



Grow with us...



STATE MORTGAGE & INVESTMENT BANK

Annual Report 2015

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Grow with us



Reflecting the changing dimensions of our economy in the recent past from a traditional agro based system to a service based economy the SMIB as the pioneer in providing housing for the nation has grown in tandem with this trend.

Despite steep socio-economic challenges and in the face of competition and changing regulatory requirements of the financial sector, SMIB surpassed past performances to record its highest profit in the past four years.

Our outstanding performance is a stamp of approval for our new and expanding direction in business.

In line with our five year strategic plan we have increased our branch network will open more branches island wide expanding access throughout the country to our customers. Together with bank expansion SMIB is also developing its range of products and services fulfilling its promise of creating value and a customer friendly service.

Vision

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

Mission

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

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

Corporate Values

What we stand for

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



Financial Highlights

Financial Statement Analysis	2015 Rs.Mn	2014 Rs.Mn	Change %
Interest Income	3,879	3,633	6.77
Interest Expenses	(2,057)	(2,214)	(7.06)
Net Interest Income	1,822	1,419	28.35
Profit before Tax	681	413	64.99
Taxation	271	140	94.18
Profit after Tax	410	273	50.06
Investment in Government Securities	820	45	1,738.31
Loans and Advances	26,523	24,038	10.34
Total Assets	34,232	30,301	12.97
Customer Deposits	27,836	24,146	15.28
Borrowings	960	1,120	(14.26)
Stakeholders' Fund	4,263	4,018	6.11
Ratio Analysis			
Profitability Analysis	%	%	
Net Interest Margin	5.65	4.97	13.62
Return on equity	9.90	6.87	44.03
Return on Average Assets	2.11	1.44	46.06
Capital Adequacy			
Equity / Total Assets	12.45	13.26	(6.08)
Equity / Loans & Advances	16.07	16.71	(3.84)
Tier 1	27.27	25.32	7.70
Tier 1 & 11	27.27	25.32	7.70
Liquidity			
Liquid Asset Ratio	23.64	22.79	3.73
Deposit / Loans and Advances	104.95	100.45	4.48
Borrowings / Loans and Advances	3.62	4.66	(22.30)
Rating			
	2015 (SL)A	2014 A(Ika)	
Asset Quality			
NPL / Loans and Advances	29.40	33.42	(12.03)
Loans and Advance to Total Assets	77.48	79.33	(2.33)

Rs. 8.36 Billion Loan Disbursements



Management Information

Our growth revolves around our five year strategic plan, which has already paid high dividends with a record growth in profits. Expanding branch network and product range is a continuing process. A well structured human resources training and development program during the year included 46 training programmes covering skills and personal development, improvement of technical competency, academic and professional training programmes in local and overseas with a view to provide efficiency and effective services to existing and potential customers of the bank. We are in the process of upgrading the technological platform of the bank and infrastructure facilities.

Chairman's Review



Dear Stakeholders,

State Mortgage and Investment Bank (SMIB), the oldest housing bank to the nation has played a leading role in providing financial assistance to the housing needs of the citizens of Sri Lanka throughout the past decades while contributing to the sustainable socio- economic growth of Sri Lanka.

The bank has set its direction and scope under the macroeconomic and development policies of the government of Sri Lanka while financing housing, agricultural and industrial needs of the economic persons in the system. The limited scope of activities defined from the SMIB Act of incorporation has laid certain restriction to the bank in market penetration and increasing market share, but the bank could display a

remarkable financial performance in the year 2015, amidst of both domestic and global uncertainties and severe competitiveness.

Taking cognizance of transition of Sri Lanka's economy from a previously predominantly rural-based agriculture economy towards a more urbanized economy driven by services, in 2015, the service sector accounted for 56.6 percent of Gross Domestic Product (GDP), followed by manufacturing (26.2 percent), and agriculture (7.9 percent). Real economic growth in Sri Lanka in 2015 reported 4.8 percent, compared with 4.9 percent in 2014. Financial, Insurance and Real Estate Activities in service sector contributed by 29.6% to the increase in GDP in 2015 which is the highest contribution to the growth of economy amongst all three sectors in 2015.

Chairman's Review Contd...

“ SMIB could achieve a remarkable Pre-Tax Profit of Rs.681 million in the year 2015 which is a 65% growth from the previous year. This is the highest profit recorded for the past four years ”

Annual average inflation was 0.9% remarking a significant price stability. GDP per capita increased to US dollars 3,924 in 2015 from US dollars 3,853 in the previous year.

Total assets base of banking sector increased by 15.9 percent in 2015, against the total assets base of 2014 recording Rs. 8.1 trillion at the end of the year 2015. The financial sector performance improved reflecting the underlying economic performance and supportive prudential regulatory measures which were laid out by the Central Bank of Sri Lanka and other regulatory authorities. Increased rupee lending activities of domestic banks, funded mainly through customer deposits, was the key of the asset growth.

The Central Bank took regulatory measures in 2015 to strengthen the liquidity risk management of banks while continuing to strengthen the risk absorbing capacity of individual banks. The banking sector managed to maintain its liquidity and capital at comfortable levels during the year, while prudently managing its credit, market, interest rate and liquidity risks.

Amidst of steep socio-economic challenges, taking cognizance of the rivalry and timely changing regulatory requirements of the financial sector, SMIB could achieve a remarkable Pre- Tax Profit of Rs.681 million in the year 2015 which is a 65% growth from the previous year. This is the highest profit recorded for the past four years reflecting unlimited dedication and commitment of the staff to achieve goals, efficiency in providing a better service to the public and strategic decision taking of the senior management team.

In par with the increase of the total assets in the Banking Sector, SMIB achieved total assets base of Rs.34.2 Bn recording a 13% year on year growth. While facing severe competition of other players to capture the potential and current customers, SMIB achieved a 10.3% year on year growth in Loans and Advances with a Return on Equity ratio of 10% indicating its underlying prudential marketing strategies and customer oriented services. Total Deposits grew at a rate of 15% compared to the year 2014 emphasizing that Depositors had placed their confidence continuously on the bank providing SMIB safeguards their deposits and provides a maximum return. Total loan disbursement for the year was Rs.8.36 Billion which was a 26% growth against the year 2014.

The bank's sustainable long-term journey is anchored on profitability and balance sheet strength. The statutory liquidity positions and capital position of the bank is healthy and stable providing the opportunity of rapid growth in coming years.

The bank intends to overcome sectorial and activity limitations stipulated from the Act and searching avenues in expanding potential.

As per the five year strategic plan the bank has increased its branch network and intends to open more branches island wide expanding access throughout the country and strengthened staff position by recruiting skilled people. The bank is developing its range of products and services creating value and customer friendly service in committing the objective of upgrading living standards of the nation. We are in the process of upgrading the technological platform of the bank and infrastructure facilities. The bank is working with resolve to meet its strategic priorities with a clear vision and purpose based on solid values. We ensure continuous service to be a valued partner in national development while corporate governance remains the board's highest priority, duty and responsibility.

In conclusion, 2015 was a remarkable year with outstanding performance, in reaching the journey towards prosperity. I, as your Chairman and the Board of Directors assure a strong performance in the years ahead.

Further, to conclude on a note of appreciation, I offer my sincere thanks to the Board of Directors, General Manager and the management team for their insight, support and the dedication. SMIB staff and business teams deserves very special commendation for the dedication and commitment they have displayed to achieve results.

Finally I would like to thank His Excellency the President of Sri Lanka, Honorable Prime Minister, Honorable Minister of Public Enterprise Development, Honorable Minister of Finance, Honorable Deputy Minister of Public Enterprise Development, Secretary to the Public Enterprise Development and the staff, Secretary to the Treasury and the staff, the Governor and officials of Central Bank of Sri Lanka, Departments of Attorney General and Auditor General, and heads of regulatory bodies for their corporation, guidance and assistance extended in discharging my responsibilities as the Chairman of the bank.



Tissa Jinadasa
Chairman

General Manager's Review



The State Mortgage & Investment Bank has been embraced continued growth in size of the Balance Sheet during the past and displays the resilient status in the highly competitive financial sector. Total assets of the bank increased from Rs. 30.3 bln to Rs. 34.2 bln during the year under review. The growth of 13% was mainly achieved due to substantial growth in loans and advances of 10.3%. Year 2015 records the loan disbursement of Rs.8.3 bln, the highest ever amount the bank was able to achieve during its history. Even though the mandate of our bank is empowered to limited operation of banking activities, we were able to achieve the success through persistent discipline in good banking practices.

SMIB is a Licensed Specialized bank and its Loan portfolio mainly consisted of E.PF backed Loans, Mortgage backed Loans, Personal Loans and other Loans. The bank has already taken steps to diversify its business activities to SME Loans and Micro Finance segment to contribute 10% of the loan portfolio in the next 3-4 year period.

The Bank has a comfortable capital profile characterized by core capital of the bank. The capitalization profile of the bank is supported by the low risk – weights attached to the mortgage loans and the EPF loans. As per the CBSL direction, arrangements have already been made by SMIB to enhance the core capital to Rs. 5 bln by January 2018 for which CBSL has given their approval.

General Manager's Message Contd...

“ Year 2015 records the loan disbursement of Rs.8.3 bln, the highest ever amount the bank was able to achieve during its history ”

The Bank profit before VAT and tax improved from Rs.536.1 Mln in the year 2014 to Rs.842.7 Mln. The profit after tax was Rs.409.7 Mln manifested 50% remarkable growth during the year 2015. Increase of interest income and reduction of interest expenses during the year 2015 mainly contributed for this achievement. The bank was able to maintain net interest margin of 5.65% as a result of the above favorable condition.

Strengthen of the recovery functions of the bank has displayed significant improvement of the NPL ratio of the lending products conforming continuous declining of the ratio ensuring the ability to reach NPL ratio towards expected level. However EPF backed loans contribute significantly for the NPL ratio of the bank as most borrowers expect the bank to recover the loan liabilities out of their Employee Provident Fund balance.

Compliance function and risk management activities have been strengthen with a view to maintain highest standard on deliveries and compliance over statutory and regulatory requirements. Efficiency and effectiveness of the risk and compliance strictly monitored through proper functioning of the independent Board appointed committees.

Deposit from customers as at Balance Sheet date records Rs.27.8 bln, with year to year increase of Rs.3.7 bln and deposit growth of 15.28%. The bank enjoys a good deposit renewal rate of 80%. The above along with contingent funding lines of about Rs.800 Mln provide comfort on the overall liquidity profile of the bank.

We made our continued efforts towards the improvement of the quality of the service provided by the bank via well structured human resources training and development during the year 2015. SMIB conducted 46 training programmes in 2015 covering skills and personal development, improvement of technical competency, academic and professional training programmes in local and overseas with a view to provide efficiency and effective services to existing and potential customers of the bank.

I would like to thank Chairman and the Board of Directors for their support extended in steering the bank towards the expected level. My special thanks goes to the Senior Management and the rest of the staff for their maximum contribution given to conduct business activities of the bank in an efficient and effective manner. I extend my gratitude to our customers and other relevant institutions for the continued loyalty relationship maintained with us.



W.M.Dayasinghe
General Manager/Chief Executive Officer

Board of Directors



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Profile of the Board of Directors

1. Mr.Tissa Jinadasa Chairman

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

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

2. Dr. Namal Rathnayake Independent Non-Executive Director

Dr. Namal Rathnayake has been with SMIB since 09th February 2015 as a Director. He holds a Bachelor of Arts Degree from the University of Kelaniya and a Diploma in Accountancy from the Technical College - Maradana. He has served as the, Coordinating Director, Ministry of Mahaweli, 2015, Chairman, Agricultural and Agrarian Insurance Board, 2006-2007, Coordinating Secretary - The Presidential Sectariat - 2007, Consultant to - Ministry of Agricultural Development, 2007, Chairman - Pension Consultation Committee, Ministry of Fisheries, 2006-2007, Coordinating Secretary to hon. Minister, Ministry of Labour Relation of Man Power - 2008 to 2009, Coordinating Secretary to Hon. Deputy Minister, Ministry of Mass Media and Information - 2010, Coordinating Secretary to Hon. Deputy Minister, Ministry of Highways - 2010, Coordinating Secretary to Hon. Minister, Ministry of Public Affairs and Public Relation - From 2010 to 2011, Coordinating Secretary to Hon. Deputy Minister, Ministry of Local Government and Provincial Councils - From 15th Nov, 2011 to 6th March 2012, Consultant to Hon. Minister, Ministry of Public Affairs and Public Relation - From 2010 to 2014.12.31.

3. Mr.Phiroze Pestonjee Independent Non-Executive Director

Mr.Phiroze Pestonjee was appointed to the Board of Directors of SMIB on 09th February 2015 and is currently serving as Managing Director of several companies in the Abans Group. He has business and finance experience over 25 years.

4. Mr.Chandrasiri Senevirathne Independent Non-Executive Director

Mr.Chandrasiri Senevirathne is an Attorney-at-Law, Notary Public and Commissioner for Oaths. He was appointed as a Director to the Board of SMIB on 09th February 2015. He holds BA and LL.B Degrees and has experience over 20 years as an executive officer in the Government Service.

5. Mr.H.M.B.Senaratna Independent Non-Executive Director

Mr.H.M.B.Senaratna has been with SMIB since 09th February 2015. He is a Justice of Peace for all Island. He is currently serving as the Managing Director of Denuma Book Shop & Printers. He has engaged in social work over 20 years.

6. Dr.Niroshan Gamage Independent Non-Executive Director

Dr.Niroshan Gamage has been a Director of the Board of SMIB since 06.03.2015. He holds a Bachelor's Degree in Veterinary Medicine from the University of Peradeniya and Masters in Economics and Molecular Biology & Bio Technology. He also holds a Post Graduate Diploma in Public Management. He serves as the Deputy Director (Livestock Development) in the Ministry of Welfare & Livestock Development at present. He is a Director of the Council for Agriculture Research Policy (CARP) and Milco Pvt. Ltd. He is a fellow of Royal College of Veterinary Surgeons and Sri Lanka Association of Advancement of Science.

7. Mr.K.A.Thilakaratne Independent Non-Executive Director

Mr.K.A.Thilakaratne was appointed as a Director to the Board of Directors of SMIB on 17.09.2014 and reappointed on 06.03.2015. He is a senior special grade officer in the Sri Lanka Administrative Service. He has served as the Secretary to the Ministry of Youth Affairs and Skills Development. Presently, he is serving as the Additional Secretary/ National Housing Commissioner in the Ministry of Housing and Samurdhi.

He holds B.A.Econ Special Degree from the University of Colombo and also possesses a Post Graduate Diploma in Community Development. He has gained vast experience in administrative service from many other countries as well. He is the author of number of publications focusing on Pension System of Sri Lanka as well as Public Administration.

8. Mr.M.S.D.Ranasiri Independent Non-Executive Director

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

9. Mrs.L.U.N.Sumanasekara Independent Non-Executive Director

Mrs.L.U.N.Sumanasekara has been with SMIB as a Director since 27.04.2015. She holds a Bachelor of Science Hons. Degree in Agriculture from the University of Peradeniya and Masters in Forestry and Environment Management from the University of Sri Jayawardhenapura. She has over 28 years' experience in the Government Service. Currently she is serving as the Director of Agriculture Technology in the Ministry of Agriculture.

New Board of Directors



- | | | |
|--|--|--|
| 1. Mr.Tissa Jinadasa
Chairman | 4. Mr. Rajitha Halwela
Independent Non-Executive Director | 8. Ms. W.K.K.Athukorala
Independent Non-Executive
Director |
| 2. Mr.M.S.D.Ranasiri
Independent Non-Executive
Director | 5. Mr. Roshan Hettiaratchi
Independent Non-Executive Director | Not in Picture |
| 3. Mrs.L.U.N.Sumanasekara
Independent Non-Executive
Director | 6. Mr. P.C. Wijayawardena
Independent Non-Executive Director | 9. Mr. A. M. Peeris
Independent Non-Executive
Director |
| | 7. Dr.Niroshan Gamage
Independent Non-Executive Director | |

Profile of the New Board of Directors

1. Mr. Tissa Jinadasa Chairman

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

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

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

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

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

Mrs. L.U.N. Sumanasekara has been with SMIB as a Director since 27.04.2015. She holds a Bachelor of Science Hons. Degree in Agriculture from the University of Peradeniya and Masters in Forestry and Environment Management from the University of Sri Jayawardhenapura. She has over 28 years' experience in the Government Service. Currently she is serving as the Director of Agriculture Technology in the Ministry of Agriculture.

4. Mr. Rajitha Halwela Independent Non-Executive Director

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

5. Mr. Roshan Hettiaratchi Independent Non-Executive Director

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

Counting over 16 years of experience as an attorney at law he is engaged in an active practice concentrating on Commercial Law, Intellectual Property Law and various

aspects of Public Law. He further provides Professional legal services to multinational companies engaged in the IT industry. He also serves as a Director in several unlisted companies.

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

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

7. Dr. Nirosan Gamage Independent Non-Executive Director

Dr. Nirosan Gamage has been a Director of the Board of SMIB since 06.03.2015. He holds a Bachelor's Degree in Veterinary Medicine from the University of Peradeniya and Masters in Economics and Molecular Biology & Bio Technology. He also holds a Post Graduate Diploma in Public Management. He serves as the Deputy Director (Livestock Development) in the Ministry of Welfare & Livestock Development at present. He is a Director of the Council for Agriculture Research Policy (CARP) and Milco Pvt. Ltd. He is a fellow of Royal College of Veterinary Surgeons and Sri Lanka Association of Advancement of Science.

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

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

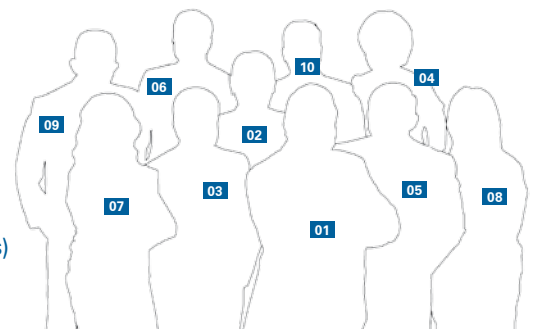
9. Mr. A. M. Peeris Independent Non-Executive Director

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

Senior Management Team



- | | |
|---|--|
| 01. Mr. W. M. Dayasinghe
General Manager | 06. Mr. W. M. S. Wijethunga
AGM (IT) |
| 02. Mr. R.P.U.Pathirana
Acting DGM (Credit) | 07. Mrs. S. P. J. I. Senanayake
AGM (Risk Management) |
| 03. Mr. T.M.J.Wickramasekera
AGM (EPF) | 08. Mrs. K.P.K.H.D.Perera
AGM (Recoveries) |
| 04. Mrs. D.K.Hedellearachchi
AGM (Post Disbursement &
Monitoring) | 09. Mr. K.L.N.A.Perera
Acting AGM (Finance) |
| 05. Mr. A.D.N.Dharmaratne
AGM (Valuation) | 10. Mr. S.S.Wijedoru
Acting AGM (HR & Logistics) |



Senior Management Team Contd...

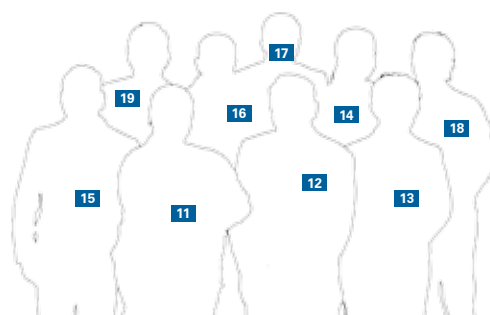


11. Mrs. N.P.K.Lokuge
Acting AGM (Legal)
12. Mr. R.M.Abeyratne
Senior Accountant
13. Mr. D.M.R.Dissanayake
Chief Manager (Branch Operations)
14. Mrs. W.K.Perera
Chief Manager (Legal)
15. Mr. S.Wickramasinghe
Chief Manager (Credit)
16. Mr. K.G Karunarathne
Chief Manager (Valuation)
17. Mr. D.B.P. Willarachchi
Internal Auditor

18. Mr. J.A.D.P. Priyalal
Chief Manager (Recoveries)
19. Mr. D.L. Dias
Acting Chief Manager (Credit)

Not in Picture

1. Ms. W.J.K. Geeganage
Deputy General Manager
(Finance & Planning)
2. Mr. I. K. Gamini
Chief Manager (Credit)
3. Mr. L.W. Samarawickrama
Chief Manager (Credit)



Financial Review

SMIB continued its growth momentum during the year 2015 despite the decreased interest rates in the market. Through sound asset management policies and efficient market oriented strategies, the bank successfully faced the challenges in the financial market.

Profitability

SMIB recorded a Pre-Tax Profit of Rs.681 Mn for the year ended 2015 compared to Rs. 413 Mn in 2014, marking a 65% increase which is a remarkable achievement of the Bank. This is mainly due to the decline of interest cost on deposits and cutting of unnecessary expenses of the Bank.

Interest Income

Interest income from loans and advances increased by 9.5% during 2015, backed by the expansion of the loan portfolio of the Bank. Interest income from the investments was decreased up to certain extent due to get realization of investments to invest in loans and advances, which provides higher return, while maintaining minimum statutory investment level in high liquid assets.

Interest Income	2015 Rs.Mn	2014 Rs.Mn
Income from Loans and Advances	3,450.96	3,150.83
Interest Income from Investments	428.07	482.08
Total Interest Income	3,879.03	3,632.90

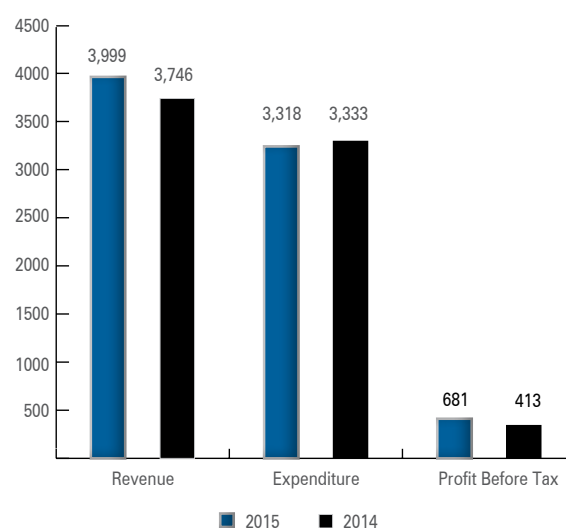
Interest Expenditure

Due to the low interest rates in the market the Bank's interest expenditure decreased significantly in 2015 showing a decrease of 7% of the interest expenses compared to the year of 2014.

Interest Expenditure	2015 Rs.Mn	2014 Rs.Mn
Deposits	2,030.97	2,189.70
Borrowings	26.37	23.92
Total	2,057.34	2,213.62

Revenue, Expenses and Profit comparison (Rs. Mn)

We were able to increase our total revenue by 7% while maintaining our operating expenditure at the same level compared to previous year by cutting of unnecessary expenses, hence the Bank were able to record a 65% increase of Profit before Tax in the year 2015 compared to 2014 which is a significant achievement.



Portfolio Growth

Loans and Advances

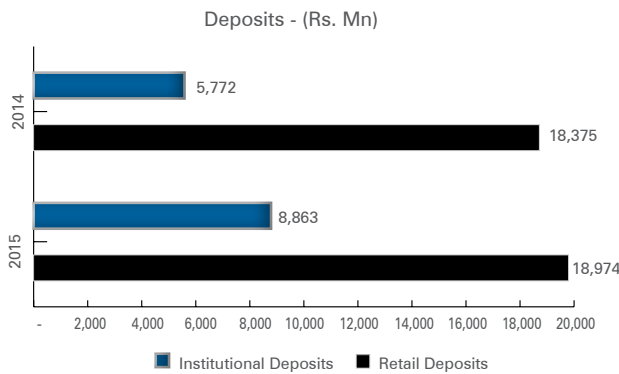
The Bank recorded an increase of 11% in its loan portfolio compared to 2014. This growth can be mainly attributable to the Mortgage, EPF and Personal Loan increase during the year which attracted a wider customer base. SMIB endeavoured to improve the quality of its credit portfolio while increasing the volume.

Product	2015 Rs.Mn	2014 Rs.Mn
Mortgage Loans	8,953.24	8,366.99
EPF Loans	12,051.36	12,131.07
Vehicle Loans	54.68	80.26
Personal Loans	4,606.07	2,269.14
Other Loans	1,189.57	1,415.10
Total	26,854.92	24,262.56

Financial Review Contd...

Deposits

The Bank's customer deposits also grew significantly by 15% from Rs. 24,146 Mn to Rs. 27,836 Mn as at 31st December 2015 while Institutional Deposit increased by 53% and the Retail Deposits by 3% during the year which is a remarkable achievement of the bank.



Asset Quality

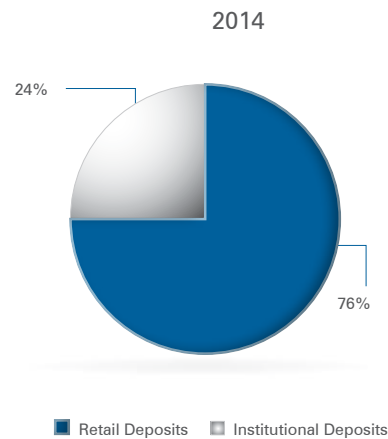
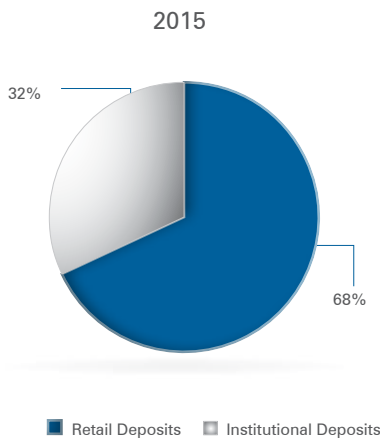
SMIB continued its prudent credit management policy in 2015 increasing its credit volume and maintained the credit quality simultaneously. Gross NPL ratio of the Bank stood at 29.40% as at 31st December 2015 in comparison to 33.42% in 2014. The NPL ratio has been decreased during the recent past.

Contribution to National Economy

SMIB as a responsible corporate citizen continued to make a considerable contribution to the economy in 2015. In 2015 the contribution to national economy in the form of taxes paid to the government amounted to Rs.600.88 Mn in comparison to Rs. 339.45 Mn in 2014.

Taxes Paid	2015 Rs.Mn	2014 Rs.Mn
VAT & NBT	161.84	123.37
Corporate Tax and Deemed Dividend Tax	439.04	216.08
Total	600.88	339.45

Deposit Composition



Human Resources

Management

Human Resource Management (HRM) is the term used to describe formal systems devised for the management of people within an organization. The main aspects of HRM fall into three major areas: staffing, employee compensation and benefits, and defining/designing work. Essentially, the purpose of HRM is to maximize the productivity of an organization by optimizing the effectiveness of its employees. This mandate is unlikely to change in any fundamental way, despite the ever-increasing pace of change in the business world. Thus it includes hiring right people to the right jobs at the right time and then onwards motivate & develop them in the right way so that best individual output could be taken on the way towards significant success as a business entity. In brief, the functions of Human Resource Management include, Human Resource Planning, Requirement and Selection, Performance Appraisal, Training and Development, Employee Welfare and Motivation Employee Relations and Engagement, Career Management ect.

Having considered Human Resource as the most valuable asset, bank believes that in creating a brighter future, the key players are its employees. Through their collective participation bank gets the strength to face the hurdles and turbulent times as we are in a highly competitive business environment. It is believed that the secret of obtaining competitive advantage is through developing the potentials of employees.

Human Resource Management Approach

Bank will be committed towards identifying the ideal human capital requirements. Human resource management approach is based on alignment of organizational objective identification of the human capital through development of business case based on future organizational need.

Staff Strength

The total number of staff for the year accounted as 407 which was comparatively small but they have contributed to the bank performance at greater extent. During the year 20 staff members left the bank of which 12 retired from the bank and balance 8 staff members resigned due to personal reasons. We added three (03) new staff members to Bank during the year. 05 employees were promoted internally based on their experience and performance. Filling vacancies were carried out as per our recruitment policy both internal and external.

Staff Variance

Management Level	Variance			
	Retired	Resigned	Externally Recruited	Internally Promoted
Corporate Management	1	-	-	-
Senior Executive Management	-	-	1	-
Executive	4	6	-	-
Non Executives	7	2	2	5
Total	12	8	3	5

Staff Strength by Tier Wise

Management Level	No: of Employees as at 31.12.2014	No: of Employees as at 31.12.2015	Percentage
Corporate Management	20	12	3
Senior Executive Management	25	9	2
Executive	153	120	31
Non Executives	209	248	64
Total	407	389	100

Gender Profile

As an equal employee provider SMI bank provided employment for both males & females in an equal manner. Gender profile of the SMI bank accounted as 46% male and 54% female in the year of 2015.

Employee Age Profile

Bank had privileged and capitalizes most experienced and senior staff 48% of the staff is above 40 years.

Human Resources Contd...

Age category	No: of Employees as at 31.12.2014	No: of Employees as at 31.12.2015	Percentage
50 or Above	106	113	29
40 - 49	89	74	19
30 - 39	106	117	30
29 or below	106	85	22
Total	407	389	100

Training and Development

Employers must provide employees with the tools necessary for their success which, in many cases, means giving new employees extensive orientation training to help them transition into a new organizational culture. Bank provides leadership training and professional development programmes. Leadership training may be required of newly hired and promoted supervisors and managers on topics such as performance management and how to handle employee relations matters at the department level. Professional development opportunities are for employees looking for promotional opportunities or employees who want to achieve personal goals. Programs such as tuition assistance and tuition reimbursement programs often are within the purview of the HR training and development area.

Training and Development (T & D) function of the bank is considered vital as the development of the employees is the key path of success for any organization. In the HR policy and procedure manual approved in May, 2015, the area of T & D has been fully reviewed with the aim of utilizing the maximum output through T & D. The Budgeted training plan for year 2015 had 29 distinct training programs planned to be held. But 46 programmes were actually conducted during the year which is a 158% achievement in that regard

Employee Service

Service category (Years)	No: of Employees as at 31.12.2013	No: of Employees as at 31.12.2014	Percentage
0-4	175	206	53
5-9	52	59	15
10-14	27	14	4
15-19	60	61	15
Above 20	93	49	13
Total	407	389	100

44% of the employees have been working more than 10 years in the bank and contribute their service to bank development. Not only the providing financial benefits but also non-financial benefits to the staff increased their job satisfaction.

Risk Management

Risk Management-Management Discussion and Analysis

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

SMIB firmly believes that the robust risk management framework is critical to support a sustainable growth strategy. The bank's risk profiling and management, focuses on the key risk categories of credit risk, market risk, liquidity risk, operational risk, legal risk and strategic risk.

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

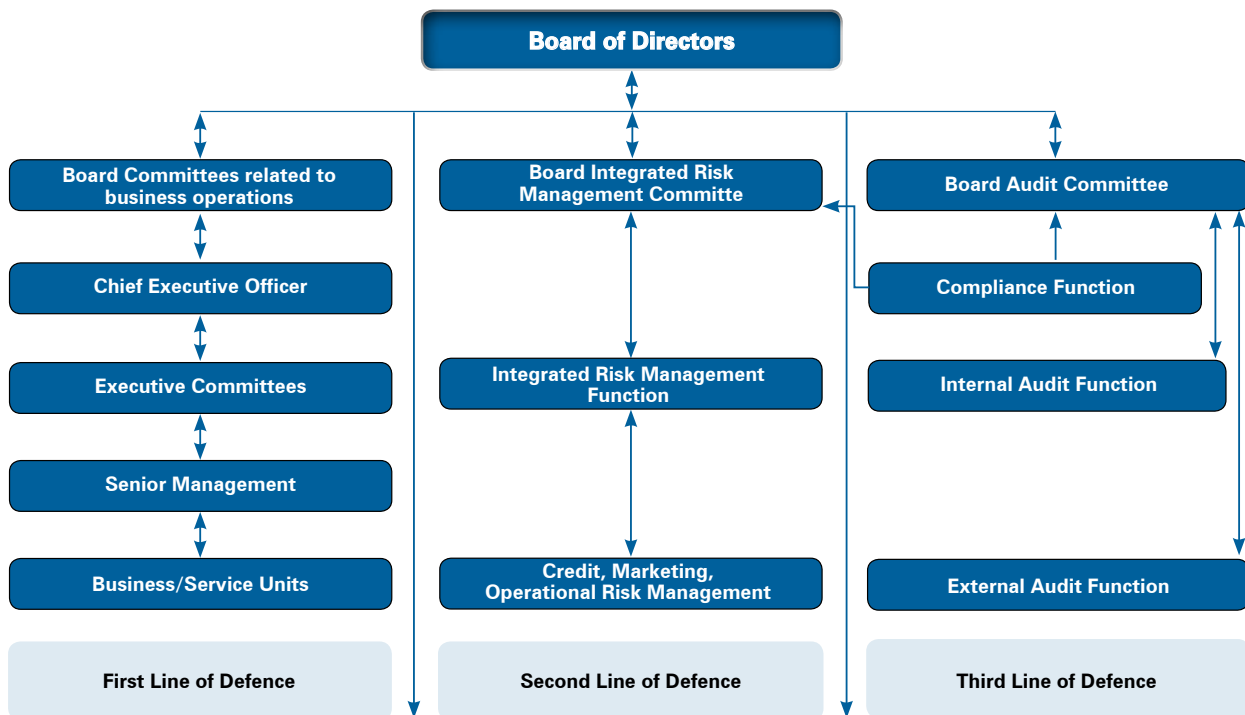
Risk Management Framework of the bank

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

SMIB has defined risk management policies and procedures with respect to the credit, market and operational risks faced by the bank. The policies and the systems are reviewed periodically to ensure the compliance. Bank's organizational structure clearly defines roles and responsibilities of individuals involved in risk taking and managing activities. Efforts are being taken to internalize the risk management concepts within the bank through capacity building and review mechanisms.

Governance Structure for the Risk Management of SMIB

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



Risk Management Contd...

Board and the Senior Management Oversight

Overall responsibility of risk management of the bank rests with the Board of Directors. The board has set qualitative and quantitative measures in order to express the risk appetite and the tolerance limits. It is the duty of senior management to transform strategic direction set by board in the shape of policies and procedures and to institute an effective hierarchy to execute and implement those policies.

Senior management of the bank has to ensure that these policies are properly communicated down the line and embedded in the culture of organization. Risk tolerances relating to quantifiable risks are generally communicated as limits or sub-limits to those who accept risks on behalf of the bank. Qualitative risk measures are communicated as guidelines and inferred from management business decisions.

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

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

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.

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

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

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

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

Evolving Risk Management Function of SMIB

Integrated Risk Management Division (IRMD) of the bank was established in 2012 and following key initiatives have been taken during the financial year to establish the risk management function of the bank.

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

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

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

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

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

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

Operational risk management process has been initiated by appointing officers from each businesses unit to liaise with Risk Management Division on reporting operational risk events.

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

Capital Adequacy Position

SMIB compute capital adequacy as per the regulator's direction where risk (pillar I) is quantified using the Standard Approach for Credit and market risk and Basic Indicator Approach for operational risk. Tier I capital ratio of SMIB is 27.27% and total capital ratio 27.27% as at 31.12.2015. These ratios are well above the industry average and indicate a stronger capacity for risk absorption.

The bank has implemented the Internal Capital Adequacy Assessment Process and the capital assessment with the risk exposure is presently being assessed.

Managing Key Risks

Credit Risk

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

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

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

Risk Management Contd...

monitoring process, and ensuring adequate controls over credit risk.

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

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

Credit Risk Management

SMIB focuses on following module when managing credit risk.

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

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

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

Clear guidelines have been established in the bank for the loan approval structure and the authority has been delegated to different levels in the approval process. No single person can originate and approve the granting of credit. Credit facilities beyond a set threshold will be independently evaluated by the risk officers attached to the risk management division and the comments will be followed when approving such facilities.

The bank has established a credit administration division to ensure efficient post sanction processes and to verify loan releases comply with the bank’s set guidelines.

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

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

advances will be transferred to the legal division to initiate legal action as the last option.

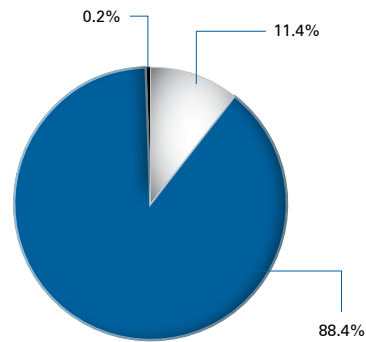
Credit Concentration Risk

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

Sector wise Exposure

Sectors	Amount (Rs.)
Agriculture & Fishing	3,050,009,000
Housing & Construction	23,750,232,301
Tourism	54,681,830
Total	26,854,923,131

Sector wise Exposure



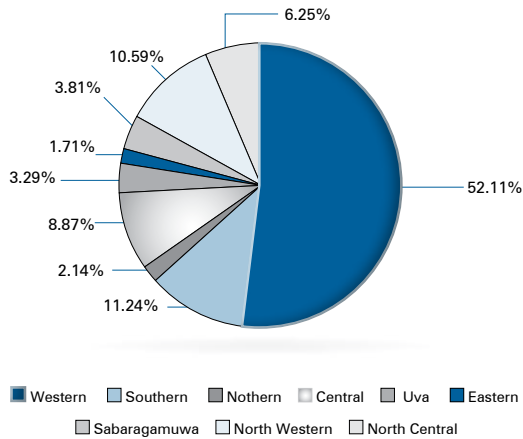
■ Agriculture & Fishing ■ Housing & Construction ■ Tourism

Geographical Concentration

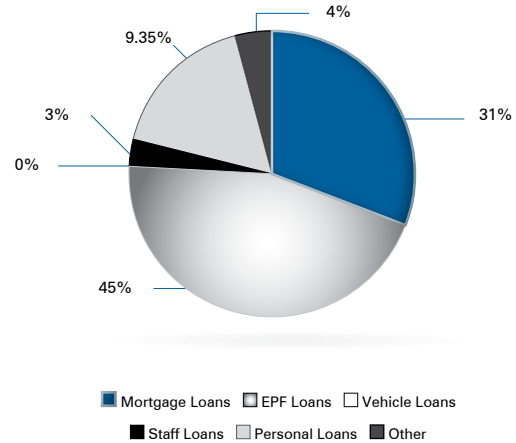
Province	Amount (Rs.)
Western	13,994,421,420
Southern	3,018,891,813
Northern	574,865,669
Central	2,380,779,627
Uva	883,192,442
Eastern	459,666,655
Sabaragamuwa	1,023,238,302
North Western	2,842,705,085
North Central	1,677,162,118
Total	26,854,923,131

Risk Management Contd...

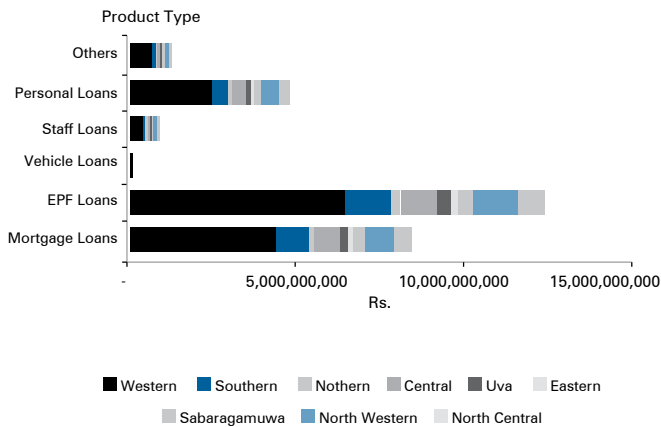
Geographical Concentration



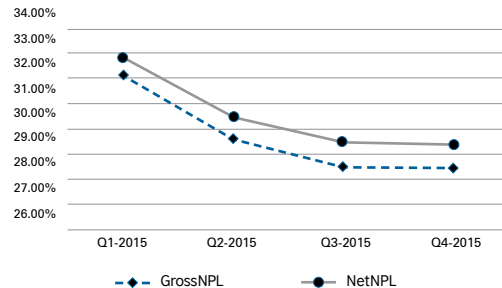
Product Concentration



Geographic distribution of Loan Portfolio –Product wise as at December 31, 2015



Movement of Gross & Net Non-Performing Advances Ratios during the year 2015



High Non Performing Allowance (NPA) ratio is due to the NPA position of EPF Loans 55.70% as at 31/12/2015 which is being recovered annually from EPF balances of customers held in Central Bank of Sri Lanka.

Product Concentration

Product	Amount (Rs.)
Mortgage Loans	8,213,025,862
EPF Loans	12,051,365,374
Vehicle Loans	54,681,830
Staff Loans	740,215,941
Personal Loans	4,606,068,478
Others	1,189,565,645
Total	26,854,923,131

Market Risk

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

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

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

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

Risk Management Contd...

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

Interest Rate Risk

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

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

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

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

Liquidity Risk

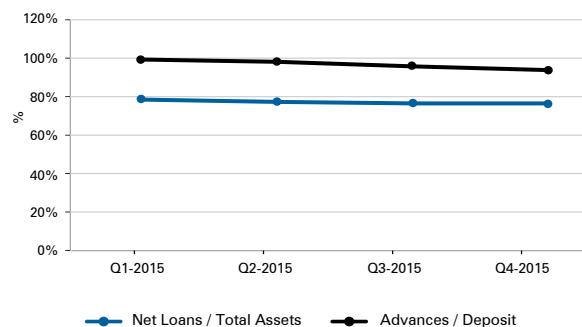
Liquidity risk is the potential for loss to an institution arising from either its inability to meet its obligations or to fund increases in assets as they fall due without incurring unacceptable cost or losses. Liquidity risk cannot be seen in isolation, because it is often triggered by consequence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

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

The Bank also won depositor confidence through the fair and competitive deposit rates it offered and the accessibility to retail deposits has increased through increased branch network. Hence reliance on wholesale deposits has reduced. Lack of long-term borrowing instruments at affordable costs results in maturity mismatch in the asset book and the bank is researching on introducing innovative products to reduce the maturity mismatch.

The bank monitors a number of liquidity ratios as per the CBSL risk direction which are discussed at ALCO and Board Integrated Risk Management Committee.

Liquidity Related Ratios



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

Maturity Mismatch Analysis as at 31/12/2015 (Rs.Mn)

Rs. Mn	less than 7 Days	7-30 Days	1-3 Months	3-6 Months	6-12 Months	1-3 years	3-5 years	Over 5 years	Unclassified	Total
Total Assets	406	444	967	1,458	4,205	6,202	3,807	8,313	8,430	34,232
Total Liabilities	1,970	1,265	5,697	5,456	8,279	3,270	2,265	1,573	4,457	34,232
Gap	(1,564)	(821)	(4,730)	(3,998)	(4,074)	2,932	1,542	6,740	3,973	-

Risk Management Contd...

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

The bank comfortably meets the regulatory requirements relating to liquidity.

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

Operational Risk

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

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

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

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

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

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

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

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

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

Legal Risk

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

Strategic Risk Management

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

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

Compliance Risk

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

Corporate Governance

The Board of Directors of the State Mortgage and Investment Bank, which is the highest decision making body believe that consistently enforced corporate governance will result in a cleaner, more ethical organization, appealing to both borrowers and investors. The bank has recognized corporate governance as a paradigm for improving competitiveness and enhancing efficiency and thus gaining stakeholders' confidence as well as the managing framework that facilitates the conduct of the banks business in a responsible, accountable, fairness and transparent manner. Accordingly the Board shoulders the overall responsibility and accountability on maintaining the farsighted risk management mechanisms and capital adequacy, asset quality, management, earnings, liquidity and sensitivity to market risk of the bank. The bank treats regulatory oversight as a supporter to enhance corporate governance and in line with the CBSL statutory examination report results, is in the process of complying and uplifting corporate governance standards.

The bank has an effective combination of professionals with practical experience in banking, finance, economics, business management, human resource management, law, marketing, information technology etc.

The Board promotes integrity and ethical behavior within the Bank, specifically with regard to the duty to act with honesty and integrity, abide by the law, treat others with respect, keep information in the strictest confidence, avoid conflicts of interest and respect the Bank. The bank has set up ethical guidelines (Code of Conduct) for the employees to minimize the occurrence of any misconduct. In addition it has introduced a Whistle Blower Policy which allows employees to raise concerns about malpractices within the organization.

Accountability

Accountability is one of the cornerstones of good governance.

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

Information must be reported to the Bank's stakeholders, and to the general public in a transparent and diligent manner. On the recommendation of the Audit Committee, the Board reviews and approves the annual and interim financial statements of the Bank.

Fairness

The bank treats all its stakeholders fairly.

The bank was generous to reduce the interest rates for mortgage loan customers who were paying high rates in the year 2015 since the rates in the market went down.

Transparency

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

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

During the year 2015 the bank did not have any transactions with the related parties.

Board of Directors

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

The Directors bring diverse skills; perspectives and experience to the Board enriching the discussion and debate on matters set before the Board committing sufficient time and energy and take decisions using independent judgement including decisions on issues of strategy, performance, resources, key appointments and standards of business conduct. Composition of the Board ensures that there is a sufficient balance of power and contribution by all Directors and provide continuous contribution and guidance to the board decision-making process. The Chairman and the Board of Directors with their strong commitment and prudent guidance manages the bank ahead.

The Board of Directors meet at least monthly and in the year 2015 met 11 times since the board had not been appointed in January 2015 after the change of the Government in 2015.

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

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

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

Corporate Governance Contd...

Appraisal of Board Performance

The Board adopts a scheme of self-assessment by each director annually and board bi- annually appraises their own performances to ensure that they are discharging their responsibilities satisfactorily in accordance with the State Mortgage and Investment Bank Act and the Banking Act Direction No.11 of 2007 etc. These processes require each Director to fill a Self-Evaluation Form and a questionnaire to assess the effectiveness of the Board Directors' own governance practices. The responses are assembled by the Board Secretary and submitted to the BNC for discussion and evaluation and thereafter committee report is submitted to the board.

Functions of the General Manager

The Board appoints the General Manager to the staff of the Bank who is the chief executive officer of the Bank. The managerial and operational activities of the bank have been delegated to the General Manager who heads the Corporate Management Team as well as all the Management Committees of the Bank.

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

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

Board Sub Committees

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

Risk Management

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

Both bank performance and risk management are dependent on implementing good corporate governance; hence, the two constructs are interrelated by nature. Interrelationship between the two represents the risk and return trade-off. The State Mortgage and Investment Bank's better risk management indicates that bank operates at lower relative risk and at lower conflict of interests between parties. These advantages of implementing better risk management lead to better performance of the bank.

Management Committees

The Board of Directors in managing affairs of the bank has delegated business operations to key management personnel led by the Chief Executive Officer/ General Manager. These committees should submit the minutes to the Board of Directors enabling the board to guide and oversee that the key management personnel are carrying out the day to day activities of the bank in a safe and sound manner.

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

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

Corporate Governance Contd...



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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல
My No.

BAF/G/SMIB/2015/25

ඔබේ අංකය
உமது இல
Your No.

දිනය
திகதி
Date

17 October 2016

The Chairman

State Mortgage and Investment Bank

Auditor General's Report of Factual Findings of State Mortgage and Investment Bank to the Board of Directors of the State Mortgage and Investment Bank on the compliance requirement of the Corporate Governance Direction issued by the Central Bank of Sri Lanka- 31 December 2015

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

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

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

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

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

This Report relates only to the item specified above and does not extend to any Financial Statement of State Mortgage & Investment Bank, taken as a whole.

W.P.C. Wickramaratne
Additional Auditor General
For Auditor General



Corporate Governance Contd...

Annexure to the Report on Factual Findings

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
3(1)	The Responsibilities of the Board				
3(1)(i)	Agreed upon procedures carried out to ensure the board has strengthened the safety and soundness of the bank. a) Check the board approval, the bank's strategic objectives and corporate values.	Complied			Corporate plan for the period 2015 -2019 was presented to the board under the board paper 14/14/25 at the board meeting held on 18/12/2014.
	Check whether the bank has communicated the bank's strategic objectives and corporate values throughout the bank.	Complied			Strategic objectives and cooperate values are communicated through heads of departments at each division.
	b) Check the board approval of the overall business strategy of the bank.	Complied			Overall business strategy (cooperate vision/ Mission and objectives) included in the cooperate plan and it was approved by the board at the meeting held on 18/12/2014
	Check that the overall business strategy that includes the overall risk policy, risk management procedures and mechanisms and they are documented.	Complied			The bank has documented goals to improve the risk management of the bank and observed that it was included in the cooperate plan.
	Check that the overall business strategy contains measurable goals, for at least the next three years.	Complied			Observed that the measurable goals for 2015 to 2019 are included in the corporate plan.
	c) Check that the appropriate systems to manage the risks identified by the board are prudent and are properly implemented.	Complied			The board has appointed Integrated Risk Management Committee (IRMC) in 2015 for the purpose of addressing the risk identified periodically. Therefore board reviews IRMC minutes and reports to ensure that the bank has appropriate systems to manage the risk. Observed the board minutes and board papers. Minutes of the board meeting held on 29/12/2015. B/M 15.11.152 Minutes of the board meeting held on 11/12/2015. B/M 15.10.144 Further, board has given approval for the IRMC Charter, Risk and self-Assessment process, operational Risk Management System.

Corporate Governance Contd...

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
	d) Check that the board has approved and implemented a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	Complied			The customer charter is used for the purpose of effective communication between customers and the bank. Perused the customer charter. .Further, Government has 100% ownership of the bank and all directors are appointed by the minister of public enterprise development and ministry of finance. Therefore effective communication between government/ shareholders and the bank is maintained.
	e) Check that the board has reviewed the adequacy and the integrity of the bank's internal control systems and management information systems;	Complied			The adequacy and integrity of the internal controls and management information system had been reviewed by the Board audit committee and the board reviewed the respective Board audit committee. Papers/minutes at the board meeting No.15.02.28 in the minutes of the board meeting held on 23/03/2015. No. 15.04.50 in the minutes of the board meeting held on 29/05/2015 Observed the page 58 and 59 for report directors' statement on internal controls in the 2014 Annual Report.
	f) Check that the board has identified and designated key management personnel, as defined in the Sri Lanka Accounting Standards, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;	Complied			The board has identified and designated KMP'S as defined by LKAS 24. Observed the No.15.04.49.11 in the minutes of the board meeting held on 29/05/2015 and No.15.11.149.26 in the minutes of the board meeting held on 29/12/2015. Further, board has appointed a committee which consists of KMP's and that committee directs activities and exercise control over the bank.
	g) Check that the board has exercised appropriate oversight of the affairs of the bank by key management personnel, that is consistent with board policy;	Complied			The board has exercised appropriate oversight of the affairs of the bank by key management personnel.
	h) Check that the board has defined the areas of authority and key responsibilities for the board directors themselves and for the key management personnel;	Complied			Director's powers and authority defined in SMIB Law No.13 of 1975 under the Section 07. Directors were allocated to sub committees by the Board of Directors and charter of each committee defines responsibilities. KMPs authorities and responsibilities are listed in Job Descriptions.

Corporate Governance Contd...

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
	i) Check that the board has periodically assessed the effectiveness of the board directors' own governance practices, including: (i) the selection, nomination and election of directors and key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary.	Complied			Selections, nominations and election of the board of directors are done by the minister according to the SMIB Law No.13 of 1975. Directors confirmed in their self-evaluation forms that the board has undertaken an annual evaluation of its own governance practices.
	j) Check that the board has a succession plan for key management personnel.	Complied			Succession plan for key management personnel for the year 2015 is available. No.15.04.49 in the minutes of the board meeting held on 29/05/2015.
	k) Check that the board has scheduled regular meetings with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Complied			In each meeting the board has invited the Acting General Manager to be present at the board meeting and through that the board has established communication lines and monitor progress towards corporate objectives. Further, the board has directed to hold management committee meeting and senior management meeting every month to ensure that management is working towards corporate objectives.
	l) Check that the board has taken measures and processes in place to understand the regulatory environment and that the bank maintains a relationship with regulators.	Complied			Checked and ensured Compliance Officer is appointed to maintain regular contact relationship with regulators based upon clear and timely communication and a mutual understanding of the regulators objectives. Risk Management Divisions (RMD) report to the Board on Quarterly basis. The board audit committee assists the bank in this regard as per the charter of audit committee Terms Of References. Above charter was presented to the board under board paper15.09.09 and it is approved by the meeting held on 20/10/2015. Further, the board has granted approval for the SLFRS policy manual to comply with the Sri Lanka Accounting Standards through following board meeting held on 30/10/2014
	m) Check that the board has a process in place for hiring and oversight of external auditors.			N/A	External auditor has been appointed as per the provision contained in the State Mortgage and Investment Bank Law No.13 of 1975. As per such provisions Auditor General is the external auditor.

Corporate Governance Contd...

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
3(1)(ii)	Check that the board has appointed the Chairman and the Chief Executive Officer (CEO).	Complied			According to the SMIB Law No.13 of 1975, The chairman has been appointed by the Finance Minister and Acting General Manager/CEO has been appointed by the board.
	Check that the functions and responsibilities of the chairman and the CEO are in line with Direction 3(5) of these Directions.	Complied			Checked and ensured the functions and responsibilities of the chairman and the CEO which are in line with the above said directions.
3(1)(iii)	Check that the board has met regularly and held board meetings at least twelve times a year at approximately monthly intervals.	Complied			The board has met 11 times during the year 2015 due to government change. Observed board minutes and directors attendance register.
3(1)(iv)	Check that the board has a procedure in place to enable all directors to include matters and proposals in the agenda for regular board meetings where such matters and proposals relate to the promotion of business and the management of risks of the bank.	Complied			The agenda prepared under the authority of the board secretary and it is Check by the CEO/ GM. The notice of the meeting and agenda for the meeting circulated to all directors at least 7 days prior to the meeting to provide reasonable time to study and make any proposals. Accordingly matters and proposals related to the promotion of business and the management of risks of the bank is discussed by the board of directors.
3(1)(v)	Check that the board has given notice of at least 7 days for a regular board meeting to provide all directors an opportunity to attend. And for all other board meetings, notice has been given.	Complied			According to the board secretary, prepared agenda was sent to each directors of the board which is signed and approved by the secretary by post or by hand at least 7 days prior to the meeting.
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.			N/A	The directors have attended the meetings as required and hence, no such requirement. Observed the Directors' Attendance Register" and Board Meetings.

Corporate Governance Contd...

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
3(1)(vii)	Check that the board has appointed a company secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and whose primary responsibilities shall be to handle the secretariat services to the board and shareholder meetings and carry out other functions specified in the statutes and other regulations.	Complied			<p>The board has appointed Mrs.W.K.Perera (Attorney at law) as a secretary to the board in accordance with the section 43 of the Banking Act No. 30 of 1988 and the companies act No 7 of 2007</p> <p>Secretary to the board is responsible for handling the secretariat services to the board and shareholder meetings and carry out other functions specified in the statutes and other regulations.</p>
3(1)(viii)	Check the process to enable all directors to have access to advice and services of the company secretary.	Complied			According to the secretary to the board, all directors have access to advice and obtain the service of the Company Secretary.
3(1)(ix)	Check that the company secretary maintains the minutes of board meetings and there is a process for the directors to inspect such minutes.	Complied			<p>All the minutes of the board meetings are filed sequentially and kept under the board secretaries' authority. At any time any director shall have access to any information regarding the board meetings.</p> <p>Observed board meetings' minutes.</p>
3(1)(x)	<p>Check that the minutes of a board meeting contained or refer to the following:</p> <p>a) a summary of data and information used by the board in its deliberations</p> <p>b) the matters considered by the board</p> <p>c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the board was carrying out its duties with due care and prudence;</p> <p>d) the matters which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations;</p> <p>e) the understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted; and</p> <p>f) the decisions and board resolutions.</p>	Complied			<p>Checked the board minutes and ensured that minutes are recorded in sufficient detail includes all the facts referred above.</p> <p>Generally followings are included in the contents of the board minutes.</p> <ul style="list-style-type: none"> i) Confirmation minutes of the previous meeting ii) Matters arising out of the minutes of the previous meetings. iii) Differed from the previous meeting iv) Recovery matters v) Financial matters vi) Marketing and publication matters vii) Administration and personal matters. viii) Credit matters ix) Risk Matters x) Legal Matters and, xi) Any Other Matters. <p>Observed minutes of the board meeting.</p>

Corporate Governance Contd...

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
3(1)(xi)	Check that there are procedures agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the bank's expense.	Complied			The board of directors obtains independent professional advice whenever necessary while carrying out duties and making decisions, at the bank's expense. Generally for this, bank follows Government approved tender procedures.
3(1)(xii)	Check that there is a procedure to determine, report, resolve and to take appropriate action relating to directors avoid conflicts of interests, or the appearance of conflicts of interest.	Complied			For this it followed the SMIB Law No.13 of 1975 section 17. Further the act provide that, 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. Observed note 34 of page 108 of the annual report 2014.
	Check that a director has abstained from voting on any board resolution in relation to which he/she or any of his/her close relation or a concern in which a director has substantial interest, is interested.	Complied			There's no disclosure of interest made in minutes during the year 2015 as it is required by the SMIB Law No. 13 of 1975 section 17 to disclose the interest in the minutes if any. Observed note 34 of page 108 of the annual report-2014. Further, Directors' Report" of 2015 annual report disclosed that "no director was directly or indirectly interested in any contract with bank for the year ended 31 December 2014. Observed page 64 of the annual report-2014.
	Check that has he/she been counted in the quorum for the relevant agenda item at the board meeting.			N/A	Such a matter has not arisen during the year 2015 and therefore this section is not applicable.
3(1)(xiii)	Check that the board has a formal schedule of matters specifically reserved to it for decision to identify the direction and control of the bank is firmly under its authority.	Complied			As per the secretary to the board, the board maintain schedule of matters specifically reserved to it for decision to identify the direction and control of the bank is firmly under its authority.
3(1)(xiv)	Check that the board has forthwith informed the Director of Bank Supervision of the situation of the bank prior to taking any decision or action, if it considers that the procedures to identify when the bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors.			N/A	Such situation has not been evident through the review of the board minutes.

Corporate Governance Contd...

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
3(1)(xv)	Check that the board has the bank capitalized at levels as required by the monetary board.		Not Complied		The bank has not complied with the minimum capital requirement of Rs.5 billion as per the CBSL circular no.02/17/402/0073/002. The core capital of the bank was Rs.4.26 billion as at 31.12.2015. The required capital adequacy ratio as per the CBSL IS 5% (Tier 1) and 10% (Tier 11) and as at 31/12/2015 the SMIB shows capital adequacy (Tier 1) as 22.17% and Total capital ratio (Tier 11) as 22.65%. Observed computation of capital adequacy ratio as at 31.12.2015.
3(1)(xvi)	Check that the board publishes, in the bank's annual report, an annual corporate governance report setting out the compliance with direction 3 of these directions.	Complied			The board has published annual corporate governance report setting out the compliance with direction 3 of these directions in the annual report-2014. Observed page no 32 of the annual report-2014.
3(1)(xvii)	Check that the board adopts a scheme of self-assessment to be undertaken by each director annually, and maintains records of such assessments.	Complied			Self- assessment/evaluation process has been carried out by the board of directors for the year 2015 Observed directors' self-evaluation forms.
3(2) 3(2)(i)	The Board's Composition Check that the board comprise of not less than 7 and not more than 13 directors.	Partially complied			According to the section 7 of SMIB act Board of Directors consisting of nine fit and proper persons appointed by the Minister. But the board consists of 8 directors as at 31 December 2015 due to the delay of appointment of the person as a representative from the Ministry of the Housing. Representative from Housing and Constructions has been appointed as a Director of SMIB on 04 January 2016. Observed the directors appointment and resignation File.
3(2)(ii)	(A) Check that the total period of service of a director other than a director who holds the position of CEO, does not exceed nine years.	Complied			No director has exceeded 9 years of service in the capacity of director. Observed the directors appointment and resignation File.
	(B) In the event of any director serving more than 9 years, check that the transitional provisions have been applied with.			N/A	As we observed above, no directors have exceeded 9 years in the capacity of directors.
3(2)(iii)	Check that the number of executive directors, including the CEO does not exceed one-third of the number of directors of the board.	Complied			In accordance with the provisions of the SMIB Law No.13 of 1975 the board consists of nine directors and appointed by the Minister of Finance and Minister of Public Enterprise Development and all are non-executive directors.

Corporate Governance Contd...

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
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.	Complied			Directors are appointed by the Minister of Finance and Minister of Public Enterprises Development and all are independent non-executive directors.
	<p>Check if non-executive directors can be considered independent if he/she:</p> <p>a) Holds a direct and indirect shareholdings of more than 1 per cent of the bank;</p> <p>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 percent of the regulatory capital of the bank.</p> <p>c) has been employed by the bank during the two year period immediately preceding the appointment as director.</p> <p>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)</p> <p>e) represents a specific stakeholder of the bank</p>			<p>N/A</p> <p>N/A</p> <p>N/A</p> <p>N/A</p> <p>N/A</p>	<p>There's no any shareholding by the director as the bank fully owned by the government. Check the declarations made by the directors and ensured that no, such situations evidenced.</p> <p>According to the directors' statements in the 2014 annual report "no director was directly or indirectly interested in any contract with the bank for the year ended 2014. Observed page no.64 of 2014 annual report.</p> <p>Check the declarations made by the directors and ensured that no, such situations evidenced.</p> <p>There is no such non-executive directors who were employed by the bank. Checked the declarations made by the directors and ensured that no, such situations evidenced.</p> <p>Appointments of directors are done by minister of Public Enterprises Development and minister of Finance.</p> <p>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.</p> <p>No such a director represents a specific stakeholder of the bank since the bank is fully owned by the government.</p>

Corporate Governance Contd...

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
	<p>f) is an employee or a director or a material shareholder in a company or business organization:</p> <p>I. which currently has a transaction with the bank as defined in Direction 3(7) of these Directions, exceeding 10 per cent of the regulatory capital of the bank, or</p> <p>II. in which any of the other directors of the bank are employed or are directors or are material shareholders; or</p> <p>III. in which any of the other directors of the bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10 per cent of regulatory capital in the bank.</p>			N/A	<p>According to the directors' report in the 2014 annual report "no director was directly or indirectly interested in any contract with the bank for the year ended 2014. Checked the declarations made by the directors and ensured that no, such situations evidenced.</p> <p>No incident was observed in this regard.</p> <p>According to the directors' report in the 2014 annual report "no director was directly or indirectly interested in any contract with the bank for the year ended 2014.</p>
3(2)(v)	In the event an alternate director was appointed to represent an independent director, Check the person so appointed meet the criteria that applies to the independent director.			N/A	No alternative directors were appointed during the year as per the board secretary's explanations.
3(2)(vi)	Check that the bank has a process for appointing independent directors.	Complied			Directors are appointed by the Minister of Finance and Minister of Public Enterprises Development according to the section 7 of SMIB law No.13 of 1975.
3(2)(vii)	Check that the stipulated quorum of the bank includes more than 50% of the directors and out of this quorum more than 50% should include non-executive directors.	Complied			As per the section 16 of SMIB Law the quorum of the Board is three which is less than 50% of directors. More than five directors which is 50 % of the directors had been participated for the meetings and all directors are non – executives.

Corporate Governance Contd...

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
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, nonexecutive directors and independent non-executive directors in the annual corporate governance report.	Complied			The bank has disclosed the composition of the board, including the names of the chairman and directors. It had disclosed directors category as executive directors, non-executive directors and independent non-executive directors of the annual report.
3(2)(ix)	Check the procedure for the appointment of new directors to the board.	Complied			The appointment of directors is done by the Minister of Public Enterprises Development and minister of finance in accordance with the SMIB Law No.13 of 1975.
3(2)(x)	Check that all directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after their appointment.			N/A	The directors are appointed by the minister of Finance and the minister of Public Enterprises Development in accordance with the SMIB Law No.13 of 1975.
3(2)(xi)	<p>Check if a director resigns or is removed from office, the board:</p> <p>a) announce the director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the bank, if any; and</p> <p>b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.</p>	Partially complied			<p>The removal of the directors is done by the minister of Public Enterprises Development and minister of Finance in accordance with the SMIB Law No.13 of 1975.</p> <p>During the year one director was resigned from the board and it was announced by the chairman at the board meeting.</p> <p>Please refer minute of the meeting held on 28th August 2015.</p> <p>Five directors were resigned from the board on January 2015 due to change of the Government. But two directors have resigned from the board without any official notice. Further ,another 4 directors are resigned from the board due to the change of ministry. And it had not been announced to the board by the chairman. But presented their resignation letters.</p> <p>N/A The removal of the directors is done by the minister of Public Enterprises Development in accordance with the SMIB Law No.13 of 1975.</p>

Corporate Governance Contd...

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
3(2)(xii)	Check if there is a process to identify whether a director or an employee of a bank is appointed, elected or nominated as a director of another bank.	Complied			There's no any director or employee elected or nominated as a director of another bank. The directors are appointed by the minister of Finance and the minister of Public Enterprises Development in accordance with the SMIB Law No.13 of 1975. Further, observed the declaration provided by the directors in term of section 42 of the banking act.
3(3)	Criteria to Assess the Fitness and Propriety of Directors				
3(3)(i)	Check that the age of a person who serves as director does not exceed 70 years.	Complied			No director whose age exceeds 70 years as at 31.12.2015. Checked and ensured through the declarations that all directors are below the age of 70.
	(A) Check that the transitional provisions have been complied with.			N/A	Since no directors exceed age of 70 years, this section does not apply.
3(3)(ii)	Check if a person holds office as a director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the bank.	Complied			No director holds office as a director of more than 20 companies/entities/institutions. Checked and ensured through the declaration no director hold such directorships.
3(4)	Management Functions Delegated by the Board				
3(4)(i)	Check that the delegation arrangements have been approved by the board.	Complied			Power delegation by the BOD to manage the business to the General Manager done according to the SMIB Law-section 20, 21. Other than that the board appointed sub committees and delegate power 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.	Complied			As per the secretary to the board explanation, the board limits delegation of any function to board committees, CEO or key management personnel to an extent that will not reduce the ability of the board to discharge its function.
3(4)(iii)	Check that the board review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the bank.	Complied			The board reviews the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the bank. Checked and ensured through the board minutes and board papers.

Corporate Governance Contd...

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
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.	Complied			Role of the chairman and CEO are separate and not performed by the same individual. Chairman-Mr. Jagath Wellawatta –resigned with effect from 21/01/2015 Mr. Tissa Jinadasa – Appointed on 13/02/2015 CEO/Acting GM – Ms. W.j.k Geeganage., Observed page 14-15 of the annual report-2014
3(5)(ii)	Check that the chairman is a non-executive director.	Complied			Chairman is a non –executive director and he is appointed by the minister under the SMIB Law No.13 of 1975.
	In the case where the chairman is not an independent director, check that the board designate an independent director as the senior director with suitably documented terms of reference.			N/A	Chairman is appointed by the minister of Finance. Therefor chairman is an independent director.
	Check that the designation of the senior director be disclosed in the bank's annual report.			N/A	N/A
3(5)(iii)	Check that the board has a process to identify and disclose in its corporate governance report, which shall be a part of its annual report, any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the chairman and the CEO and board members and the nature of any relationships including among members of the board.	Complied			This has been disclosed in the self-declaration made by the directors in accordance with the term of section 42 of the Banking Act. Checked those self-declarations and the annual report – 2014 disclosures in this regard. Observed page No. 64 of the annual report – 2014.
3(5)(iv)	Check that the board has a self-evaluation process where the chairman: a) provides leadership to the board; b) ensures that the board works effectively and discharges its responsibilities; and c) ensures that all key and appropriate issues are discussed by the board in a timely manner.	Complied			Self-evaluation process has been carried out by the board in 2015.

Corporate Governance Contd...

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
3(5)(v)	Check that a formal agenda is circulated by the company secretary approved by the chairman.	Complied			The agenda was circulated to each and every director by the board secretary with the approval of the chairman. Observed agenda for the board meeting.
3(5)(vi)	Check that the chairman ensures, through timely submission that all directors are properly briefed on issues arising at board meetings.	Complied			The directors are properly briefed on issues arising at the board meetings Observed the board minutes and the board papers.
3(5)(vii)	Check that the board has a self- evaluation process that encourages all directors to make a full and active contribution to the board's affairs and the chairman taking the lead to act in the best interest of the bank.	Complied			Self-evaluation process has been carried out by the board in 2015 and it encourages directors to make a full and active contribution to the board's affairs. Observed the self-evaluation forms.
3(5)(viii)	Check that the board has a self- evaluation process that assesses the contribution of non-executive directors.	Complied			Self-evaluation process has been carried out by the board in 2015 and it assesses the contribution of non-executive directors. Observed the self-evaluation forms.
3(5)(ix)	Check that the chairman does not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied			The chairman does not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.
3(5)(x)	Check that there is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the board.	Complied			Government has the 100% ownership of the bank and all directors are appointed by the minister of finance and minister of Public Enterprise Development. Therefore effective communication between government/ shareholders and the board is maintained.
3(5)(xi)	Check that the CEO functions as the apex executive-in-charge of the day to day management of the bank's operations and business.	Complied			CEO/ Acting GM participate to the day to day management of the bank operations as an apex executive in charge.

Corporate Governance Contd...

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
3(6)	Board Appointed Committees				
3(6)(i)	Check that the bank has established at least four board committees as set out in Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions.	Complied			Bank has established following board sub committees; <ul style="list-style-type: none"> • Audit Committee • Human Resources, and Remuneration Committee • Nomination Committee • Board Integrated Risk Management Committee (BIRMC)
	Check that each board committee report is addressed directly to the board.	Partially Complied			Each board subcommittee reports/minutes are directly addressed to the board. Nomination committee had not met during the year under review. Observed the board papers and minutes.
	Check that the board presents in its annual report, a report on each committee on its duties, roles and performance.	Partially Complied			The bank has disclosed only details of BIRMC and BAC in the 2014 annual report. Observed page 68 and 69 Of the annual report 2014.
3(6)(ii)	Audit Committee: a) Check that the chairman of the committee is an independent non-executive director and possesses qualifications and related experience.	Complied			The chairman is an independent non-executive director. The chairman of the board audit committee has necessary qualifications and experience. He holds a Bachelor degree in commerce (special) and has over 31 years' experience in public sector and he is a member of Sri Lanka Accountant Service (Class 01). He is currently serving as the Director General of Treasury operations of the ministry of finance.
	b) Check that all members of the committee are non-executive directors.	Complied			Board audit committee consists of 3 members and all the members are independent non-executive directors.

Corporate Governance Contd...

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
	<p>c) Check that the committee has made recommendations on matters in connection with:</p> <p>i. the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;</p> <p>ii. the implementation of the Central Bank guidelines issued to auditors from time to time;</p> <p>iii. the application of the relevant accounting standards; and</p> <p>iv. the service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.</p>	Complied		<p>N/A</p> <p>N/A</p> <p>N/A</p>	<p>The external auditor has been appointed by the ministry of finance and external auditor is the auditor General.</p> <p>The audit committee has no authority to deal with external auditors since they are appointed by the Public Enterprises Development ministry.</p> <p>Board audit committee has made recommendations on the application of relevant accounting standards as necessary. Observed no 10.03.2014 in the minute of the BAC held on 22 September 2014.</p> <p>The external auditor has been appointed by the Ministry of Finance according to the SMIB Law No.13 of 1975. Therefore, auditor general is the external auditor.</p>
	d) Check that the committee has obtained representations from the external auditor's on their independence, and that the audit is carried out in accordance with SLAuS.	Complied			Since the Auditor General is the external Auditor and appointed by the provision of constitution of Democratic Socialist Republic of Sri Lanka the independence and objectivity are maintained. Effectiveness of the audit process is discussed with the Superintendent of the Government Audit at Board Audit Committee meetings.
	e) Check that the committee has implemented a policy on the engagement of an external auditor to provide non-audit services in accordance with relevant regulations.			N/A	Checked and ensured that is not relevant as the Auditor General is appointed as per the Constitution.

Corporate Governance Contd...

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
	f) Check that the committee has discussed and finalized the nature and scope of the audit, with the external auditors in accordance with SLAS before the audit commences.			N/A	Checked the minutes and ensured that the Audit committee has discussed the nature and scope of the audit with the external auditor. Audit Report States that the audit was conducted in accordance with SLAuS.
	g) Check that the committee has a process to review the financial information of the bank, in order to monitor the integrity of the financial statements of the bank, its annual report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following; <ul style="list-style-type: none"> i. major judgmental areas; ii. any changes in accounting policies and practices; iii. the going concern assumption; and iv. the compliance with relevant accounting standards and other legal requirements, and; v. in respect of the annual financial statements the significant adjustments arising from the audit. 	Complied			The board audit committee has reviewed the financial information of the bank through following audit committee meetings. <p>Meeting Date 07 / 05 / 2015</p> <p>Meeting Date- 21 / 07 / 2015</p> <p>Meeting Date- 02 / 10 / 2015</p> <p>Meeting Date- 23 / 12 / 2015</p>
	h) Check that the committee has met the external auditors relating to any issue in the absence of the executive management with relation to the audit.			N/A	As per the given explanation, board audit committee has not met the external auditor because there are no such matters arisen during the year.
	i) Check that the committee has reviewed the external auditor's management letter and the management's response thereto.	Complied			The BAC reviewed the audit related issues/ quarries and management's response thereto. Reviewed the Auditor General's Report for the year 2014 issued under the Section 14 (2) (c) and the management response thereon on meeting held on 02.10.2015

Corporate Governance Contd...

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
	<p>j) Check that the committee shall take the following steps with regard to the internal audit function of the bank:</p> <p>I. Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;</p> <p>II. Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;</p> <p>III. Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;</p> <p>IV. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</p> <p>V. Check that the committee is appraised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;</p>	Complied			<p>Committee has reviewed the adequacy of the scope, functions and resources of the internal audit department.</p> <p>Observed audit committee meeting minutes. BAC Minute held on 23.12.2015</p> <p>Checked and ensured that the Audit committee has reviewed the internal audit program and the results of the internal audit process and taken the appropriate actions where those were necessary</p> <p>The Board of Directors approved to amend the Audit Charter in Board Paper No 15/09/09. Performance of Internal Auditor has been reviewed by BAC.</p> <p>Other staff reviewed by Internal Auditor.</p> <p>During the year 2014, new Internal auditor has been appointed and recommended by only Board of Directors Board Minute No. 14.13.146</p> <p>Chief Internal Auditor (CIA) of the bank has been appointed as the acting AGM Finance with effect from 14 August 2014 by releasing the duties of post of CIA.</p> <p>The Board instructed to assign an officer to cover up the duties of post of CIA until the above post is confirmed. However, officer has not assigned to cover up duties of the CIA up to 31 December 2015. 2015.</p>
		Complied			
		Complied			
			Not Complied		
			Not Complied		

Corporate Governance Contd...

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
	VI. Check that the internal audit function is independent of the activities it audits.		Not Complied		The Charter of board audit committee mentioned, BAC ensures that internal audit functions carried out independently of audits. However, Chief Internal Auditor has been performed duties as acting AGM (Finance) with effect from 14 August 2014 up to 31 December 2015.
	k) Check the minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.	Complied			Checked the minutes and ensured that the committee has reviewed major findings and management responses thereto during the period under review. The report was observed.
	l) Check whether the committee has had at least two meetings with the external auditors without the executive directors being present.	Complied			The superintendent of audit of external audit attended four meetings held by BAC during the year on behalf of the Auditor General.
	m) Check the terms of reference of the committee to ensure that there is; i) explicit authority to investigate into any matter within its terms of reference; ii) the resources which it needs to do so; iii) full access to information; and iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied			Terms Of References the board audit committee includes required terms. Checked and ensured that as per the BAC Charter the Committee has been empowered to investigate any matter, access to information, authority to obtain professional advice, resources to carry out its functions etc.
	n) Check that the committee has met, at least four times and maintained minutes.	Complied			The committee has met four times for the period of 2015 and maintains minutes of those meetings. Check the audit committee attendance register and minutes.

Corporate Governance Contd...

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
	<p>o) Check that the board has disclosed in the annual report,</p> <p>i) details of the activities of the audit committee;</p> <p>ii) the number of audit committee meetings held in the year; and</p> <p>iii) details of attendance of each individual director at such meetings.</p>	Complied			<p>The annual report – 2014 contains a board audit committee report and it includes the required details.</p> <p>Observed page no. 69 of the annual report 2014.</p>
	p) Check that the secretary of the committee is the company secretary or the head of the internal audit function.	Complied			Secretary of the committee is the secretary to the Board of Directors.
	<p>q) Check that the “whistle blower” policy covers the process of dealing with;</p> <p>i) The improprieties in financial reporting, internal control or other matters.</p> <p>ii) In relation to (i) the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters, and</p> <p>iii) Appropriate follow-up action.</p>		Not complied.		There’s no Whistle Blower policy for the Bank for the year 2015.

Corporate Governance Contd...

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
3(6)(iii)	<p>Check whether the following rules apply in relation to the Human Resources and Remuneration Committee:</p> <p>a) Check that the committee has implemented a policy to determine the remuneration (salaries, allowances and other financial payments) relating to directors, CEO and key management personnel of the bank by review of the "Terms of Reference" and minutes.</p>	Complied			<p>TOR for the Human Resources and Remuneration Committee shall determine the remuneration policy. The committee has approved the TOR in the year 2013 and the same TOR has been used without any changes for the year 2015. Presently remunerations are decided as follows.</p> <p>Circular of the Public Enterprises No.PED 3/2015-Directors and Chairman.</p> <p>The remuneration of the KMPs are decided by a committee comprising the top management of the 3 state banks and then approved by the board of the bank.</p>
	b) Check that the goals and targets for the directors, CEO and the key management personnel are documented.	Complied			Goals and target for the directors, CEO Acting GM and for the key management personnel are documented in the corporate plan and action plan 2015- 2019.
	c) Check that the committee has considered evaluations of the performance of the CEO and key management personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.		Not Complied		The committee has not considered the periodical evaluation of the performance of the CEO and the key management personnel. Human Resources and Remuneration Committee have not carried out the evaluations of the performance of the CEO and key management personnel against the set targets and goals periodically.
	d) Check that the "Terms of Reference" provides that the CEO is not present at meetings of the committee, when matters relating to the CEO are being discussed by reviewing the minutes.	Complied			"Terms of Reference" of human resources and remuneration committee stated that CEO is not present at the meeting when matters relate to him are being discussed.

Corporate Governance Contd...

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
3(6)(iv)	Does the following rules apply in relation to the Nomination Committee: a) Check that the committee has implemented a procedure to select/appoint new directors, CEO and key management personnel.	Partially complied			TOR of the human Resources and remuneration committee stated that "Committee shall implement a procedure to select /appoint new directors CEO and Key management personnel. However the directors were appointed by the Ministry as per provisions in the SMIB Act. Appointments of CEO's and KMPs' are made by the Board of Directors. Even though the Board of directors had appointed members to Board Nomination committee, Nomination committee has not met during the year 2015.
	b) Check that the committee has considered and recommended (or not recommended) the re-election of current directors.			N/A	The directors are appointed by minister according to the SMIB Law No.13 of 1975
	c) Check that the committee has set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the key management personnel, by review of job description.	Partially Complied			Complied through BHRRC. Even though the Board of directors approved to appoint members to Board Nomination committee, Nomination committee has not met during the year of 2015. However the approval of Board of Directors may be obtained with the recommendation of Board Human resources and Remuneration Committee (BHRRC).
	d) Check that the committee has obtained from the directors, CEO and key management personnel signed declarations that they are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes.	Complied			All the signed declaration of directors had been obtained by Board secretary. CEO and key management personnel signed declaration had been obtained by HR division.
	e) Check that the committee has considered a formal succession plan for the retiring directors and key management personnel.	Complied			Formal succession plan of KMPs is available. Directors' appointment is done by the Ministry.

Corporate Governance Contd...

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
	f) Check that the committee shall be chaired by an independent director and preferably be constituted with a majority of independent directors. The CEO may be present at meetings by invitation.	Complied			All the directors (including chairman) are independent non-executive directors who are appointed by the minister. The CEO may be present at meeting by invitation. The Board of directors had appointed members to Board Nomination committee; Nomination committee has not met during the year of 2015.
3(6)(v)	Check whether the following rules apply in relation to the Integrated Risk Management Committee (IRMC): a) The committee shall consist of at least three non-executive directors, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.	Complied			The IRMC consists from three non-executive directors, CEO/GM and other key management personnel on invitation.
	b) Check that the committee has a process to assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a bank basis and group basis.	Complied			Checked that the Risk Management Division (RMD) assesses the credit, market, operational risks and submits reports to the committee on Quarterly basis.
	c) Check that the committee has reviewed specific quantitative and qualitative risk limits for all management level committees such as the credit committee and the asset-liability committees, and report any risk indicators periodically.	Complied			BIRMC had discussed in the committee meeting regarding the quantitative and qualitative risk of credit, liquidity operational, strategic, and compliance.
	d) Check that the committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	Complied			Committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits. No.2015/BR/03/01 in the minutes of the meeting held on 07 th October 2015

Corporate Governance Contd...

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
	e) Check how many times the committee has met at least quarterly.	Complied			BIRMC has met five times during the year 2015. Meeting Date 02 nd April 2015 Meeting Date 20 th April 2015 Meeting Date 0 st July 2015 Meeting Date 07 th October 2015 Meeting Date 29 th December 2015
	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.		Not Complied		Checked and ensured that the all disciplinary actions are governed by the SMIB Rules in disciplinary management and committee had not been reviewed and adapted any disciplinary procedures.
	g) Check that the committee submits a risk assessment report within a week of each meeting to the board seeking the board's views, concurrence and/or specific directions.	Complied			The committee has submitted the risk assessment report to the next immediate board meeting.
	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 and report to the committee periodically.	Partially Complied			The board has appointed AGM-Risk Manager as compliance officer for the compliance function. Acting compliance officer reports compliance function to the board.

Corporate Governance Contd...

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
3(7)	Related Party Transactions				
3(7)(i)	<p>Check that there is a established and documented process by the board to avoid any conflicts of interest that may arise from any transaction of the bank with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction:</p> <p>a) Any of the bank's subsidiary companies;</p> <p>b) Any of the bank's associate companies;</p> <p>c) Any of the directors of the bank;</p> <p>d) Any of the bank's key management personnel;</p> <p>e) A close relation of any of the bank's directors or key management personnel;</p> <p>f) A shareholder owning a material interest in the bank;</p> <p>g) A concern in which any of the bank's directors or a close relation of any of the bank's directors or any of its material shareholders has a substantial interest.</p>	Partially complied			An established process is available to identify related parties prior carrying out transactions to avoid conflict of interest, even though the same has not been documented.

Corporate Governance Contd...

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
3(7)(ii)	<p>Check that there is a process to identify and report the following types of transactions been identified as transactions with related parties that is covered by this direction.</p> <p>a) The grant of any type of accommodation, as defined in the monetary board's Directions on maximum amount of accommodation.</p> <p>b) The creation of any liabilities of the bank in the form of deposits, borrowings and investments.</p> <p>c) The provision of any services of a financial or non-financial nature provided to the bank or received from the bank.</p> <p>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.</p>	Partially complied			<p>An established process is available to identify related parties prior carrying out transactions to avoid conflict of interest, even though the same has not been documented.</p> <p>Even though Related party transaction had been disclosed in the Annual Report, it had not been disclosed in the financial statements.</p>

Corporate Governance Contd...

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
3(7)(iii)	<p>Check whether the board has 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.</p> <p>a) Granting of “total net accommodation” to related parties, exceeding a prudent percentage of the bank’s regulatory capital, as determined by the board. For purposes of this sub-direction:</p> <p>I) “Accommodation” shall mean accommodation as defined in the Banking Act Directions, No.7 of 2007 on Maximum Amount of Accommodation.</p> <p>II) The “total net accommodation” shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the bank’s share capital and debt instruments with a maturity of 5 years or more.</p> <p>b) Charging of a lower rate of interest than the bank’s best lending rate or paying more than the bank’s deposit rate for a comparable transaction with an unrelated comparable counterparty.</p> <p>c) Providing of preferential treatment, such as favorable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;</p>	<p>Partially complied</p> <p>Partially complied</p>			<p>An established process is available to identify related parties prior carrying out transactions to avoid conflict of interest, even though the same has not been documented.</p> <p>No facilities have been granted to Directors. Facilities (EHL) obtained by KMPs are within allowed accommodation limits.</p>

Corporate Governance Contd...

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
	<p>d) Providing services to or receiving services from a 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>	Partially complied			
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 favour of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary board as well.			N/A	No such incident was reported. No facilities have been granted to Directors. Facilities are obtained by KMPS are within allowed accommodation limit.
3(7)(v)	a) Check that the bank has a process, where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a director of the bank, that steps have been taken by the bank to obtain the necessary security as may be approved for that purpose by the Monetary board, within one year from the date of appointment of the person as a director.			N/A	There is no documented procedure in this regard. No such incident was reported.

Corporate Governance Contd...

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
	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.			N/A	No such incident was reported
	c) Check that there is a process to identify any director who fails to comply with the above sub-directions be deemed to have vacated the office of director and has the bank disclose such fact to the public.			N/A	There is no proper procedure in this regard.
	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.			N/A	There is no proper procedure in this regard.
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.		Not Complied		There is no proper procedure in this regard.

Corporate Governance Contd...

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
3(7)(vii)	Check that there is a process to obtain prior approval from the Monetary board for any accommodation granted by a bank under Direction 3(7) (v) and 3(7)(vi) above, nor any part of such accommodation, nor any interest due thereon been remitted without the prior approval of the Monetary board and any remission without such approval is void and has no effect.			N/A	There's no proper procedure in this regard.
3(8)	Disclosures				
3(8)(i)	<p>Check that the board has disclosed:</p> <p>a) Annual audited financial statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.</p> <p>b) Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English.</p>	Complied			<p>Annual audited financial statements are prepared in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards.</p> <p>Further, those statements were published in the following news paper.</p> <ol style="list-style-type: none"> 1. The Island 2. Divaina 3. Thinakural <p>Observed that the quarterly financial statements are also published as above as per the requirements of CBSL</p>

Corporate Governance Contd...

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
3(8)(ii)	<p>Check that the board has made the following minimum disclosures in the annual report:</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>Complied</p> <p>Complied</p> <p>Complied</p> <p>Complied</p>			<p>These details are disclosed in the "Director's Responsibility, for the Financial Reporting (Page No.70 of the annual report. - 2014)</p> <p>Director's statement on Bank's internal control was included in the 2014 annual report (Page No.58 of the annual report)</p> <p>Auditor general's report on Banks Internal Control presented in page No.59 of the 2014 annual report.</p> <p>Directors' profile has been disclosed in page No.13 and 15 of the 2014 annual report.</p> <p>Director's remuneration disclosed in page No. 90 of the 2014</p>

Corporate Governance Contd...

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
	<p>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.</p> <p>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.</p> <p>g) Check that the board has obtained the external auditor's report on the compliance with Corporate Governance Directions.</p>	Complied		N/A	<p>The net accommodation granted to each category of related parties had not been disclosed as a percentage of the Bank's regulatory capital.</p> <p>Transactions with Key Management Personnel (KMPS) are disclosed in page No.99 and 100 of the 2014 annual report.</p> <p>Auditor General Report on compliance with corporate governance directions is included in page No. 32 of the annual report - 2014</p>
	<p>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.</p> <p>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.</p>		Not complied	N/A	<p>There is no separate report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance in the annual reports. Please refer annual report Statement of Directors' Responsibility on financial reporting and Directors' statement on internal controls. (page No.66 in the annual report – 2014</p> <p>As per the explanation given by the AGM Risk Management, Director of Bank Supervision has not sent any reports highlighting the non compliances during the year 2015.</p>

Directors' Report on Bank's Internal Control System

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

The Board is responsible for internal control of the Bank and for reviewing its effectiveness.

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

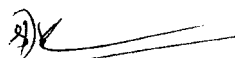
The Board established the system to provide effective internal control system within the bank, said control procedure include followings;

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

- Even though a structured annual review of design and effectiveness of bank's internal control over financial reporting has not been carried out, the Board has already determined that the documentation of the internal control system of the bank which would facilitate review of the effectiveness of the internal controls is of paramount importance.
- The Board has realized that there are additional control procedures to be designed and implemented over the financial reporting process in order to ensure more effective internal control system of the bank. Following steps that have been identified during last years for further strengthening the processes are still in progress.
 - I. Completion of documentation of significant processes related to financial reporting and further strengthening the documentation standards to comply with the best practices.
 - II. Performing much more structured control testing to ensure that the implementation of particular controls were in effect throughout the year and significant deficiencies have been discussed and addresses at the Board. If there are weaknesses/additional risks identified by the Internal Auditors/Audit Committee these have to be properly addressed by providing additional control with adequate follow – up procedures.

Subject to the above areas identified for further strengthening of the processes, to the best of our knowledge the Board confirms that the system of internal control is sound and has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purpose has been done in accordance with applicable Accounting Standards and regulatory requirements.

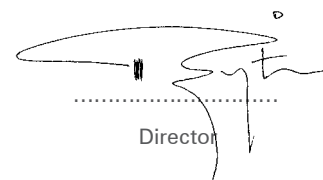
The external auditors have reviewed the above Directors Statement on Internal Control included in the annual report of the Bank for the year ended 31 December 2015 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system of the Bank. Further the external auditors have given an emphasis of matter paragraph highlighting the procedures followed by the Board and the risk management aspect of the bank.



Chairman of the Audit Committee



Director



Director

Auditor General's Report on Bank's Internal Control



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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல
My No.

BAF/G/SMIB/2015/24

ඔබේ අංකය
உமது இல
Your No.

දිනය
திகதி
Date

31 August 2016

The Chairman
State Mortgage and Investment Bank

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

Introduction

This report is to provide assurance on the Directors' Statement on Internal Control ("Statement") of the State Mortgage and Investment Bank included in the annual report for the year ended 31 December 2015.

Management's Responsibility

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

My Responsibility and Compliance with SLSAE 3050

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

Summary of Work Performed

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

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

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

My Conclusion

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

Without qualifying my opinion, I draw your attention to the Directors' Statement on Internal control, over financial reporting where the board of directors has stated that limited procedures were followed in reviewing the design and effectiveness of internal control over financial reporting and steps have been taken to strengthen the processes. However, I couldn't observe that steps have been taken to strengthen the processes even though board of directors highlighted the same fact in Directors' Statement on Internal Control in previous four years.

H.M. Gamini Wijesinghe
Auditor General

Corporate Social Responsibility

Social Security and Social Welfare are internationally accepted methodology. Any company or institution, whether public or private, their first objective is to achieve their goals. It is most important for the most productive businesses, allocate significant financial contributions out of the profit for social updates.

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

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

Our mission is to be commended, being the pioneer development bank of housing construction for eight decades. As per Our bank has met the target of Housing requirement in agricultural, fisheries and industrial field, our Bank's social mission had been extended to the entire schools and religious places all over the island.

Our contributions have been appreciated across the development of Sunday schools across the "Sarani" scheme.

Our bank has provided leadership and contribution to operate the concept of "A House for all & An Account for all" run by the

Government. As it is the majority of Sri Lankan people removed from the financial industry of the country, currently our bank has committed them to familiar to the financial transactions.

It is helpful for us our branch network to offer books for the children to develop their habit of reading and as well as renovating the schools and Sunday schools.

Banking community is straight forward to protecting the rights of elderly citizens when helping them and also represent in an emergency disasters. Our bank has contributed voluntarily for the people who suffer at the first instances of tsunami disaster and second disaster of overflowing rivers and mountain landslides.

The bank gets through to determine low income loan schemes for people who seeking shelter in the middle of one thousand social issues.

Although it has to be very surprised that there are homeless people, it is an entire pride to supporting to make shelter for the people who haven't a Shelter.

We considered it as a social responsibility providing shelter or home ownership as per it is basic human interests of the humanity.

State Mortgage and Investment Bank could be defined as the first and the oldest state bank in Sri Lanka which is evaluated its social responsibility perfectly.



Donation of plastic chairs, electric bulbs and framed photos of babies to the children's ward of Rural Hospital of Beragama, Ambalanthota, organized by Ambalanthota Branch.



"Account for All" National Program of Government Finance Policy



Donation of books to the library of Sinhala Junior School of Blumandal



Daham School Teachers' felicitation ceremony organized by Matale Branch

Products and Services

1st January 1979 was a red-letter day for Sri Lanka's Banking Sector. On that day, two giants in the housing and agricultural and industrial finance sector merged to be the 'Housing Bank to the Nation'.

The State Mortgage & Investment Bank is the result of the merger of the Ceylon State Mortgage Bank and Agricultural and Industrial Credit Corporation. This union of two powerful financial organizations resulted in a unique institution that caters to the Housing, Agricultural, Industrial, Fisheries and Tourism sectors of Sri Lanka.

The development process of any nation not only encompasses the provision of efficient and effective services, but also must result in the production of physical goods. Both of these complement each other.

The State Mortgage & Investment Bank is one institution that supports these initiatives, catering to all stakeholders, leading to the prosperity of the people. As a state bank, we have always been at hand to support government efforts to achieve its development goals.

As an institution that has served many generations of Sri Lankans, with 8 decades of experience, the SMIB is well aware of the peoples' needs. Indeed it is this rich experience that makes it easy to anticipate the peoples needs in the generations ahead.

As a responsible and respected banking institution, the SMIB is, even now, planning the next generation of financial products and services.





Financial Information

In a year of high profits, best in the past four years and biggest ever loan disbursements, 2015 has proved to be an year of outstanding financial performance.

The growth of 13% was mainly achieved due to substantial growth in loans and advances which was achieved despite the bank's mandate which empowers us only for limited banking activities. This performance was purely through persistent discipline in good banking practices.

Other enhancing factors for our growth are our diversification into SME Loans and Micro Finance segment to contribute 10% of the loan portfolio in the next 3-4 year period.

Arrangements have already been made by SMIB to enhance our core capital to Rs. 5 billion by January 2018, as per the CBSL direction, giving us a more solid foundation to grow.

Directors' Report

The Board of Directors of the State Mortgage & Investment Bank has pleasure in presenting their report on the affairs of the Bank together with the Audited consolidated financial statements for the year ended 31st December 2015, in conformity with the Sri Lanka Accounting Standards.

Directors

The Board comprises of 9 non-executive independent eminent directors including the chairman who collectively contribute their skills, perspectives and experience to the Board enriching the discussion and debate on matters set before them. The Minister of Finance has appointed from among the directors the Chairman of the Board. There are no executive directors in the bank.

Out of the 9 directors 4 directors were appointed by the Ministry of Finance. Since the line Ministry was changed to the Ministry of Public Enterprise Development (PED) 5 directors were appointed by the Ministry of PED in November 2015 to fill the vacancies created on the resignation of some directors.

In compliance with section 7 of the State Mortgage and Investment Bank Act as amended three of the directors so appointed are representatives of

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

One Director is appointed as the Treasury Representative.

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

Directors' attendance at the Board meetings:

11 meetings were held in the year 2015.

Name	Number of Meetings eligible to attend	Number of Meetings attended
Mr. Tissa Jinadasa (Appointed on 13.02.2015)	11	11
Dr. Namal Rathnayake (Appointed on 11.02.2015 and resigned with effect from 05.08.2015)	06	05
Mr. H. M. B. Senarathna (Appointed on 09.02.2015 and resigned with effect from 11.11.2015)	09	08
Mr. Phiroze Pestonjee (Appointed on 09.02.2015 and resigned with effect from 06.11.2015)	09	08
Mr. Chandrasiri Senevirathna (Appointed on 09.02.2015 and resigned with effect from 11.11.2015)	09	09

Name	Number of Meetings eligible to attend	Number of Meetings attended
Dr. C. N. S. Gamage (Appointed on 06.03.2015)	10	08
Mr. K. A. Thilakaratne (Appointed on 17.09.2014 and resigned on 20.10.2015)	06	06
Mr. M. S. D. Ranasiri (Appointed on 24.02.2015)	10	08
Ms. L. U. N. Sumanasekera (Appointed on 27.04.2015)	08	06
Mr. Roshan Hettiaratchi (Appointed on 02.11.2015)	02	01
Mr. A. M. Peeris (Appointed on 02.11.2015)	02	02
Mr. Rajitha N. Halwala (Appointed on 02.11.2015)	02	01
Mr. P. C. Wijewardena (Appointed on 02.11.2015)	02	02

Principal Activities of the Bank

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

Review of Operations and Future Developments

An overview of the financial and operational performance and future Developments of the Bank during the financial year 2015 and results of those operations are contained in the Chairman's Report, General Manager's Report and Financial Review on Pages 6 to 7, 8 to 9, and 16 to 17 respectively of this annual report.

Bank introduced various new loan products including a product for small and medium scale enterprises. With the intention of providing more customer friendly service, the bank introduced a "VIP Service" in the year 2015 as a total door step service. The bank intends to increase SME loans and corporate lending.

Directors' interests in contracts

A director who, or whose spouse or dependent child or children, is directly or indirectly interested in any business, transacted or proposed to be transacted by the Board shall disclose the nature of such interest at the meeting of the Board where such business is discussed. Such business transactions were not occurred in the year 2015.

Chief Executive Officer (CEO)

The General Manager is the Chief Executive Officer of the Bank and is appointed by the Board of Directors.

Vision, Mission and Values

The Bank's Vision, Mission and Values are given on page 02 of this Annual Report. The business activities of the bank are

Directors' Report Contd...

conducted at a high level of ethical standards to achieve its vision.

Corporate Governance

The Board of Directors is committed towards maintaining an effective Corporate Governance structure and process. The financial, operational and compliance functions of the Bank are directed and controlled effectively within the corporate Governance practices.

Board Sub Committees

The Board has formed four sub committees complying with the Banking Act Direction No 12 of 2007 to ensure control over affairs of the Bank.

Audit Committee

Members up to November 2015

Mr M. S. D. Ranasiri	-	Chairman
Mr. Phiroze Pestonjee	-	Member
Mr.K. A. Thilakarathne	-	Member
Dr. Noroshan Gamage	-	Alternative Member

Members since November 2015

Mr M. S. D. Ranasiri	-	Chairman
Dr. Noroshan Gamage	-	Member
Mr.Rajitha Halwela	-	Member
Mr. P. C. Wijayawardena	-	Alternative Member

It comprises of 4 non -executive Directors, one being an alternative member. Board Secretary functions as the secretary. The General Manager, AGM Finance, AGM Risk Management, AGM-Credit and AGM (HR &L) attended Meetings as invitees whilst the Superintendent of Audit attended all the meetings as an observer.

Four meetings were held in the year 2015.

Board Human Resources & Remuneration Committee

Members up to November 2015

Mr.K. A. Thilakarathne	-	Chairman
Mr Chandrasiri Seneviratne	-	Member
Dr. Namal Rathnayake	-	Member
Dr. Noroshan Gamage	-	Member

Board Integrated Risk Management Committee (BIRMC)

The BIRMC was established by the Board of Directors, in compliance with the Section 3 (6) of the Direction No. 11 of 2007, on 'Corporate Governance for Banks in Sri Lanka', issued by the Monetary Board of the Central Bank of Sri Lanka under powers vested in the Monetary Board, in terms of the Banking Act No. 30 of 1988. The composition and the scope of work of the Committee is in conformity with the provisions of the Section 3 (6) (v) of the aforesaid Direction.

Directors of the BIRMC

Director Mr.Phiroze Pestonjee	-	Chairman
Director Dr. Niroshan Gamage	-	Member
Director Mr. H.M. B. Senaratne	-	Member
Director Dr. Namal Rathnayake	-	Member

This committee comprises of 4 independent non- executive directors.

Risk Management

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

Internal Control

The Board of Directors has ensured the implementation of an effective and comprehensive system of internal controls in the Bank through the Audit Committee. The Directors Report on Internal Control appears on Pages 60 in this annual report.

Profit and Appropriations

The Total Income of the Bank for the year 2015 was Rs. 3,998.6 Mn.

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

	2014 Rs. 000	2015 Rs. 000
Gross Income	3,745,632	3,998,601
Interest Income	3,632,905	3,879,028
Interest Expenses	2,213,615	2,057,337
Net Interest Income	1,419,289	1,821,690
Other Income	112,728	119,664
Net Income	1,532,017	1,941,263
Less: Operating expenses	995,927	1,098,466
VAT & NBT	123,373	161,840
Operating Profit before Tax	412,717	680,957
Less: Provision for Taxation	139,653	271,183
Profit for the Year	273,065	409,774
Retained Profits	1,842,522	2,229,191
Profit available for appropriation	2,115,587	2,638,965
Appropriations	-	-
Deemed Dividend Tax	76,424	167,862
Payments to consolidated Fund	10,000	10,000
Transfers to Reserve Fund	10,211	11,697
Transfers to Investment Fund	312,174	-
Other Comprehensive Income	101,935	-
Balance carried forward	2,229,191	2,449,406

Deemed Dividend & Reserves

Deemed dividend tax for the year 2015 has been provided at 25 % on the net profit for the year after taxation in accordance with provisions of the Inland Revenue Act.

Reserves

Total reserves as at 31st December 2015 amounted to Rs. 3,373mn (2014- Rs. 3,128 million) movement of which are given on page 77 in the statement of Changes in Equity.

Directors' Report Contd...

Capital Expenditure

The details of Property, Plant, and Equipment and Motor Vehicles of the Bank are shown in Note 14 on page 95.

Market value of immovable properties.

SMIB did not own tangible immovable properties as at 31st December 2015.

Contributed Capital

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

Substantial Shareholding and Share Information

Government of Sri Lanka is the sole contributor of capital to the SMIB. Additional information is provided in Note 22 to the Financial Statements.

Payments to the Consolidated Fund

The payments made to the Consolidated Fund for the period of year 2006 to 2015 totaled to Rs. 311 million.

Statutory Payments

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

Taxation

Income tax for 2015 has been provided at 28 % on taxable income arising from the operations of the Bank.

Events Occurring after the Balance Sheet Date

No circumstance has arisen since the Balance Sheet date, which requires adjustments to, or disclosure in the financial statements.

Post Balance Sheet Events

There have been no material events occurring after the balance sheet date that require adjustments to or disclosures in the Financial Statements.

Going Concern

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

The Financial Statements of the Bank has been prepared on going concern basis in accordance with the Sri Lanka Accounting Standards (LKAS & SLFRS) laid down By the Institute of Chartered Accountants of Sri Lanka and in conformity with the generally accepted Accounting Principles. Reasonable and prudent judgments have been made where necessary when preparing the financial statements.

Compliance with Applicable Laws, Rules and Regulations

The Bank has at all times ensured that it is complied with the State Mortgage & Investment Bank Law No: 13 of 1975 and all other applicable laws, Rules and regulations.

Equitable Treatment to all Stakeholders

The Bank attaches importance to and respects every group of stakeholders equally.

Customers and Borrowers

One of the Bank's prime objectives is to provide housing Loan to the nation at an affordable cost. The Bank has taken special effort to carry out regular surveys in this regard.

Depositors and Suppliers

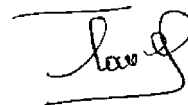
Depositors are the main fund providers of the Bank. Deposit rates are published and competitive. Capital and interest are paid on due dates. The Bank calls for quotations for supplying goods and services and ensure prompt payment.

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 2015 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, 2015 is given on page 72 of this Annual Report.

By order of the Board,



W. K. Perera
Secretary to the Board

Board Integrated Risk Management Committee Report

Composition of the Board Integrated Risk Management Committee

The Board Integrated Risk Management Committee was composed of three Non-Executive Directors and four members of the senior management during the year 2015. In the month of November 2015 the composition of the Board Integrated Risk Management Committee was changed due to the changes taken place in the Board of Directors of the bank.

The Committee, during the first three quarters of the year 2015 was composed of the following members:

Mr. Phiroze Pestonjee	- Independent Non-Executive Director - (Chairman to the committee)
Mr. H.M.B. Senaratna	- Independent Non-Executive Director
Dr. Niroshan Gamage	- Independent Non Executive Director
Ms.W.J.K.Geeganage	- Acting General Manger
Mr.R.P.U. Pathirana	- Acting Deputy General Manager-Credit
Mr.K.L.N.A.Perera	- Acting Assistant General Manager - Finance
Mrs.J.I.Senanyake	- Assistant General Manager - Risk Management (Secretary to the committee)

The Committee composition was changed as follows with effect from November 2015:

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

Charter of the BIRMC

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

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

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

- Assist the Board of Directors in understanding the risk management function adopted by the bank in operating the banking business and the adequacy of the same.
- Review bank's risk appetite.
- Review and approve bank's key risk policies on the establishment of risk limits and receive reports on bank's adherence to significant limits.

- Receive reports from, review with, and provide feedback to, Management on the categories of risk the bank faces, including credit, market, liquidity and operational risk, the exposures in each category, significant concentrations within those risk categories, the metrics used to monitor the exposures and Management's views on the acceptable and appropriate levels of those risk exposures.
- Review bank's credit, market, liquidity and operational risk management frameworks, including significant policies, processes and systems that management uses to manage risk exposures, as well as risk measurement methodologies and approaches to stress testing.
- 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.

BIRMC meetings

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

Name of the Director	No of Meetings Attended / (No of Meetings Held)
Mr. Phiroze Pestonjee	4/4
Mr. H.M.B. Senaratna	4/4
Dr. Niroshan Gamage	3/4

The attendance of the members after the change of the board is as follows.

Name of the Director	No of Meetings Attended / (No of Meetings Held)
Mr. Roshan Hettiaratchi	0/1
Dr. Niroshan Gamage	1/1
Mr. Rajitha N. Halwela	0/1
Mrs.L.U.N.Sumanasekara	1/1

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, with the recommendation of the BIRMC. Recommendations made by the BIRMC during the year under review were approved by the Board without any material change. Minutes of the BIRMC was reported to the board with required intensification for the information of the board.



Mr. Phiroze Pestonjee

Chairman-Board Integrated Risk Management Committee

31st December 2015

Board Audit Committee Report

Chairman's Overview 2015

Objective of the Board Audit Committee (BAC) is to ensure the transparency of the corporate governance practices in the Bank. Board Audit committee has perceived another competitive year, with its agenda shaped by both internal and external factors followed by the board approved TOR to assure the independent objective review of the financial, administration and operational activities of the bank and also comply with the guidance given in the Central Bank direction No.12 of 2007.

Composition of the Committee

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

Attendance

Member	Status of BAC	Committee member		Attendance of meeting during the year 2015
		since	to	
Mr. M.S.D. Ranasiri	Chairman	2015 January	2015 December	04
Mr. K.A. Thilakarathne	Member	2015 January	2015 July	01
Mr. Phiroze Pestonjee	Member	2015 January	2015 September	03
Dr. Niroshan Gamage	Member	2015 September	2015 December	02
Mr. Rajitha Halwela	Member	2015 December	2015 December	01

All members of the committee are independent non-executive directors and they are literate financial management and each having experiences in Legal, Accounting, Auditing and Finance fields.

Task & Responsibility of the Committee

Purpose of the BAC is to assist the Board of directors to carry out the financial, administration and operational affairs of the bank. A scope of the BAC includes,

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

Meetings

During the financial year ended December 2015, four meetings were held. Brief overview of the matters taken up at the meetings are listed below,

Branch Performance

Committee reviewed the progress of achievement in budgetary targets of the branches quarterly, committee has made special attention for the achievement of the anticipated targets and quality Books and record maintain by the Branches.

Financial Reporting

Reviewed financial statement in the annual report 2015 issued on February 2016, and formal announcement in the financial position as well as committee reviewed the external auditors report on the financial statement.

Regulatory Compliance

Quarterly review has been performed by the committee to ensure that financial and operational activities of the bank are conducted in line with all regulatory requirements.

Internal Control and Risk Assessment

Committee has reviewed the performance of the risk division to ensure that, Risk Division has time identifies risk faced by the bank.

Internal Audit Function

In response to the recommendation made by the committee, the board of directors has approved the Internal Audit Manual prepared by the Internal Audit Division.

Reviewed and recommended the risk based internal audit program for implementation of the year 2015.

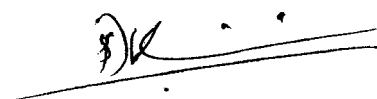
The committee has monitored and reviewed the management responses for the internal audit reports on financial, administration and operational activities of the bank. Committee also reviewed the effectiveness of the performance of internal audit division and monitors the adequacy of the internal audit assignments were carried out in line with the approved audit program.

External Audit Reports

The committee has reviewed the external audit concerns disclosed in the final audit reports and reviewed the adequacy of the corrective actions taken by the management to address the concerns of the external auditors.

System of Internal Controls

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



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

18th March 2016
Colombo

Directors' Responsibility for the Financial Reporting

This Statement by the Board of Directors is made especially to distinguish the respective responsibilities of the Directors and Auditors in relation to financial reporting.

The Directors confirm that the Financial Statements of the Bank gives a true and fair view of the financial position of the Bank as at December 31, 2015; and financial performance of the Bank for the financial year then ended.

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

Financial Statements

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

The Financial Statements for the year 2015 presented in this Annual Report are in conformity with the requirements of

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

The Directors acknowledge that in preparing the Financial Statements for the year 2015 presented in this Annual Report, the most appropriate accounting policies have been used and applied. Material departures, if any, have been disclosed and explained.

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

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

Going concern

The Directors are of the view that the Bank has adequate resources to continue in business for the foreseeable future. Accordingly, they have continued to adopt the going concern

basis in preparing the Financial Statements in accordance with the Sri Lanka Accounting Standards (LKAS & SLFRS) laid down by the Institute of Chartered Accountants of Sri Lanka and in conformity with the generally accepted Accounting Principles.

Internal controls, risk management and compliance

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

A report by the Directors on the Bank's internal control mechanism is given on pages 60 of this Annual Report.

Audit report

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

Directors' interests in contracts of significance

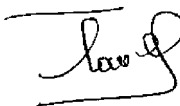
There wasn't any contract of significance to which the bank was a party and in which a director of the bank had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Statutory payments

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

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

By order of the Board



W. K. Perera
Secretary to the Board

Auditor General's Report



විගණකාධිපති දෙපාර්තමේන්තුව கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம் AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல
My No. } **BAF/G/SMIB/1/15/23**

ඔබේ අංකය
உமது இல
Your No. }

දිනය
திகதி
Date } **31 August 2016**

The Chairman,
State Mortgage and Investment Bank

Report of the Auditor General on the Financial Statements of the State Mortgage and Investment Bank for the year ended 31 December 2015 in terms of Section 14(2) (c) of the Finance Act, No.38 of 1971.

The audit of financial statements of the State Mortgage and Investment Bank for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of income, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Financial Act, No.38 of 1971 and Section 65(2) of the State Mortgage and Investment Bank Law, No.13 of 1975. My comments and observations which I consider should be published with the Annual Report of the Bank in terms of Section 14 (2) (c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7) (a) of the Financial Act was issued to the Chairman of the Bank on 13 June 2016.

1.2 Board's responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as Board determines in necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

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

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

Auditor General's Report Contd...

presentation of the financial statements. Sub-sections (3) and (4) of Section 13 of the Financial Act, No 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

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

1.4 Basis for Qualified Opinion

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

2. Financial Statements

2.1 Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the State Mortgage and Investment bank as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statement

2.2.1 Compliance with Sri Lanka Accounting Standards (LKAS)

Transactions aggregating Rs. 52,659,625 had been entered into key management personnel, and their close family members and entitles during the year under review. However, those transactions had not been disclosed in the financial statements as requested by LKAS 24.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Although the financial statements had been prepared in accordance with the Sri Lanka Accounting Standards (SLFRS and LKAS), the general ledger accounts had not been updated in order to reflect the balances shown in the financial statements.
- (b) Interest on Treasury loan of Rs. 250,000,000 aggregating Rs. 336,821,918 obtained at an interest rate of 9 per cent in 2001 and capital portion of such loan had not been remitted to the General Treasury even up to the end of the year under review.

However, interest on this loan aggregating Rs. 134,321,918 only had been provided in the accounts up to the end of the year 2006 and no provision for interest aggregating Rs. 202,500,000 had been made in the accounts for the rest of the period.

- (c) Customers' deposits aggregating Rs. 2,033,026 relating to the period from 01 July 2013 to 31 December 2014 deposited in Gampaha Branch had been omitted from the customers' accounts and this amount had been transferred to un-reconciled

control accounts maintained in Head Office treated as an unidentified amount.

- (d) There was an unusual debit balance of Rs. 17,716,837 in cheque on realization account as at 31 December 2015 due to an error in posting, thus the other debtors shown in the financial statements had been overstated by similar amount.
- (e) A balance of Rs. 3,060,627 in un-presented cheques account had been carried forward from long period without being cleared.
- (f) Even though the bank had reconciled the balances between the current account of the Branches and the Head Office as at 31 December 2015, the entries for Rs. 24,646,881 had not been made to adjust the relevant accounts.

2.2.3 Unexplained Differences

The following unexplained differences were observed in audit.

- (a) A difference of Rs. 50,395,286 which had been raised between the amount shown in the financial statements and the balances generated by the computerized systems with regard to the fixed deposits, savings accounts and loans against fixed deposits had been transferred to un-reconciled control account during the year 2015.
- (b) A difference of Rs. 13,318,499 was observed between the balances of refinance loans, mortgage loans, personal loans, estate sector EPF loans, EPF loans and un-appropriated accounts shown in the financial statements and balances generated by the computerized systems as at 31 December 2015.

2.2.4 Unidentified Balances

The following observations are made.

- (a) A debit balance of Rs. 7,552,584 and credit balance of Rs. 2,119,457 had been shown in the advance accounts without being identified and adjusted in the accounts for a long period of time.
- (b) Even though the bank had confirmed the rent advance account balance was Rs. 2,900,000 this balance had been shown in the financial statements as credit balance of Rs. 5,592,830 as at 31 December 2015
- (c) Other liabilities relating to encashment of Head Office cheques amounting to Rs. 2,391,827 had been remained in the accounts without being identified and reconciled for more than one year.
- (d) Unidentified debit amount of Rs. 856,431 shown in the financial statements as accrued advertising.
- (e) Unidentified debits and credits totaled Rs. 4,153,957 recorded in the bank accounts maintained in other banks had been transferred to un-reconciled control account without being identified them.

Auditor General's Report Contd...

2.2.5 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

The following instances of non-compliance were observed in audit

Reference to Laws, Rules, Regulations etc	Non- Compliance
(a) Financial Transactions Reporting Act, No.06 of 2006	Eleven "Know Your Customer" forms relating to Kurunegala Branch had not been duly completed.
(b) Financial Regulations of the Government of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 754	Even though the bank had purchased the fixed assets valued at Rs. 12,195,544 during the year under review, the movement of inventory had not properly updated. Hence, it was unable to obtain verified records of inventory as at the year end.
(ii) Treasury Circular No. IAI/2002/02 dated 28 November 2002	The Bank had not maintained a register for computer equipment and software.
(b) Internal Circulars	
(i) Letter dated 25 March 2014 Issued by the Chief Manager (Branch Operation)	The Branches had not maintained any Register in respect of Dormant Accounts.
(ii) Office Circular No. BROP/14/07/11 issued by the Chief Manager (Branch Operation)	Gift stock register, fixed deposit certificate stock register, pass books issuing register and fixed deposits refund register had not been properly maintained by some Branches.



H.M. Gamini Wijesinghe
Auditor General

Statement of Financial Position

As at 31st December 2015	Note	2015 Rs.	2014 Rs.
ASSETS			
Cash and Cash Equivalents	09	103,597,281	119,947,523
Placements with Banks & Financial Institutions	10	5,812,559,274	5,505,201,576
Loans and Receivables to Customers	11	26,523,405,054	24,037,620,498
Financial Investments - Available for Sale	12	437,742,900	24,219,078
Financial Investments - Held to Maturity	13	820,278,148	44,621,403
Property, Plant and Equipment	14	74,415,697	96,493,049
Deferred Tax Assets	15	90,767,196	86,813,541
Other Assets	16	368,810,345	385,993,293
Total Assets		34,231,575,897	30,300,909,960
Liabilities			
Due to Banks	17	7,196,235	21,779,984
Due to Customers	18	27,836,410,935	24,146,419,043
Other Borrowings	19	959,935,368	1,119,601,741
Employee Benefit Liability	20	323,422,610	307,549,249
Other Liabilities	21	841,487,652	687,873,177
Total Liabilities		29,968,452,800	26,283,223,194
Equity			
Stated Capital/Assigned Capital	22	889,812,899	889,812,899
Statutory Reserve Fund	23	203,052,939	191,356,249
Retained Earnings	24	2,449,406,437	2,229,190,619
Other Reserves	25	720,850,822	707,327,000
Total Equity		4,263,123,097	4,017,686,767
Total Equity and Liabilities		34,231,575,897	30,300,909,960
Contingent Liabilities and Commitments	26	-	-

Certification:

We, the undersigned being the Chairman, General Manager and Acting Assistant General Manager (Finance) of State Mortgage and Investment Bank certify jointly that,


- (a) the above Statements have been prepared in compliance with the format and definitions prescribed by the Central Bank of Sri Lanka.
- (b) the information contained in these statements have been extracted from the Audited Financial Statements of the Bank. The Board of Directors are responsible for the preparation and presentation of these Financial Statements. These Audited Financial Statements were approved by the Board of Directors and signed on their behalf.



K.K. Thissa Jinadasa
Chairman



W.M. Dayasinghe
General Manager



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

Income Statement

For the year ended 31st December 2015		2015 Rs.	2014 Rs.
	Note		
Interest Income		3,879,027,722	3,632,904,504
Interest Expenses		(2,057,337,280)	(2,213,615,266)
Net Interest Income	1	1,821,690,442	1,419,289,237
Fee and Commission Income		107,454,869	102,889,786
Fee and Commission Expenses		-	-
Net Fee and Commission Income	2	107,454,869	102,889,786
Other Operating Income (net)	3	12,118,342	9,838,201
Total Operating Income		1,941,263,653	1,532,017,225
Impairment Charge for Loans and Other Losses	4	(106,577,177)	(33,264,417)
Net Operating Income		1,834,686,476	1,498,752,808
Personnel Expenses	5	(698,834,195)	(574,788,139)
Other Expenses	6	(293,054,823)	(387,874,191)
Operating Profit/(Loss) before Value Added Tax (VAT)		842,797,458	536,090,478
Value Added Tax (VAT) on Financial Services		(136,941,699)	(105,748,422)
NBT on Financial Services		(24,898,491)	(17,624,737)
Profit/(Loss) before Tax		680,957,269	412,717,319
Tax Expenses	7	(271,182,868)	(139,652,509)
Profit/(Loss) for the Year		409,774,401	273,064,810

Statement of Comprehensive Income

For the year ended 31st December 2015		2015 Rs.	2014 Rs.
	Note		
Profit/(Loss) for the Year		409,774,401	273,064,810
Other Comprehensive Income, net of Tax			
Gains and Losses on Re-Measuring Available-for-Sale Financial Assets		13,523,822	2,795,000
Actuarial Gains/(Losses) on Defined Benefit Plans (+/-)		-	(101,935,176)
Total Comprehensive Income for the Year		423,298,223	173,924,634

Statement of Changes in Equity

For the year ended 31st December 2015

	Contributed Capital	Statutory Reserve	Capital Reserve	General Reserve	Title Indem- nity Fund	Investment Fund	Retained Earnings	AFS Reserve	Total
Balance as at 31.12.2013	889,812,899	181,145,695	9,176,000	683,280,000	1,031,000	312,173,691	1,842,521,667	11,045,000	3,930,185,953
Net Profit for the Year							273,064,810		273,064,810
Deemed Dividend Tax							(76,423,819)		(76,423,819)
Other Comprehensive Income							(101,935,176)	2,795,000	(99,140,176)
Transfer During the Year		10,210,554					(10,210,554)		-
Transfer to Investment Fund						(312,173,691)	312,173,691		-
Transfer to Consolidated Fund							(10,000,000)		(10,000,000)
Balance as at 31.12.2014	889,812,899	191,356,249	9,176,000	683,280,000	1,031,000	-	2,229,190,619	13,840,000	4,017,686,767
Net Profit for the Year							409,774,401		409,774,401
Deemed Dividend Tax							(167,861,893)		(167,861,893)
Other Comprehensive Income							-	13,523,822	13,523,822
Transfer During the Year		11,696,690					(11,696,690)		-
Transfer to Investment Fund						-	-		-
Transfer to Consolidated Fund							(10,000,000)		(10,000,000)
Balance as at 31.12.2015	889,812,899	203,052,939	9,176,000	683,280,000	1,031,000	-	2,449,406,437	27,363,822	4,263,123,097

Statement of Cash Flows

For the year ended 31st December 2015	2015 Rs.	2014 Rs.
Cash Flows from Operating Activities		
Interest Received	3,450,961,086	3,150,826,860
Interest Payments	(2,057,337,280)	(2,213,615,266)
Payments to Employees and Suppliers	(698,834,195)	(574,788,139)
Receipts from Other Operating Activities	119,573,211	112,727,987
Payments on Other Operating Activities	(293,054,823)	(387,874,191)
Operating Profit before Changes in Operating Assets	521,307,999	87,277,251
(Increase)/Decrease in Operating Assets:		
Funds Advanced to Customers (net)	(2,592,361,733)	(2,885,224,211)
Other Short-Term Securities	(1,541,159,669)	(449,606,256)
	(4,133,521,403)	(3,334,830,467)
Increase /(Decrease) in Operating Liabilities:		
Deposits from Customers (net)	3,689,991,892	2,945,428,281
Others	(80,085,100)	(112,705,277)
	3,609,906,792	2,832,723,004
Net Cash from Operating Activities before Income Tax	(2,306,611)	(414,830,212)
Income Tax & Deemed Divident Tax Paid	(336,246,110)	(153,604,527)
Net Cash from Operating Activities	(338,552,721)	(568,434,739)
Cash Flows from Investing Activities		
Dividends Received	5,518,500	3,741,500
Proceeds from Sales of Property, Plant & Equipment	-	2,897,000
Purchase of Property, Plant & Equipment	(12,312,639)	(50,249,352)
Interest Received from Deposits with Other Banks	335,945,067	425,994,526
Interest Received from Government Securities	92,121,569	56,083,117
Net Cash from Investing Activities	421,272,497	438,466,792
Cash Flows from Financing Activities		
Repayment of Debentures	-	-
Repayment of Loans	(74,486,268)	(66,031,487)
Proceeds from Borrowings	-	284,740,000
Payment to the Consolidated Fund	(10,000,000)	(10,000,000)
Net Cash from Financing Activities	(84,486,268)	208,708,513
Net Increase in Cash and Cash Equivalents	(1,766,492)	78,740,565
Cash and Cash Equivalents at the Beginning of the Year	98,167,539	19,426,973
Cash and Cash Equivalents at End of the Year	96,401,047	98,167,539
Reconciliation of Cash and Cash Equivalents		
Cash and Short Term Funds	103,597,281	119,947,523
Borrowings from Banks	(7,196,235)	(21,779,984)
	96,401,047	98,167,539

Accounting Policies

1. Corporate Information

1.1 General

State Mortgage & Investment Bank was incorporated as the Ceylon State Mortgage Bank on 6th December 1931. The Bank was established by the State Mortgage & Investment Bank Law No 13 of 1975, amalgamating the Ceylon State Mortgage and Agriculture and Industrial and Credit Corporation established in 1943.

1.2 Principal Activities and Nature of Operations

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

1.3 Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements as per the provisions of the Companies Act No.07 of 2007 and the Sri Lanka Accounting Standards (SLFRS).

1.5 Date of Authorization

The Audited Financial Statements of State Mortgage & Investment Bank for the year ended 31st December 2015 were authorized for issue in accordance with a resolution of the Board of Directors on 31.05.2016.

The staff strength of the Bank as at December 31, 2015 was 392 (407 as at December 31, 2014).

2. Summary of Significant Accounting Policies

2.1. Basis of Preparation

These Financial Statements for the year ended 31 December 2015 were prepared in accordance with Sri Lanka Financial Reporting Standards (SLFRS).

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

2.1.1. Statement of compliance

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

2.1.2. Presentation of Financial Statements

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

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right

to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

2.2. Significant accounting Judgments, Estimates and Assumptions

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

2.2.1. Judgements

Taxation

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

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

2.2.2. Estimates and Assumptions

Going concern

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

Fair value of financial instruments

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

Accounting Policies Contd...

Impairment losses on loans and advances

Individually assessed Loans and Advances

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

Impairment of Available For Sale Investments

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

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

Deferred Tax Assets

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

Employee Benefit Liability- Gratuity

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

	2015	2014
Rate of Interest	9.00%	9%
Rate of Salary Increase	8.50%	8.50%
Retirement Age	55-60 years	55-60 years

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

Employee Benefit Liability - Medical Benefit

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

The assumptions used are as follows.

	2015	2014
Discount Rate	9.00%	9.00%
Medical Inflation	10.00%	10.00%
Participant Data (Actives) census information at	31.12.2015	31.12.2014

Description of employee benefits is given in Note 20.

2.3. Summary of Significant Accounting Policies

2.3.1. Financial Instruments - Initial Recognition and Subsequent Measurement

a. Date of Recognition

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

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

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

b. Initial Measurement of Financial Instruments

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

c. Available for Sale Financial Instruments

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

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

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

Accounting Policies Contd...

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

d. Held to Maturity Financial Investments

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

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

e. Other Financial Liabilities

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

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

f. Financial Assets classified as Loans and Receivables

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

- Those that the bank intends to sell immediately or in the near term and those that the bank, upon initial

recognition, designates as at fair value through profit or loss

- Those that the bank, upon initial recognition, designates as available for sale
- Those for which the bank may not recover substantially all of its initial investment, other than because of credit deterioration

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

g. Day 1 Difference for staff loan

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

h. Reclassification of financial assets

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

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

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

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

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2.3.2. De-Recognition of Financial Assets and Financial Liabilities

a) Financial assets

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

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

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

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

b) Financial Liabilities

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

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

2.3.3. Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with

a corresponding obligation to return it, including accrued interest as a liability within 'Due to Banks', reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR.

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

2.3.4. Determination of Fair Value

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

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

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

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

2.3.5. Impairment of Financial Assets

a) Loans and Advances

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

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter Bankruptcy or other financial reorganisation;

Accounting Policies Contd...

default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

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

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

Collectively assessed loans and advances

Impairment is assessed on a collective basis in two circumstances:

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

Incurred but not yet identified impairment

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

basis for impairment.

The collective impairment allowance is determined after taking into account:

- Historical loss experience in portfolios of similar credit risk; and
- Management's experienced judgment as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience.

Homogeneous groups of loans and advances

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

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

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

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

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

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

These additional macro and portfolio risk factors may include:

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

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

b) Financial Assets Carried at Amortised Cost

For financial assets carried at amortised cost (such as amounts due from Banks and loans and advances to customers), the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively

Accounting Policies Contd...

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

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

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

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

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

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

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes

in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

c) Available for Sale Financial Investments

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

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

d) Renegotiated Loans

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

e) Collateral Valuation

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

2.3.6. Offsetting Financial Instruments

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

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presented gross in the Statement of financial position.

2.3.7. Leasing

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

2.3.8. Recognition of income and expenses

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

a) Interest and Similar Income and Expense

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

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

b) Fee and commission income

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

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

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

Fee Income from Providing Transaction Services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other

securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

c) Dividend income

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

d) Net trading income

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

e) Other Income

Other income is recognized on an accrual basis.

f) Other Expenses

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

2.3.9. Cash and cash equivalents

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

2.3.10. Property, Plant and equipment

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

a) Cost Model

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

b) Subsequent Cost

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

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c) Restoration Cost

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

d) Capital Work-in-Progress

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

e) Depreciation

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

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

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

f) De-recognition

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

2.3.11. Intangible Assets

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

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

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation

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

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

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

2.3.12. Impairment of Non-Financial Assets

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

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

2.3.13. Financial Guarantees

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

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

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2.3.14. Retirement Benefit Obligation

a) Gratuity

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

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

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

Recognition of Actuarial Losses / Gains

Actuarial losses / gains are recognized in profit or loss.

Expected Return on Assets

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

Interest Cost

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

Funding Arrangements

The Gratuity liability is not externally funded.

b) Defined contribution plan

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

The Bank contributes to the following schemes:

Employees' Provident Fund

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

Employees' Trust Fund

The Bank contributes 3% of the employee's monthly gross salary excluding overtime to the Employees' Trust Fund maintained by the Employees Trust Fund

Board. The employees will be eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983.

c) Medical Benefit

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

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

Normal and Early Retirement

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

Recognition of Actuarial Losses / Gains

Actuarial losses / gains are recognized in profit or loss.

Expected Return on Assets

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

Interest Cost

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

Funding Arrangements

The Medical Benefit Scheme is not externally funded

2.3.15. Provisions

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

2.3.16. Taxes

a) Current Taxation

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

Accounting Policies Contd...

are enacted or subsequently enacted by the Balance Sheet date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 10 of 2006 and the amendment thereto, at the rates specified in Note 08 to the Financial Statements.

b) Deferred Taxation

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

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

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

- Where deferred tax assets relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor the taxable profit or losses; and
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognized only to the extent it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which temporary differences can be utilised

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

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the

assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at the Balance Sheet date.

c) Value Added Tax on Financial Services (VAT)

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

2.3.17. Events after the Balance Sheet Date

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

2.3.18. Related Party Transactions with Government and Government Related Entities

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

2.3.19. Standards Issued but not yet Effective

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

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

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

(ii) SLFRS 13 -Fair Value Measurement SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 provides guidance on all fair value measurements under SLFRS. SLFRS 9 and SLFRS 13 will be effective for financial periods beginning on or after 01 January 2015 and 2014 respectively.

Notes to the Financial Statements

1. Net Interest Income

	2015 Rs.	2014 Rs.
Interest Income		
Sri Lanka Government Securities	92,121,569	56,083,117
Loans and Advances	3,450,961,086	3,150,826,860
Financial Investments	335,945,067	425,994,526
Total Interest Income	3,879,027,722	3,632,904,504
Interest Expenses		
Due to Banks	65,251	297,545
Due to Customers	2,030,898,351	2,189,399,127
Other Borrowings	21,625,048	19,043,593
Debt Securities Issued	4,748,630	4,875,000
Total Interest Expenses	2,057,337,280	2,213,615,266
Net Interest Income	1,821,690,442	1,419,289,237

a. Net Income from Sri Lanka Government Securities

	2015 Rs.	2014 Rs.
Interest Income	92,121,569	56,371,867
(Less): Interest Expenses	-	(288,750)
Net Interest Income	92,121,569	56,083,117

2. Net Fee and Commission Income

	2015 Rs.	2014 Rs.
Fee and Commission Income	107,454,869	102,889,786
Fee and Commission Expenses	-	-
Net Fee and Commission Income	107,454,869	102,889,786
Comprising		
Bank Service Charges	98,729,444	94,443,484
Legal & Technical Fees	2,238,696	1,972,172
Other Loan Charges	6,486,729	6,474,130
Net Fee and Commission Income	107,454,869	102,889,786

3. Other Operating Income (net)

	2015 Rs.	2014 Rs.
Dividend Income	7,454,500	5,241,500
Sundry Income	4,663,842	4,596,701
Other Operating Income (net)	12,118,342	9,838,201

4. Impairment Charges/ (Reversal) for Loans and Other Losses

	2015 Rs.	2014 Rs.
Individual Impairment	2,940,053	6,449,755
Collective Impairment	103,637,124	26,814,661
Total	106,577,177	33,264,417

Notes to the Financial Statements Contd...

5. Personnel Expenses	2015 Rs.	2014 Rs.
Salaries and Bonus	441,092,582	359,730,722
Contribution to Defined Contribution Plans	65,894,250	60,908,406
Contribution to Defined Benefit Plans	68,516,365	53,528,999
Other Staff Expenses	123,330,998	100,620,012
Total	698,834,195	574,788,139

6. Other Expenses	2015 Rs.	2014 Rs.
Directors' Emoluments	1,893,162	3,315,873
Auditors' Remuneration	2,482,798	1,106,920
Professional and Legal Expenses	1,912,214	2,544,692
Depreciation/Amortisation of Property, Plant and Equipment	34,389,992	38,351,500
Office Administration and Establishment Expenses	142,879,340	136,131,141
Advertising and Promotional Expenses	18,602,502	105,041,136
Motor Vehicle Maintenance & Travelling	6,233,490	8,129,951
General Expense	11,337,151	13,963,488
District Rep's Commission	79,563	46,000
Other Losses, Bad Debts and Write Offs	707,077	9,833,480
CBSL Deposit Insurance	23,256,935	20,373,790
Other Expenses	49,280,598	49,036,219
Total	293,054,823	387,874,191

7. Tax Expenses	2015 Rs.	2014 Rs.
Current Tax Expense	275,136,523	171,186,190
Current Year		
Deferred Tax Expense/(Credit)	(3,953,655)	(31,533,681)
Total	271,182,868	139,652,509

a. Reconciliation of Tax Expenses

Profit/(Loss) before Tax	842,797,458	536,090,478
Adjustment in Respect of Current Income Tax of Prior Periods		
Add: Tax Effect of Expenses that are not Deductible for Tax Purposes	195,729,127	129,711,148
(Less): Tax Effect of Expenses that are Deductible for Tax Purposes	(48,441,645)	(46,265,049)
Disposal of Assets	-	(2,915,828)
Dividends	(7,454,500)	(5,241,500)
Adjusted Profits for the Year	982,630,440	611,379,249
Taxation Based on Profit for the Year	275,136,523	171,186,190
Transfer to/from Deffered Taxation	(3,953,655)	(31,533,681)
(Over)/Under Provision in Previous years	-	-
Tax Expense for the Period	271,182,868	139,652,509

b. The Deferred Tax (Credit)/Charge in the Income Statement Comprise of the Following.

Deferred Tax Assets		
Property, Plant & Equipment	(208,865)	(699,751)
Employee Benefit Obligations	(90,558,331)	(86,113,790)
Deferred Tax (Credit)/Charge to Income Statement	(90,767,196)	(86,813,541)

Notes to the Financial Statements Contd...

8. Analysis of Financial Instruments by Measurement Basis

Bank - Current Year (2015)

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

Held-to-Maturity - HTM

Available-for-Sale – AFS

Loans and Receivables/Deposits at Amortised Cost - Amortised Cost

Notes to the Financial Statements Contd...

8. Analysis of Financial Instruments by Measurement Basis

Bank - Previous Year (2014)

In Rs.	HTM	Loans & Receivables	AFS	Total
ASSETS				
Cash and Balances with Central Banks		119,947,523		119,947,523
Sri Lanka Government Securities	44,621,403			44,621,403
Balances with Banks				-
Investment Securities			5,379,078	5,379,078
Placement with and Loans to Other Banks & Financial Institutions				-
Commercial Papers		532,089,857		532,089,857
Trust Certificates		-		-
Treasury Bills Held Under Resale Agreement		1,238,583,813		1,238,583,813
Fixed Deposits		3,734,527,906		3,734,527,906
Debentures				-
Loans and Receivables to Other Customers		24,037,620,498		24,037,620,498
Financial Investments - Pyramid Trust			18,840,000	18,840,000
Other Assets -Prepaid Staff Loans		200,766,937		200,766,937
Total financial assets	44,621,403	29,863,536,533	24,219,078	29,932,377,014
LIABILITIES				
Due to Banks		21,779,984		21,779,984
Due to Customers				-
Deposits		17,406,860,430		17,406,860,430
Institutional Deposits		5,771,714,101		5,771,714,101
Scheme Deposits		967,844,512		967,844,512
Debt Securities Issued		195,307,192		195,307,192
Other Borrowings		-		-
Government of Sri Lanka		384,321,918		384,321,918
AHF		46,121,559		46,121,559
USAID		-		-
Refinance Borrowing		493,851,073		493,851,073
Other Liabilities		384,797,789		384,797,789
Total Financial Liabilities	-	25,672,598,557	-	25,672,598,557

9. Cash and Cash Equivalents

	2015 Rs.	2014 Rs.
Cash and Balances with banks	103,597,281	119,947,523
Total	103,597,281	119,947,523

10. Placements with Banks & Financial Institution

	2015 Rs.	2014 Rs.
Commercial Paper	466,025,740	532,089,857
Treasury Bills Held under Resale Agreement	611,335,421	1,238,583,813
Debentures	65,889,590	-
Trust Certificates	-	-
Fixed Deposits	4,669,308,523	3,734,527,906
Total	5,812,559,274	5,505,201,576

Notes to the Financial Statements Contd...

11. Loans and Receivables to Customers

	2015 Rs.	2014 Rs.
Gross Loans and Receivables	26,854,923,131	24,262,561,397
Individual Impairment	(9,389,808)	(6,449,755)
Collective Impairment	(322,128,268)	(218,491,144)
Net Loans and Receivables	26,523,405,054	24,037,620,498

a. Analysis

	2015 Rs.	2014 Rs.
By product		
Mortgage	8,213,025,862	7,813,511,885
EPF	12,051,365,374	12,131,065,228
Vehicle	54,681,830	80,256,324
Staff loans	740,215,941	553,487,008
Personal Loans	4,606,068,478	2,269,143,427
Others	1,189,565,645	1,415,097,526
Gross Total	26,854,923,131	24,262,561,397
By industry		
Construction of Houses	9,036,081,246	8,841,397,080
Home Improvements	8,263,852,682	8,067,283,598
Purchase of Building Sites	111,933,435	109,262,194
Purchase of Houses	3,045,112,124	2,972,441,897
Agriculture	602,309,521	587,935,676
Personal loans	4,606,068,478	2,269,143,427
Other	1,189,565,645	1,415,097,526
Gross Total	26,854,923,131	24,262,561,397
By Security		
Collateral held as Security	21,059,289,008	20,578,320,445
Other Credit Enhancements	5,795,634,123	3,684,240,952
	26,854,923,131	24,262,561,397

b. Movements in Individual and Collective Impairment

	2015 Rs.	2014 Rs.
Individual Impairment		
Opening Balance as at 1st January	6,449,755	-
Charge/(Write back) to income statement	2,940,053	6,449,755
Closing Balance on 31st December	9,389,808	6,449,755
Collective Impairment		
Opening Balance as at 1st January	218,491,144	191,676,483
Charge/(Write Back) to Income Statement	103,637,124	26,814,661
Closing Balance on 31st December	322,128,268	218,491,144
Total	331,518,077	224,940,900

Notes to the Financial Statements Contd...

12. Financial Investments-Available-for-Sale (Excluding Sri Lanka Government Securities)

	2015 Rs.	2014 Rs.
Equity Securities- Unit Trust	432,363,822	18,840,000
Unquoted Shares	5,379,078	5,379,078
(Less): Impairment Charges		
Net Available-for-sale Investments	437,742,900	24,219,078

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

13. Financial Investments-Held to Maturity

	2015 Rs.	2014 Rs.
Debt Securities - Treasury Bills	820,278,148	44,621,403
(Less): Impairment Charges	-	-
Net Held to Maturity Investments	820,278,148	44,621,403

Notes to the Financial Statements Contd...

14. Property, Plant and Equipment

In Rs.	Vehicles	Furniture and Equipment	Total
2015 (Current Year)			
Cost/Fair Value			
Opening Balance as at 01/01/2015	70,903,939	178,167,731	249,071,670
Additions	-	12,312,640	12,312,640
Disposals	-	-	-
Adjustments	-	-	-
Closing Balance as at 31/12/2015	70,903,939	190,480,371	261,384,310
(Less): Accumulated Depreciation			
Opening Balance as at 01/01/2015	45,264,950	107,313,671	152,578,621
Charge for the Year	13,287,739	21,102,253	34,389,992
Additions	-	-	-
Disposals	-	-	-
Adjustments	-	-	-
Closing Balance as at 31/12/2015	58,552,689	128,415,925	186,968,613
(Less): Impairment Charges			
Net Book Value as at 31/12/2015	12,351,251	62,064,447	74,415,697
2014 (Previous Year)			
Cost/Fair Value			
Opening Balance as at 01/01/2014	62,573,739	126,404,146	180,870,385
Additions	16,437,700	51,763,586	68,201,286
Disposals	(8,107,500)	-	-
Adjustments	-	-	-
Closing Balance as at 31/12/2014	70,903,939	178,167,731	249,071,670
(Less): Accumulated Depreciation			
Opening Balance as at 01/01/2014	36,455,962	85,878,659	114,227,121
Charge for the Year	16,916,489	21,435,012	38,351,500
Additions	-	-	-
Disposals	(8,107,500)	-	-
Adjustments	-	-	-
Closing Balance as at 31/12/2014	45,264,950	107,313,671	152,578,621
(Less): Impairment Charges			
Net Book Value as at 31/12/2014	25,638,989	70,854,060	96,493,049

Notes to the Financial Statements Contd...

15. Deferred Tax Assets/(Liabilities)	Statement of Financial Position		Income Statement	
	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
Property, Plant & Equipment	208,865	699,751	(490,886)	(1,441,745)
Employee Benefit Obligations	90,558,331	86,113,790	4,444,541	32,975,426
Net Total	90,767,196	86,813,541	3,953,655	31,533,681

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

16. Other Assets

	2015 Rs.	2014 Rs.
Cost		
Stationary Stock	10,197,536	12,798,675
Deposits and Prepayments	20,720,918	29,619,213
Prepaid Staff Loans	260,732,940	200,766,937
Others	77,158,950	142,808,468
Total	368,810,345	385,993,293

17. Due to Banks

	2015 Rs.	2014 Rs.
Bank Overdraft	7,196,235	21,779,984
Total	7,196,235	21,779,984

18. Due to Customers

	2015 Rs.	2014 Rs.
Total Amount Due to Customers	27,836,410,935	24,146,419,043
Total	27,836,410,935	24,146,419,043
Analysis By Product		
Deposits	17,969,933,892	17,406,860,430
Institutional Deposits	8,862,849,956	5,771,714,101
Scheme Deposits	1,003,627,087	967,844,512
Total	27,836,410,935	24,146,419,043

19. Other Borrowings

	2015 Rs.	2014 Rs.
Debentures	110,180,822	195,307,192
Government of Sri Lanka	384,321,918	384,321,918
AHF	37,615,411	46,121,559
USAID	-	-
Affordable Housing Finance(CBSL Refinance)	427,817,217	493,851,073
Total	959,935,368	1,119,601,741

Notes to the Financial Statements Contd...

20. Employee Benefit

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

The actuarial valuation involves making assumptions about discount rate, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. As all the assumptions are remain as same at the previous reporting date, the employee benefit obligation as at 31st December 2015 is calculated based on the actuarial valuation report as of 31st December 2014, carried out by Messrs Piyal S. Goonatilleke and Associates as per the instructions and formulars given by them.

The key assumptions used by the actuary include the following:

	2015 Rs.	2014 Rs.
Rate of Interest	9.00%	9.00%
Rate of Salary Increase	8.50%	8.50%
Retirement Age	55-60 years	55-60 years

Gratuity	2015 Rs.	2014 Rs.
Provision for Gratuity		
Balance at the Beginning of the Year	161,999,599	135,154,730
Current Service Cost	7,589,309	6,962,669
Interest Cost	15,263,002	15,191,216
Benefit Paid	(21,111,131)	(15,773,568)
Acturial (Gains)/Losses	-	20,464,552
Total	163,740,779	161,999,599

Medical	2015 Rs.	2014 Rs.
Provision for Medical Benefit		
Balance at the Beginning of the Year	145,549,650	54,625,142
Current Service Cost	3,567,897	3,273,300
Interest Cost	13,420,579	8,820,675
Acturial (Gain)/Losses	-	81,470,624
Benefit Paid	(2,856,295)	(2,640,091)
Total	159,681,831	145,549,650
Total Employee Benefit Liability	323,422,610	307,549,249

21. Other Liabilities

	2015 Rs.	2014 Rs.
Income Tax & Deemed Dividend Tax	218,325,879	44,621,357
NSL,WHT & PAYE Payable	5,452,633	3,198,450
VAT,NBT & Debit Tax	(12,418,570)	67,806
Accrued Expenditure	46,060,258	54,420,837
Others	323,334,512	384,797,790
Allowance for Day 1 Difference - Staff Loans	260,732,940	200,766,937
Total	841,487,652	687,873,177

Notes to the Financial Statements Contd...

22. Stated Capital/Assigned Capital

	2015 Rs.	2014 Rs.
Authorised Capital	2,000,000,000	2,000,000,000
Contributed Capital	889,812,899	889,812,899

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

The Government after the appointment date of 1st January 1979 made a contribution to the capital of the Bank so that the amounts of such contribution together with the amounts referred to the above paragraph amounted to RS.889,812,899 as at 31st December 2015.

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

23. Statutory Reserve Fund

	2015 Rs.	2014 Rs.
Opening Balance as at 01st January	191,356,249	181,145,695
Transfer During the Period	11,696,690	10,210,554
Closing Balance as at 31st December	203,052,939	191,356,249

24. Retained Earnings

	2015 Rs.	2014 Rs.
Opening Balance as at 01st January	2,229,190,619	1,842,521,667
Profit for the Year	409,774,401	273,064,810
Transfers to Other Reserves	(21,696,690)	291,963,137
Other Comprehensive Income	-	(101,935,176)
Deemed Dividend Tax	(167,861,893)	(76,423,819)
Closing Balance as at 31st December	2,449,406,437	2,229,190,619

Notes to the Financial Statements Contd...

25. Other Reserves

a. Bank - Current year (2015)

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

b. Bank - Previous year (2014)

	Opening balance at 01/01/2014	Movements/ transfers	Closing Balance at 31/12/2014
General reserve	683,280,000	-	683,280,000
Capital Reserve	9,176,000	-	9,176,000
Title Indemnity Fund	1,031,000	-	1,031,000
Investment Fund	312,173,691	(312,173,691)	-
AFS Reserve	11,045,000	2,795,000	13,840,000
Total	1,016,705,691	(309,378,691)	707,327,000

Investment Fund Account is established and operated based on the Guidelines on the Operations of the Investment Fund Account issued by the Central Bank of Sri Lanka on 29 April 2011 with the concurrence of the Commissioner - General of Inland Revenue.

26. Contingent Liabilities and Commitments

	2015 Rs.	2014 Rs.
Guarantees Issued	-	-
Other Commitments	-	-
Total	-	-

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

27. Transactions with Key Management Personnel (KMPs)

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

27.1 (A) Compensation to Key Management Personnel

	2015 Rs.	2014 Rs.
Short - Term Employment Benefits	41,158,507	37,038,410
Post - Employment Benefits	10,745,609	7,434,119
Total	51,904,116	44,472,529

Notes to the Financial Statements Contd...

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

	2015 Rs.	2014 Rs.
Income Statement		
Interest Earned	4,365,358	3,872,673
Interest Paid	915,182	1,042,251
Payment made as shown in 27.1 (A)	51,904,116	44,472,529
Statement of Financial Position		
Assets		
Loans and Advances	51,416,021	61,157,829
Liabilities		
Deposits	21,424,073	16,196,479

28. Fair Value of Financial Instruments**Financial Instruments Recorded at Fair Value**

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

Financial Investments – Available For sale

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

28.1 Determination of Fair Value and Fair Value Hierarchy

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

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

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

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

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

31st December 2015	Level 1 Rs	Level 2 Rs	Level 3 Rs	Total Rs
Financial Assets				
Financial Investments available for Sale				
Quoted investments - Unit Trust	432,363,822	-	-	432,363,822
Total Financial Assets	432,363,822	-	-	432,363,822
Financial Liabilities				
Total Financial Liabilities	-	-	-	-

Notes to the Financial Statements Contd...

Determination of fair value and fair value hierarchy - continued

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

	2015 Carrying amount Rs.	Fair Value Rs.
Assets		
Cash and cash equivalents	103,597,281	103,597,281
Placements with banks	5,812,559,274	5,812,559,274
Loans and receivables to customers	26,523,405,054	26,523,405,054
Financial investments – Available-for-Sale	5,379,078	5,379,078
Financial investments – Held-to-maturity	820,278,148	820,278,148
Other assets	260,732,940	260,732,940
Total Financial Assets	33,525,951,776	33,525,951,776
Liabilities		
Due to banks	7,196,235	7,196,235
Due to customers	27,836,410,935	27,836,410,935
Other borrowings	959,935,368	959,935,368
Other liabilities	323,334,512	323,334,512
Total Financial Liabilities	29,126,877,049	29,126,877,049

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

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

Assets for which Fair Value Approximates Carrying Value

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

Fixed Rate Financial Instruments

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

Notes to the Financial Statements Contd...

29. RISK MANAGEMENT

29.1 Introduction and Overview

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

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

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

Risk Management Structure

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

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

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

29.2 Credit risk

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

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

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

Impairment Assessment

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

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

Individually Assessed Allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis, including any overdue payments of interests, credit rating downgrades, or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its

Notes to the Financial Statements Contd...

ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

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

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

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

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

The loans are impaired using risk migration method.

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows

The Bank obtains mortgages over residential properties for lending.

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

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.

Notes to the Financial Statements Contd...

Industry analysis

As at 31.12.2015	Financial Services Rs. million	Government Rs. million	Construction and Housing Rs. million	Consumers Rs. million	Agriculture Rs. million	Other Rs. million	Total Rs. million
Financial Assets							
Cash and cash equivalents	103,597,281						103,597,281
Placement with other banks	5,812,559,274						5,812,559,274
Loans and receivables to customers							
Mortgage			7,629,899,078		602,309,521		8,232,208,599
EPF			12,032,824,220				12,032,824,220
Vehicle				54,681,830			54,681,830
Staff loans			740,234,137				740,234,137
Personal Loans				4,606,368,478			4,606,368,478
Others						1,188,605,867	1,188,605,867
Impairment Charge							-
Net Loans and Advances							-
Financial investments – Available-for-sale	437,742,900	820,278,148					437,742,900
Financial investments – Held-to-maturity							820,278,148
	6,353,899,456	820,278,148	20,402,957,435	4,661,050,308	602,309,521	1,188,605,867	34,029,100,735

29.3 Liquidity Risk and Funding Management

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

Liquidity Ratios

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

	2015	2014
Liquid Asset Ratio (%)		
Year - End	23.64	22.79
Maximum	24.36	29.32
Minimum	20.14	15.69
Average	22.33	23.61

Refer to the note on Risk Management in Page 20.

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

Notes to the Financial Statements Contd...

Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarises the maturity profile of the undiscounted cash flows of the bank's financial assets and liabilities as at 31 December 2015.

Contractual maturities of undiscounted cash flows of financial assets and liabilities

The table below summarises the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 2015.

As at 31 December 2015

	Less than 7 days	7-30 days	1-3 months	3-6 months	6-12 months	1-3 years	3-5 years	Over 5 years	Unclassified	Total
Cash	103,597,281	-	-	-	-	-	-	-	-	103,597,281
Due from Banks	-	-	301,528,767	689,411,876	2,537,334,062	1,141,033,817	-	-	-	4,669,308,523
Investment Currents	292,016,334	158,817,388	160,681,799	149,319,761	453,053,050	466,025,740	-	721,357,728	-	2,401,271,801
Investment Non performing	-	-	-	-	-	-	-	-	-	-
Loan & Advances Current	-	264,529,219	481,870,666	604,277,202	1,198,336,524	4,592,995,631	3,804,662,228	7,220,933,554	-	18,167,605,025
Loan & Advances NPL	-	-	-	-	-	-	-	-	8,355,800,029	8,355,800,029
Fixed Assets	-	-	-	-	-	-	-	-	74,415,697	74,415,697
Other Assets	10,147,629	20,959,834	22,866,924	14,502,912	16,125,703	2,298,261	2,399,945	370,276,334	-	459,577,541
Total Assets	405,761,243	444,306,441	966,948,156	1,457,511,751	4,204,849,339	6,202,353,449	3,807,062,174	8,312,567,616	8,430,215,726	34,231,575,897
Total Capital Fund	-	-	-	-	-	-	-	-	4,263,123,097	4,263,123,097
Deposits	1,930,730,213	1,108,612,094	5,464,485,764	5,271,373,524	7,971,823,400	2,997,232,684	1,847,017,501	1,051,393,019	193,742,736	27,886,410,935
Borrowings	18,749,648	1,370,338	2,455,189	41,224,330	46,248,902	191,847,299	307,670,538	350,369,124	-	959,935,368
Other Liabilities	20,383,657	155,114,184	229,609,891	142,972,647	261,272,554	81,309,981	110,323,573	171,120,010	-	1,172,106,497
Total Liabilities	1,969,863,518	1,265,096,616	5,696,550,844	5,455,570,501	8,279,344,856	3,270,389,965	2,265,011,613	1,572,882,153	4,456,865,833	34,231,575,897

Notes to the Financial Statements Contd...

29.4 Market Risk and Operational Risk

As discussed in the Risk Mangement -Management discussion

29.5 Capital Management

Regulatory Capital

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

Capital Adequacy

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

As of 31st December 2015, SMIB reported a Tier 1 ratio of 27.27% and a total CAR is also 27.27% which remain comfortably above the CBSL's capital requirements.

29.6 Market Risk

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

29.6.1 Market risk – non-trading

Interest Rate Risk

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

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

Prepayment Risk

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

29.7 Operational Risk

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

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

Notes to the Financial Statements Contd...

30. Maturity Gap Analysis

	Less than 7 days	7-30 days	1-3 months	3-6 months	6-12 months	1-3 years	3-5 years	Over 5 years	Unclassified	Total
Total Assets	405,761,243	444,306,441	966,948,156	1,457,511,751	4,204,849,339	6,202,353,449	3,807,062,174	8,312,567,616	8,430,215,726	34,231,575,897
Cash	103,597,281	-	-	-	-	-	-	-	-	103,597,281
Due from Banks	-	-	301,528,767	689,411,876	2,537,334,062	1,141,033,817	-	-	-	4,669,308,523
Investment Currents	292,016,334	158,817,388	160,681,799	149,319,761	453,053,050	466,025,740	-	721,357,728	-	2,401,271,801
Investment Non performing	-	-	-	-	-	-	-	-	-	-
Loan & Advances Current	-	264,529,219	481,870,666	604,277,202	1,198,336,524	4,592,995,631	3,804,662,228	7,220,933,554	-	18,167,605,025
Loan & Advances NPL	-	-	-	-	-	-	-	-	8,355,800,029	8,355,800,029
Fixed Assets	-	-	-	-	-	-	-	-	74,415,697	74,415,697
Other Assets	10,147,629	20,959,834	22,866,924	14,502,912	16,125,703	2,298,261	2,399,945	370,276,334	-	459,577,541
Total Liabilities	1,969,863,518	1,265,096,616	5,696,550,844	5,455,570,501	8,279,344,856	3,270,389,965	2,265,011,613	1,572,882,153	4,456,865,833	34,231,575,897
Total Capital Fund	-	-	-	-	-	-	-	-	4,263,123,097	4,263,123,097
Deposits	1,930,730,213	1,108,612,094	5,464,485,764	5,271,373,524	7,971,823,400	2,997,232,684	1,847,017,501	1,051,393,019	193,742,736	27,836,410,935
Borrowings	18,749,648	1,370,338	2,455,189	41,224,330	46,248,902	191,847,299	307,670,538	350,369,124	-	959,935,368
Other Liabilities	20,383,657	155,114,184	229,609,891	142,972,647	261,272,554	81,309,981	110,323,573	171,120,010	-	1,172,106,497
Maturity Gap	(1,564,102,274)	(820,790,175)	(4,729,602,687)	(3,998,058,749)	(4,074,495,518)	2,931,963,485	1,542,050,561	6,739,685,464	3,973,349,894	-
Cumulative M.Gap	(1,564,102,274)	(2,384,892,449)	(7,114,495,136)	(11,112,553,885)	(15,187,049,403)	(12,255,085,918)	(10,713,035,357)	(3,973,349,894)	-	-

Notes to the Financial Statements Contd...

31. The Events Occuring After the Balance Sheet Date

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

32. Assets Pledged

No assets have been pledged as security for liability.

33. Related Party Transactions

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

34. Directors' Interest in Contracts and Proposed Contracts

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

As per the Act, No loan shall be granted by the bank to any Director or employee of the bank or to the spouse or a dependant child of a Director or employee or to any company or firm in which a Director or employee has a substantial interest: " Provided however that the bank may grant to its employees loans for the purchase of any land for the construction of a dwelling house or for the purchase, construction, repair, renovation of or any extension to, a dwelling house or for any other purpose prescribed by the rules made under this law. Outstanding balance of loans given to employees as per this paragraph is disclosed on page 93 of this report under Note- 10 Loans and advances. The Directors of SMIB were not directly or indirectly interested

Capital Adequacy

Rs. 000'			Risk Weighted Balance	
	2015	2014	2015	2014
Cash	32,910	32,359	-	-
Treasury Bill and other securities eligible for Re-discounting with Central Bank	820,278	44,621	-	-
Securities purchased under Resale Agreement	611,335	1,238,584	-	-
Claims on Financial Institutions	437,743	468,721	437,743	387,577
Claims on Central Bank of Sri Lanka	-	-	-	-
Claims on Public Sector entities	307,145	383,613	307,145	383,613
Claims on Banks exposures	5,201,224	3,822,116	3,303,658	1,315,353
Loans against Cash Deposits	352,140	421,926	-	-
Loans guaranteed by CBSL	12,024,959	12,131,065	-	-
Secured by Primary Mortgage over Residential Property	8,780,701	8,408,626	4,795,265	8,408,626
Other Loans and Advances	5,058,461	2,692,391	3,878,144	2,692,391
Due from Local Banks	70,688	-	-	-
Property, Plant and Equipment	74,416	96,493	74,416	96,493
Other Assets	459,578	560,394	459,578	560,394
Total	34,231,576	30,300,909	13,255,948	13,844,446

Basis of Computation

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

	2015	2014
Total Risk Weighted Assets for Credit Risk	13,255,948	13,844,447
Total Risk Weighted Assets for Operational Risk	2,375,885	2,021,691
Total Risk Weighted Assets	15,631,833	15,866,138
Core Capital Ratio %	27.27	25.32
Total Risk Weighted Capital Ratio %	27.27	25.32

Sources and Utilisation of Income

	2015 Rs.	2014 Rs.
For the year ended at 31 st December		
Sources of Income		
Loans and Advances	3,450,961,086	3,150,826,860
Government Securities & Other Investments	428,066,636	482,077,644
Fee and Commission Income	107,454,869	102,889,786
Other Income	12,118,342	9,838,201
Total	3,998,600,933	3,745,632,491
Utilisation of Income		
Employees		
Salaries and other payment to staff	698,834,195	676,723,315
Suppliers		
Interest paid	2,057,337,280	2,213,615,266
Other Expenses	561,472,189	544,511,767
Government		
Corporate Taxes	271,182,868	139,652,509
Deemed Dividends	167,861,893	76,423,819
Payment to consolidated Fund	10,000,000	10,000,000
Retained Profit	231,912,508	84,705,814
Total	3,998,600,933	3,745,632,491

Ten Year Summary

Year ended 31st December (Rs.Million)	2015 *	2014 *	2013 *	2012*	2011*	2010	2009	2008	2007	2006
Income Statement										
Income Statement										
Interest Income	3,879	3,633	3,635	2,879	2,611	2,709	2,636	2,102	1,532	1,379
Interest Expenditure	2,057	2,214	2,459	1,725	1,214	1,368	1,939	1,636	1,002	608
Net Interest Income	1,822	1,419	1,176	1,154	1,397	1,341	697	466	530	771
Other Operating Income	120	113	102	79	76	41	36	120	39	47
Total Operating Income	1,941	1,532	1,278	1,233	1,473	1,382	733	586	569	818
Non Interest Expenses	1,260	1,119	935	803	785	740	612	535	445	500
Net Profit before Tax	681	413	343	430	689	642	120	51	124	318
Taxation	271	140	110	158	178	179	46	30	41	105
Net Profit after Tax	410	273	232	272	510	463	74	21	83	213
Assets										
Investment Securities	432	19	17	14	5	5	5	1	1	1
Loans and Advances	26,523	24,038	21,186	18,550	16,170	13,670	13,433	13,142	10,995	9,488
Other Assets	7,203	6,148	5,556	3,928	4,276	3,531	3,369	1,336	1,219	679
Property, Plant and Equipment	74	96	67	51	58	39	40	37	37	30
Total Assets	34,232	30,301	26,825	22,543	20,509	17,245	16,847	14,516	12,252	10,198
Fund Employed										
Capital Contributed	890	890	890	890	890	890	890	890	890	890
Reserves	3,373	3,128	3,040	2,920	2,753	1,763	1,480	1,507	1,634	1,597
Liabilities										
Deposits	27,836	24,146	21,201	17,237	15,088	12,506	12,350	10,174	7,517	5,663
Debentures	110	195	195	195	195	195	250	250	250	250
Other Liabilities	2,023	1,942	1,499	1,301	1,583	1,891	1,877	1,695	1,961	1,798
Total Liabilities	34,232	30,301	26,825	22,543	20,509	17,245	16,847	14,516	12,252	10,198
Ratio										
Return on Average Assets-NPBT% (ROA)	2.11	1.44	1.39	2.01	3.65	3.77	0.77	0.38	1.18	3.28
Return on Average Funds Employed% (ROE)	9.90	6.87	6.00	7.31	16.21	18.46	3.06	0.88	3.32	12.78
Number of Employees(no.)	392	407	334.00	323.00	302.00	308.00	320.00	328.00	345.00	349.00
Net Profit per Employee (Rs. Mn)	1.05	0.67	0.70	0.84	1.69	2.08	0.38	0.16	0.36	0.91
Statutory Reserve Fund	203.05	191.36	181.15	172.98	163.19	135.44	112.26	108.59	106.42	102.26
Advances to Deposits(Times)	0.95	1.00	1.00	1.08	1.07	1.09	1.29	1.36	1.46	1.68
Interest Cover(Times)	1.33	1.19	1.14	1.25	1.60	1.47	1.26	1.03	1.12	1.52
Debt to Equity Ratio(Times)	0.23	0.28	0.23	0.19	0.18	0.21	0.28	0.30	0.48	0.53
Equity Assets Ratio(Times)	0.12	0.13	0.15	0.17	0.18	0.15	0.14	0.17	0.21	0.24
Total Assets per Rupee Contributed	38.46	34.05	30.14	25.33	23.04	19.38	18.93	16.31	13.77	11.46
Effective Deemed Dividend Rate%	25.00	25.00	25.00	20.00	19.84	20.22	5.74	3.33	2.34	10.96
Deemed Dividend Cover	2.44	3.57	3.16	3.46	3.14	2.58	1.44	0.71	4.00	2.18
Our Contribution to the Nation										
Deemed Dividend Tax	167.86	76.42	73.60	79.00	177.00	180.00	52.12	29.65	20.82	97.49
Payments to Consolidated Fund	10.00	10.00	40.00	25.00	-	-	50.00	-	25.00	25.00

* Based on New LKAS & SLFRS

Value Added Statements

For the year ended at 31st December	2015 Rs.	2014 Rs.
Interest Income	3,879,027,722	3,632,904,504
Other Income	119,573,211	112,727,987
Total Income	3,998,600,933	3,745,632,491
Interest Expenses	(2,057,337,280)	(2,213,615,266)
Cost of Services	(420,505,020)	(472,895,850)
(Provision)/Reversal for Impairment	(106,577,177)	(33,264,417)
Total	1,414,181,456	1,025,856,958
Distribution of Value Added		
For the year ended at 31st December	2015 Rs.	2014 Rs.
To Employees		
Salaries and other benefits	698,834,195	676,723,315
To Government		
Corporate Tax	271,182,868	139,652,509
Deemed Dividends	167,861,893	76,423,819
Payment to Consolidated Fund	10,000,000	10,000,000
To Expansion and Growth		
Depreciation	34,389,992	38,351,500
Retained Profit	231,912,508	84,705,814
Total	1,414,181,456	1,025,856,958

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

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

Kandy Branch

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Gampaha Branch

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Kurunegala Branch

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Horana Branch

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Ambalantota Branch

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Jaffna Branch

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Rathnapura Branch

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Kaduruwela Branch

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

Hatton Branch

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

Badulla Branch

No.38, Bank Road,Badulla
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badulla.mgr@smib.lk

Monaragala Branch

No.218,Kachcheri Rd,Monaragala
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monaragala.mgr@smib.lk

Anuradhapura Branch

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

Matale Branch

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

Board of Directors

Mr. Thissa Jinadasa - Chairman
Dr. Namal Rathnayake -
Independent Non-Executive Director
Mr. Phiroze Pestonjee -
Independent Non-Executive Director
Mr. Chandrasiri Senevirathne -
Independent Non-Executive Director
Mr. H.M.B.Senaratna -
Independent Non-Executive Director
Dr. Niroshan Gamage -
Independent Non-Executive Director
Mr. K.A.Thilakarathne -
Independent Non-Executive Director
Mr. M.S.D.Ranasiri -
Independent Non-Executive Director
Ms. L.U.N.Sumanasekara -
Independent Non-Executive Director

New Board of Directors

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

General Manager

Mr. W.M Dayasinghe

Board Secretary

Ms. W.K Perera

Audit Committee

Mr. M.S.D Ranasiri -
Chairman to the Committee
(Independent Non-Executive Director)
Mr. K.A Thilakarathne -
Independent Non-Executive Director
Mr. Phiroze Pestonjee -
Independent Non-Executive Director
Dr. Niroshan Gamage -
Independent Non-Executive Director
Mr. Rajitha Halwela -
Independent Non-Executive Director

Auditors

Auditor General
Auditor General's Department,
Colombo 07.

Principal Lines of Business

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

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