense/(Credit) | (106,156,767) | (395,525,635) |
| Total | (161,649,247) | (290,803,108) |

11.1 Reconciliation of Tax Expenses

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|--|------------------------|---------------------|
| Profit/(Loss) before Tax | (1,164,780,667) | 147,105,580 |
| Adjustment in Respect of Current Income Tax of Prior Periods | | |
| Add: Tax Effect of Expenses/income reductions that are not Deductible for Tax Purposes | 615,883,520 | 566,927,276 |
| (Less): Tax Effect of Expenses that are Deductible for Tax Purposes | (606,532,475) | (150,683,823) |
| Disposal of Assets | 885,920 | - |
| Dividends | 15,950,352 | (19,189,592) |
| Adjusted Profits for the Year | (1,138,593,349) | 544,159,441 |
| Taxation Based on Profit for the Year | - | 146,923,049 |
| Taxation based on dividend income at 14% | - | 2,985,360 |
| Transfer to/from Deferred Taxation | (106,156,767) | (395,525,635) |
| (Over)/Under Provision in Previous years | (55,492,480) | (45,185,882) |
| Tax Expense for the Period | (161,649,247) | (290,803,108) |

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

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|---------------------------------------|---------------------|---------------------|
| Deferred Tax Assets | | |
| Property, Plant & Equipment | (35,613,577) | (7,264,080) |
| Employee Benefit Obligations | 179,302,267 | 156,548,011 |
| Impairment Provision | 257,809,511 | 480,556,755 |
| Right to use Assets | (1,552,645) | (2,748,015) |
| Moratorium First Day Impact | 4,154,337 | 5,063,781 |
| Unused Tax Losses | 341,578,005 | - |
| Deferred Tax Assets | 745,677,898 | 632,156,452 |

12. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS - BANK - CURRENT YEAR (2023)

Accounting Policy

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

| In Rs. | AC | FVPL | FVOCI | Total |
|-------------------------------|-----------------------|----------------------|------------------|-----------------------|
| ASSETS | | | | |
| Cash and cash equivalents | 122,600,853 | - | - | 122,600,853 |
| Placements with banks | 2,923,132,097 | - | - | 2,923,132,097 |
| Loans and advances | 38,603,322,207 | - | - | 38,603,322,207 |
| Debt instruments | 781,224,416 | - | - | 781,224,416 |
| Reverse Repos | 970,572,268 | - | - | 970,572,268 |
| Treasury Bills | 9,840,233,022 | - | - | 9,840,233,022 |
| Treasury Bonds | 415,464,023 | - | - | 415,464,023 |
| Commercial Papers | 155,250,000 | - | - | 155,250,000 |
| Unit Trusts | - | 3,552,533,227 | - | 3,552,533,227 |
| Unquoted Shares | - | - | 5,379,078 | 5,379,078 |
| Total financial assets | 53,811,798,887 | 3,552,533,227 | 5,379,078 | 57,369,711,192 |

Accounting Policies & Notes to the Financial Statements

12. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS - BANK - CURRENT YEAR (2023) (CONTD.)

| In Rs. | AC | FVPL | FVOCI | Total |
|------------------------------------|-----------------------|----------|----------|-----------------------|
| LIABILITIES | | | | |
| Due to banks | 2,732,792 | - | - | 2,732,792 |
| Financial liabilities | | | | |
| - Due to depositors | 52,138,134,453 | - | - | 52,138,134,453 |
| - Due to other borrowers | 178,986,770 | - | - | 178,986,770 |
| Total Financial Liabilities | 52,319,854,014 | - | - | 52,319,854,014 |

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

12. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS - BANK - PREVIOUS YEAR (2022)

| In Rs. | AC | FVPL | FVOCI | Total |
|------------------------------------|-----------------------|----------|------------------|-----------------------|
| ASSETS | | | | |
| Cash and cash equivalents | 126,480,437 | - | - | 126,480,437 |
| Placements with banks | 13,002,272,044 | - | - | 13,002,272,044 |
| Loans and advances | 39,267,237,754 | - | - | 39,267,237,754 |
| Debt instruments | 300,476,712 | - | - | 300,476,712 |
| Reverse Repos | 70,055,770 | - | - | 70,055,770 |
| Treasury Bills | 1,819,859,101 | - | - | 1,819,859,101 |
| Treasury Bonds | 384,601,856 | - | - | 384,601,856 |
| Unquoted Shares | - | - | 5,379,078 | 5,379,078 |
| Total financial assets | 54,970,983,675 | - | 5,379,078 | 54,976,362,753 |
| LIABILITIES | | | | |
| Due to banks | 23,380,935 | - | - | 23,380,935 |
| Financial liabilities | | | | |
| - Due to depositors | 49,139,971,357 | - | - | 49,139,971,357 |
| - Due to other borrowers | 278,050,561 | - | - | 278,050,561 |
| Total Financial Liabilities | 49,441,402,853 | - | - | 49,441,402,853 |

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

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|--------------------------------|--------------------|--------------------|
| Cash in hand | 62,943,092 | 67,855,968 |
| Balances with banks | 59,657,762 | 58,624,470 |
| Total | 122,600,853 | 126,480,437 |

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

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|-------------------------------------|----------------------|----------------|
| Fixed Deposits | | |
| NDB | | - |
| NSB | - | 2,871,326,932 |
| PB | 2,929,999,099 | 3,981,240,459 |
| SDB | - | 876,057,140 |
| BOC | - | 4,222,567,216 |
| Call Deposit | | |
| BOC | - | 302,268,493 |
| Savings Accounts-Investments | | |
| SDB | 1,213,045 | 203,033,575 |
| NDB | 4,770 | 548,725,264 |
| Gross Total | 2,931,216,914 | 13,005,219,079 |

14.2

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|---|----------------------|----------------|
| Stage 1 | | |
| Opening balance as at 01/01/2023 | 2,947,034 | 255,230 |
| Charge/(Write back) to income statement | 5,137,783 | 2,691,805 |
| Write-off during the year | - | - |
| Other movements | - | - |
| Closing balance at 31/12/2023 | 8,084,817 | 2,947,034 |
| Stage 2 | | |
| Opening balance as at 01/01/2023 | - | 993,122 |
| Charge/(Write back) to income statement | - | (993,122) |
| Write-off during the year | - | - |
| Other movements | - | - |
| Closing balance at 31/12/2023 | - | - |
| Stage 3 | | |
| Opening balance as at 01/01/2023 | - | - |
| Charge/(Write back) to income statement | - | - |
| Write-off during the year | - | - |
| Other movements | - | - |
| Closing balance at 31/12/2023 | - | - |
| C. Net Placement with banks | 2,923,132,097 | 13,002,272,044 |

Accounting Policies & Notes to the Financial Statements

15. FINANCIAL ASSETS RECOGNIZED THROUGH PROFIT OR LOSS

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|--------------------------------|----------------------|-------------|
| Unit Trusts (NDB) | 3,552,533,227 | - |
| Total | 3,552,533,227 | - |

a. Analysis

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|--------------------------------|----------------------|-------------|
| By collateralisation | | |
| Pledged as collateral | - | - |
| Unencumbered | 3,552,533,227 | - |
| Gross total | 3,552,533,227 | - |

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 item 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

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|--|-----------------------|----------------|
| Gross loans and advances | 41,006,647,925 | 41,117,340,406 |
| Stage 1 | 25,022,039,747 | 28,514,541,265 |
| Stage 2 | 5,325,583,522 | 3,548,045,184 |
| Stage 3 | 10,659,024,656 | 9,054,753,958 |
| (Less): Accumulated impairment under: | 2,389,477,929 | 1,833,223,382 |
| Stage 1 | 428,135,938 | 462,950,878 |
| Stage 2 | 431,229,101 | 264,086,290 |
| Stage 3 | 1,530,112,891 | 1,106,186,214 |
| Net Loans and Advances | 38,617,169,996 | 39,284,117,024 |
| Less - First Day impact of Moratorium Loans | 13,847,789 | 16,879,270 |
| Carrying Value of Loans and Advances | 38,603,322,207 | 39,267,237,754 |

16.2 Analysis

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|--|-----------------------|---------------------|
| By product | | |
| Mortgage | 10,179,549,598 | 10,836,307,405 |
| EPF | 8,857,459,543 | 6,644,199,224 |
| Vehicle | - | - |
| Staff loans | 1,208,081,194 | 1,360,479,032 |
| Personal Loans | 19,295,356,966 | 20,751,939,449 |
| Others | 1,864,188,107 | 1,973,856,456 |
| Less- | | |
| Allowance for Day 1 Difference - Staff Loans | (397,987,482) | (449,441,159) |
| Gross Total | 41,006,647,925 | 41,117,340,406 |
| By collateralization | | |
| Collateral held as Security | 19,037,009,141 | 17,480,506,629 |
| Other Credit Enhancements | 21,969,638,784 | 23,636,833,777 |
| Gross Total | 41,006,647,925 | 41,117,340,406 |

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 recognized 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, base on hormorginity 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 a impairment provision account and the amount of the loss is recognized 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 realized 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 recognized, the previously recognized 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"

Accounting Policies & Notes to the Financial Statements

16.3 Movements in impairment during the year (Contd.)

Write-off of loans and advances

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"

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|---|----------------------|---------------|
| Stage 1 | | |
| Opening balance as at 01/01/2023 | 462,950,878 | 247,904,755 |
| Charge/(Write back) to income statement | (34,814,940) | 84,595,623 |
| Write-off during the year | - | - |
| Closing balance at 31/12/2023 | 428,135,938 | 462,950,878 |
| Stage 2 | | |
| Opening balance as at 01/01/2023 | 264,086,290 | 89,207,499 |
| Charge/(Write back) to income statement | 167,142,810 | 60,460,538 |
| Write-off during the year | - | - |
| Closing balance at 31/12/2023 | 431,229,101 | 264,086,290 |
| Stage 3 | | |
| Opening balance as at 01/01/2023 | 1,106,186,214 | 766,340,454 |
| Charge/(Write back) to income statement | 423,926,677 | 220,666,168 |
| Write-off during the year | - | - |
| Closing balance at 31/12/2023 | 1,530,112,891 | 1,106,186,214 |
| Total | 2,389,477,929 | 1,833,223,382 |

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 recognized in the Income Statement line “Impairment charges

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|---------------------------------------|-----------------------|----------------------|
| Treasury Bills | 9,840,233,022 | 1,819,859,101 |
| Treasury Bonds | 415,464,023 | 384,601,856 |
| Debenture | 781,224,416 | 300,476,712 |
| Reverse Repos | 970,572,268 | 70,055,770 |
| Commercial Paper | 155,250,000 | - |
| Gross total | 12,162,743,730 | 2,574,993,439 |

17.1 Analysis

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|---------------------------------------|-----------------------|----------------------|
| By collateralization | | |
| Pledged as collateral | - | - |
| Unencumbered | 12,162,743,730 | 2,574,993,439 |
| Gross total | 12,162,743,730 | 2,574,993,439 |

Accounting Policies & Notes to the Financial Statements

17. FINANCIAL ASSETS AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS (CONTD.)

17.2

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|--|-----------------------|----------------------|
| Stage 3 | | |
| Opening balance as at 01/01/2023 | - | - |
| Charge/(Write back) to income statement | - | - |
| Write-off during the year | - | - |
| Other movements | - | - |
| Closing balance at 31/12/2023 | - | - |
| C. Net Financial Assets at Amortized Cost | 12,162,743,730 | 2,574,993,439 |

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Accounting Policy

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

Equity instruments fair value through other comprehensive income

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

Financial Assets at Fair Value Through Other Comprehensive Income

| For the Year ended 31 December | 2023 Rs. | 2022 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 recognized 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 capitalized as part of computer equipment.

Cost model

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

19.1.a. Property, Plant and Equipment

| In Rs. | Vehicles | Furniture & Fittings & Office Equipment | Computer Equipment | Computer Software | WEB Site Development | Total |
|---|------------|---|--------------------|-------------------|----------------------|-------------|
| 2023 (Current Year) | | | | | | |
| Cost/Fair Value | | | | | | |
| Opening Balance as at 01/01/2023 | 70,798,254 | 168,969,165 | 167,010,505 | 4,395,518 | 460,000 | 411,633,442 |
| Additions | - | 9,022,113 | 12,722,520 | - | 92,844,755 | 114,589,387 |
| Disposals | - | (4,284,184) | (2,398,948) | - | - | (6,683,132) |
| Adjustments | - | - | - | - | - | - |
| Closing Balance as at 31/12/2023 | 70,798,254 | 173,707,095 | 177,334,076 | 4,395,518 | 93,304,755 | 519,539,697 |
| (Less): Accumulated Depreciation | | | | | | |
| Opening Balance as at 01/01/2023 | 70,798,254 | 121,468,661 | 136,740,714 | 4,395,518 | 17,486 | 333,420,634 |
| Charge for the Year | - | 11,254,465 | 9,696,018 | - | 57,500 | 21,007,983 |
| Disposals | - | (4,141,136) | (2,398,948) | - | - | (6,540,084) |
| Adjustments | - | - | - | - | - | - |
| Closing Balance as at 31/12/2023 | 70,798,254 | 128,581,991 | 144,037,784 | 4,395,518 | 74,986 | 347,888,533 |
| Net Book Value as at 31/12/2023 | - | 45,125,104 | 33,296,292 | - | 93,229,768 | 171,651,164 |
| 2022 (Previous Year) | | | | | | |
| Cost/Fair Value | | | | | | |
| Opening Balance as at 01/01/2022 | 70,798,254 | 157,416,485 | 142,496,324 | 4,395,518 | - | 375,106,581 |
| Additions | - | 13,646,740 | 26,282,918 | - | 460,000 | 40,389,658 |
| Disposals/Adjustments | - | (2,094,060) | (1,768,737) | - | - | (3,862,797) |
| Adjustments | - | - | - | - | - | - |
| Closing Balance as at 31/12/2022 | 70,798,254 | 168,969,165 | 167,010,505 | 4,395,518 | 460,000 | 411,633,442 |
| (Less): Accumulated Depreciation | | | | | | |
| Opening Balance as at 01/01/2022 | 70,798,254 | 112,487,293 | 131,569,752 | 4,395,518 | - | 319,250,817 |
| Charge for the Year | - | 11,037,212 | 6,939,699 | - | 17,486 | 17,994,398 |
| Disposals | - | (2,092,564) | (1,768,737) | - | - | (3,861,301) |
| Adjustments | - | 36,720 | - | - | - | 36,720 |
| Closing Balance as at 31/12/2022 | 70,798,254 | 121,468,661 | 136,740,714 | 4,395,518 | 17,486 | 333,420,634 |
| Net Book Value as at 31/12/2022 | - | 47,500,504 | 30,269,790 | - | 442,514 | 78,212,808 |

Accounting Policies & Notes to the Financial Statements

19. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

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 | 2023 Rs. | 2022 Rs. |
|---|--------------------|--------------------|
| Vehicles | 70,798,254 | 70,798,254 |
| Furniture & Fittings & Office Equipment | 93,852,701 | 83,134,589 |
| Computer Equipment | 120,030,133 | 122,429,081 |
| Computer Software | 4,395,518 | 4,395,518 |
| Total | 289,076,606 | 280,757,442 |

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, plan 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 Deferred tax disclosed in the Note 11

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|---|--------------------|--------------------|
| Opening Balance 01/01/2023 | 632,156,451 | 222,859,204 |
| Charge for the year Recognized in | | |
| - Profit/(Loss) | 106,156,767 | 339,810,834 |
| - Profit/(Loss) - Impact on changes in Tax Rate | - | 55,714,801 |
| - Other Comprehensive Income (30% taken) | 7,364,679 | 13,771,613 |
| Closing Balance 31/12/2023 | 745,677,898 | 632,156,451 |

21. OTHER ASSETS

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|--|--------------------|----------------------|
| Stationary Stock | 15,038,906 | 14,174,317 |
| Deposits and Prepayments | 35,210,838 | 2,067,702 |
| Prepaid Staff Loans | 397,987,482 | 449,441,159 |
| VAT Receivable | 27,952,433 | - |
| NBT Receivable | 3,603,588 | 3,603,588 |
| DRL Receivable | 15,591,023 | 15,591,023 |
| WHT Receivable | 113,160,349 | - |
| SSCL Receivable | 3,321,741 | - |
| 7% Interest Receivable on Moratorium Interest | 6,209,879 | 6,742,821 |
| Interest Receivable - Senior Citizens Fixed Deposits | - | 571,719,963 |
| Others | 4,874,997 | 13,135,684 |
| Total | 622,951,236 | 1,076,476,258 |

22. DUE TO BANKS

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|--------------------------------|------------------|-------------------|
| Borrowings (ODs) | 2,732,792 | 23,380,935 |
| Repo agreements | - | - |
| Total | 2,732,792 | 23,380,935 |

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.

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|--------------------------------|-----------------------|-----------------------|
| Due to depositors | 52,138,134,453 | 49,139,971,357 |
| Repo agreements | - | - |
| Other borrowings | 178,986,770 | 278,050,561 |
| Total | 52,317,121,222 | 49,418,021,919 |

23.1 Analysis of amount due to depositors

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|--------------------------------|-----------------------|-----------------------|
| By Product | | |
| Savings deposits | 2,202,016,436 | 2,019,713,462 |
| Fixed deposits | 49,323,667,095 | 46,114,086,448 |
| Other deposits (Schemes) | 612,450,922 | 1,006,171,448 |
| Total | 52,138,134,453 | 49,139,971,357 |

23.2 Analysis of other borrowings

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|--------------------------------|--------------------|--------------------|
| Bank Loans | - | - |
| AHF | - | (2) |
| CBSL Refinance Loans | 22,029,668 | 79,948,078 |
| Lease Liability | 156,957,101 | 198,102,485 |
| Total | 178,986,770 | 278,050,561 |

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 2023 is calculated based on the actuarial valuation report as of 31st December 2023, carried out by Actuarial & Management Consultants (Pvt) Ltd.

Accounting Policies & Notes to the Financial Statements

24. EMPLOYEE BENEFIT (CONTD.)

The key assumptions used by the actuary include the following:

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|--------------------------------|-------------|-------------|
| Rate of Interest | 13.00% | 18.00% |
| Rate of Salary Increase | 10.00% | 10.00% |
| Retirement Age | 55-60 years | 55-60 years |

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|--------------------------------------|--------------------|--------------|
| Provision for Gratuity | | |
| Balance at the Beginning of the Year | 245,562,689 | 212,239,593 |
| Current Service Cost | 15,341,305 | 16,945,554 |
| Interest Cost | 44,201,284 | 24,407,553 |
| Benefit Paid | (45,509,997) | (18,589,241) |
| Actuarial (Gains)/Losses | 32,283,252 | 10,559,230 |
| Total | 291,878,533 | 245,562,689 |

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 | 275,457,498 | 234,841,503 |
| A one percentage point decrease (-1%) in the discount rate | 310,420,576 | 257,416,374 |
| A one percentage point increase (+1%) in the salary/wage increment rate | 312,316,801 | 259,314,946 |
| A one percentage point decrease (-1%) in the salary/wage increment rate | 273,530,916 | 232,988,743 |

Maturity Profile of the Gratuity Provision as at 31.12.2023

| AGE GROUP | No_Emps | TOT_Basic Salary (Rs.) | TOT_COLA (Rs.) | AVG_Future Working Lifetime (years) | TOT_Provision (PV-DBO) Rs. |
|--------------|------------|------------------------------|-------------------|--|----------------------------------|
| XV: 20 to 24 | 5 | 124,795 | 64,129 | 18.5 | 82,076 |
| XV: 25 to 29 | 42 | 1,351,595 | 1,282,572 | 17.3 | 3,209,475 |
| XV: 30 to 34 | 75 | 3,718,835 | 4,809,644 | 16.2 | 22,204,878 |
| XV: 35 to 39 | 59 | 4,376,295 | 3,783,587 | 13.9 | 30,075,016 |
| XV: 40 to 44 | 56 | 4,410,860 | 3,591,201 | 11.6 | 39,835,728 |
| XV: 45 to 49 | 47 | 4,231,465 | 3,014,044 | 9.0 | 49,191,301 |
| XV: 50 to 54 | 34 | 3,344,915 | 2,180,372 | 5.7 | 53,209,424 |
| XV: 55 to 59 | 36 | 3,902,960 | 2,308,629 | 2.2 | 94,070,635 |
| Total | 354 | 25,461,720 | 21,034,178 | 12.0 | 291,878,533 |

Medical

| Provision for Medical Benefit | 2023 Rs. | 2022 Rs. |
|---|--------------------|--------------------|
| Balance at the Beginning of the Year | 276,264,014 | 225,349,295 |
| Current Service Cost | 4,386,865 | 5,077,880 |
| Interest Cost | 49,727,522 | 25,915,169 |
| Actuarial (Gain)/Losses | (7,734,321) | 35,346,147 |
| Benefit Paid | (16,848,390) | (15,424,477) |
| Total | 305,795,690 | 276,264,014 |
| Total Employee Benefit Liability | 597,674,223 | 521,826,703 |

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) | 99,937,988 | 143,656,110 |
| Pensioners -Medical benefit (Medical Fund) | 172,695,706 | 202,845,191 |
| Total | 272,633,694 | 346,501,301 |

25. OTHER LIABILITIES

Accounting Policy

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

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|---|--------------------|--------------------|
| Taxes Payable | 35,637,120 | 156,567,463 |
| Accrued Expenditure | 93,706,978 | 82,307,504 |
| Other liabilities | 72,562,152 | 88,231,424 |
| Estate Refund Creditors | 12,006,515 | 19,857,397 |
| Margin Account-SP.Loan for ETF board (BETWEEN 2MN&3M) | 343,156,868 | 58,400,108 |
| Margin Account | 98,776,709 | 67,720,997 |
| Margin Account-Waste Management | 25,552,215 | 25,072,048 |
| Customer Refund-Closed Loan | 13,414,849 | 29,073,781 |
| Total | 694,813,406 | 527,230,721 |

25.1 Taxes Payable

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|---------------------------------------|--------------------|--------------------|
| Payee Tax | 7,161,290 | 2,172,154 |
| WHT Payable | 21,485,961 | (0) |
| VAT Payable | 6,989,869 | 17,016,191 |
| SSCL Payable | - | 3,378,836 |
| Taxes Payable | 35,637,120 | 22,567,182 |
| Income Tax Payable | | |
| Opening Balance | 134,000,281 | 115,088,376 |
| Provision for the year | - | 149,908,409 |
| over/(Under) Provision | (55,492,480) | (45,185,882) |
| Income Tax Paid | (78,507,801) | (85,810,622) |
| Closing Balance | (0) | 134,000,281 |

Accounting Policies & Notes to the Financial Statements

26. STATED CAPITAL/ASSIGNED CAPITAL

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|--------------------------------|---------------|---------------|
| Authorized 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 authorized capital is Rs.2 Billion. Contributed capital consists of the amounts outstanding on 1st January 1979 of the sums advanced to the Agricultural and Industrial Credit Corporation in terms of section 22 of the Agricultural and Industrial Credit Corporation Ordinance together with the amount of the reserves of the Agricultural and Industrial Credit Corporation and the amounts standing to the credit reserve fund of the Ceylon State Mortgage Bank on 1st January 1979 formed part of the capital of the Bank and all such amounts are deemed to be contributions to the capital of the Bank by the Government.

The Government after the appointment date of 1st January 1979 made a contribution to the capital of the Bank so that the amounts of such contribution together with the amounts referred to the above paragraph amounted to RS.889,812,899 as at 31st December 2023.

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

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|--|--------------------|--------------------|
| Opening Balance as at 01st January | 306,650,839 | 296,560,939 |
| Transfer During the Period | - | 10,089,900 |
| Closing Balance as at 31st December | 306,650,839 | 306,650,839 |

28. RETAINED EARNINGS

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|---|----------------------|----------------------|
| Opening Balance as at 01st January | 4,200,211,965 | 4,019,389,735 |
| Prior Period Adjustments | - | 21,247,904 |
| Impairment 1st day Adjustment | - | - |
| OCI Reserve Transfer | - | - |
| Profit for the Year | (1,003,131,419) | 201,797,990 |
| Transfers to Other Reserves | - | (10,089,900) |
| Other Comprehensive Income | (17,184,252) | (32,133,764) |
| Deemed Dividend Tax | - | - |
| Closing Balance as at 31st December | 3,179,896,294 | 4,200,211,965 |
| Prior Period Adjustments | | |
| Error occurred due to over under provision of liabilities | - | 22,111,034 |
| Over provision of accumulated depreciation | - | (36,720) |
| Error occurred due to reversal of interest receivable | - | - |
| Unreconciled Control Account | - | (826,410) |
| Total | - | 21,247,904 |

29. OTHER RESERVES

a. Bank - Current year (2023)

| Reserve | Opening balance as at 01/01/2023 | Movements/ Transfers | Closing Balance as at 31/12/2023 |
|----------------------|----------------------------------|----------------------|----------------------------------|
| 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 (2022)

| Reserve | Opening balance as at 01/01/2022 | Movements/ Transfers | Closing Balance as at 31/12/2022 |
|----------------------|----------------------------------|----------------------|----------------------------------|
| 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.

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|--------------------------------|-------------------|-------------------|
| Guarantees issued | - | 350,000 |
| Other commitments | 62,395,844 | 40,802,056 |
| Total | 62,395,844 | 41,152,056 |

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.

Following assessments were received by the Bank from the Department of Inland Revenue.

The information used for the income tax for the year of assessment 2020/2021 has requested and discussions were going on for settlement. The following tax assessment is outstanding which, although currently is at a Court of Appeal stage, is also in the process of settlement:

| Period / Tax Type | Charge No | Assessment Value | Current Status |
|---------------------------------|--------------------|------------------|---------------------------|
| 2018/2019 - Income Tax | 0201819002 | (5,191,892.28) | Court of Appeal |
| 2018/2019 - VAT on FS | 7501920002 | 2,886,900.00 | discussions were going on |
| 2018/2019 - Debt Repayment Levy | DRL/1920/70/D41/16 | 1,128,594.00 | discussions were going on |

As per the management evaluation and judgement there will not be any additional tax liability arise from the above mentioned assessments.

Accounting Policies & Notes to the Financial Statements

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

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|--|-----------------------|-----------------------|
| Investments made on Government Securities | 10,255,697,045 | 2,112,448,122 |
| Investments on state and state-controlled entities | 3,711,223,515 | 11,677,879,812 |
| Securities purchased under resale agreements | 970,572,268 | 70,055,770 |
| Other receivables from Government | - | 571,719,963 |
| Total | 14,937,492,828 | 14,432,103,667 |
| Tax paid | | |
| Income tax | - | 85,810,622 |
| Value added tax & SSCL | 18,000,000 | 224,608,218 |
| Total | 18,000,000 | 310,418,840 |

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

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|---------------------------------------|---------------------|---------------------|
| Short - Term Employment Benefits | 60,869,340 | 43,947,612 |
| Post - Employment Benefits | 9,653,878 | 7,911,734 |
| Total | 70,523,218 | 51,859,347 |

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.

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|--|---------------------|---------------------|
| Income Statement | | |
| Interest Earned (From Loans) | 1,917,773 | 2,613,865 |
| Interest Paid (To Deposits) | 2,998,160 | 2,328,357 |
| Payment made as shown in 33 (A) | 70,523,218 | 51,859,347 |
| Statement of Financial Position | | |
| Assets | | |
| Loans and Advances | 28,345,975 | 55,811,615 |
| Liabilities | | |
| Deposits | 18,527,716 | 27,691,700 |

33. LEASES

Accounting Policy

Basis of Recognition

The Bank recognizes 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 measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, 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 recognized 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 recognized in the balance sheet

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

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|---------------------------------------|---------------------|---------------------|
| Right-of-use Assets | | |
| Cost | | |
| Opening Balance | 429,060,782 | 257,645,546 |
| Additions- Buildings | 33,382,636 | 171,415,236 |
| Closing Balance | 462,443,417 | 429,060,782 |
| Accumulated Depreciation | | |
| Opening Balance | 227,324,068 | 148,742,882 |
| During the year charge | 78,600,161 | 78,581,186 |
| Closing Balance | 305,924,229 | 227,324,068 |
| Net Book Value | 156,519,188 | 201,736,713 |
| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
| Lease liabilities | | |
| Opening Balance | 198,102,485 | 100,219,472 |
| Additions | 19,367,336 | 153,839,400 |
| Interest Charge | 23,650,133 | 25,079,981 |
| Payments | (84,162,852) | (81,036,369) |
| Closing Balance | 156,957,101 | 198,102,485 |

33.2 Amounts recognized in the statement of profit or loss

The Income Statement shows the following amounts relating to leases:

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|---|---------------------|---------------------|
| Depreciation charge of right-of-use assets | | |
| Building | 78,600,161 | 78,581,186 |
| Interest Expense | 23,650,133 | 25,079,981 |

33.3 Impact of income statements due to interest rate shock Impact to profitability

| | |
|------------------|-------|
| 1%+ Scenario 01 | (347) |
| 1% - Scenario 01 | 431 |

Accounting Policies & Notes to the Financial Statements

34. RECONCILIATION OF VAT EXPENSE

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|--|------------------|--------------------|
| Profit/(Loss) before Tax | (1,164,855,374) | 147,105,580 |
| Adjustment in Respect of Current period | | |
| Add: Expenses/income reductions that are not Deductible for VAT Purposes | 1,036,435,632 | 1,105,882,807 |
| (Less): Expenses that are Deductible for VAT Purposes | (23,973,307) | (23,148,882) |
| Adjusted Profits for the Year | (152,393,049) | 1,229,839,505 |
| VAT Based on Profit for the Year | - | 186,629,594 |
| (Over)/Under Provision in Previous years | 5,125,869 | 44,437,052 |
| Tax Expense for the Period | 5,125,869 | 231,066,646 |

VAT Payable Reconciliation

| For the Year ended 31 December | 2023 Rs. | 2022 Rs. |
|-------------------------------------|--------------|---------------|
| Opening VAT Receivable | 17,016,191 | (17,855,075) |
| payments made | (43,104,624) | (196,195,380) |
| Provision made | 6,989,869 | 231,066,646 |
| During the year tax addition to P&L | (1,864,000) | - |
| Transfer to VAT Receivable account | 27,952,433 | - |
| Closing VAT Receivable | 6,989,869 | 17,016,191 |

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 authorized 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. 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 2023 | Level 1 Rs. | Level 2 Rs. | Level 3 Rs. | Total Rs. |
|------------------------------------|----------------------|----------------|------------------|----------------------|
| Financial Assets | | | | |
| Financial investments FVPL | | | | |
| Quoted investments - Unit Trust | 3,552,533,227 | - | - | 3,552,533,227 |
| Financial investments FVOCI | | | | |
| CRIB | - | - | 4,754,078 | 4,754,078 |
| Fitch Rating | - | - | 625,000 | 625,000 |
| Total Financial Assets | 3,552,533,227 | - | 5,379,078 | 3,557,912,305 |
| Financial Liabilities | - | - | - | - |

37. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES NOT CARRIED AT FAIR VALUE

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

Assets and Liability of which Fair Value Approximates Carrying Value

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

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognized 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.

| | 2023 | | 2022 | |
|------------------------------------|------------------------|-----------------------|------------------------|-------------------|
| | Carrying Amount Rs. | Fair Value Rs. | Carrying Amount Rs. | Fair Value Rs. |
| Assets | | | | |
| Cash and Cash Equivalents | 122,600,853 | 122,600,853 | 126,480,437 | 126,480,437 |
| Placements with Banks | 2,923,132,097 | 2,923,132,097 | 13,002,272,044 | 11,811,735,024 |
| Loans and receivables | 38,603,322,207 | 37,660,523,528 | 39,267,237,754 | 38,907,219,312 |
| Debt and Other Instruments | 12,162,743,730 | 12,392,310,881 | 2,574,993,439 | 2,113,414,423 |
| Financial Assets – FVPL | 3,552,533,227 | 3,552,533,227 | - | - |
| Financial Assets – FVOCI | 5,379,078 | 5,379,078 | 5,379,078 | 5,379,078 |
| Other assets | 1,696,799,486 | 1,696,799,486 | 1,988,582,230 | 2,011,376,008 |
| Total Financial Assets | 59,066,510,678 | 58,353,279,150 | 56,964,944,983 | 54,975,604,282 |
| Liabilities | | | | |
| Due to banks | 2,732,792 | 2,732,792 | 23,380,935 | 23,380,935 |
| Due to customers | 52,138,134,453 | 52,138,134,453 | 49,139,971,357 | 49,139,971,357 |
| Other borrowings | 178,986,770 | 178,986,770 | 278,050,561 | 278,050,561 |
| Other liabilities | 1,292,487,628 | 1,292,487,628 | 1,049,057,424 | 1,049,057,424 |
| Total Financial Liabilities | 53,612,341,643 | 53,612,341,643 | 50,490,460,277 | 50,490,460,277 |

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.

Accounting Policies & Notes to the Financial Statements

37.1 Determination of Fair value hierarchy (Contd.)

| | Level 1 Rs. | Level 2 Rs. | Level 3 Rs. | Total Rs. |
|--------------------------|-----------------------|----------------|-----------------------|-----------------------|
| 2023 | | | | |
| Financial Assets | | | | |
| Treasury Bills and Bonds | 12,392,310,881 | - | - | 12,392,310,881 |
| Unit Trust | 3,552,533,227 | - | - | 3,552,533,227 |
| Loans and Advances | - | - | 37,660,523,528 | 37,660,523,528 |
| Total | 15,944,844,108 | - | 37,660,523,528 | 53,605,367,636 |
| 2022 | | | | |
| Treasury Bills and Bonds | 2,113,414,423 | - | - | 2,113,414,423 |
| Unit Trust | - | - | - | - |
| Loans and Advances | - | - | 38,907,219,312 | 38,907,219,312 |
| Total | 2,113,414,423 | - | 38,907,219,312 | 41,020,633,735 |

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 appetite 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.

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

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

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

The exposure at default (EAD)

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

Loss given default (LGD)

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

Accounting Policies & Notes to the Financial Statements

38. RISK MANAGEMENT (CONTD.)

38.2.1. Measurement of Expected Credit Losses (ECL) (Contd.)

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 macro economic variable and seniors are not practicable hence the Bank used variable and scenarios which are most likely to impact on ECL of the assets impairment. To ensure completeness and accuracy, the Bank obtained independent assurance from third party to validate the data 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. Management overlay was used revised assumption of worst case scenario from 20% to 60% as at 31.12.2023.

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

| As at 31 December | Note | 2023 | | | | 2022 | | | |
|--|------|-----------------|-----------------|-----------------|---------------|-----------------|-----------------|-----------------|---------------|
| | | 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 | 8,084,817 | - | - | 8,084,817 | 2,947,034 | - | - | 2,947,034 |
| Financial Assets at amortized cost | | | | | | | | | |
| Loans & Advances | 16 | 428,135,938 | 431,229,101 | 1,530,112,891 | 2,389,477,929 | 462,950,878 | 264,086,290 | 1,106,186,214 | 1,833,223,382 |
| Debt & Other instruments | | - | - | - | - | - | - | - | - |
| Total allowance for expected credit losses | | 436,220,755 | 431,229,101 | 1,530,112,891 | 2,397,562,746 | 465,897,912 | 264,086,290 | 1,106,186,214 | 1,836,170,416 |

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 2023 | Stage 1 | Stage 2 | Stage 3 | Total |
|-----------------------------------|--------------|-------------|-------------|-------------|
| Cash & cash Equivalents | - | - | - | - |
| Cash & Balances with Central Bank | - | - | - | - |
| Sri Lanka Government Securities | - | - | - | - |
| Placement with other Banks | 5,137,783 | - | - | 5,137,783 |
| Loans & Advances to Customers | (34,814,940) | 167,142,810 | 423,926,677 | 556,254,547 |
| Total Impairment Loss | (29,677,158) | 167,142,810 | 423,926,677 | 561,392,330 |
| 31st December 2022 | Stage 1 | Stage 2 | Stage 3 | Total |
| Cash & cash Equivalents | - | - | - | - |
| Cash & Balances with Central Bank | - | - | - | - |
| Sri Lanka Government Securities | - | - | - | - |
| Placement with other Banks | 2,691,805 | (993,122) | - | 1,698,683 |
| Loans & Advances to Customers | 130,450,499 | 114,418,254 | 119,179,592 | 364,048,345 |
| Total Impairment Loss | 133,142,304 | 113,425,132 | 119,179,592 | 365,747,028 |

| Delinquency Status | Status | Description |
|--------------------|---------------|------------------|
| Stage 1 | Regular | Performing |
| | 1 to 30 days | Performing |
| Stage 2 | 30 to 60 days | Under Performing |
| | 61 to 90 days | Under Performing |
| Stage 3 | Above 90 days | Non - Performing |

| As at 31 December | 2023 | | | 2022 | | |
|--|----------------|---------------|-----------------|----------------|---------------|-----------------|
| | Stage 1 | Stage 2 | Stage 3 | Stage 1 | Stage 2 | Stage 3 |
| Financial Assets at amortised cost - Loans and Advances | | | | | | |
| Stage 0 to 2 - Performing loans | 25,022,039,747 | 5,325,583,522 | 52,577,161 | 24,290,940,953 | 2,835,765,303 | 113,965,281 |
| Stage 03:NPA - Special mentioned | - | - | 1,671,924,623 | - | - | 1,598,081,449 |
| Stage 04: NPA - Substandard | - | - | 1,009,602,129 | 4,217,834,729 | 712,279,881 | 796,963,793 |
| Stage 05: NPA - Doubtful | - | - | 4,518,286,737 | - | - | 660,042,650 |
| Stage 05: NPA - Loss | - | - | 3,406,634,006 | - | - | 5,891,466,366 |
| Total and Advances | 25,022,039,747 | 5,325,583,522 | 10,659,024,657 | 28,508,775,681 | 3,548,045,184 | 9,060,519,541 |
| Expected Credit loss allowances | (428,135,938) | (431,229,101) | (1,530,112,891) | (462,950,878) | (264,086,290) | (1,106,186,214) |
| Net Loans and Advances | 24,593,903,809 | 4,894,354,422 | 9,128,911,765 | 28,045,824,804 | 3,283,958,894 | 7,954,333,327 |
| Financial Assets at amortised cost - Debt and other instruments | | | | | | |
| Unit Trust and unquoted shares | 3,557,912,305 | - | - | 5,379,078 | - | - |
| Government Debt securities- Treasury bills and Bonds | 10,255,697,045 | - | - | 2,204,460,957 | - | - |
| Reverse Repos | 970,572,268 | - | - | 70,055,770 | - | - |
| Debentures | 781,224,416 | - | - | 300,476,712 | - | - |
| Commercial Papers | 155,250,000 | - | - | - | - | - |
| Placement with Banks | 2,931,216,914 | - | - | 13,002,272,044 | - | - |
| Total Debts and Other Instruments | 18,651,872,949 | - | - | 15,582,644,562 | - | - |
| Expected Credit loss allowances | (8,084,817) | - | - | (2,947,034) | - | - |
| Net Debt and other instrument | 18,643,788,132 | - | - | 15,579,697,527 | - | - |

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 31.12.2023 | Financial Services | Government Securities | Construction and Housing | Consumers | Other | Total |
|------------------------------------|--------------------|-----------------------|--------------------------|----------------|---------------|----------------|
| Financial Assets | | | | | | |
| Cash and cash equivalents | 122,600,853 | | | | | 122,600,853 |
| Placement with other banks | 2,931,216,914 | | | | | 2,931,216,914 |
| Loans and receivables to customers | | | | | | |
| Mortgage | | | 10,179,549,598 | | | 10,179,549,598 |
| EPF | | | 8,857,459,543 | | | 8,857,459,543 |
| Staff loans | | | 1,208,081,194 | | | 1,208,081,194 |
| Personal Loans | | | | 19,295,356,966 | | 19,295,356,966 |
| Others | | | | | 1,864,188,107 | 1,864,188,107 |
| Financial investments – FVPL | 3,552,533,227 | | | | | 3,552,533,227 |
| Financial investments – AC | 970,572,268 | 10,255,697,045 | | | | 11,226,269,313 |
| Financial investments – FVOCI | 5,379,078 | | | | | 5,379,078 |
| Total | 7,582,302,340 | 10,255,697,045 | 20,245,090,335 | 19,300,347,123 | 1,864,188,107 | 59,247,624,950 |

Accounting Policies & Notes to the Financial Statements

38. RISK MANAGEMENT (CONTD.)

38.2.3 Analysis of Risk Concentration (Contd.)

| As at 31.12.2022 | Financial Services | Government Securities | Construction and Housing | Consumers | Other | Total |
|------------------------------------|-----------------------|-----------------------|--------------------------|-----------------------|----------------------|-----------------------|
| Financial Assets | | | | | | |
| Cash and cash equivalents | 126,480,437 | | | | | 126,480,437 |
| Placement with other banks | 13,005,219,079 | | | | | 13,005,219,079 |
| Loans and receivables to customers | | | | | | - |
| Mortgage | | | 10,836,307,405 | | | 10,836,307,405 |
| EPF | | | 6,643,862,163 | | | 6,643,862,163 |
| Staff loans | | | 911,037,873 | | | 911,037,873 |
| Personal Loans | | | | 20,751,939,449 | | 20,751,939,449 |
| Others | | | | | 1,973,856,456 | 1,973,856,456 |
| Financial investments – FVPL | - | | | | | - |
| Financial investments – AC | 70,055,770 | 2,204,460,957 | | | | 2,274,516,727 |
| Financial investments – FVOCI | 5,379,078 | | | | | 5,379,078 |
| Total | 13,207,134,364 | 2,204,460,957 | 18,391,207,441 | 20,751,939,449 | 1,973,856,456 | 56,528,598,666 |

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

| | 2023 Rs | 2022 Rs |
|------------|------------|------------|
| Year - End | 29.37% | 34.62% |
| Maximum | 41.83% | 35.02% |
| Minimum | 29.37% | 31.25% |
| Average | 35.60% | 33.15% |

Accounting Policies & Notes to the Financial Statements

38.4.1 Maturity analysis

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

| Assets or Liability (a) | 2023 | | | 2022 | | |
|---|----------------------------------|-----------------------------------|-----------------------|----------------------------------|-----------------------------------|------------------|
| | Rs 000 Less than 12 months | Rs. 000 More than 12 months | Rs. 000 Total | Rs 000 Less than 12 months | Rs. 000 More than 12 months | Rs. 000 Total |
| Total Assets | 21,289,263,109 | 37,777,247,568 | 59,066,510,677 | 28,116,286 | 28,848,658 | 56,964,943 |
| Cash and Cash Equivalents | 122,600,853 | - | 122,600,853 | 126,480 | - | 126,480 |
| Placements with Banks | 2,923,132,097 | - | 2,923,132,097 | 13,002,272 | - | 13,002,272 |
| Financial Assets - FVPL & FVICI | - | 3,552,533,227 | 3,552,533,227 | - | - | - |
| Financial Assets - AC | - | - | - | - | - | - |
| Debt and Other Instruments | 10,966,055,289 | 1,196,688,439 | 12,162,743,729 | 2,049,543 | 525,450 | 2,574,993 |
| Loans & Advances | 6,316,845,255 | 32,286,476,952 | 38,603,322,207 | 11,130,165 | 28,137,072 | 39,267,238 |
| | - | - | - | - | - | - |
| Financial Assets - FVOCI | - | 5,379,078 | 5,379,078 | - | 5,379 | 5,379 |
| Property, Plant and Equipment | - | 171,651,164 | 171,651,164 | - | 78,213 | 78,213 |
| Right-of-use Assets | - | 156,519,188 | 156,519,188 | 108,903 | 92,834 | 201,737 |
| Deferred Tax Assets | 745,677,898 | - | 745,677,898 | 632,155 | - | 632,155 |
| Other Assets | 214,951,718 | 407,999,518 | 622,951,236 | 1,066,767 | 9,709 | 1,076,476 |
| Total Liabilities | 47,710,868,394 | 11,355,642,282 | 59,066,510,677 | 46,069,623 | 10,895,321 | 56,964,944 |
| Total Equity | - | 5,454,169,036 | 5,454,169,036 | - | 6,474,485 | 6,474,485 |
| Due to Banks | 2,732,792 | - | 2,732,792 | 23,381 | - | 23,381 |
| Financial Liabilities at Amortised Cost | - | - | - | - | - | - |
| Due to Depositors | 46,873,161,238 | 5,264,973,215 | 52,138,134,453 | 45,446,061 | 3,693,910 | 49,139,971 |
| Due to Other Borrowers | 92,347,023 | 86,639,746 | 178,986,770 | 35,173 | 242,878 | 278,051 |
| Employee Benefit Liability | 47,813,938 | 549,860,285 | 597,674,223 | 37,778 | 484,049 | 521,827 |
| Other Liabilities | 694,813,404 | - | 694,813,404 | 527,231 | - | 527,231 |
| Maturity Gap | (26,421,605,285) | 26,421,605,286 | | (17,953,337) | 17,953,337 | |

38.5 Capital Management

38.5.1 Minimum Regulatory capital

"The minimum regulatory capital requirement Rs 5 Billion compiled 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.

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 regulatory capital and capital adequacy ratio of the bank are given below.

i. Capital Base

| Capital Adequacy Item | Rs. 000 31.12.2023 | Rs. 000 31.12.2022 |
|---|-----------------------|-----------------------|
| Common Equity Capital after adjustment | 4,729,812 | 5,828,557 |
| Total Tier 1 Capital | 4,708,491 | 6,123,551 |
| Minimum regulatory capital to be fulfilled as at 31.12.2023 | 7,500,000 | 7,500,000 |
| Capital shortfall | 2,770,188 | 1,671,443 |
| Total Tier I capital shortfall | 2,791,509 | 1,376,449 |
| Capital Adequacy ratio | | |
| Common Equity Tier 1 Capital Ratio | 18.81% | 18.81% |
| Total Capital Ratio | 18.89% | 19.76% |

ii. Risk Adjusted on Balance Sheet Exposures

| | 2023 | | 2022 | |
|--|--|-----------------------------|--|-----------------------------|
| | Principal Amount of On-Balance Sheet Items | Risk Weighted Assets Amount | Principal Amount of On-Balance Sheet Items | Risk Weighted Assets Amount |
| Exposures | | | | |
| Claims on Central Bank of Sri Lanka | 11,226,269 | - | 2,274,517 | - |
| Claims on Public Sector Entities (PSEs) | 3,534 | 3,534 | 23,276 | 23,276 |
| Claims on Banks Exposures | | | | |
| Due From local Banks Less Than 03 Months (AAA to BBB) | 56,968 | 11,394 | 2,177,610 | 435,522 |
| Due From local Banks More than 03 Months (A+ to BBB) | 2,921,914 | 1,460,957 | 736,146 | 368,073 |
| A to BBB | 1,213 | 607 | 10,123,760 | 4,440,801 |
| Claims in Financial Institutions Regulated by CBSL | 155,250 | 77,625 | - | - |
| Claims on Other Financial Institutions | 5,380 | 5,380 | 5,379 | 5,379 |
| Retail Claims | | | | |
| Individual exposures | 16,650,956 | 12,488,217 | 20,313,315 | 15,234,986 |
| Claims Secured by Residential Property | 8,878,131 | 3,107,346 | 10,088,337 | 3,530,918 |
| Claims Secured by Residential Property | | | | |
| Claims that qualify for regulatory capital purposes | - | - | - | - |
| Non-Performing Assets (NPAs) | | | | |
| Specific Provisions are equal to or more than 20% | 1,881,288 | 1,881,288 | 1,466,643 | 1,466,643 |
| Specific Provisions are less than 20% | 108,710 | 163,064 | 9,383 | 14,074 |
| Non-Performing Assets Secured by Residential Property | | | | |
| Specific Provisions are more than 20% | 124,134 | 62,067 | 64,523 | 32,262 |
| Specific Provisions are less than 20% | 1,399,493 | 1,399,493 | 1,354,550 | 1,354,550 |
| Cash Items and Other Assets | | | | |
| Notes and Coins in own vault | 62,941 | - | 67,856 | - |
| Property Plant and Equipment | 334,572 | 334,572 | 279,950 | 279,950 |
| Other Assets/Exposures | 622,951 | 622,951 | 1,076,476 | 1,076,476 |
| Risk Weighted Amount for Credit Risk | 44,433,705 | 21,618,495 | 50,061,721 | 28,262,910 |

Accounting Policies & Notes to the Financial Statements

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 2023 in response to reasonable changes in the interest rates of the rate sensitive assets and liabilities of the bank are summarised below

| As at 31 December | 2023 Rs. 000 | 2022 Rs. 000 |
|--------------------------------|-----------------|-----------------|
| Rate Sensitive Assets - RSA | 20,140,558 | 20,562,859 |
| Rate Sensitive Liabilities RLA | 46,880,001 | 45,441,813 |
| RSA - RLA | (26,739,443) | (24,878,954) |

Impact of income statements due to interest rate shock

| As at 31 December | 2023 Rs. 000 | 2022 Rs. 000 |
|-------------------|-----------------|-----------------|
| 0.50% | (57,299) | (60,108) |
| 1% | (113,841) | (119,555) |
| -0.50% | 56,920 | 59,777 |
| -1% | 113,841 | 119,555 |

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 endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

39 THE EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

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

40 ASSETS PLEDGED

No assets have been pledged as security for liability.

41 RELATED PARTY TRANSACTIONS

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



42 DIRECTORS' INTEREST IN CONTRACTS AND PROPOSED CONTRACTS

As per the State Mortgage and Investment Bank law, No 13 of 1975, a Director who, or whose spouse or dependent child is directly or indirectly interested in any business transacted or proposed to be transacted by the Board shall disclose the nature of such interest discussed. The disclosure shall be recorded in the minutes of the Board, and such Director shall not take part in any deliberation or decision of the Board with 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 31 December | 2023 Rs. | 2022 Rs. |
|--|----------------------|----------------------|
| Interest Income | 9,324,132,408 | 7,401,968,299 |
| Other Income | 275,769,950 | 115,159,625 |
| Total Revenue | 9,599,902,358 | 7,517,127,924 |
| Interest Expenses | (8,732,594,619) | (5,462,981,407) |
| Cost of Services | (355,795,039) | (590,873,759) |
| Impairment Provision | (561,392,330) | (365,747,028) |
| Total Distribution of Value Added | (49,879,630) | 1,097,525,730 |

| For the Year Ended 31 December | 2023 Rs. | 2022 Rs. |
|---------------------------------------|---------------------|----------------------|
| To Employees | | |
| Salaries and other benefits | 1,015,292,893 | 1,089,955,264 |
| To Government | | |
| Corporate Tax | (161,649,247) | (290,803,108) |
| Depreciation | 99,608,144 | 96,575,584 |
| Retained Profit | (1,003,131,419) | 201,797,990 |
| Total | (49,879,630) | 1,097,525,730 |

44 SOURCE OF UTILIZATION

| For the Year Ended 31 December | 2023 Rs. | 2022 Rs. |
|---|----------------------|----------------------|
| Sources of Income | | |
| Loans and Advances | 5,602,828,733 | 4,710,774,972 |
| Government Securities & Other Investments | 3,721,303,675 | 2,691,193,328 |
| Fee and Commission Income | 96,293,245 | 91,724,320 |
| Other Income | 179,476,705 | 23,435,305 |
| Total | 9,599,902,358 | 7,517,127,924 |
| Utilization of Income | | |
| Employees | | |
| Salaries and other payment to staff | 1,015,292,893 | 1,089,955,264 |
| Suppliers | | |
| Interest paid | 8,732,594,619 | 5,462,981,407 |
| Other Expenses | 1,016,795,513 | 1,053,196,371 |
| Government | | |
| Corporate Taxes | (161,649,247) | (290,803,108) |
| Retained Profit | (1,003,131,419) | 201,797,990 |
| Total | 9,599,902,358 | 7,517,127,924 |

Ten Year Statistical Summary

| Year ended 31st December (Rs. Million) | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|---------|--------|--------|--------|--------|---------|--------|--------|--------|--------|
| Income Statement | | | | | | | | | | |
| Interest Income | 9,324 | 7,402 | 5,254 | 6,082 | 5,982 | 5,524 | 4,745 | 4,241 | 3,879 | 3,633 |
| Interest Expenditure | 8,733 | 5,463 | 2,951 | 3,960 | 3,951 | 3,577 | 3,102 | 2,425 | 2,057 | 2,214 |
| Net Interest Income | 591 | 1,939 | 2,302 | 2,122 | 2,030 | 1,947 | 1,643 | 1,815 | 1,822 | 1,419 |
| Other Operating Income | 276 | 115 | 172 | 178 | 142 | 134 | 171 | 131 | 120 | 113 |
| Total Operating Income | 867 | 2,054 | 2,474 | 2,300 | 2,174 | 2,081 | 1,814 | 1,947 | 1,941 | 1,532 |
| Non Interest Expenses | 2,032 | 1,540 | 1,490 | 1,239 | 1,226 | 1,164 | 1,435 | 1,240 | 1,260 | 1,119 |
| Net Profit before tax | (1,165) | (89) | 405 | 572 | 500 | 480 | 379 | 706 | 681 | 413 |
| Taxation | 162 | 291 | (152) | (216) | (81) | (235) | 200 | 270 | 271 | 140 |
| Net Profit after tax | (1,003) | 202 | 253 | 356 | 419 | 244 | 179 | 436 | 410 | 273 |
| Assets | | | | | | | | | | |
| Investment Securities | 4 | - | 25 | 21 | 19 | 18 | 18 | 17 | 432 | 19 |
| Loans and Advances | 38,603 | 39,267 | 38,103 | 36,857 | 35,893 | 34,225 | 32,987 | 28,164 | 26,523 | 24,038 |
| Other Assets | 623 | 1,076 | 891 | 1,104 | 1,178 | 932 | 8,946 | 7,073 | 7,201 | 6,148 |
| Property, Plant and Equipment | 172 | 78 | 56 | 52 | 56 | 64 | 71 | 94 | 74 | 96 |
| Total Assets | 59,067 | 56,965 | 53,323 | 52,802 | 47,311 | 42,597 | 42,022 | 35,347 | 34,232 | 30,301 |
| Fund Employed | | | | | | | | | | |
| Capital Contributed | 890 | 890 | 890 | 890 | 890 | 890 | 890 | 890 | 890 | 890 |
| Reserves | 4,564 | 5,585 | 5,394 | 5,130 | 4,769 | 4,297 | 4,067 | 4,028 | 3,373 | 3,128 |
| Total Equity | 5,454 | 6,475 | 6,284 | 6,020 | 5,659 | 5,187 | 4,957 | 4,918 | 4,263 | 4,018 |
| Liabilities | | | | | | | | | | |
| Deposits | 52,138 | 49,140 | 45,738 | 45,388 | 38,872 | 34,272 | 33,620 | 28,845 | 27,836 | 24,146 |
| Debentures | - | - | - | - | 110 | 110 | 110 | 110 | 110 | 195 |
| Other Liabilities | 1,474 | 1,350 | 1,301 | 1,394 | 2,670 | 3,028 | 3,336 | 1,474 | 2,022 | 1,942 |
| Total Liabilities | 53,612 | 50,490 | 47,039 | 46,782 | 47,311 | 42,597 | 42,022 | 35,347 | 34,232 | 30,301 |
| Ratio | | | | | | | | | | |
| Return on Average Assets-NPBT% (ROA) | -2.01 | -0.16 | 0.76 | 1.15 | 1.11 | 1.13 | 0.98 | 2.03 | 2.11 | 1.44 |
| Return on Average Funds Employed% (ROE) | -16.82 | 3.17 | 4.11 | 6.06 | 7.73 | 4.82 | 3.62 | 9.50 | 9.90 | 6.87 |
| Number of Employees(no.) | 354.00 | 387.00 | 365.00 | 369.00 | 378.00 | 385.00 | 392.00 | 392.00 | 392.00 | 407.00 |
| Net Profit per Employee (Rs. Mn) | -2.83 | 0.52 | 0.69 | 0.96 | 1.11 | 0.63 | 0.46 | 1.11 | 1.05 | 0.67 |
| Statutory Reserve Fund Advances to Deposits(Times) | 0.74 | 0.80 | 0.83 | 0.81 | 0.92 | 1.00 | 0.98 | 0.98 | 0.95 | 1.00 |
| Equity Assets Ratio(Times) | 0.09 | 0.11 | 0.12 | 0.11 | 0.12 | 0.12 | 0.12 | 0.14 | 0.12 | 0.13 |
| Total Assets per Rupee Contributed | 66.37 | 64.01 | 59.91 | 59.34 | 52.79 | 47.87 | 47.22 | 39.72 | 38.46 | 34.05 |
| Effective deemed dividend Rate % | - | - | - | 59.34 | - | 25.00 | 25.00 | 25.00 | 25.00 | 25.00 |
| Deemed Dividend Cover | - | - | - | - | - | - | 1.91 | 2.52 | 2.44 | 3.57 |
| Our Contribution to the Nation | | | | | | | | | | |
| Deemed Dividend Tax | - | - | - | - | - | (40.36) | 93.27 | 173.35 | 167.86 | 76.42 |
| Payments to Consolidated Fund | - | - | - | - | - | - | 10.00 | 10.00 | 10.00 | 10.00 |



Notes

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Corporate Information

NAME OF THE BANK

State Mortgage & Investment Bank

LEGAL FORM

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

REGISTERED OFFICE

No.269,Galle Road,Colombo 03, Sri Lanka.

HEAD OFFICE

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Tel.011-2573561,011-7722722-3
Fax.011-2573346
E-Mail:gm@smib.lk
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