



Trust In the Future

STATE MORTGAGE & INVESTMENT BANK
ANNUAL REPORT 2022



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Trust In the Future

Stability and strength is synonymous with what we do, and in the midst of a challenge-laden local and global arena, our dependability has become more imperative for our stakeholders. In serving their needs, our passionate and professional team has ensured that we are lauded in the industry for being the most reliable avenue for investments and funding along with enhanced technology that allows our customers to be assured of our constant presence. This renewed commitment to progress and innovation, along with streamlined processes in the year under review, will continue to impress upon our endeavours in the years to come.

Through innovation and confidence, we truly trust in the future that we create.



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

	2022 Rs.Mn	2021 Rs.Mn	Change %
Interest Income	7,402	5,254	40.88%
Interest Expenses	(5,463)	(2,951)	85.12%
Net Interest Income	1,939	2,302	-15.77%
Profit before Tax	(89)	405	-121.98%
Taxation	(291)	152	-291.45%
Profit after Tax	202	253	-20.16%
Investment in Government Securities	2,574	1,992	29.22%
Loans and Advance Net	39,267	38,103	3.05%
Total Assets	56,965	53,323	6.83%
Customer Deposits	49,140	45,738	7.44%
Borrowings	278	270	2.96%
Stakeholders' Fund	6,474	6,284	3.02%

Ratio Analysis

Profitability Level	%	%	%
Net Interest Margin	3.52	4.34	-18.89%
Return on Equity (ROE)	3.17	4.11	-22.87%
Return on Assets (ROA)	(0.16)	0.76	-121.05%

Capital Adequacy

Equity / Total Assets	11.36	11.78	-3.56%
Equity / Loans & Advances	16.49	16.49	-0.03%
	Basel (III)	Basel (III)	
Tier 1	18.49%	22.47%	-17.73%
Tier 1 & 11	19.43%	23.99%	-19.00%

Liquidity

Liquid Asset Ratio	34.69	32.58	6.46%
Loans and Advances / Deposit	79.91	83.31	-4.08%
Borrowings/Loans and Advances	0.71%	0.71%	-0.09%

Rating

Asset Quality			
NPL/Loans and Advances	22.02%	19.84	10.99%
Loans and Advance to Total Assets	72.18%	69.80%	3.41%

Financial Review

Country has been exposed to extraordinary challenges since the Easter Sunday attack in April 2019 and soon after the incident the country had to be battled with COVID 19 pandemic situation nearly two years which caused massive destruction to our economy and banking sector as well. The year 2022 was marked as the year of hope on recovery of our economy. In contrast economy of the country has been collapsed into its worse crisis in the first time after independence mainly due surging of foreign debts. Government has announced its decision on suspense of servicing of sovereign debts due to unprecedented forex crisis and down grading of country rating by international rating agency has been resulted tightening of covenant of foreign creditors. Country become more vulnerable in terms continuous dried up of the foreign reserves, tight fiscal control over forex outflows, broad based import restrictions, low inward remittance, shrinking industry sectors, unprecedented rise on interest rate and month on month commodity prices heading toward hyper inflationary situation. The overall impact to the economy resulted to painful effect on banking sector. State mortgage bank also being affect in various ways under such dirtied situation.

SMIB has been managed to remain at resilient and displayed moderate performance despite of tied negative outlook in the macroeconomic environment, recorded Loss before Tax was at Rs.89. Mn for the year ended 2022 marked 122% decrease compared to previous year as result of declined of net interest income by 16%. Hyper inflationary situation, unprecedented hike in the interest rate, low liquidity situation and high delinquency ratio in the credit facilities were characterized as key driving factors in the low profitability of the bank. A significant increase in Interest expenditure by 85% compared to last year has been offset on highest ever interest income generated from investment activities during year 2022 marked the 247% growth and 5% growth in the interest income from loans and advance against last year.

Analysis of Income Statement

Income Statement Summary

	2022 Rs (Mn.)	2021 Rs (Mn.)	Change %
Interest Income	7,402	5,254	41%
Total Operating Income	2,054	2,474	-17%
Profit/(Loss) before Tax	-89	405	-122%
Profit After Tax	202	253	-20%

Interest Income

The Interest income was increased from Rs.5, 254Mn in 2021 to Rs.7, 402Mn in 2022, which represents a 41% increase. The growth in interest income on Investments, Treasury Bills, Treasury Bonds, Debentures, unit Trust, Call Deposits and placements with banks with high returns in 2022 compared to 2021. As a result banks liquidity position improved during the year even under dried liquidity position prevailed in the Market. Enabling it to earn more interest income through Loans and Advances, Debt and other Instruments as well.

Net Interest Income

Net interest income decreased by 16%, Primarily due to the impact from hike on interest expenditure; higher interest rates on other interest-bearing liabilities, negative maturity mismatch position between deposits and loans and advances was resulted to significant decline in the net interest income. This reduction has been offset through increases in the Interest income in investments which stood at Rs.1, 938 Mn for the year 2022.

Non-Interest Income

Non-Interest Income comprises Fee and Commission, Net Gain/Loss from Financial Investments, and Other Operating Income. Fee and Commission Income is the principal component of Non-Interest Income which includes fees charged from lending, in the year of 2022.

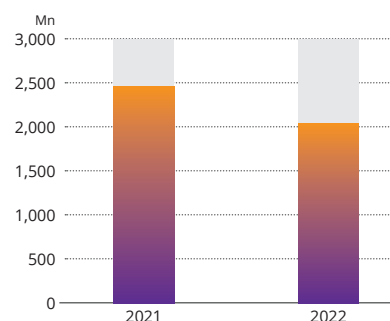
Fee and Commission Income which drop by 34% due to slowdown in economic activities and policy uncertainty stood at Rs.92Mn against Rs.139Mn in 2021. Further the Other

Operation income for the year was Rs.26 Mn which comprises dividend income from investment on security and other income from non-financial activity.

Total Operating Income

The operating income reported an amount of Rs.2, 054Mn for the year 2022, a slight decrease of 17% compared to 2021 which has been resulted due to an increase in Interest Expenses and deterioration of fee and commission income and Net Other Operating Income.

Total Operating Income

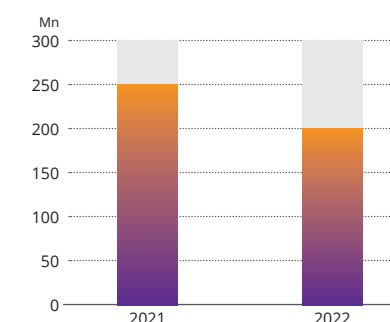


Profitability

With the challenging uncertain operating conditions faced by banking industry, SMIB has managed to record a Profit after Tax of Rs.202 Mn during the financial year with an Decrease of 20% compared with 2021. Further it maintained Liquidity and Capital Adequacy Ratio well above the Central bank prescribed Level with a Tier I and Tier II Capital of 18.49% and 19.43% respectively.

Besides ROE is a key strategic outcome in financial value creation. It serves as an indicator of the effectiveness of the management approach. Bank has managed to maintain a Return on Equity of 3.17% although Return on Assets ratio (ROA) depicts -0.16% level by the end of 2022.

Profit After Tax



Contribution to The Nation

As the oldest Bank of the Nation, the Bank continues its contribution towards the Nation's development by means of special fee, dividend to the treasury and contribution to the National Insurance Trust Fund besides to the taxes and levy while maintaining required Liquidity and Capital Adequacy Ratios prescribed by the Central Bank of Sri Lanka. By means of contribution to the Government Bank's had paid Rs.237Mn through taxes such as VAT and Social Security Levy in the year 2022.

	2022 Rs (Mn.)
Value Added Tax (VAT)	231
Social Security Levy (SSCL)	6
	237

Analysis of Financial Position

Assets

Total reported assets base were Rs.56, 965Mn that was 7% higher when compared with the 2021. It highlights that we have maintained the strength of our balance sheet, as we continued our targeted asset growth, robustness of the focus on core business activities, the interest earning loan portfolio and financial investments accounted the total asset base.

Loans and Advances

Net Loans and advances increased to Rs. 39,267 Mn which is a growth of 3 % compared to previous year 2022, Which totally backed by increased credit demand from the retail credit lines of Housing Loans, Personal loans and Refinance loans & other loans. The loans and receivables portfolio was diversified across several industry sectors focused on Agriculture, Tourism, SME and Micro finance and housing finance sectors.

Gross Loans and Advances

By product

	2022 Rs (Mn.)	2021 Rs (Mn.)
Mortgage	10,836.31	10,607.56
EPF	6,644.20	6,830.45
Vehicle	-	-
Staff loans	1,360.48	1,410.66
Personal Loans	20,751.94	20,062.12
Others	1,973.86	1,167.57
Less-		
Allowance for Day 1 Difference - Staff Loans	(449.44)	(487.97)
Gross Total	41,117.34	39,590.39

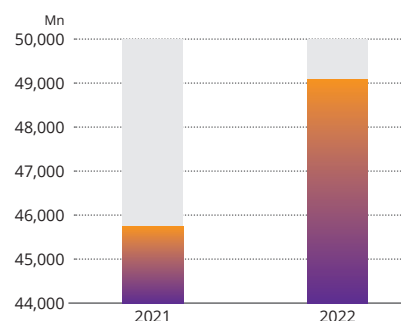
Liabilities

Total Liabilities stood at Rs.50, 490Mn in the year 2022, which is an increase of 7% compared to the year 2021, led by the insignificant increase in Deposit Liabilities when compared to the lower growth in Loans and advances, meant that the Bank had excess liquidity during most part of the year. As a result, the Bank reduced its external borrowings during the year which helped the Bank to reduce its Interest expenses and improve its net interest income and the interest margins.

Deposit Base

With the high competition in the Niche Market, the fluctuating economy (due to Covid 19 pandemic outbreak) and existing shocks derived from high debt burden of the Country, we are still able to reach an impressive figures in Savings deposits, Fixed deposits and Other deposits (Schemes), where the bank's Total Deposit base has increased to Rs.49, 140Mn marked a growth of 7% compared to the previous year. Which reflects the prudent management practices taken through effective management policies which replicating customer deposit retention and new customer acquisitions.

Deposit Base



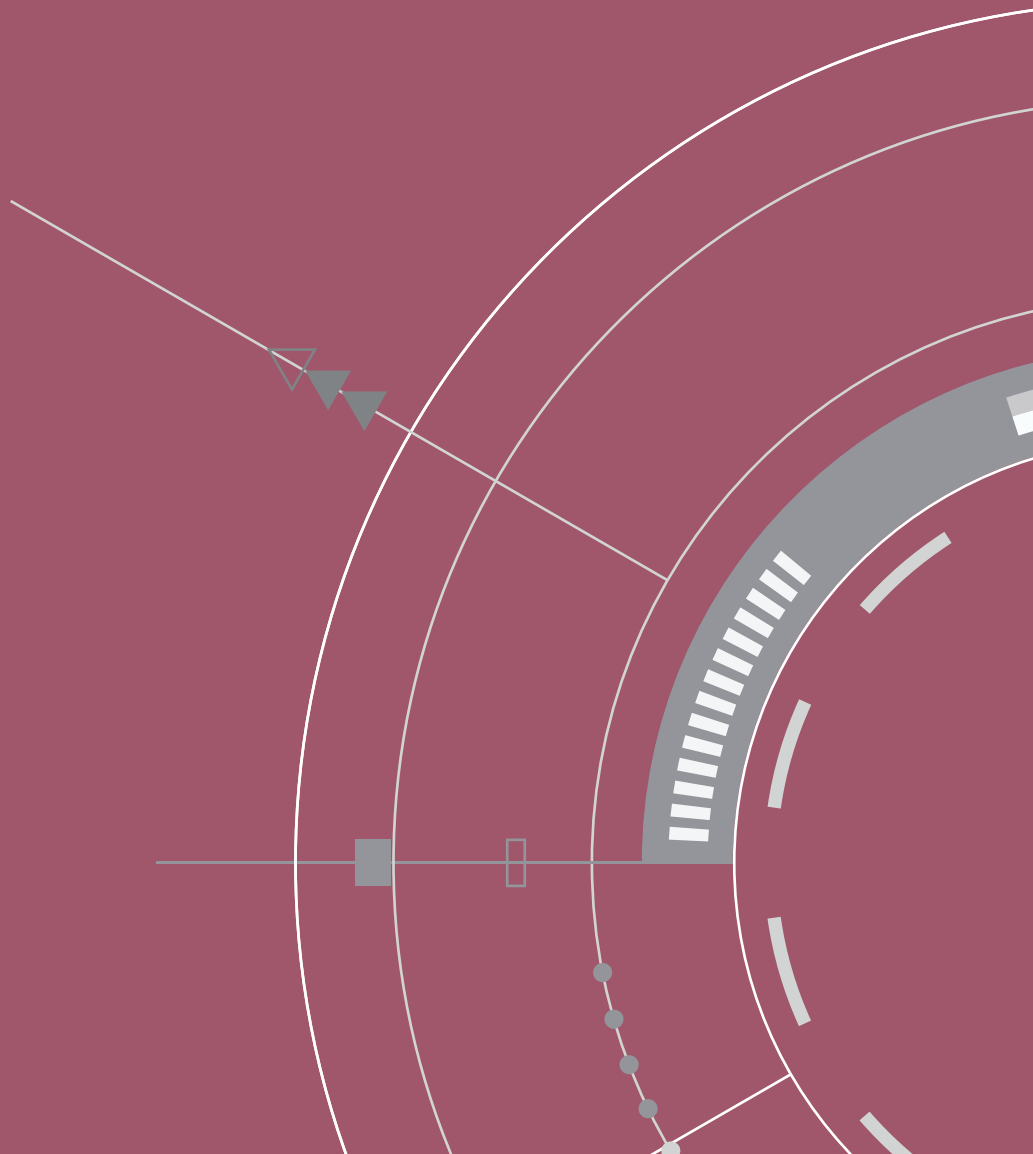
Liquidity Coverage

As a licensed specialized government bank (LSB) of Democratic Socialist Republic of Sri Lanka, it is required to maintain a 20% minimum Statutory Liquidity Assets Ratio. The bank should compute the Statutory Liquidity Assets in accordance with Section 86 of the Banking Act, No.30 of 1988 and average Statutory Liquidity Assets Ratio stood at 34.69% level for the end of 2022. In accordance with Basel III, The Liquidity Coverage Ratio aims to ensure that a bank has sufficient unencumbered high-quality liquid assets to meet its liquidity needs in a 30-calendar-day liquidity stress scenario. HQLA consist of cash or assets that can be converted into cash at little or no loss of value, in where the banks Liquid Coverage Ratio amounted at 148% as at the end of the 2022 well higher than the statutory minimum of 100%. The Bank was strong supported accessibility of stable funding as per the definitions prescribed by the CBSL and net Stable Funding ratio (NSFR) stood at 104% as at 31 December 2022 against the minimum requirement of 100%.



Trust in the future of investment

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Chairman's Message



Amidst these macroeconomic volatilities, SMIB bank demonstrated resilience rising above the challenges with prudent strategic interventions and adaptation to changing market conditions.

On behalf of the Board of Directors, it is with great pleasure I present to you the Annual Report and the Audited Financial Statements of the State Mortgage & Investment Bank for the financial year 2022. The Bank completed a year showcasing a commendable performance amidst a multitude of challenges in the operating environment. We steered the bank ahead with resilience taking the necessary strategic adjustments and alternatives to sustain our operations and financial performance during the period.

Operating Environment

The year 2022 marked the worst economic contraction in the history of Sri Lanka, reversing the growth momentum that was witnessed at the onset of the financial year. The country was plunged into an acute economic crisis and political instability in the backdrop of the Country's default on foreign debt. Hence, the growth spurt that was observed towards the end of the financial year 2021 was dissipated with unfavourable developments of the economic contraction that impacted all key economic sectors. What followed was a series of obstacles from fuel shortages, power outages, scarcity of raw materials and essential commodities and soaring cost of production. The country recorded a negative growth rate of 12.4 percent amidst rising inflation and a sharp rise in market interest rates during this period which took a heavy toll on the vulnerable segments of the society reducing their purchasing power.

The broader banking sector too, confronted notable hurdles including diminishing loan portfolios and declining profitability. Loan defaults amplified credit risk that required the banks to adopt tight credit assessment protocols and attentively monitor the borrowers before granting loans. There was also an increase in non-performing loans (NPLs) within the sector due to borrower's financial constraints, that necessitated the adoption of prudent NPL management techniques. The liquidity challenge was addressed by careful strategic planning to swiftly respond to the changing economic conditions. However, the profitability of the sector continued to be impacted by the rising costs, reduced lending and increase in loan defaults.

A Journey of Resilience

Amidst these macroeconomic volatilities, SMIB bank demonstrated resilience rising above the challenges with prudent

strategic interventions and adaptation to changing market conditions. SMIB exhibited commendable performance within the constraints of macroeconomic environment. The bank's Operating Profit before Tax (PBT) experienced a significant decline of 77% in 2022 compared to the preceding year, which was primarily attributed to a 16% reduction in net interest income.

During the period, interplay between hyperinflation and increasing interest rates posed a considerable challenge to bank's profitability. However, SMIB navigated liquidity constraints and elevated delinquency ratio in credit facilities with measured prudence. It is noteworthy that despite an 85% surge in interest expenditure, the bank managed to counteract this effect through a remarkable 247% growth in interest income generated from investment activities. There was also a modest 5% growth in interest income from loans and advances.

Scrutinizing the key performance indicators for the financial year 2022, SMIB's Total Assets expanded from Rs. 53.3 billion in 2021 to Rs. 56.96 billion, indicating an average growth rate of 7%. This growth rate outpaced the broader LSB sector's rate of 4.21%. While SMIB's loans and advances experienced an increase of Rs. 1.2 billion, reflecting a growth rate of 3.06%, the bank's investment portfolio expanded by Rs. 1.8 billion, indicating an average growth rate of 13.15%. Furthermore, SMIB's deposit portfolio witnessed an expansion by Rs. 3.4 billion, reflecting an average growth rate of 7.44%. Despite these dynamics, the bank's Profit before Tax displayed a significant decline, resulting in a negative Return on Assets (ROA) for both SMIB and the broader LSB sector.

Overall, the year 2022 presented an array of unprecedented challenges that deeply impacted Sri Lanka's macroeconomic environment and the banking sector. SMIB withstood these challenges with resilience sustaining moderate performance amidst prevailing macro-economic environment. The bank's proactive strategies and prudent financial management under a complex economic landscape proved its capability and steadiness in the face of adversity. The Bank also successfully navigated the issues and hurdles in the broader banking sector implementing prudent strategies that include macroeconomic and sector-specific measures to foster stability and pave the path to gradual recovery.

Chairman's Message *Contd.***Strategic Pathway**

In recognising the significance of sound financial performance and operational robustness in the long-term prosperity of the Bank, we continue to optimise the return on investment, meeting the minimum regulatory capital requirement by end of the financial year and enhancing the return through infusion of low-cost funding and maturity mismatch long-term funding.

Portfolio diversification was also another area of focus during the period. Hence, greater emphasis was given to credit growth in the SME sector expanding deposit mobilisation to improve long-term funding base in minimizing maturity mismatch. We also continue to enhance our reach by introducing new products for both deposits and loans while lending to new sectors permitted by the SMIB Act.

Furthermore, we took measures to develop an effective marketing strategy to build a unique identity for the Bank and a unique selling proposition for products to enhance our customer-centric approach. In addition, we continued to improve our human resources through a well-structured recruitment process and on-the-job training in maximising their productivity.

In our transition towards a technology driven platform, we have commenced implementing a new core banking system which we believe will pave the way for providing modern-day banking facilities to our clientele such as electronic transactions via ATMs, internet banking and mobile banking.

During the year, we also established a separate unit for SME loans to provide functional assistance to branches and credit units to boost loan growth in the SME segment. Moreover, we implemented standardised documents across the branch network and credit units to improve the quality of documentation and eliminate gaps in the workflow of the credit process.

We also established a fully-fledged credit administration division and initiated a low-cost funding process through a new product in minor savings.

Overcoming Obstacles

In overcoming challenges on the operating front, the bank adopted 4 strategic drives. The first of these was the cost drive where the bank implemented cost reduction measures during the year bringing down overall operating expenditure. The second was the deposit drive where the bank focused on mobilising low-cost funds. In the prevailing macroeconomic context, we understood the significance of low-cost funds to the bank, hence successfully implemented an action plan to mobilise retail deposits and minor savings accounts across branch network. The next was the recovery drive to manage NPL ratio and upward trend in the delinquency ratio under an economic context where customers' disposable income has been adversely impacted. During the second half of the year, NPL ratio of the sector remained above 11.50% thus the bank implemented strategies and action plans for a recovery drive which resulted in managing NPL ratio below 10.5%. Finally, the bank initiated an investment drive as a countermeasure to declining loan growth of the banking industry. The bank continues to focus on investment activities to compensate for the drop in income in loans and advances. This resulted in growth in investment activities by 13.15% compared to last year.

Corporate Governance

Our robust governance bodies were instrumental in mitigating risks across the enterprise and achieving bank's objectives in the respective areas of its specialization. In this regard, the Board sub-committees have identified clear KPIs that enabled it to fulfil its obligations under the four key pillars of market risk, credit risk, liquidity risk and operational risk. The Senior Management Committee concentrates on major policy decisions of the operational and non-operational activities of the bank. The Executive Credit Committee designs, develops, maintains, reviews and controls the credit and lending framework, credit risk appetite, credit risk tolerance limits, and delegation of authority, and generally assists with decision-making on the lending process.

**Furthermore,
we took
measures to
develop
an effective
marketing
strategy to build
a unique
identity for the
Bank and a
unique selling
proposition for
products to
enhance our
customer-
centric
approach**

Future outlooks

Moving forward, SMIB will continue to promote and strengthen Micro, Small & Medium Enterprises (MSME) sector while increasing service standards by leveraging modern technology. Currently, the bank provides customised financial services and solutions to assist the development of this sector through partnering with MSMEs. We will continue to work with entities within this sector to find solutions that meet varying needs of customers. Although SMIB is not able to offer fixed solutions to every MSME, it will strive to assist this segment where possible in the development of financial solutions to address some of the key issues faced by the sector.

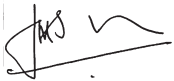
Appreciation

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

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

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

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



Joseph Soosaitathan
Chairman

General Manager's / CEO Review



SMIB navigated the journey adopting appropriate strategies and surpassing challenges while remaining committed to financial resilience and stability.

It is with great pleasure I present to you the Annual Report and the Audited Financial Statements of the State Mortgage and Investment Bank for the financial year 2022 demonstrating financial resilience and stability in navigating the Bank ahead amidst unprecedented challenges in the macroeconomic environment. Unveiling a mix of achievements and challenges, the SMIB responded assertively to the changing dynamics of the banking industry against the prevailing macroeconomic landscape showcasing satisfactory performance and creating value for the stakeholders.

Macro-Economic Landscape

The financial year 2022 presented a challenging economic and political backdrop that reverberated throughout the banking sector. Although the year commenced with optimism with signs of recovery from the prolonged pandemic, the economic crisis and the political unrest that followed towards the 2nd quarter of the year reversed this momentum creating manifold impediments in many aspects. Sri Lanka witnessed the worst economic contraction since its independence recording a negative growth rate of 12.4 percent with all key sectors of the economy showing a downturn. The crisis led to prolonged power cuts, fuel shortages, and scarcity of raw materials and essential commodities owing to the forex crisis. Besides, the global economic resurgence, marked by its uneven nature, also created volatility in the demand for Sri Lankan exports. Supply chain bottlenecks and transportation hurdles compounded these issues, adding further impediments to manufacturing and trade.

The inflation continued to rise spurred by global commodity price hikes and disruptions in supply chains, creating escalated consumer prices, eroding purchasing power and constricting credit access. Amidst these complexities, political uncertainties cast an additional layer of uncertainty, impacting investor confidence and strategic planning for businesses. Meanwhile, the sharp rise in market interest rates also created difficulties for the people and the businesses.

Banking Sector Performance

These macroeconomic headwinds compelled the banking sector to swift adaptations and strategic realignment to ensure the sector's sustainable progress. With amplified credit risk owing to rising loan defaults, the banks had to respond with tight credit assessment protocols while vigilantly monitoring the financial health of borrowers. The banks had to maintain a delicate equilibrium between extending support to businesses and safeguarding credit quality.

As the soaring inflation and the resulting elevated interest rates impacted the borrower's ability to service loans, the banks were faced with the challenge of maintaining competitive interest rates while navigating the potential repercussions of these rate hikes on loan demand and profitability. Likewise, the surge in the non-performing loans (NPLs) due to the borrower's financial constraints required the banking sector to adopt prudent NPL management techniques in safeguarding asset quality and maintaining regulatory capital adequacy ratios.

Liquidity issue is another challenge where the sector had to adhere to meticulous strategic planning swiftly responding to the changing economic conditions in ensuring a robust liquidity position.

Given the increased shift in consumer behaviour towards digital services, the sector continued to expand the digital channels such as mobile apps, online platforms, and contactless payments which incurred substantial investment in technology and employee upskilling.

Furthermore, the fluctuating regulatory environment both domestically and internationally remained a challenge to the sector in terms of adapting to the evolving regulations as well as significant investments necessitated by the changing standards. Consumer confidence in the sector also remained fragile in the backdrop of economic uncertainties. Overall, the profitability of the sector was under pressure due to increased costs, reduced lending as well as increase in loan defaults.

General Manager's / CEO Review *Contd.***SMIB Performance**

The first half of the year presented a moderate outlook for the Bank as opposed to the second half of the year which was more challenging owing to the worst macro-economic condition. SMIB navigated the journey adopting appropriate strategies and surpassing challenges demonstrated in the second half of the year remaining committed to financial resilience and stability.

The bank maintained a robust Capital Adequacy Ratio (CAR) of 18.49% as at end of 2022 which exceeded the regulatory threshold of 12.5%, highlighting its ability to weather potential losses and maintain a strong financial position. SMIB also showcased its proficiency in liquidity management by consistently surpassing the regulatory requirement maintaining a Statutory Liquidity Asset Ratio (SLAR) of 34.69 % as at end of the year which indicated above the minimum requirement of 20%.

Given the broader concerns within the banking sector, SMIB also had to adopt several strategic measures to enhance its market presence and revenue streams. A noteworthy move was the bank's deliberate expansion of its investment portfolio. This proactive approach to risk management and revenue diversification yielded positive outcomes, evidenced by a substantial increase in SMIB's market share. The bank's market share surged from 2.54% to an impressive 2.60% backed by growth in investment portfolio reflecting its commitment to solidifying its standing in the competitive market.

However, amidst these achievements, the Bank had to tackle several challenges. One of the main issues was the gradual decline in its market share of loans and advances within the LSB sector since the year 2010. This downward trajectory highlighted the evolving industry landscape and heightened competition, prompting the need for strategic adaptations to maintain competitiveness. Additionally, SMIB confronted profitability headwinds. The decline in Operating Profit before Tax (PBT) from Rs.621 million in 2021 to Rs. 148 million in 2022 emphasized the difficulties of sustaining unprecedented hike in the interest expenses under the

worst economic situation of the country. Interest expenses of the bank has been increased by 85% compared to previous year and average cost of fund of the bank has increased from 6.79% to 19.72% as at end of 2022. This financial setback was mirrored by the negative trajectory of the Return on Assets (ROA), which dropped from 0.76% to a negative 0.16%.

To address these challenges and bolster financial performance, SMIB executed a series of strategic measures in 2022. One of the pivotal measures in this regard is the repricing of loans to optimize revenue generation and manage interest rate risks. This is also an indication of the bank's dedication to generate income amidst a dynamic economic environment. Furthermore, SMIB's deliberate expansion of the investment portfolio highlighted its commitment to diversify revenue streams and effectively mitigate potential risks.

The bank's operational growth and efficiency were apparent in its asset, liability, and operational performance. SMIB exhibited commendable progress as its total assets grew from Rs 53.3 billion in 2021 to Rs 56.96 billion in 2022, reflecting an average growth rate of 7%. This growth outpaced the average growth rate of the LSB sector, which stood at 4.21%. However, the bank faced a contraction in its loan stock, experiencing a growth of 3.06%, compared to the growth rate of 7.6% in the LSB sector. Investment Portfolio of the bank also grew from Rs.13.7 billion in 2021 to Rs.15.5 billion in 2022 marking a growth rate of 13%. The bank's focus on liquidity management and diversification was further evident from this expansion in the investment and deposit portfolios.

Operational efficiency and cost management were significant considerations for SMIB in 2022. Overhead costs per quarter expanded, resulting in an elevated cost-to-income ratio. The bank's net interest margin (NIM) contracted from 4.34% to 3.52% as of 2022. This contraction reflected a broader trend in the LSB sector, which saw its NIM decrease from 4.1% to 2.8% during the same period. These dynamics emphasized the bank's challenge of balancing operational efficiency with prudent cost management in a dynamic economic landscape.

During the financial year, SMIB bank also stood as a notable player within the banking sector, in terms of its commitment to fostering positive community relationships, upholding corporate social responsibility, promoting sustainability, embracing technological advancement, and recognizing the significant contributions of its staff members.

Key Milestones

One of SMIB's key achievements during the year was the initiation of the core banking system taking a step further in the realm of technological innovation recognising the importance of modernizing its operations and enhancing its technological infrastructure. SMIB expects to enhance its operational efficiency, streamline processes, and provide improved services to its customers leveraging the core banking platform upon completion of implementation in the next financial year. This crucial move also highlights the Bank's commitment to keeping pace with the evolving banking landscape ensuring effective service delivery to the customers in an increasingly digital world.

We also moved into the SME space developing products that cater to this customer segment which we will continue to expand in the near term.

During the financial year, SMIB bank also stood as a notable player within the banking sector, in terms of its commitment to fostering positive community relationships, upholding corporate social responsibility, promoting sustainability, embracing technological advancement, and recognizing the significant contributions of its staff members. These commitments collectively highlight SMIB's multifaceted approach to making a meaningful impact on both the banking industry and the communities it serves.

A key milestone in this regard was the SMIB's consistent and active engagement during the year with various community groups across Sri Lanka recognising its inherent role within the communities in which it operates building lasting and sustainable relationships within localities. Leveraging our strategically dispersed branch network, we established routine interactions in becoming partners in local social and trade-related activities. SMIB's branches became hubs of community involvement, participating in events, initiatives, and activities that enriched the social fabric of their respective areas.

Social Responsibility

The Bank's Corporate Social Responsibility (CSR) strategy during the year demonstrated its dedication to contributing positively to society, particularly in areas that aligned with its core values. The bank's strategic emphasis on education and the well-being of the country's children and youth demonstrated a profound commitment to nurturing the future generation going beyond its banking services. SMIB aims to create a meaningful and sustainable impact on the lives of young individuals through carrying out various activities that include annual seminars for Grade 5 Scholarship students and activities aimed at preschool children. During the year, 3 such programs were carried out in Matara, Rathnapura and Mahiyanganaya covering approximately 1500 participants.

In addition, the Bank continued to invest in projects that contribute to the betterment of society and the environment exemplifying its role as a responsible corporate citizen. This commitment echoed the bank's belief in contributing to the greater good and underscored its dedication to making a lasting positive influence.

Contribution and Achievement of Staff

The invaluable dedication, hard work, and commitment of the bank's staff played a significant role in implementing our strategies, engaging with communities, and driving the bank's various endeavours. They remain the backbone of our progress continually driving the bank towards achieving its strategic objectives in ensuring operational and financial success. Their dedication also remains a significant force behind the Bank's positive impact on society.

Future Ahead

The macroeconomic landscape during 2022 had a profound impact on the banking industry in Sri Lanka as a whole which required well-thought-out strategic responses and adaptive measures. In response, SMIB, demonstrated resilience, prudent strategic planning, and adaptability to a dynamic economic environment in ensuring the sustainable growth of the Bank. While we remain optimistic about the future in the backdrop of the current improved macroeconomic landscape, we will continue to further strengthen our position as a specialised bank with a trained workforce, digital drive, product diversification and an alternative banking network to reach the clientele in sustaining our competitiveness in an evolving banking industry.

Acknowledgement

I would like to take this opportunity to thank the Chairman and the Board of Directors for their invaluable guidance and advice in navigating the Bank through a tumultuous operating environment during the year. My sincere appreciation also goes to the SMIB team and the senior management who continued to work tirelessly with a persistent commitment to ensure the sustainable progress of the Bank. Further, I express my gratitude to the Central Bank of Sri Lanka, Line Ministry, and other valued partners of SMIB for their contribution to our progress. Last but not least, I extend my deepest appreciation for our valued customers who continue to be with us showing loyalty and trust in our ability to create value for them.



I. T. Asuramanna
General Manager/CEO

Board of Directors



B. R. Madihahewa
*Independent
Non-Executive Director*

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

J. M. Soosaithasan
Chairman

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

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

Mr. J. M. Soosaithasan

*Chairman
Independent Non-Executive Director*

Tenure of Appointment:

From 17th May 2023 to date

Skills and Experience

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

Other appointments

- Management Consultant to the Trend Setters (Pvt) Ltd

Previous appointments

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

Mr. H. C. D. L. Silva

Non-Executive, Ex-officio Director

Tenure of Appointment:

11th January 2020 to date

Skills and Experience

- Holds a Master's degree in Public Management from Sri Lanka Institute of Development Administration and a Bsc (Pub.Admin) Special (Hons) from the - University of Sri Jayawardarapura
- An Associate Member of the Association of Accounting Technicians
- A Fellow Member of the Association of Public Finance Accountants
- A Certified Business Accountant - Institute of Chartered Accountants of Sri Lanka(ICASL)
- A Chartered Public Financial Management Accountant - Institute of Chartered Accountants of Sri Lanka(ICASL)
- He is a Member of the Chartered Institute of Public Finance & Accountancy and counts over 30 years' experience as an Accountant in the Sri Lanka Accountants service since 1992. He has multi disciplines as a strategic level official specially in the fields such as Public Financial Management, Treasury Cash Management, Public Debt Management Auditing, Accounting and Public Procurement Management

Other appointments

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

Previous appointments

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

Mr. S. K. A. Galappaththi

Independent Non-Executive Director

Tenure of Appointment:

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

Skills and Experience

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

Previous appointments

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

Board of Directors *Contd.***Professor D. A. M Perera***Independent Non-Executive Director***Tenure of Appointment:**

From 21st March 2023 to date

Skills and Experience

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

Other appointments

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

Previous appointments

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

Mr. B. R. Madihahewa*Independent Non-Executive Director***Tenure of Appointment:**

From 02nd May 2023 to date

Skills and Experience

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

Other appointments

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

Previous appointments

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

Dr. K.W.A.U. Kariyawasam*Chairman**Independent Non-Executive Director***Tenure of Appointment:**

From 13th January 2020 to 12th January 2023

Skills and Experience

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

Previous appointments

- Chairman of the Janatha Estates Development Board (JEDB),
- Chairman of the Industrial Development Board of Ceylon,
- Chairman of the Securities and Exchange Commission of Sri Lanka,
- Chairman of the Insurance Board of Sri Lanka,
- Chairman of the Ceylon Electricity Board,
- Chairman of the Bank of Ceylon,
- Chairman of the Merchant Bank of Sri Lanka,
- Chairman of the Merchant Credit of Sri Lanka, BOC Travels (Pvt.) Ltd.,
- Chairman of the Hotels Colombo 1963 Ltd.,
- Ceylease Financial Services (Pvt.) Ltd.
- Property Development Management (Pvt.) Ltd. He served as an
- Acting Chairman of State Plantations Corporation
- Deputy Chairman of Lanka Hospitals Corporation PLC (Apollo Hospitals).

- Member of Standing Committee on Accreditation and Quality Assurance (SCAQA), Ministry of Higher Education and Economic Policy Cluster of the National Council for Economic Development (NCED).

Mr. A. J. P. H. B. M. R. S. Bandara

Non-Executive, Ex-officio Director

Tenure of Appointment:

From 2nd of January 2020, to 01st January 2023

Skills and Experience

- Attorneys-at-Law with a B. A. Criminology (Special) from the University of Sri Jayawardenapura.
- Over 0 years in active practice in both Criminal and Civil law.
- Reading for his LL.M Degree in Criminal Justice administration at Open University of Sri Lanka (OUSL).

Other appointments

-

Previous appointments

- Principal of certified school of Probation and children protection Department

Miss. W. C. N. Cooray

Non-Executive, Ex-officio Director

Tenure of Appointment:

From 02nd January 2020 to 01st January 2023.

Skills and Experience

- A Fellow member of Chartered Accountants of Sri Lanka
- A Fellow member of Chartered Management Accountants of UK
- A Full member of Certified Practicing Accountants Australia
- A Fellow member of Certified Management Accountant of Sri Lanka
- A Fellow member of Chartered Professional Managers Sri Lanka
- A Fellow member of AAT Sri Lanka
- Holds a BSc Accountancy (Sp.) first class honors degree from University of Sri Jayawardenepura and an MBA from University of Colombo.

Other appointments

- General Manager – Operations, at WNS Global Services (Pvt) Ltd.

Previous appointments

- First female elected from the Corporate Sector (Non-practicing) over the 60 years history of Chartered Accountants of Sri Lanka as a member of the Governing Council of Chartered Accountants of Sri Lanka.
- Appointed as the Governing Council of Association of Accounting Technicians of Sri Lanka.
- Member of the governing council of Advance Technical Education, Ministry of Higher Education, Technology and Innovation.
- Appointed to the CIMA Sri Lanka Country Network Committee in 2021
- Assistant Treasurer of the MBA Alumni Association of University of Colombo and Executive Member Alumni Association of Accountancy of University of Sri Jayawardenepura.
- Member of the CA Women Empowerment & Leadership Development Committee, to lead the CMA Woman Leadership initiatives, and represent SAFA Women's Committee.
- Director / Head of Technical of CA Sri Lanka during 2009/10 and spearheaded the IFRS convergence project

- First Sri Lankan CA to be awarded a scholarship by CPA Australia and AusAids to follow a comprehensive study programme in Australia.

Eng. K. R. Abeysiriwardhana

Non-Executive, Ex-officio Director

Tenure of Appointment:

From 16.11.2020 to 01.02.2023

Skills and Experience

- Bachelor of Civil Engineering degree (2nd Class Honors Upper Division) from the University of Moratuwa
- Post graduate diploma in Water Resources Engineering and Management from the University of Moratuwa
- Chartered Engineer - Institution of Engineers Sri Lanka (IESL)
- Officer - Sri Lanka Engineering Service (Special Grade)
- Over 29 years of experience in engineering field

Other appointments

- The Secretary to the State Ministry of Rural Housing and Construction & Building Materials Industries Promotion
- Chairman in Construction Guarantee Fund (CGF)
- Chairman/ Trustee of the Construction Guarantee Fund of the State Ministry of Rural Housing and Construction & Building Materials Industries Promotion

Previous appointments

- Deputy Chief Secretary (Engineering Services) - Deputy Secretary Office, (Engineering Service Office, Southern Province)
- Provincial Project Engineer (Acting) - Rural Bridge Constructions project/ Ministry of Provincial councils
- Provincial Irrigation
- Director (Southern Province) - Provincial Irrigation Department, Provincial Directors Office, Galle
- District Engineer (Building) - District Engineer's (Building) Office, Hambantota

Board of Directors *Contd.*

Mrs. H. N. N. Gunasekera

Non-Executive, Ex-officio Director

Tenure of Appointment:

From 22nd January 2021 to 18th May 2023

Skills and Experience

- Holds a B.com degree in Business Administration and an Master of Development Studies from University of Colombo.
- LL.B from the Open University of Sri Lanka.

Other appointments

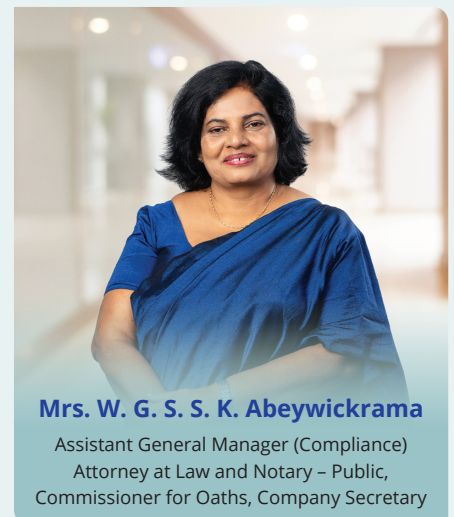
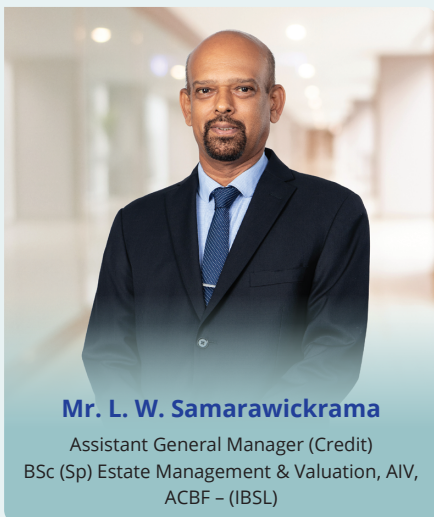
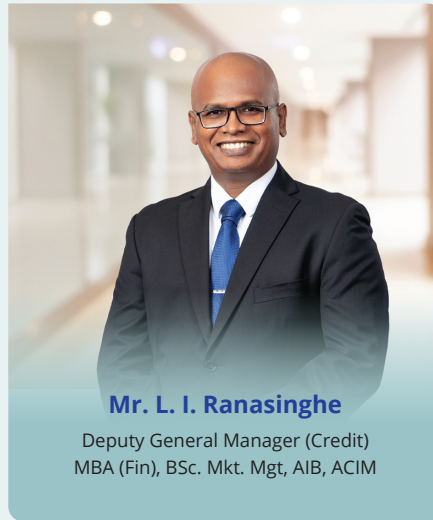
- Additional Secretary – Administration and Human Resources in the Ministry of Agriculture.

Previous appointments

- Additional Secretary (Monitoring and Evaluation) of the Ministry of Mahaweli, Agriculture, Irrigation and Rural Development
- Additional Secretary I (Admin) of the Ministry of Mahaweli, Development and Environment
- Secretary of the National Education Commission
- Senior Assistant Secretary (Bimsaviya and Productivity) of the Ministry of Land and Land Development
- Director (Planning) Ministry of Industrial Development
- Board member of both Agricultural & Agrarian Insurance Board
- Board member of Export Development Board.

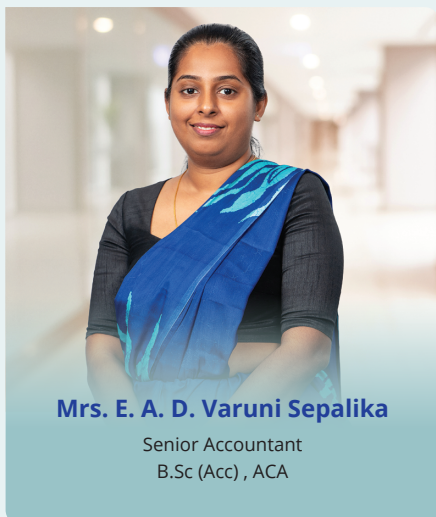
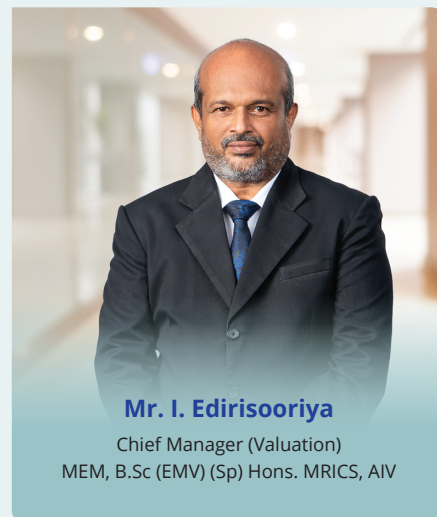
Corporate and Senior Management

Corporate Management



Corporate and Senior Management *Contd.*

Senior Management



Corporate Governance

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

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

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

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

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

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

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

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

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

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

Fairness

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

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

Transparency and disclosure

Transparency and disclosure (T&D) are essential elements of a robust corporate governance framework as they provide the base for informed decision making by shareholders, stakeholders and potential investors in relation to capital allocation,

corporate transactions and financial performance monitoring. It has generally been agreed that the main failure leading to the financial crisis stemmed directly from the lack of financial disclosure and inadequate governance practices.

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

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

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

During the year 2022, there weren't any related party transactions reported in the bank.

Board of Directors

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

Corporate Governance *Contd.*

in charge of the subject of Livestock Development since the purpose of the Bank is to assist the general public in the development of agricultural, industrial and housing, by providing financial and other assistance. The composition of the Board ensures that there is a sufficient balance of power and continuation of contribution guides in the decision-making process of the board.

The Board of Directors of SMIB supervises and undertakes overall responsibilities and accountability of the Bank by setting high level strategic directions and has delegated the power of implementation of strategies to the General Manager /CEO who exercises executive authority through the corporate management team which he heads and to which he provides leadership and direction. The Bank has an effective leadership structure that allows the board to work collaboratively as a team.

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

The Chairman and the Board of Directors with their strong commitment and farsighted guidance manage the bank ahead. The Board of Directors meets at least once a month and in the year 2022, 16 meetings have been held.

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

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

The Management implements the strategy as approved and submits progress reports to the Board.

Composition of the Board

	Name of the Director	Date of Appointment	Category of Director
1	Mr. J. M. Soosaithasan	17.05.2023	Chairman Independent Non-Executive Director
2	Mr. H.C.D.L. Silva	11.01.2020	Non-Executive, Ex-officio Director
3	Mr. S.K.A. Galappaththi	07.03.2023	Independent Non-Executive Director
4	Professor D. A. M Perera	21.03.2023	Independent Non-Executive Director
5	Mr. B. R. Madihahewa	02.03.2023	Independent Non-Executive Director
6	Dr. K.W.A.U. Kariyawasam	13.01.2020	Chairman / Independent non-executive director (up to 12.01.2023)
7	Mr. A.J.P.H.B.M.R.S. Bandara	02.01.2020	Independent Non-Executive Director (up to 01.01.2023)
8	Ms. W. C. N. Cooray	02.01.2020	Independent Non-Executive Director (up to 01.01.2023)
9	Mrs. H. N. N. Gunasekara	21.01.2021	Non-Executive, Ex-officio Director (up to 18.05.2023)
10	Mr. K. R. Abeyesiriwardana	16.11.2020	Non-Executive, Ex-officio Director (up to 01.02.2023)

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

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

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

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

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

Directors' attendance at Meetings in the Year 2022 is being given in the Director's Report of this annual report. The authority and responsibilities of the Chairman and the Chief Executive Officer are separate as per the CBSL Directions.

Board Sub Committees

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

The subcommittees are as follows;

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

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

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

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

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

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

and recommend from time to time, the requirement of additional/ new expertise and the succession arrangement for rehiring Directors and Key Management Personal.

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

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

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

Management Committees

Adhering to the Basel Guidelines the board should not participate in day-to-day management but should receive information which sufficient to judge management. The Board of Directors in managing affairs of the bank has delegated business operations to certain specialized committees comprising of key management personnel led by the General Manager/Chief Executive Officer. These committees have been established to assist the board in its oversight function. These

committees should submit the minutes to the Board of Directors enabling the board to guide and oversee that the key management personnel are carrying out the day to day activities of the bank in a safe and sound manner. In this context, the Board of Directors has appointed the following Management Committees in addition to Board sub committees.

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

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

Corporate Governance Contd.

Auditor General's Report on Bank Compliance requirement



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தேசிய கணக்காய்வு அலுவலகம்

NATIONAL AUDIT OFFICE



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எனது இல.
My No.

} BAN/F/SMIB/CG/2022/16

ඔබේ අංකය
உமது இல.
Your No.

}

දිනය
திகதி
Date

} 24 October 2023

The Chairman
State Mortgage and Investment Bank

Auditor General's Report of Factual Findings of State Mortgage and Investment Bank on the compliance requirement of the Corporate Governance Directive issued by the Central Bank of Sri Lanka 31 December 2022

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

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

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

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

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

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


W.P.C. Wickramaratne

Auditor General

Annexure to the report on factual findings

3(1)	The responsibilities of the board	Complied	Audit Observation
3(1)(i)	Procedures to be carried out to ensure the board have strengthened the safety and soundness of the bank.		
a)	Check the board approval of the bank's strategic Objectives and corporate values. Check whether the bank has communicated the bank's strategic objectives and corporate values throughout the bank.	Complied	The corporate plan (2022-2026) had been approved by the Board of Directors at the meetings held on 15.12.2021 (Board paper No.21/12/BD(APP)/26 and minutes 21.12.223.02) Overall business strategy (Corporate vision, mission and the objectives) had been included in the corporate plan. Strategic objectives and corporate values are communicated through Heads of Departments at each division at the Senior Management Meetings and Branch Managers Meetings held during the year 2022.
b)	Check the board approval of the overall business strategy of the bank. Check that the overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented.	Complied	Overall business strategy (Corporate vision, mission and the objectives) included in the corporate plan (2022-2026 - Board minute no. 21/12.223.02) The Board had approved Integrated Risk Management (IRM) Policy (Board paper no 18.09.132.04.03 dated 09 August 2018) outlines strategic, credit, market and operational risks for identification, measurement and mitigating procedures. This policy had been reviewed by the board of directors on 25 April 2022.
	Check that the overall business strategy contains measurable goals, for at least the next three years.		The action plan describes the measureable targets.
c)	Check that the appropriate systems to manage the risks identified by the board are prudent and are properly implemented.	Complied	After the approval given for the Risk management policy in 2018, the board has reviewed it on 25 April 2022. Therefore, board has not annually reviewed the Risk Management Policy.
d)	Check that the board has approved and implemented a policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers;	Complied	The Communication Policy with the stake holders had been approved by the Board in 2015(BP No 15.11.155.01-15/11/08)
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 are being reviewed by the board in board audit committees. The BAC is assisting the Board which reviews the adequacy and integrity of the Bank's internal control system and management information system.
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	Board had identified General Manager, DGMs, AGMs, Senior Accountant, Chief Internal Auditor, Compliance Officer and Board Secretary as Key Management Personnel of the Bank.
g)	Check that the board has defined the areas of authority and key responsibilities for the board directors themselves and for the key management personnel;	Complied	KMPs makes regular presentation to the Board and Sub Committees on matters under their purview.
h)	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	Directors' powers and authority defined in SMIB Law No.13 of 1975 under the Section 07. Directors have been appointed to Board sub Committees by the Board of Directors and charter/TOR of each committee defines responsibilities. KMPs authorities and responsibilities are listed in their Job Descriptions. BHRRC discuss the areas of authority and key responsibility for Board of Directors & KMPs.

Corporate Governance *Contd.*

3(1)	The responsibilities of the board	Complied	Audit Observation
i)	Check that the board has periodically assessed the effectiveness of the board of directors' own governance practices, including: the selection, nomination and election of directors and key management personnel; the management of conflicts of interests; and the determination of weaknesses and implementation of changes where necessary.	Complied	Observed Self-evaluations forms completed by board of directors on march 2022. Checked "Affidavit" prepared by assessing fitness and propriety of board of directors for the year 2022 for the purpose of submit to the Central Bank of Sri Lanka.
j)	Check that the board has a succession plan for key management personnel.	Complied	Board approval has been given for a succession plan policy of the bank at its meeting held on 21.05.2021 (minute 21.05.88.06). The Board has approved one to one succession plan for KMP has to be in place as required by the direction.
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	Key Management Personnel are regularly involved in discussions at the meeting of the Board and its Sub Committees on progress towards performance, strategy, policy and other matters pertaining to their areas of responsibility.
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	Regulatory Compliance Reports were submitted to CBSL in timely manner and when the CBSL Statutory Examination reports receive, the Board has taken the necessary actions accordingly.
m)	Check that the board has a process in place for hiring and oversight of external auditors.	N/A	Not applicable. As per the Constitution of GOSL and State Mortgage and Investment Bank Law No.13 of 1975, the Auditor General is the External Auditor of the Bank.
3(1)(ii)	Check that the board has appointed the chairman and the Chief Executive Officer (CEO). Check that the functions and responsibilities of the chairman and the CEO are in line with Direction 3(5) of these Directions.	Complied	Chairman of the Bank is appointed by the Minister of line ministry as per the section 14 (1) of the SMIB Act and CEO (General Manager) is appointed by the board of directors as per section 20 of the SMIB Act.
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	Sixteen Board meetings had been held during the year 2022.
3(1)(iv)	Check that the board has a procedure in place to enable all directors to include matters and proposals in the agenda for regular board meetings where such matters and proposals relate to the promotion of business and the management of risks of the bank.	Complied	The notice of the meeting and agenda for the meeting circulated to all directors by secretary at least seven days prior to the meeting to provide reasonable time to study and make any proposals.
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	The notice of the meeting and agenda for the meeting circulated to all directors by the secretary at least 7 days prior to the meeting.
3(1)(vi)	Check that the board has taken required action on directors who have not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held. Participation at the directors' meetings through an alternate director, however, to be acceptable as attendance.	Complied	As per the attendance details given by the board secretary, no noncompliance with the direction was observed.
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	Checked the membership certificate of the institute of chartered corporate secretaries of Sri Lanka obtained by Board Secretary.

3(1)	The responsibilities of the board	Complied	Audit Observation
3(1)(viii)	Check the process to enable all directors to have access to advice and services of the company secretary.	Complied	Board has approved a procedure enabling all directors access to advice and service of the company secretary.(BP No 22/09/BD(APP)/15 – 12/08/2022)
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	It was observed that the all minutes of the board meetings kept under the board secretary. As per secretary's statement at any time any director is able to access any information regarding the board meetings.
3(1)(x)	Check that the minutes of a board meeting contain or refer to the following: (a) a summary of data and information used by the board in its deliberations (b) the matters considered by the board (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the board was carrying out its duties with due care and prudence; (d) the matters which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations; (e) the understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted; and (g) the decisions and board resolutions.	Complied	It was observed that Board Minutes contains all the required details.
3(1)(xi)	Check that there are procedures agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the bank's expense.	Complied	Board has involved in obtaining professional consultancy in appropriate circumstances.
3(1)(xii)	Check that there is a procedure to determine, report, resolve and to take appropriate action relating to directors avoid conflicts of interests, or the appearance of conflicts of interest.	Complied	Related Party Transaction Policy was approved by the as per the Board Paper No 16/08/35 & Board minute No 16.08.95.02 Directors make declarations of their interests at the appointment annually.
	Check that a director has abstained from voting on any board resolution in relation to which he/she or any of his/her close relation or a concern in which a director has substantial interest, is interested.	N/A	According to the information provided by the compliance officer, no such situation taken place in year 2022.
	Check that has he/she been counted in the quorum for the relevant agenda item at the board meeting.		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	The area of authority and responsibility of the Directors are stated in the SMIB Act. By the section 7 of the SMIB Act the Board of Directors are vested with general provisions, control and administration of the affairs and the business of the Bank. As per section 8, the Board may exercise all or any of the powers of the Bank.
3(1)(xiv)	Check that the board has forthwith informed the Director of Bank Supervision of the situation of the bank prior to taking any decision or action, if it considers that the procedures to identify when the bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors.	N/A	Such situations were not occurred during the period under review.

Corporate Governance *Contd.*

3(1)	The responsibilities of the board	Complied	Audit Observation
3(1)(xv)	Check that the board has ensured the bank capitalized at levels as required by the Monetary board.	Complied	The Board audit committee examines the financial statements to ensure that the bank maintains capital adequacy ratio. As a practice, Board review quarterly financial statements.
3(1)(xvi)	Check that the board publishes, in the bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.	Complied	Complied in 2021 Annual report.
3(1)(xvii)	Check that the board adopts a scheme of self- assessment to be undertaken by each director annually, and maintains records of such assessments.	Complied	Self-evaluation forms were submitted by members of the Bank for the year 2022.
3(2)	The board's Composition		
3(2)(i)	Check that the board comprise of not less than 7 and not more than 13 directors.	Not complied	Board consisted of 7 Independent Non-Executive Directors for the year 2022. However, the board has been consisted with only 5 directors as at our verification date 06.09.2023.
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 directors have exceeded 9 years of service.
	(B) In the event of any director serving more than 9 years, check that the transitional provisions have been applied with.	N/A	Not applicable
3(2)(iii)	Check that the number of executive directors, including the CEO does not exceed one-third of the number of directors of the board.	Complied	In accordance with the provisions of the SMIB Law No.13 of 1975 the Board consists of directors appointed by the Line Ministry and all are non-executive directors.
3(2)(iv)	Check that the board has at least three independent non-executive directors or one third of the total number of directors, whichever is higher. Check if non-executive directors can be considered independent if he/she:	Complied	According to the SMIB Law No.13 of 1975, all the Directors had been appointed by the Minister, and all are independent, non- executive directors.
	a) Holds a direct and indirect shareholdings of more than 1 per cent of the bank;		There is no such situation has arisen as the Bank is fully owned by the Government.
	b) Currently has or had during the period of two years immediately preceding his/her appointment as director, any business transactions with the bank as described in Direction 3(7) hereof, exceeding 10 per cent of the regulatory capital of the bank.		No such transaction has been occurred and no such transaction has been disclosed or identified.
	c) has been employed by the bank during the two year period immediately preceding the appointment as director.		There are no such non-executive directors who were employed by the Bank.
	d) has had a close relation; who is a director, CEO, a member of key management personnel, a material shareholder of the bank or another bank. (For this purpose, a "close relation" means the spouse or a financially dependent child)		There is no such non-executive director has had a close relation according to the self- declaration made by the directors according to the section 42 of the Banking act and declaration made by KMPs.
	e) represents a specific stakeholder of the bank		
	f) Whether the chairman is an employee or a director or a material shareholder in a company or business organization: which currently has a transaction with the bank defined in Direction 3(7) of these Directions, exceeding 10 per cent of the regulatory capital of the bank, or in which any of the other directors of the bank are employed or are directors or are material shareholders; or 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.		Not applicable No transaction is noted in which a director is directly or indirectly involved during the year 2022 according to the self- declaration made by the directors according to the section 42 of the Banking act.

3(1)	The responsibilities of the board	Complied	Audit Observation
3(2)(v)	In the event an alternate director was appointed to represent an independent director, Check the person so appointed meet the criteria that applies to the independent director.	N/A	Not applicable since no alternate directors were appointed.
3(2)(vi)	Check that the bank has a process for appointing independent directors.	Complied	Directors are appointed by the Minister according to the section 7 of SMIB Law No.13 of 1975.
3(2)(vii)	Check that the stipulated quorum of the bank includes more than 50% of the directors and out of this quorum more than 50% should include non-executive directors.	Complied	All 7 directors were non –executive Directors.
3(2)(viii)	Check that the bank discloses the composition of the board, by category of directors, including the names of the chairman, executive directors, non-executive directors and independent non-executive directors in the annual corporate governance report.	Complied	Disclosures were observed in Annual Report for the year 2021.
3(2)(ix)	Check the procedure for the appointment of new directors to the board.	Complied	According to the section 7 of SMIB Law No.13 of 1975, Directors are appointed by the Minister
3(2)(x)	Check that all directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after their appointment.	N/A	Not applicable since appointments of Directors are carried out by the minister of finance as per the section 7 of SMIB Law No.13 of 1975.
3(2)(xi)	Check if a director resigns or is removed from office, the board: announce the director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the bank, if any; and issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	N/A	Not applicable since appointments of Directors are carried out by the minister of finance as per the section 7 of SMIB Law No.13 of 1975.
3(2)(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	Annual declarations obtain from directors help to identify other directorships of the existing directors.
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	As per the information given by the board secretary, all directors are below the age of 70 years.
(A)	Check that the transitional provisions have been complied with.	N/A	Not Applicable.
3(3)(ii)	Check if a person holds office as a director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the bank.	Complied	As per the information provided, there is no director holding office in more than 20 Companies.
3(3)(iii)	Check that A Director or a Chief Executive Officer of a licensed Bank operating in Sri Lanka shall not be appointed as a Director or a Chief Executive Officer of another licensed Bank, operating in Sri Lanka before the expiry of a period of 6 months from the date of cessation of his/her office at the previous Bank.	Complied	As per the information provided, there were no director or General manager/ Chief Executive Officer appointed from another bank during year 2022.
3(4)	Management functions delegated by the board		
3(4)(i)	Check that the delegation arrangements have been approved by the board.	Complied	As per the section 20, 21 of the SMIB Act, the board appointed sub committees and delegate powers accordingly.
3(4)(ii)	Check that the board has taken responsibility for the matters in 3 (1) (i) even in the instances such actions are delegated.	Complied	The Board has not delegated any matters to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.
3(4)(iii)	Check that the board review the delegation Processes in place on a periodic basis to ensure that they remain relevant to the needs of the bank.	Complied	Board has reviewed delegation of authority periodically.

Corporate Governance *Contd.*

3(1)	The responsibilities of the board	Complied	Audit Observation
3(5)	The Chairman and CEO		
3(5)(i)	Check that the roles of chairman and CEO is separate and not performed by the same individual	Complied	The roles of Chairperson and the CEO/GM are performed by two separate individuals.
3(5)(ii)	Check that the chairman is a non-executive director. In the case where the chairman is not an independent director, check that the board designate an independent director as the senior director with suitably documented terms of reference. Check that the designation of the senior director be disclosed in the bank's Annual Report.	Complied	Chairman was a non-executive director (Checked his appointment letter dated 13 January 2020)
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	Disclosed in annual report of 2021.
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.
3(5)(v)	Check that a formal agenda is circulated by the company secretary approved by the chairman.	Complied	The agenda is circulated by the company secretary dated on 20h September 2022. However, it was not approved by the chairman.
3(5)(vi)	Check that the chairman ensures, through timely submission that all directors are properly briefed on issues arising at board meetings.	Complied	The Directors are properly briefed on issues arising at the Board meetings and Board papers are circulated to Directors in advance to prepare for the board meetings.
3(5)(vii)	Check that the board has a self-evaluation process that encourages all directors to make a full and active contribution to the board's affairs and the chairman taking the lead to act in the best interest of the bank.	Complied	Self-evaluation process has been carried out to assess the contribution of the Non- executive Directors by the Board in 2022.
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 2022 and it assesses the contribution of non- executive directors.
3(5)(ix)	Check that the chairman engages in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Not Complied	The Chairman has engaged in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever. example: Chairman appointed head of Marketing
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 relevant Line Ministry. The treasury representative is a permanent member of the Board.
3(5)(xi)	Check that the CEO functions as the apex executive-in-charge of the day-to-day management of the bank's operations and business.	Complied	As per the organization chart of the bank the CEO / GM function as executive-in-charge of the day-to-day management of the Bank's operations and business. However, some executive functions (signing appointment letters of key management personal) had been done by the chairman which is not in line with the direction.

3(1)	The responsibilities of the board	Complied	Audit Observation
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	Observed the Board Paper No. 20.07.124.01 – Appointment of Directors to the Board sub Committees such as BAC BHRR, BIRMC, BNC
	Check that each board committee report is addressed directly to the board.	Complied	Observed the minutes of the sub committees are addressed directly to the Board.
	Check that the board presents in its annual report, a report on each committee on its duties, roles and performance.	Complied	Observed the reports of each committee on its duties, roles and performance in the draft Annual Report 2022.
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	According to the information provided, members of BAC were with related qualifications and experiences. Observed board minute No.20.07.124.01 dated 23rd September 2020 for the appointment of the Chairman in the BAC
	b) Check that all members of the committee are non-executive directors.	Complied	Board Audit committee consists of 3 members and one alternative member and all the members are independent non- executive directors.
	c) Check that the committee has made recommendations on matters in connection with: (i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	Complied	The External Auditor is the Auditor General who has been appointed in accordance with the Finance Act and SMIB Law No 13 of 1975.
	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.	N/A	Not applicable Auditor General who has been appointed by the Ministry of Finance according to the SMIB Law No.13 of 1975.
	e) Check that the committee has implemented a policy on the engagement of an external auditor to provide non- audit services in accordance with relevant regulations.	N/A	Not applicable
	f) Check that the committee has discussed and finalized, the nature and scope of the audit, with the external auditors in accordance with SLAuS before the audit commences.	N/A	Not applicable since the scope and the extent of the audit have been determined by the auditor general as the external auditor.
	g) Check that the committee has a process to review the financial information of the bank, in order to monitor the integrity of the financial statements of the bank, its annual report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following: (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: Meeting Date- 03/03/2022 Meeting Date- 02/09/2022 Meeting Date – 22/12/2022

Corporate Governance *Contd.*

3(1)	The responsibilities of the board	Complied	Audit Observation
	h) Check that the committee has met the external auditors relating to any issue in the absence of the executive management with relation to the audit.	Complied	BAC has met the external auditors in the absence of the executive management.
	i) Check that the committee has reviewed the external auditor's management letter and the management's response thereto.	Not complied	Management Audit Report has not been tabled at a Committee Meeting.
	j) Check that the committee shall take the following steps with regard to the internal audit function of the bank:	Complied	Internal audit plan 2022 was approved by BAC paper no 21/06/04 at the meeting held on 29th December 2021.
	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;		Internal Audit Plan – 2022 was approved by BAC Paper No. 21/06/04 at the meeting held on 29th December 2021.
	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;		Observed The Charter of Board audit committee and observed BAC paper no 21/01/04.
	Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;		BAC Chairman evaluates the performance of the Chief Internal Auditor. Assessment of the performance of senior staff members of the internal audit division are assessed by the Chief Internal Auditor.
	Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;		The Chief Internal Auditor was appointed with the recommendation of the Committee. There were no terminations during the year the year 2022. The CIA resigned from her position with effect from 29th April 2022.
	Check that the committee is appraised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;		No such situation had arisen during the year.
	Check that the internal audit function is independent of the activities it audits.		Internal audit department directly report to the Board Audit Committee. According to the Charter of Board audit committee the BAC ensures that internal audit functions are carried out independently. (BAC paper no 21/01/04)
	k) Check the minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.	Complied	Minutes of the committee has recorded the reviewed major findings and Management responses during the period under review. (Observed BAC paper no 22/01/03)
	l) Check whether the committee has had at least two meetings with the external auditors without the executive directors being present.	Complied	A representative of AG is present at all BAC meetings in 2022.
	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	Observed through the Terms Of Reference include in the Charter of Board Audit Committee.
	n) Check that the committee has met, at least four times and maintained minutes.	Complied	The committee has met seven times for the period of 2022 and has maintained minutes of meetings.

3(1)	The responsibilities of the board	Complied	Audit Observation
	o) Check that the board has disclosed in the annual report, (i) details of the activities of the audit committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual director at such meetings	Complied	Details included in the draft Annual Report of the Bank 2022.
	p) Check that the secretary of the committee is the company secretary or the head of the internal audit function.	Complied	The Secretary of the committee is the Secretary to the Board of Directors.
	q) Check that the "whistle blower" policy covers the process of dealing with; (i) The improprieties in financial reporting, internal control or other matters. (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 (iii) Appropriate follow-up action.	Complied	Whistle blower policy of the bank has been approved in BAC Meeting held on 28th January 2022.
3(6)(iii)	Does the following rules apply in relation to the Human Resources and Remuneration Committee:		
	a) Check that the committee has implemented a policy to determine the remuneration (salaries, allowances and other financial payments) relating to directors, CEO and key management personnel of the bank by review of the "Terms of reference" and minutes.	Complied	Remuneration of directors are decided by the Ministry of Finance according to circular of the Public Enterprises No. PED 3/2015. The remuneration of the KMPs is decided in par with the collective agreement.
	b) Check that the goals and targets for the directors, CEO and the key management personnel are documented.	Complied	Goals and targets for the directors, CEO /GM and for the key management personnel are documented in the Revised Corporate Plan and Action Plan 2021 - 2025.
	c) Check that the committee has considered evaluations of the performance of the CEO and key management personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Complied	We have observed that Evaluations of KMPs in 2022 had been done by the BOD and Performance Evaluation of Internal Auditor was reviewed by BAC, Performance Evaluation of CM- Compliance was reviewed by BIRMC and Performance Evaluation of CM- Risk Management was reviewed by BIRMC.
	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.
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.	Complied	Not applicable The directors are being appointed by the Ministry as per provisions in the SMIB Law No 13 of 1975. As per the section 20 of SMIB Act, the board shall appoint a fit and proper person to be the General Manager of the bank. KMP are selected as per the scheme of recruitment (SOR).
	b) Check that the committee has considered and recommended (or not recommended) the re- election of current directors.	Complied	Observed BNC TOR of the bank has recommended the re- election of the current (continuing) directors.
	c) Check that the committee has set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the key management personnel, by review of job descriptions.	Complied	SOR contains the qualifications and experience required for appointment of CEO and KMPs.
	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	Observed all completed declarations of directors

Corporate Governance *Contd.*

3(1)	The responsibilities of the board	Complied	Audit Observation
e)	Check that the committee has considered a formal succession plan for the retiring directors and key management personnel.	Complied	Directors are appointed by the Minister. Formal succession plan of KMPs had been approved by the committee in the board on 21st may 2021.
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 board of directors has appointed members to board nomination committee.
3(6)(v)	Does the following rules apply in relation to the Integrated Risk Management Committee(IRMC)		
a)	The committee shall consist of at least three non-executive directors, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.	Complied	BIRMC consist of three Non – Executive Independent Directors, GM and Head of Risk Management. Checked the Board Paper No. 20.07.124.01 for Appointment of Directors to the Board sub Committees.
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	Bank assess risks and report quarterly. However no meeting was held for the first quarter. Only five meetings were held during the year as follows.
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, operation strategic and compliance KRIs depict the relevant risk limits and responsible parties/ officers /committees. It is required to report the quarterly KRIs by the risk owners themselves with proposed corrective actions.
d)	Check that the committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	Complied	BIRMC has reviewed and considered all risk indicators. We observed BIRMC paper no. 22/ BR/03/02 of the meeting held on 30th August 2022.
e)	Check how many times the committee has met at least quarterly.	Complied	Meetings on quarterly basis. Bank has conducted 5 meetings. No meeting was held on 1st quarter.
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.	Complied	Checked the manual of Disciplinary Rules of the bank and confirmed the compliance with the regulation through the schedule given by the HR division mentioning the present situation of the disciplinary actions against the loan fraud in the bank.
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.	Not Complied	Observed Risk Assessment Report of the BIRMC meeting held on 20th September 2022. However the risk assessment report for above meeting has submitted on 28th November 2022.
h)	Check that the committee has established a compliance function to assess the bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations and that there is a dedicated compliance officer selected from key management personnel to carry out the compliance function and report to the committee periodically.	Complied	Observed Appointment letter and duty list of compliance officer and letter of the fit and proper obtained from the CBSL to the Chief Manager- Compliance to perform the compliance function of the Bank. Observed that Chief Manager -Compliance reports to the board regularly and reports to the BIRMC quarterly.

3(1)	The responsibilities of the board	Complied	Audit Observation
3(7)	Related party transactions		
3(7)(i)	Check that there is an established and documented process by the board to avoid any conflicts of interest that may arise from any transaction of the bank with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction: (a) Any of the bank's subsidiary companies; (b) Any of the bank's associate companies; (c) Any of the directors of the bank; (d) Any of the bank's key management personnel; (e) A close relation of any of the bank's directors or key management personnel; (f) A shareholder owning a material interest in the bank; (g) A concern in which any of the bank's directors or a close relation of any of the bank's directors or any of its material shareholders has a substantial interest.	Complied	Observed the related party policy and approval Board Paper No 16/08/35 Board minute no 16.08.95.02
3(7)(ii)	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. a) The grant of any type of accommodation, as defined in the Monetary board's Directions on maximum amount of accommodation. b) The creation of any liabilities of the bank in the form of deposits, borrowings and investments. c) The provision of any services of a financial or non- financial nature provided to the bank or received from the bank. d) The creation or maintenance of reporting lines and information flows between the bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.	Complied	Related Party Transaction Policy has been approved by the Board under the topic of " types of transaction with related parties" (Board Paper No 16/08/35 Board minute no 16.08.95.02 dated 16.08.2016)
3(7)(iii)	Does the board have a process to ensure that the bank does not engage in transactions with related parties as defined in Direction 3(7) (i) above, in a manner that would grant such parties "more favorable treatment" than that accorded to other constituents of the bank carrying on the same business. a) Granting of "total net accommodation" to related parties, exceeding a prudent percentage of the Bank's regulatory capital, as determined by the Board. For purposes of this sub-direction: "Accommodation" shall mean accommodation as defined in the Banking Act Directions, No.7 of 2007 on Maximum Amount of Accommodation. The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Bank's share capital and debt instruments with a maturity of 5 years or more. b) Charging of a lower rate of interest than the bank's best lending rate or paying more than the bank's deposit rate for a comparable transaction with an unrelated comparable counterparty.	Complied	Related Party Transaction Policy has been approved by the Board. Board Paper No 16/08/35 Board minute no 16.08.95.02. This is covered under the topic of "definition of more favorable treatment" of the Related Party Transaction Policy. Obtained the confirmation from IT and no such loan is granted and KMPs are within allowed accommodation limits.

Corporate Governance *Contd.*

3(1)	The responsibilities of the board	Complied	Audit Observation
	c) Providing of preferential treatment, such as favourable 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;	Complied	
	d) Providing services to or receiving services from a related-party without an evaluation procedure;		
	e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.		
3(7)(iv)	Check that the bank has a process for granting accommodation to any of its directors and key management personnel, and that. Such accommodation is sanctioned at a meeting of its board of directors, with not less than two-thirds of the number of directors other than the director concerned, voting in favor of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary board as well.		No such accommodation granted Related Party Transaction Policy mentioned that “no directors shall participate in any discussion of a proposed RP transaction for which he or she is a related party”
3(7)(v)	a) Check that the bank has a process, where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a director of the bank, that steps have been taken by the bank to obtain the necessary security as may be approved for that purpose by the Monetary board, within one year from the date of appointment of the person as a director.		No such accommodation granted Accommodation granted to the directors are governed by the section 17 of the SMIB Act and section 47 of the Banking Act.
	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.		No such accommodation granted.
	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.	Complied	Not occurred.
	d) Check the process in place to ensure clause 3 (7) (v) 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.	Complied	Not occurred.
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)	Complied	Obtained confirmation from the IT Department verified that Bank have not granted any accommodation or “more favorable treatment” to RPT.
3(7)(vii)	Check that there is a process to obtain prior approval from the Monetary board for any accommodation granted by a bank under Direction 3(7) (v) and 3(7) (vi) above, nor any part of such accommodation, nor any interest due thereon been remitted without the prior approval of the Monetary board and any remission without such approval is void and has no effect.		Not occurred.

3(1)	The responsibilities of the board	Complied	Audit Observation
3(8)	Disclosures		
3(8)(i)	Check that the board has disclosed:		
	(a) Annual audited financial statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied	Annual audited financial statements are prepared in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards.
	(b) Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied	Observed that the quarterly financial statements are also published as above as per the requirements of CBSL.
3(8)(ii)	Check that the board has made the following minimum disclosures in the Annual Report:		
	a) The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied	Disclosed in the "Directors' Responsibility, for the Financial Reporting".
	b) The report by the board on the bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements	Complied	Disclosed in director's statement on Bank's internal control over Financial Reporting Systems was included in the annual report.
	c) Check that the board has obtained the external auditor's report on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above.	Complied	Auditor General's report on Bank's Internal Control over Financial Reporting is included in the annual report.
	d) Details of directors, including names, qualifications, age, experience fulfilling the requirements of the guideline fitness and propriety, transactions with the bank and the total of fees/remuneration paid by the bank.	Complied	Observed in the draft annual report and annual declaration.
	e) Total net accommodation as defined in 3(7) (iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the bank's regulatory capital.	Complied	No accommodation provided to related parties. Confirmed from the IT Department and the Board Secretary.
	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.	Not Complied	The Bank has not disclosed the payments to the Directors.
	g) Check that the board has obtained the external auditor's report on the compliance with Corporate Governance Directions.	Complied	Auditor General report on a compliance with corporate governance directions is included in the draft annual report.
	h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify material non-compliances	Complied	There is no separate report. However, director's report included the statement of compliances with applicable laws and regulations.
	i) A statement of the regularity 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 matters.	Complied	It was not observed non compliances highlighted by the director of Bank Supervision



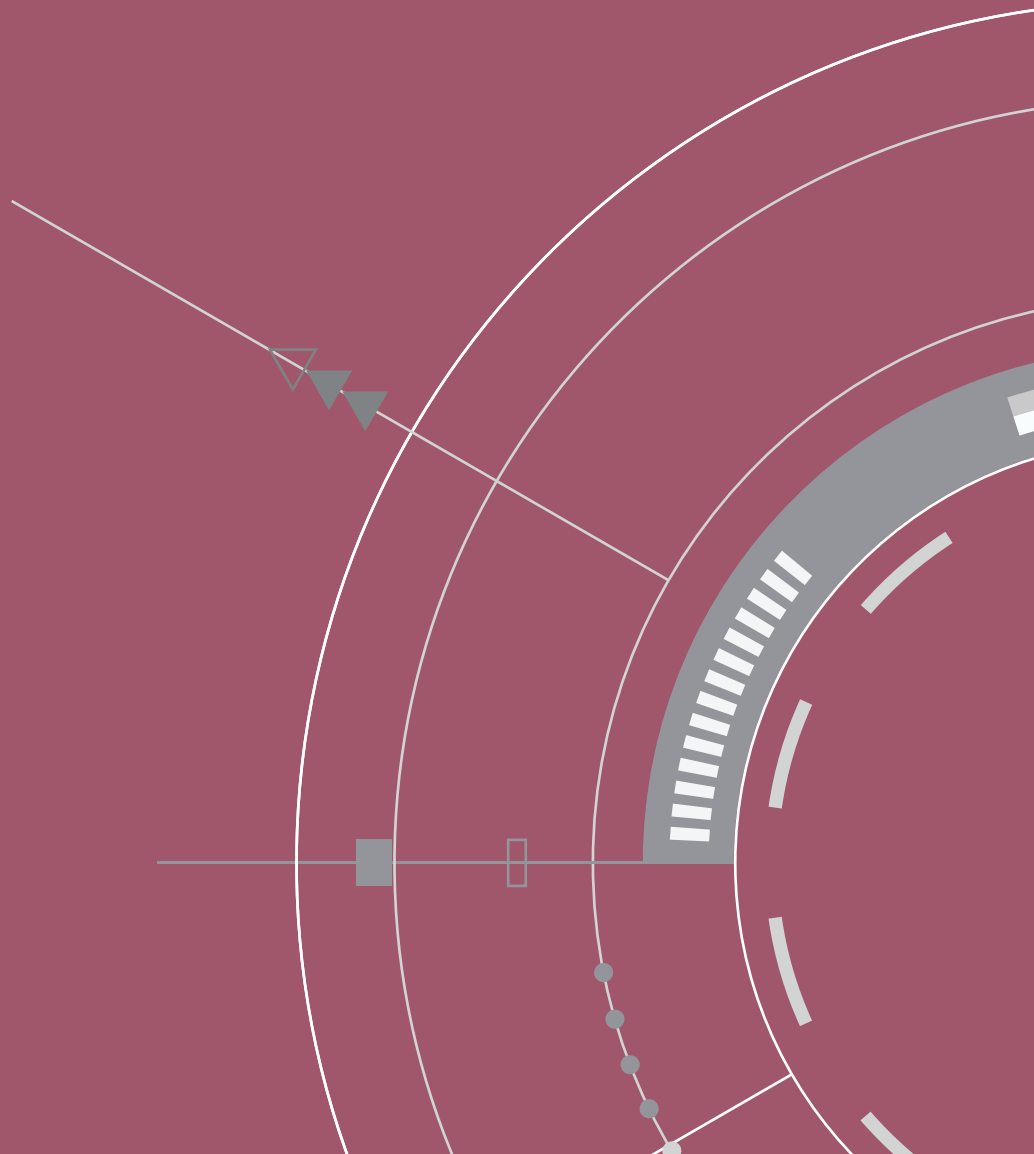
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Board Audit Committee Report

Audit Committee Charter

The Audit Committee Terms of Reference is governed by the Audit Committee Charter which is annually reviewed and approved by the Board. The Charter of the Committee was last reviewed and approved by the Board on 28 January, 2022 to ensure the new developments relating to the Committee's function.

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

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

Principle Focus

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

Composition of the Committee

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

Board Members and Attendance					
	Member	Status of BAC	Committee Member		Attendance
			Since	To	
1	Ms. W.C.N. Cooray	Chairman (Independent Director)	2020 April	1 January, 2023	7
2	Mr. H.C. Dilip Lal Silva	Member (Non executive Director)	2020 April	11 January, 2023	7
3	Mr. S.K.A. Galappatthi	Member (Independent Director)	2020 April	1 January, 2023	7

The quorum of the Audit Committee is two members or majority of members whichever is higher. Profiles of the members as at December 31, 2022 are given on page 17-20.

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

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

Meetings held in 2022

The committee met on seven (07) occasions during the year 2022. The proceedings of the meetings are tabled and ratified at the Board meetings where all key issues, concerns, actions taken are discussed and Board approval obtained thereof.

Areas of Focus and Activities in 2022

Reporting of Financial Position and Performance

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

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

The Committee also assessed the adequacy and effectiveness of the internal control mechanism in place to meet the regulatory requirements of Internal Capital Adequacy Assessment (ICAAP) for the year 2022 in accordance with the requirement stipulated in the Banking Act Direction No 1 of 2016 on "Regulatory Framework on Supervisory Review Process".

Oversight on Regulatory Compliance

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

Risk and Control Measures

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

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

Internal Audit and Inspection

During the year, the Committee reviewed and discussed eight (08) branch audit reports, four (4) Division audit reports and eleven (11) special assignments issued by the Internal Audit Division and made recommendations on the matters of significant internal control deficiencies, rectification, and follow-up process.

Five (5) investigation reports carried out by the Internal Audit with respect to the complaints made by the customers and employees as per the Whistleblowing Policy were reviewed by the Audit Committee. Whistleblowing policy was reviewed to update the new developments in the industry best practices.

Internal audit charter and manual relating to the function of internal audit were reviewed for strengthening the controls and independency of the internal audit.

Reviewed the performance of the internal audit activities against the risk-based audit plan on quarterly basis and recommended further actions for due improvements.

External Audit

By statute, the Auditor General is the External Auditor of the Bank. The committee ensured the provision of all information and documents required by the External Auditor for the purpose of annual audit. The committee has reviewed the external audit concerns disclosed in the final audit reports and reviewed the adequacy of the corrective actions taken by the management to address the concerns highlighted in the management letter and periodic audit queries.



Prof. Aminda Methsila Perera
Chairman – Board Audit Committee

Board Nomination Committee Report

Scope of the Committee

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

Composition of the Committee

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

BNC comprised of the following Independent Non - Executive Directors as of the end of the year 2022.

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

Meetings of Committee

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

Proceedings of the Committee meetings are regularly reported to the Board of Directors for their information. Five Committee meeting were held in the year 2022.

Attendance of the Committee Members at the Meetings

	Name of the Committee Member	Status in BNC	Number of Meetings Held	Number of Meetings attended
1	Dr. U Kariyawasam	Chairman	06	06
2	Mr. D L Silva	Member	06	06
3	Mr. S Galappaththi	Member	06	06
4	Mr. A J P H B M R S Bandara (Alternate)	Member	-	-

Secretary

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



J. M. Soosaithasan

Chairman of the Committee

Board Human Resources and Remuneration Committee Report

Composition and Quorum during the Year 2022

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

Committee members during the year 2022

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

Secretary

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

Scope of the Committee

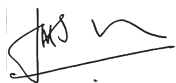
The Committee guides and advice in developing and implementing HR policies, strategies, and plans, resolving HR-related issues, and determines the remuneration policy relating to Directors, Chief Executive Officer (CEO) and Key Management Personnel of the Bank. The committee sets goals and targets for the Directors, CEO and the Key Management Personnel. Further, the committee evaluates the CEO and Key Management Personnel's performance against the set targets and goals periodically and determines the basis for revising remuneration, benefits, and other payments of performance-based incentives.

Meetings of Committee

The Human Recourses and Remuneration Committee shall meet at least once a year and meetings can be convened as and when it is necessary. Six meetings were held during the year 2022.

Attendance of the Committee Members at the Meetings

Name of the Director	Number of Meetings held	Number of Meetings attended
Dr. Udayasri Kariyawasam - Chairman	06	06
Mr. A. J. P. H. B. M. R. S. Bandara - Member	06	04
Mr. S. K. A. Galappaththi - Member	06	06
Ms. W. C. N. Cooray - Alternative Member	0	0



J. M. Soosaitathan

Chairman of the Committee

Board Integrated Risk Management Committee Report

Composition of the Board Integrated Risk Management Committee-2022

The Board Integrated Risk Management Committee comprised of four Non-Executive Directors, the General Manager/CEO of the Bank, the Head of Risk Management Division and the Secretary to the Committee. Four BIRMC meetings were conducted for the year of 2022.

The Committee composition is as follows [For the 1st, 2nd, 3rd, 4th & 5th BIRMC Meetings]

Mr. H.C.D.L.Silva	- Non-Executive Director – The Chairman to the Committee
Ms. W.C.N.Cooray	- Non-Executive Director
Mr. S.Galappatthi	- Non-Executive Director
Mr. A.J.P.H.B.M.R.S. Bandara	- Non-Executive Director
Mr. L. Ranasinghe	- Acting General Manager/Chief Executive Officer (Up to June 2022)
Mr. I Asuramanna	- General Manager/Chief Executive Officer (from July 2022)
Mrs. R. Y. Dias	- Head of Risk Management Division
Mrs. D. Alahakoon	- Board Secretary

Charter of the BIRMC

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

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

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

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

21. Review and approve the parameters and limits set by the management against various categories of risk and ascertain whether they are in accordance with the relevant laws and regulations as well as the desired policy levels stipulated by the Board of Directors
22. Taking appropriate actions against the officers responsible for failure to identify specific risks/comply with internal controls/directions and take prompt corrective actions and disciplinary procedures as recommended by the Committee
23. Review the effectiveness of the compliance function, to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies in all areas of business operations
24. Review the Business Continuity and Disaster Recovery Plan annually
25. Review and approve Bank's Internal Capital Adequacy Assessment Process
26. Review capital contributions that require notification to the Board pursuant to Bank's Major Expenditure Program
27. In the event of a significant stress event, gather information concerning the potential impact of a crisis on the businesses and review the recovery options to be pursued by Management.
28. In consultation with the Audit Committee, review and discuss with Management, at least annually:
29. Perform other activities related to the BIRMC charter as requested by the Board.

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

1. The Committee communicates and share information with the Board Audit Committee (BAC) as necessary and appropriate to permit the Audit Committee to carry out its statutory, regulatory and other responsibilities.
2. The Committee receives copies of regulatory examination reports pertaining to matters that are within the purview of the Committee and Management's responses thereto.

The BIRMC meetings

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

For Q 1st, 2nd, 3rd, 4th & 5th BIRMCs -

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

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

Reporting

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



Mr. H. C. D. L. Silva

The Chairman-Board Integrated Risk Management Committee

PAYMENT
SUCCESSFUL

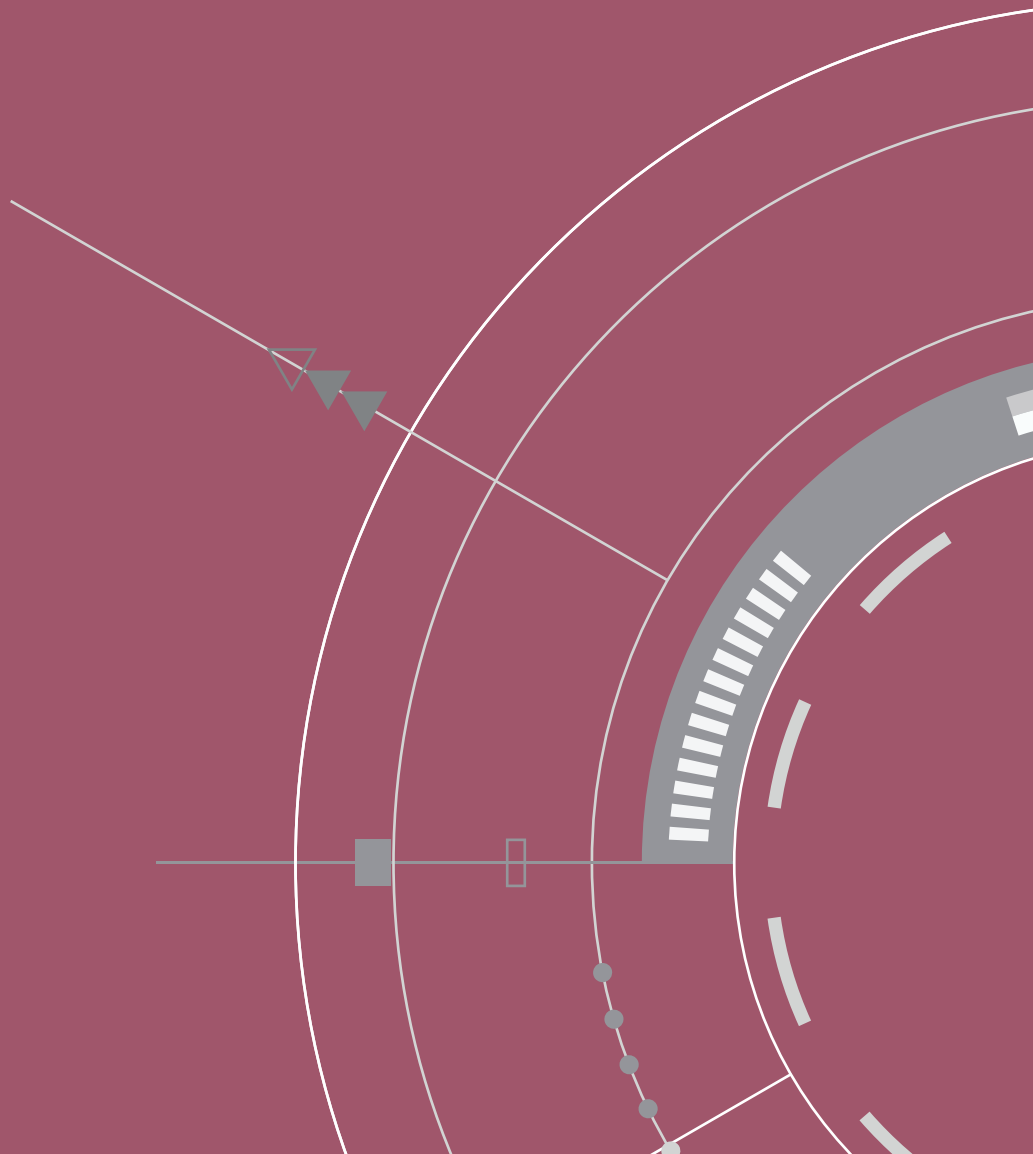


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Integrated Risk Management

Risk Management

The Sri Lanka Economy faced the most challenging year in 2022 with continuous economic disruptions with rising inflation, power cuts, fuel and gas shortages including other essential food, medicine as a result of low supply foreign exchange to import essential items. This mismatch in the supply and demand of the US dollar caused a continuous downward trend in the Sri Lankan rupee against the US dollar and other international currencies. With the Country defaulting on the national debt created a rating downgrade which further limited the country's access to foreign financing. Consequently, the country faced an interest rate hike which significantly reduced the lending across all industries and sectors of the economy and a large group of population, mainly the lower income categories fell below the poverty line.

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

The Bank's approach to risk management is underpinned by a comprehensive Integrated Risk Management Framework to identify, assess, measure, mitigate, monitor and report risks. The Board approved framework clearly defines governance structures and the process of identifying, measuring, monitoring and controlling the Bank's risk exposures. The framework was reviewed and annually based on rapid changes in the operating environment.

The objectives of the Integrated Risk Management Framework

- develop an effective system to monitor the Bank's risk exposures and assess and appropriately manage risk exposures of the Bank
- establish a mechanism to monitor Bank's compliance with internal policies, particularly with regard to risk management
- Putting in place policies and procedures that adequately transmit necessary information with respect to material risks to employees of the Bank
- evaluate the compliance of risk-taking decisions with the set policies and procedures and
- take corrective actions on identified lapses.
- Establish a strong risk culture within the Bank

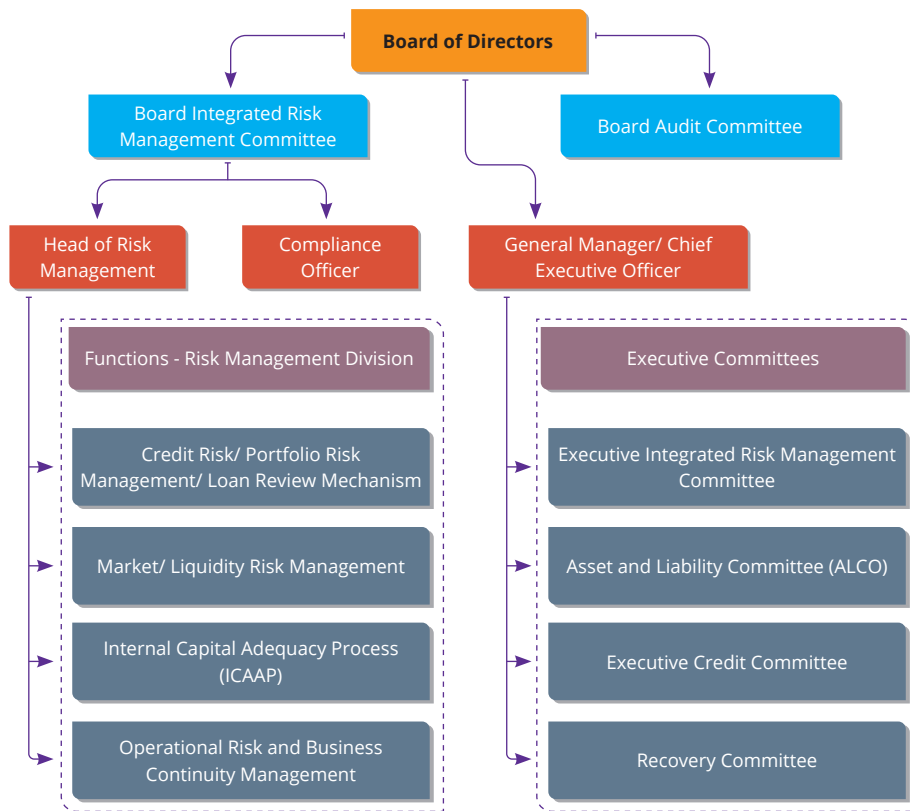
The risk management framework is based on the Three Lines of Defense Model, to ensure a structured mechanism to manage all risk exposures of the Bank.

First Line of Defence	Second Line of Defence	Third Line of Defence
Business Line/Credit Committee	Risk Management/ Compliance	Internal Audit
Primary responsibility for identifying, managing, and reporting of risks at all levels within the Bank's accepted risk appetite and risk management policies.	Risk Management Activities Develop and implement the risk management framework, policies, systems, procedures and tools and Providing support to other units, review and report key risks to the EIRMC Compliance Activities such as Regulatory adherence and Regulatory reporting	Providing independent review on effectiveness of risk management practices and internal control framework

Our Approach to Risk Management

SMIB possess a transparent approach to Risk Management that includes a vigorous committee structure and a comprehensive set of policies and limits, which are approved by the Board of Directors. The Board of Directors take the ultimate responsibility for risk oversight including determining risk appetite levels, formulating risk policies, and ensuring the effective management of risk exposures. The Board is assisted by several sub-committees and executive committees in the discharge of duties related to risk management. This provides clear segregation of duties between risk origination and approval of risk exposures whilst ensuring Board level oversight. The Board and the risk committees operate under the directions of their respective charters.

The risk governance framework of SMIB is illustrated below:



Risk Appetite

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

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

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

Risk Culture

Risk culture is a key driver to ensure risk and return trade off and managing of the risks and capital levels. SMIB believes that an effective risk culture is one that enables and rewards individuals and groups for taking the right risks in an informed manner. The Bank aims to create a culture of risk awareness where the employees take or manage risks with clear understanding and take decisions to manage risks within the given Integrated Risk Management Framework. Providing a thorough understanding of the risks relevant to the specialized roles performed by the Bank's staff is an important component to strengthen the first line of defense, enabling process efficiencies and overall stability of the Bank.

Risk Reporting

Board approved all Risk policies, procedures, tolerance limits etc. are formally documented. Specific risk reporting and ad-hoc management reports are prepared and presented to the Board of Directors, the relevant department heads and the EIRMC by the Head of Risk.

Capital Management

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

Integrated Risk Management *Contd.*

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

Principal Risks and how we mitigate them

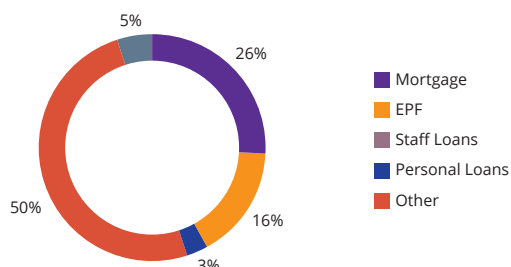
Credit risk

Credit risk is the risk of potential loss that arises from a customer or a counterparty failing to meet their contractual obligations to the Bank. We manage credit risk on an ongoing basis and Credit risk management is conducted under robust credit risk management framework approved by the Board including credit policy and credit manual procedures, segregation of delegation authority, risk ratings, collateral management and credit monitoring. Robust procedures are followed on customer screening including a special unit on income inspections including an Income Source Verification Model to ensure trustworthiness of the income sources and separate unit for pre-disbursement reviews to ensure credit quality. The internal credit rating models have been developed for each loan product category based on nature of their risk and conducted prior to offering credit facilities or increasing the credit limit and it helps to predict the probability of default and loss. Portfolio analysis including sector, product and risk rating grade-wise exposure monitoring, key risk indicators with tolerance limits and other key ratios are assessed periodically and reported to the BIRMC in line with the defined risk appetites and remedial and recovery actions. These are reviewed and updated periodically based on evolving best practices and emerging risks and opportunities.

It has to be noted that while the portfolio is dominated by the personal loan portfolio, 45% of the loan portfolio is collateralised through Mortgage and cash backed EPF loans. The Bank has taken several steps to increase its focus on SME/Business Loans in the view of diversifying into various sectors and industries.

In addition to the negative outcomes of the Covid 19 pandemic throughout 2020 to 2021, Policy changes giving rise to inflation and interest rates, Bank's weaknesses in the digital footprint were few of the additional burdens faced by the Bank during year 2022. These challenges together with the curtailed credit growth and increase in cost of living due to the strained economy and operational gaps/system issues created due to frequent

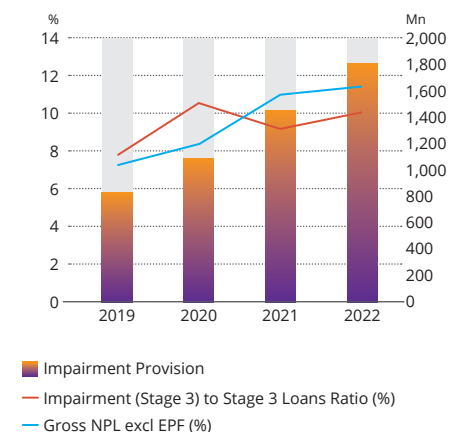
Product-Wise Portfolio Concentration



changes in regulatory directives resulted in additional stress on the increase in default risk of the Bank. The Bank was forced to re price the loan portfolio due to the low interest rates offered on the current portfolio together with the heavy price competition within the fixed deposits offered within the market. However, the Bank took steps to strengthen the recovery actions and close follow up of the portfolio, restricted the Non-Performing portion of loans to increase. In addition to strengthening of the recovery function, the Bank took several steps to improve the effectiveness of the loan origination process to ensure the asset quality of the portfolio. All Borrower Rating models were enhanced through a comprehensive review and all loans above a Board approved threshold is independently reviewed by the Risk Management Division where both pre and post disbursement activities were enhanced during the year 2022.

A strenuous review of the credit manual has also ensured an improvement in the governance, control and monitoring aspects of the credit risk management framework.

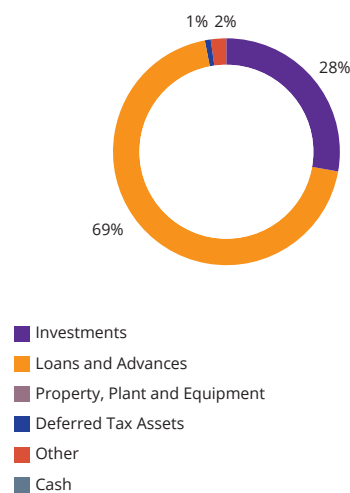
NPL Ratio and Impairment



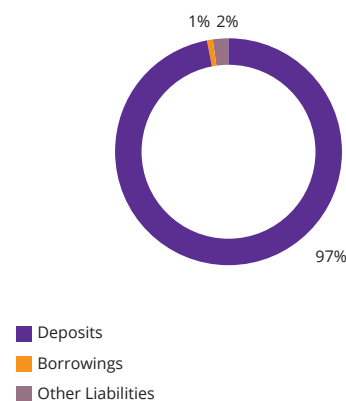
Liquidity Risk

Market risk is the risk that the value of, or income derived from the Banks's assets and liabilities changes unfavorably due to movements in market rates or prices. Liquidity risk is the risk of having inadequate cash flow to meet current or future requirements and expectations. The ALCO of SMIB holds apex responsibility for managing liquidity risks and consistently monitor the Bank's liquidity position. RMD continuously assess liquidity risk and interest Rate Risks to identify necessary corrective actions and report to the EIRMC, ALCO and BIRMC. The Treasury unit attached to the Finance Division is assigned to manage the liquidity risk and the Risk Management Department ensures same by monitoring the adherence to set limits / regulatory ratios etc. and performing other related analysis.

Asset Mix



Liability Mix



The Bank maintains a contingency funding plan in place to deal with liquidity issues and the Treasury department is responsible for maintaining and assuring the liquid asset ratio above the central bank stipulated levels. As precautionary measures the Bank has taken several steps to introduce new assets and liability products during the year reduce the duration mismatches and to be aligned with customer needs and market conditions.

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

In addition, the Banks efforts to secure a core banking solution for the Bank was successful and this implementation will take place through out 2023 and this change may increase the level of convenience for the customer due to the additional services that gets opened up to be offered to the customer base of the Bank.

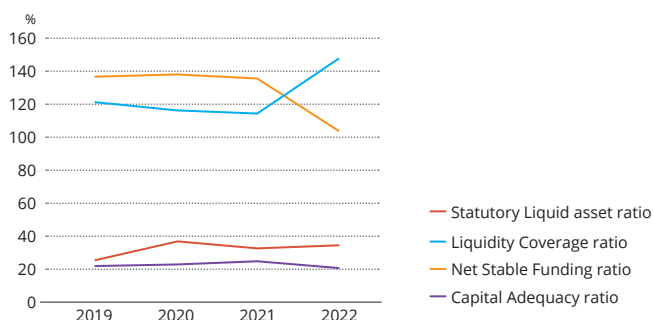
Operational Risk

Operational risk is the loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes Legal risk but excludes Strategic and Reputation risk. The Board of Directors, EIRMC together with the RMD is responsible for ensuring that the Bank's operational risk exposures are maintained in line with the defined risk appetite. A comprehensive operational risk management framework provides guidance on the effective identification and management of operational risks. The branches and Divisions, which are identified as 'First line of Defense' are responsible for the identification of risks at the point of origination. The second line of defense includes the RMD is responsible for implementing the operational risk framework and monitoring risk performance against parameters defined in the risk appetite. Assurance is provided by the Audit and Compliance units on the adequacy and effectiveness

The Banks deposit portfolio tends to be short to medium-term in nature, whereas the Bank's main business, housing finance, generally involves long-term lending. In addition, the Bank operates in a predominantly fixed-rate lending environment while the majority of its liabilities are subject to frequent re-pricing. Therefore, increased interest cost during the year due to the economic condition of the country has significantly affected the margin and the Bank is considering strategies to address this mismatch.

The Bank operates a range of internal stress tests to ensure that market risk is within an acceptable range over a series of rate scenarios including negative rates and non-parallel shifts. The liquidity movements are measured through regular cash flow forecasts, liquidity ratio and maturity gap analysis.

Liquidity Ratios



Integrated Risk Management *Contd.*

of the operational risk management processes. Risk Identification and measurement Risk and Control Self-Assessments (RCSA) are administered to all business units by the RMD and these serve as an effective tool in the identification of operational risks. In addition, the Bank has initiated actions on investing on upgrading the information system and the management information system to strengthen the internal control system to provide efficient service and facilitate accurate decision making. The Bank ensures to conduct its Business Continuity Plan effectively to recover from an unexpected disaster as soon as possible with minimum loss

Stress Testing

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

The Stress Tests carried out as at 31.12.2022 are given below.

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

Future Developments

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

Human Resource Management

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

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

Staff Strength

The total staff for the year accounted for 390, which was comparatively small; however, they have contributed to the bank performance to a greater extent. During the year, 19 staff members left the Bank, of which 1 was retired from the Bank and 18 staff members left the Bank due to resignation and other grounds. We recruited 40 new staff members to the Bank during the year. Filling of vacancies were carried out as per the recruitment policy of the bank.

Staff Variance

Management Level	Variance		
	Retired	Resigned/ Other	Externally Recruited
Corporate Management	-	4	4
Senior Management	-	2	1
Executive	-	2	4
Non Executives	1	7	3
Contract Basis / TBA	-	3	28
Total	1	18	40

Staff Strength by Tier Wise

Management Level	No: of Employees as at 31.12.2022
Corporate Management	12
Senior Management	5
Executive	113
Non Executives	231
Contract Basis/TBA	29
Total	390

Gender Profile

As an equal employment opportunity provider, SMIB employed both males and females in an equal manner. The gender profile of the SMIB accounted for 49% male and 51% female in the year 2022.

Employee Age Profile

Bank utilizes the most experienced and senior staff. In the bank, 46% of the staff is above 40 years of age.

Age category	No: of Employees as at 31.12.2022
50 or Above	81
40 - 49	99
30 - 39	136
29 or below	74
Total	390

Talent Management

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

Talent Attraction and Acquisition

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

Human Resource Management *Contd.***Training and Development**

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

During 2022 delivering and attending the training programs were also challenging due to the unfavorable volatility market surface. Most of the scheduled training programs were canceled however we managed to deliver, Internal and external training the year under review witnessed our employees going through 02 internal training programs and 25 external training programs.

The under mention table summarizes the employee participation in different categories of training granted during the year 2022.

Key Area	Number of Participants
Knowledge and Skill Development Training	75
Attitude Development Training / Motivational Training	3
Seminars, Workshops, Membership Fees, Quiz Competitions	12

Employee Service

Service category (Years)	No: of Employees as at 31.12.2022
0-4	89
5-9	118
10-14	45
15-19	49
Above 20	89
Total	390

77% of the employees have been working for more than 5 years in the Bank and contribute their service to bank is development. Providing financial as well as non-financial benefits to the staff, has catered for increased job satisfaction.

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

Future matters

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

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

Beyond Boundaries: Corporate and Product Brands in Review

2022 – Marketing Communications – Corporate and Product Brands

During the year 2022, customers and stakeholders further shift towards digital platforms. Providing accessibility to up to date information on products and services to customers became even more critical with customers facing challenges and limitations from the economic hindrances.

In 2022 introduced and launched digital & social media marketing which take SMIB brand to further step ahead. Information on product and service enrichments were also linked and communicated swiftly via digital channels for ease of accessibility for customers whilst concurrently making all efforts to create increased brand presence. This comprised channels such as the Bank website, social media platforms, SMS notifications, direct mailers, and digital PR.

The Bank's website www.smib.lk continued to be frequently updated on product and service information and branch operations keeping customers informed during the power outages and travel limitations. Despite challenging employee working environments, the website was enhanced for remote updating of critical information facilitating up to date information at any given time including the content management of customer notices, deposit and lending rates, and branch opening hours.

The social media platforms of the Bank were key communication platform that maintained continuously linked with customers and public for both product information, news regarding Bank initiatives as well as for generating leads. With the move towards digital the Bank also took immediate steps to enhance investments on digital communications for reach and engagement. These continuous initiatives during the year effected in significant growths in impressions, reach and engagement across the Bank's social media platforms.

With adverse economic condition of the country, interest rates were rapidly gone up both lending and deposit products. SMIB focusing on providing ease of payments and savings to customers during a challenging period, information on credit card plans such as Balance Transfer, Zero

percent interest Instalments, Loan on card and card offers were communicated through the Bank's social media pages with full details linked to the website.

Further, content on social media platforms was customized for lead generation supporting the credit and branches during year. Several awareness campaigns were also carried out on the social media platforms to specified audiences and geographies especially for fixed deposits and EPF loan products

Re- launched existing website with new design and user interface which help customers navigate information effortlessly. With the new user friendly web site help to increase web traffic like never before.

During the year numerous promotions were conducted specially Avurudu promotion with Rupavahini (Sirilaka piri Avurudu) and 5 year scholarship program with Neth FM were key programs which focused on corporate and product brand building of SMIB. Moreover, two internal branch competitions were executed to create intensive competition among branches to attract new deposits and cash prizes were given for top three achievers. In addition to that use different channels used to promote SMIB products.

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

CSR

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

The Bank's branch networks dispersed across the island engages with their respective communities by being an active partner in the social and trade related activities in the localities while responding with empathy at times of crisis caused by natural disaster, weather phenomena etc.

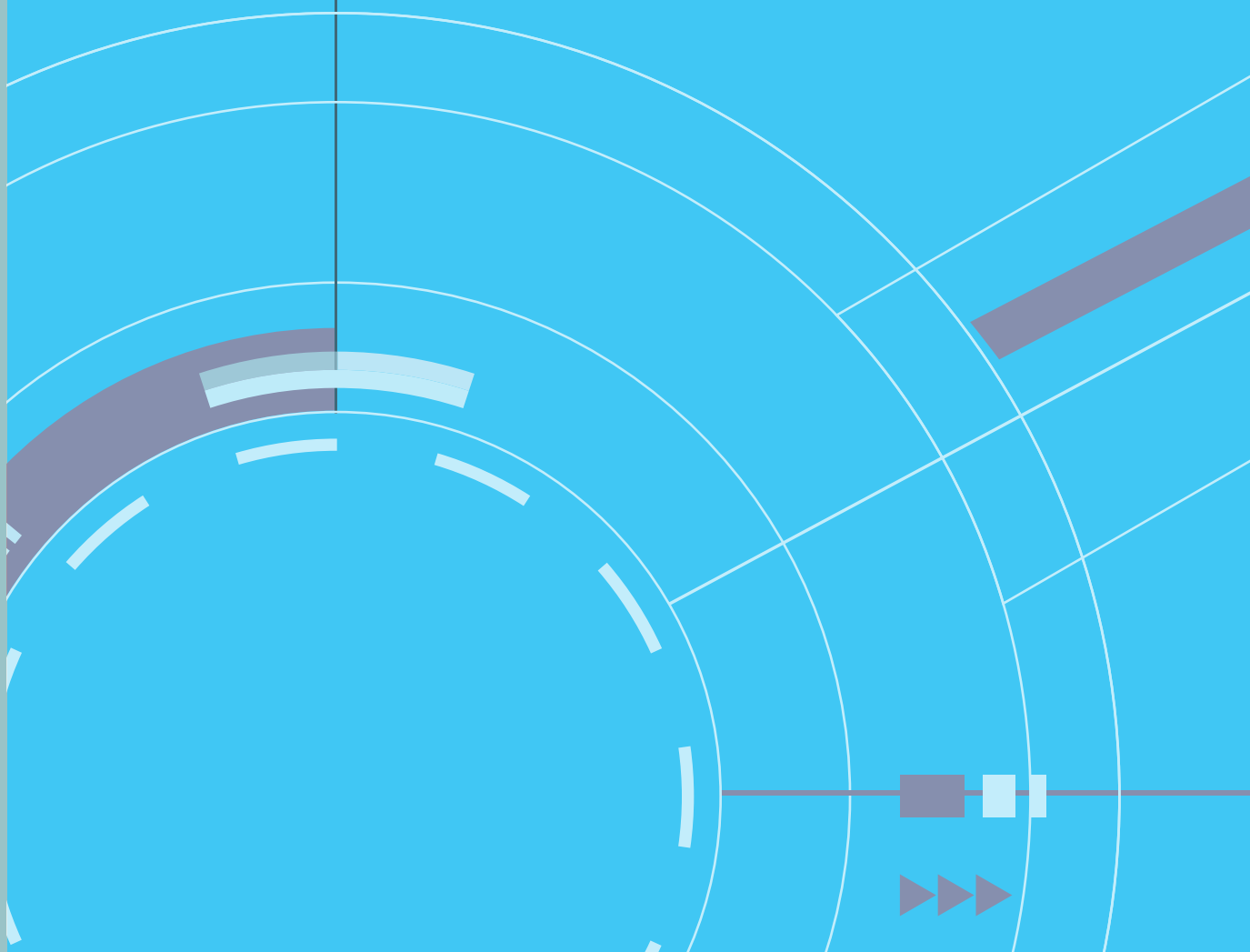
In engaging with the wider community, the Bank implements a focused CSR strategy that places emphasis on education and the wellbeing of children and youth of the country.

The Bank will continue to support community and environmental projects in line with the Bank policies as part of its commitment to social responsibility and sustainability



Trust in the future of banking

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Directors' Report

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

The Board of Directors of State Mortgage and Investment Bank take pleasure in presenting their report on the affairs of the Bank together with the Audited Consolidated Financial Statements for the year ended 31 December 2022 of the Bank and the Auditor General's Report on those Financial Statements, conforming to the requirements of the State Mortgage and Investment Bank Law No: 13 of 1975 as amended and Banking Act No. 30 of 1988 and amendments thereto.

Principal Activities of the Bank

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

Three members out of the nine constitute a quorum at any meeting of the Board. Meetings of the Board of Directors should be held at least once a month or oftener if the Chairman deems it necessary as per the State Mortgage and Investment Bank Law and the Banking Act. It has been reported that Sixteen meetings were held in the year 2022.

Directors' attendance at the Board meetings during year 2022 :

#	Name of the Director	Number of Meetings eligible to attend	Number of Meetings attended
1	Dr. K.W.A.U. Kariyawasam - Chairman	16	16
2	Mr. H. C. D. L. Silva	16	16
3	Ms. W. C. N. Cooray	16	15
4	Mr. S. K. A. Galappaththi	16	16
5	Mr. A. J. P. H. B. M. R. S. Bandara	16	15
6	Ms. H. N. N. Gunasekera	16	16
7	Mr. K. R. Abeyisiriwardana	16	15

Directors' interests in contracts

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

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

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

Directors have to disclose their other directorships and connections at Board meetings to ensure that they are refrained from voting on matters in which they have an interest. Concerning the Board of Directors of the Bank, it is reported that no Director was directly or indirectly interested in any contract or proposed contract with the Bank for the year ended 31st December 2022.

Review of Operations and Future Developments

An overview of the financial and operational performance and future Developments of the Bank during the financial year 2022 and results of those operations are contained in the Chairman's Report, General Manager's /CEO's Report and Financial Review appearing on pages 03 to 15 in this annual report. These reports form an integral part of this annual report.

The General Manager / Chief Executive Officer (CEO)

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

Vision, Mission and Values

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

Corporate Governance

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

the Corporate Governance practices. Corporate Governance report appears on pages 23 to 39 of this Annual Report.

Board Sub Committees

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

Board Audit Committee

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

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

Board Secretary functions as the Secretary of the Board Audit Committee.

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

Six Board Audit Committee meetings were held in the year 2022. The BAC report is given on page 42 to page 43 of this annual report.

Board Human Resources & Remuneration Committee

The Board Human Resources and Remuneration Committee (BHRRC) of the bank guide and advise in developing and implementing Human Resource Policies, strategies and plans on behalf of the Bank,

reviews all remuneration policy, initiatives, salary structures and terms and conditions relating the General Manager/CEO and Key Management Personnel of the Bank and maintain a consultative role with the other Board Sub committees on all human resource issues, including matters relating to all staff, which are among the primary responsibilities vested in the BHRRC.

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

The Committee is required to meet at least once a year and during the year 2022 the Committee met once. The BHRRC report is given on page 45 of this annual report.

Board Integrated Risk Management Committee (BIRMC)

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

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

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

Five Board Integrated Risk Management Committee (BIRMC) meetings were held in the year 2022. The BIRMC report is given on pages 46 to page 47 of this annual report.

Board Nomination Committee (BNC)

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

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

The BNC is required to meet at least once a year and based on the needs, more meetings can be fixed. Six Committee meeting were held in the year 2022. The BNC report is given on page 44 of this annual report.

Capital Adequacy Ratio (CAR)

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

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

Risk Management

The Board of Directors assumes overall responsibility for managing risks. The specific measures taken by the Bank in mitigating the risks are detailed on pages 50 to 54 of this Annual Report.

Directors' Report *Contd.***Internal Control**

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

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

The Directors Report on Internal Control appears on Pages 63 & 64 in this annual report.

Profit and Appropriations

The Total Income of the Bank for the year 2022 was Rs. 7,402 Mn Details of profit relating to the Bank are given in the following Table:

Details	Rs. (Mn)
Reserves	5,585
Capital Expenditure	40
Market/ Fair Value of Immovable Properties	-
Contributed Capital	889
Substantial Shareholding and Share Information	-
Contributions to the government Statutory Payments	310
Taxation	310
Events Occurring after the Balance Sheet Date	N/A
Post Balance Sheet Events	N/A
Going Concern N/A	N/A

Compliance with Applicable Laws, Rules and Regulations

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

Equitable Treatment to all Stakeholders

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

Customers and Borrowers

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

Depositors and Suppliers

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

Auditor's Report

The Auditor General is the Auditor of the State Mortgage & Investment Bank. The audit of accounts of the State Mortgage & Investment Bank for the year ended 31st December 2022 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, 2022 is given on Pages 63 to 73 of this Annual Report.

Acknowledgment

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

By order of the Board,



Dilani Alahakoon
Secretary to the Board

Director's Statement on Internal Control over Financial Reporting

Responsibility

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

The Board of Directors ("The Board") is responsible for ensuring that the process of the sound internal control system of the Bank is in place and for reviewing its adequacy and effectiveness. In considering such adequacy and effectiveness, the Board recognizes that the business of banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlighting any deviations from the limits and indicators which comprise the risk appetite of the Bank. In this light, considering the adequacy and effectiveness of the controls, the Board has recognized that the internal control system has been designed to provide reasonable assurance that the assets are properly safeguarded, maintaining proper books of accounts and reliability of the financial reporting system of the bank. However, the system does not provide absolute assurance against material misstatement of financial information and records or for the elimination of irregularities and frauds due to inherent limitations.

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

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

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

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

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

- The Board has established different subcommittees to ensure the adequacy and integrity of the internal control system within the bank and delegated the authority of the board among the layers of corporate management, senior management, and managers of the bank in order to assist the board in achieving the corporate objectives, strategies, and the annual budget as well as implementation of policies and procedures for assessing and managing of risk faced by the bank.
- Board Integrated Risk Management Committee consists of independent non-executive directors. The committee is responsible for reviewing the risk profile of the bank, identifies the principal risk faced by the bank and prepares the policies based on the risk profile and risk appetite of the bank.
- The Internal Audit Division of the Bank performs the tests based on the risk-based audit approach to ensure whether the financial, administrative and operational activities of the bank agree with the laid down internal control policies and procedures. Audits are carried out on all functional units and branches frequently depending on the level of risk associated with the functional units and the products of the bank. Chief Internal Auditor is responsible for objective and independent assessment on the internal control system and submitting regular reports to the Board Audit Committee in respect of the audit observations on irregularities, misstatements, frauds, administration and operational affairs of the bank.
- In general, the Board Audit Committee reviews the overall effectiveness of the internal control system in place and reports to the Board of Directors regularly in respect of the specific observations on internal control weaknesses. In this respect, the mechanism used by the committee includes; review of the Auditor General's report, Internal Audit reports, regulatory reports, annual/ monthly Financial Statements and progress reports.
- The Bank adopted the new Sri Lanka Accounting Standards Comprising LKAS and SLFRS in 2012. Since adoption of such Sri Lanka Accounting Standards, continuous monitoring and progressive enhancement of processes to comply with new requirements of recognition, measurement, classification, and disclosure are being made.
- The Bank adhered to Sri Lanka Accounting Standards - SLFRS 9 - "Financial Instruments" with effect from 1 January, 2018. In order to comply with the requirements of SLFRS 9, the Bank developed an expected credit loss (ECL) model using a wide range of forecast economic scenarios. During the year, model validation of impairment policy was obtained from the International Firm of Chartered Accountants (Ernst & Young). The Bank has taken adequate measures to comply with the Directions issued by the Central Bank of Sri Lanka regarding classification, recognition, and measurement of credit facilities under SLFRS 9.
- The Board has reviewed whether the financial reporting processes of the bank ensure that the annual Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards and the guidance on reporting requirements issued by the Central Bank of Sri Lanka.
- Management level committees have also been functioning with appropriate empowerment to ensure effective management and supervision of Bank's core areas in the day-to-day business operations.

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

- A structured annual review of the design and effectiveness of the bank's internal control over financial reporting has been carried out. The Board has already approved the documentation of the internal control system of the bank which would facilitate review of the effectiveness of the internal controls.
- The Bank complied with the economic relief measures introduced by the Central Bank of Sri Lanka on the affected industries and individuals due to the adverse macroeconomic condition prevailing in the country. Accordingly, the Bank established the post covid 19 revival unit in compliance with the guidelines issued by the Central Bank. Further, concessions were granted to the affected borrowers amidst the prevailing extraordinary macroeconomic circumstances.
- The Board recognized that the changes in the technological and information system environment of the business industry are vitally important to be considered for the abreast of industry best practices. To address this matter, the Board has taken an initiative to invest in a new core banking system aiming to increase the productivity in the business operations and leverage the customer experience to achieve the best result for the organization's growth perspective.
- The comments made by the external auditor and the Central Bank on the internal control deficiencies in previous year and during the year were also considered and necessary steps were taken to address them where necessary.

Confirmation

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

By Order of the Board.



Prof. D. A. M Perera

Chairman – Board Audit Committee/Independent Director



Mr. H. C. D. L. Silva

Member – Board Audit Committee/Non-Executive Director



Mr. S. K. A. Galappatthi

Member – Board Audit Committee/Independent Director

Auditor General's report on Bank's internal Control**ජාතික විගණන කාර්යාලය**
தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICEමගේ අංකය
எனது இல.
My No.

} BAN/F/SMIB/IC/2022/17

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உமது இல.
Your No.

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திகதி
Date

} 24 October 2023

The Chairman,
State Mortgage & Investment Bank

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

This report is to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") of State Mortgage & Investment Bank included in the annual report for the year ended 31 December 2022.

Management's Responsibility

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

My Responsibility and Compliance with SLSAE 3050 (Revised)

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

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

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



Auditor General's report on Bank's internal Control *Contd.*

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

Summary of work performed

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

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

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

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

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

Conclusion

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



W.P.C. Wickramaratne
Auditor General

Directors' Responsibility for Financial Reporting

Directors' Responsibility for Financial Reporting

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

The Board of Directors of the Bank confirm that the Financial Statements of the Bank will reflect a true and fair view of the state of affairs as at 31st December 2022, and the financial performance of the Bank for the financial year then ended. The Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report.

Financial Statements

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

The Financial Statements for the year 2022 prepared and presented in this Annual Report are consistent with the underlying books of accounts and are in conformity with the requirements of Generally Accepted Accounting Principles, Sri Lanka Accounting Standards' and Sri Lanka Financial Reporting Standards that give a true and fair view of the financial position of the Bank at the end of each financial year in compliance with the relevant statutory requirements.

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

1. The appropriate accounting policies have been selected, adopted and applied to prepare the Financial Statements according to the existing financial reporting framework in a consistent manner, material departures, if any, have been disclosed and explained;
2. All applicable accounting standards as relevant have been followed;
3. Judgments and estimates have been made which are reasonable and prudent.

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

The Board of Directors also approves the Interim Financial Statements prior to their release, following a review and recommendation by the Board Audit Committee. The Board Audit Committee report appears on Pages 42 to 43 of this annual report. The Board of Directors ensures that the Financial Statements comply with the prescribed format issued by the Central Bank for Licensed Specialized Banks.

Going Concern

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

Internal Controls and Risk Management

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

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

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

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

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

Compliance Report

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

Directors' Responsibility for Financial Reporting *Contd.*

Audit Report

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

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

The responsibilities of the Auditor in relation to the Financial Statements are set out in the Report of the Auditor General on page 69 of this Annual Report.

Directors' interests in contracts of significance

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

Statutory payments

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

By Order of the Board,



Dilani Alahakoon
Secretary to the Board

Report of the Auditor General



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NATIONAL AUDIT OFFICE



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எனது இல.
My No.

BAN/F/SMIB/FS/2022/15

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உமது இல.
Your No.

දිනය
திகதி
Date

14 August 2023

Chairman

State Mortgage and Investment Bank

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the State Mortgage and Investment Bank for the year ended 31 December 2022 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the State Mortgage and Investment Bank (the “Bank”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, the accompanying financial statements of the Bank give a true and fair view of the financial position of the Bank as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for



Report of the Auditor General *Contd.*

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NATIONAL AUDIT OFFICE

the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Other information included in the Bank's 2022 Annual Report

The other information comprises the information included in the Bank's 2022 Annual Report but does not include the financial statements and my auditor's report thereon, which is expected to be made available to me after the date of this auditor's report. Management is responsible for the other information.

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

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

When I read the Bank's 2022 Annual Report, if I conclude that there are material misstatements therein, I am required to communicate that matter to those charged with governance for correction. If further material uncorrected misstatements are existed those will be included in my report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution that will be tabled in due course.

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

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

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



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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

Report of the Auditor General *Contd.*

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- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

2. Report on Other Legal and Regulatory Requirements


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

- 2.1.1 I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Bank as per the requirement of section 12 (a) of the National Audit Act, No. 19 of 2018.
- 2.1.2 The financial statements presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- 2.1.3 The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.



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- 2.2 Based on the procedures performed and evidence obtained which were limited to matters that are material, nothing has come to my attention;
- 2.2.1 to state that any member of the governing body of the Bank has any direct or indirect interest in any contract entered into by the Bank which are out of the normal cause of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018;
- 2.2.2 to state that the Bank has not complied with any applicable written law, general and special directions issued by the governing body of the Bank as per the requirement of section 12 (f) of the National Audit Act, No. 19 of 2018;
- 2.2.3 to state that the Bank has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018;
- 2.2.4 to state that the resources of the Bank had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018.


W.P.C. Wickramaratne
Auditor General

Statement of Financial Position

As at 31 December 2022	Note	2022 Rs.	2021 Rs.
Assets			
Cash and Cash Equivalents	13	126,480,437	143,854,162
Placements with Banks	14	13,002,272,044	11,774,900,238
Financial Assets - FVPL	15	-	25,450,000
Financial Assets - AC			
- Loans and Advances	16.1	39,267,237,754	38,102,856,586
- Debt and Other Instruments	17	2,574,993,439	1,991,908,289
Financial Assets - FVOCI	18	5,379,078	5,379,078
Property, Plant and Equipment	19	78,212,808	55,855,764
Right-of-use Assets	33.1	201,736,713	108,902,663
Deferred Tax Assets	20	632,156,452	222,859,204
Other Assets	21	1,076,476,258	891,087,350
Total Assets		56,964,944,983	53,323,053,333
Liabilities			
Due to Banks	22	23,380,935	31,476,885
Financial Liabilities at Amortised Cost			
- Due to Depositors	23	49,139,971,357	45,738,377,529
- Due to Debt Securities Holders		-	-
- Due to Other Borrowers	23	278,050,561	270,354,226
Employee Benefit Liability	24	521,826,703	437,588,888
Other Liabilities	25	527,230,720	561,683,230
Total Liabilities		50,490,460,277	47,039,480,757
Equity			
Stated Capital/Assigned Capital	26	889,812,899	889,812,899
Statutory Reserve Fund	27	306,650,839	296,560,939
Retained Earnings	28	4,200,211,965	4,019,389,735
Other Reserves	29	1,077,809,004	1,077,809,004
Total Equity		6,474,484,706	6,283,572,576
Total Equity and Liabilities		56,964,944,983	53,323,053,333

Certification:


These Financial Statements give a true and fair view of the state of affairs of the State Mortgage and Investment Bank as at 31 December 2022 and its profit for the year then ended.



Mr. K. L. N. A. Perera

Assistant General Manager (Finance)

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.
Approved and Signed for and on behalf of board.



Mr. J. M. Soosaitasan

Chairman



Mr. S. K. A. Galappatthi

Director



Mr. I. T. Asuramanna

General Manager/CEO

Income Statement

For the year ended 31 December 2022

	Note	2022 Rs.	2021 Rs.
Interest Income	4	7,401,968,299	5,253,662,217
Interest Expenses	4	(5,462,981,407)	(2,951,466,283)
Net Interest Income	4	1,938,986,892	2,302,195,934
Fee and Commission Income	5	91,724,320	138,785,088
Fee and Commission Expenses		-	-
Net Fee and Commission Income	5	91,724,320	138,785,088
Net Fair Value Gains/(Losses) from FA at FVPL	6	(2,134,408)	4,100,000
Net Other Operating Income	7	25,569,713	28,728,618
Total Operating Income		2,054,146,517	2,473,809,641
Impairment Charges	8	(365,747,028)	(362,120,776)
Net Operating Income		1,688,399,489	2,111,688,865
Personnel Expenses	9	(1,089,955,264)	(1,083,959,864)
Depreciation and amortization expenses	10, 33.2	(96,575,584)	(100,035,067)
Other Expenses	10	(353,428,278)	(306,273,537)
Operating profit/(loss) before VAT, & SSCL		148,440,363	621,420,396
Value Added Tax (VAT) on Financial Services	34	(231,066,646)	(216,222,958)
Social Security Levy (SSCL)		(6,378,836)	-
Profit/(Loss) before Tax		(89,005,118)	405,197,439
Income tax expenses	11	290,803,108	(152,208,129)
Profit/(Loss) for the Year		201,797,990	252,989,310

Statement of Comprehensive Income

For the year ended 31 December 2022

	2022 Rs.	2021 Rs.
Profit/(Loss) for the Year	201,797,990	252,989,310
Items that will be reclassified to income statement		
Gains and Losses on Re-Measuring Financial Assets	-	-
Items that will not be reclassified to income statement		
Re-measurement of post-employment benefit obligations	(45,905,377)	13,334,869
Deferred Tax effect on Actuarial Gains Losses on defined benefit obligations	13,771,613	(3,200,369)
Total Comprehensive Income for the Year	169,664,226	263,123,811

Statement of Changes in Equity

For the year ended 31 December 2022	Assigned Capital	Statutory Reserve	Capital Reserve	General Reserve	Title Indemnity Fund	Retained Earnings	Total
Balance as at 31.12.2020	889,812,899	283,911,474	393,498,004	683,280,000	1,031,000	3,767,975,310	6,019,508,686
Prior Period Adjustments						940,079	940,079
Net Profit for the Year						252,989,310	252,989,310
Other Comprehensive Income						10,134,501	10,134,501
Transfer During the Year		12,649,465				(12,649,465)	-
Transfer to Consolidated Fund						-	-
Balance as at 31.12.2021	889,812,899	296,560,939	393,498,004	683,280,000	1,031,000	4,019,389,735	6,283,572,576
Prior Period Adjustments						21,247,904	21,247,904
Net Profit for the Year						201,797,990	201,797,990
Other Comprehensive Income						(32,133,764)	(32,133,764)
Transfer During the Year		10,089,899				(10,089,899)	-
Transfer to Consolidated Fund						-	-
Balance as at 31.12.2022	889,812,899	306,650,839	393,498,004	683,280,000	1,031,000	4,200,211,965	6,474,484,706

Statement of Cash Flows

For the year ended 31 December 2022

	From 01/01/2022 to 31/12/2022 Rs.	From 01/01/2021 to 31/12/2021 Rs.
Cash flows from operating activities		
Interest Received	6,532,818,744	4,703,618,056
Interest Payments	(3,983,524,366)	(2,899,519,464)
Net commission receipts	110,156,617	142,015,360
Payments to Employees	(1,139,105,522)	(860,975,948)
VAT, DLR & NBT ,ESC on financial services	(224,608,218)	(263,455,214)
Receipts from Other Operating Activities	3,852,616	5,279,618
Payments on Other Operating Activities	(393,178,818)	(236,784,669)
Operating profit before changes in Operating Assets & Liabilities	906,411,053	590,177,738
(Increase)/Decrease in Operating Assets		
Financial assets at amortised cost - loans & advances	(1,413,593,730)	(1,613,363,454)
Other Assets	(259,037,405)	403,702,195
	(1,672,631,135)	(1,209,661,259)
Increase/(Decrease) in Operating Liabilities		
Financial liabilities at amortised cost - due to depositors	1,996,748,599	349,887,137
Financial liabilities at amortised cost - due to other borrowers	(90,186,677)	(91,129,018)
Other liabilities	(56,713,935)	127,029,624
	1,849,847,988	385,787,743
Net cash generated from operating activities before Income Tax	1,083,627,905	(233,695,777)
Income Taxes Paid	(85,810,622)	(147,002,986)
Net Cash from Operating Activities	997,817,283	(380,698,763)
Cash flows from investing activities		
Dividend Received	21,324,000	23,449,000
Proceeds from the sale of property, plant and equipment	554,282	-
Purchase of Property ,Plant & Equipment	(40,389,658)	(21,165,457)
Net Proceeds from the sale and maturity of financial investments	(1,004,675,159)	414,718,845
Net cash (used in)/from investing activities	(1,023,186,536)	417,002,388
Net increase/(decrease) in cash & cash equivalents	(25,369,253)	(16,091,476)
Cash and cash equivalents at the beginning of the period	128,468,755	128,468,755
Cash and cash equivalents at the end of the period	103,099,502	112,377,277
Reconciliation of Cash and Cash Equivalents		
Cash and Short Term Funds	126,480,437	143,854,162
Borrowings from Banks (OD)	(23,380,935)	(31,476,885)
Cash and cash equivalents at the end of the period	103,099,502	112,377,277

Accounting Policies & Notes to the Financial Statements

1. Corporate Information

1.1. General

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

1.2. Principal Activities and Nature of Operations

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

1.3. Directors' Responsibility Statement

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

1.4. Date of Authorization

These Audited Financial Statements of the Bank for the year ended 31st December 2022 were authorized for issue in accordance with the approval given by the Board of Directors of the Bank at the meeting.

The staff strength of the Bank as at December 31, 2022 was 387 (363 as at December 31, 2021)

2. Accounting Policies

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

2.1 Basis of Preparation

2.1.1 Statements of compliance

These Financial Statements for the year ended 31 December 2022 were prepared and presented in accordance with Sri Lanka

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

2.1.2 Presentation of Financial Statements

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

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

2.1.3 Significant accounting judgments, Estimates and Assumptions

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

2.1.3.1 Classification of financial assets and liabilities

As per SLFRS 9, the significant accounting policies of the bank provides scope for financial assets to be classified and measured into different categories, namely,

at amortised cost, Fair Value Through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVPL) based on the following criteria; The entity's business model for managing the financial assets as set

2.1.3.2 Fair value of financial instruments

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

2.1.3.3 Impairment losses on financial assets

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

As per SLFRS 9, Expected Credit Loss (ECL) calculations are outputs of complex models with a number of underlying assumptions

regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include

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

2.1.4 Rounding

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

2.1.5 Basis of measurement

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

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

2.1.6 Going Concern

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

2.1.7 Materiality and aggregation

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

2.1.8 Comparative information

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

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

2.2.1 Interest Income and Expenses

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

The Effective Interest Rate Method

The interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost, financial instruments designated at FVPL. Interest income on interest bearing financial assets measured

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

The EIR (and therefore, the amortised cost of the asset) is calculated by considering any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk. The adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the Statement of Financial Position with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest and similar income in the income statement.

2.2.2 Dividend Income

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

2.2.3 Net Trading Income

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

2.2.4 Other Income

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

Accounting Policies & Notes to the Financial Statements *Contd.***2.2.5 Other Expenses**

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

2.2.6 SLFRS 15 – Revenue from Contracts with Customers

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

2.3 Tax Expenses

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

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

2.3.1 IFRIC 23 – Uncertainty over income tax treatment

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of LKAS 12 "Income

Taxes". It does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated within certain tax treatments. The interpretation specifically addresses the following:

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

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

2.3.2 Amendments to the Income Tax Law Announced by the Government

As per notice dated April 08, 2020 issued by the Inland Revenue Department on "Implementation of Proposed Changes to the Inland Revenue Act No. 24 of 2017", effective from January 01, 2020.

Corporate Income Tax rate was revised from 24% to 30% with effect from October 01, 2022. Accordingly 24 % was considered for first half of the year and 30% was considered for second half of the year in arriving of provision for income tax liability for the year.

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

2.3.3 Deferred Tax Assets

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

Deferred tax asset has increased during the year mainly due to deferred tax booked on specific provision made on loans and advances, and adjustment made on current tax rate in line with increase of income tax rate from 24% to 30%. Accordingly, the Bank's Financial Statements reflected a tax reversal of Rs.. 396 million resulting in profit after tax of Rs.. 202 million.

Details of deferred tax disclosed in the note number 20

2.3.4 Value Added Tax on Financial Services (VAT)

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

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

2.3.5 Nation Building Tax (NBT) on Financial Services

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

2.3.6 Debt Repayment Levy (DRL) on Financial Services

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

2.3.7 Economic Service Charge (ESC)

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

2.3.8 Crop Insurance Levy (CIL)

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

2.4 Significant accounting policies – Recognition of assets and liabilities

2.4.1 Employee Benefit Liability- Gratuity

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

Normal and Early Retirement

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

Interest Cost

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

Funding Arrangements

The Gratuity liability is not externally funded.

Actuarial Valuation

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

	2022	2021
Interest Rate	18%	11.00%
Rate of Annual Salary Increase	10%	6.50%
Retirement Age	55-60 years	55-60 years

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

2.4.2 Employee Benefit Liability - Medical Benefit

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

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

The assumptions used are as follows.

	2022	2021
Discount Rate	18%	11.5%
Medical Expense Escalation	12%	6.5%
Participant Data (Actives) census information	31.12.2022	31.12.2021

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

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

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

Funding Arrangements - The Medical Benefit Scheme is not externally funded

2.4.3 Defined Contribution Plan

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

Accounting Policies & Notes to the Financial Statements *Contd.***2.4.3.1 Employees' Provident Fund**

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

2.4.3.2 Employees' Trust Fund

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

2.4.4 Leases

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

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank according to SLFRS 16 Leases.

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

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

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

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

2.4.4.1 Identifying a lease

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

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

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

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

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

2.4.5 Cash and Cash Equivalents

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

2.4.6 Property, Plant and Equipment

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

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

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

2.4.6.2 Basis of Recognition

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

2.4.6.3 Basis of Measurement

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

2.4.6.4 Depreciation

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

The estimated useful lives are as follows

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

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

2.4.6.5 Subsequent Cost

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

2.4.6.6 Restoration Cost

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

2.4.6.7 Capital Work-in-Progress

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

2.4.6.8 De-recognition

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

2.4.7 Intangible Assets

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

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

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

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

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

2.4.8 Impairment of Non-Financial Assets

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

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

2.4.9 Financial Guarantees

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

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

2.4.10 Provisions

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

Accounting Policies & Notes to the Financial Statements *Contd.**2.4.11 Financial Instruments - Initial Recognition***2.4.11.1. Date of Recognition**

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

2.4.11.2 Initial Measurement of Financial Instruments

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

2.4.11.3 Day 1 Profit or Loss

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

2.4.11.4 Measurement Categories of Financial Assets and Liabilities

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

- Amortised cost
- FVOCI
- FVPL

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

*2.4.12 Financial Assets and Liabilities***2.4.12.1 Due from Banks, Loans and Advances to Customers, Financial Investments at Amortised Cost**

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

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

The details of these conditions are outlined below.

2.4.12.2 Business Model Assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel

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

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

2.4.12.3 The SPPI Test

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

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

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

2.4.12.4 Debt Instruments at FVOCI

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

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

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out LKASs. On de-recognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss. Bank does not hold debt instrument measured at FVOCI for the year ended 2022.

2.4.12.5. Equity Instruments at FVOCI

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

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Bank hold unquoted equity instrument of Fitch rating company and Credit information Bureau for the year ended 2002. Note Number 19

2.4.12.6 Debt Issued and Other Borrowed Funds

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

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

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

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.

Or

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

Financial assets and financial liabilities at FVPL are recorded in the statement of Financial Position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, considering any discount/

premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using contractual interest rate, Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established. Unit trust hold as at 31 December, 2022 was measured at FVPL.

2.4.12.8 Reclassification of Financial Assets and Liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2021 & 2022.

2.4.12.9 De-recognition of Financial Assets and Liabilities

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

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

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

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

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

Accounting Policies & Notes to the Financial Statements *Contd.***2.4.12.9.2 De-recognition Other than for Substantial Modification****Financial Assets**

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

- The Bank has transferred its contractual rights to receive cash flows from the financial asset
- or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement

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

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

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

A transfer only qualifies for de recognition if either:

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

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

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

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

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification

is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

2.4.12.10 Impairment of Financial Assets

Provision for possible impairment losses is made on the basis of a continuous review of all loans and advances to customers in accordance with the Sri Lanka Financial Reporting Standard (SLFRS) No. 09 on 'Financial Instruments: Recognition and measurement in the Financial Statements of the Banks. The following valuation techniques were used to calculate fair value of loans as it is necessary which are as follows. Details of the impairment of the financial assets are disclosed in the note number 16 & 17

2.4.12.10.1 Individual Impairment Method

- i. Individual Impairment is made for the loans excluding cash back loans including all loans over Rs. 5 Mn or 0.1% of the capital base is considered as individually significant. Facilities for individual impairment test shall be selected based on availability of objective evidence of impairment.
- ii. Individually significant assessment and not impaired individually
Loans which are individually significant but not impaired will be assessed collectively for impairment either under Stage 1 or Stage 2 based on the criteria whether there has been significant credit deterioration since origination. In establishing significant credit deterioration for the facilities classified under individual impairment following criteria are considered.

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

2.4.12.10.2 Collective Impairment Method

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

2.4.12.10.2.1 Overview of the ECL Principles

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

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank's policy for grouping financial assets measured on a collective basis.

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

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

- Stage 1** When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2** When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3** Loans considered credit-impaired (as outlined in Note 13). The bank records an allowance for the LTECLs.
- POCI** Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

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

2.4.12.10.2.3 The Calculation of ECLs

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

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

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

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

Accounting Policies & Notes to the Financial Statements *Contd.**2.4.12.10.2.4 The Mechanics of the ECL Method are Summarised Below:*

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

2.4.12.11 Debt Instruments Measured at Fair Value through OCI

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

2.4.12.12 Purchased or Originated Credit Impaired Financial Assets (POCI)

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

2.4.12.13 Forward Looking Information

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

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

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

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

2.4.12.14 Collateral Valuation

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

2.4.12.15 Collateral Repossessed

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

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

2.4.12.16 Write-offs

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

2.4.13 Events after the Reporting Period

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

Change in rate of VAT on financial services

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

New NPL Direction

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

2.4.14 Related Party Transactions with Government and Government Related Entities

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

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

2.5.1 Interest Income

Details interest income are given in the note number 03

2.5.2 Interest and Similar Income

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

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

2.5.3 Fee and commission income

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

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

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

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

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

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

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

2.7 Impact due to the COVID-19

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

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

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

Details of day one difference and interest income are disclosed in the note number 16.3.2

Accounting Policies & Notes to the Financial Statements *Contd.***3. Gross income**

Accounting Policy

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

For the Year ended 31 December

	2022 Rs.	2021 Rs.
Interest Income	7,401,968,299	5,253,662,217
Fee and Commission Income	91,724,320	138,785,088
Net Fair Value Gains/(Losses) from FA at FVPL	(2,134,408)	4,100,000
Net Other Operating Income	25,569,713	28,728,618
Gross Income	7,517,127,924	5,425,275,924

4. Net Interest Income

Accounting Policy is disclosed in Note 2.2.1

For the Year ended 31 December

	2022 Rs.	2021 Rs.
Interest Income		
Placements with Banks (Fixed+Savings Accounts)	2,330,660,489	635,320,394
Financial Assets at Amortised Cost		
- Loans and Advances	4,709,774,315	4,470,896,211
First Day Impact of Moratorium Loans	1,478,839	5,125,093
Deferred 7% interest Income on Moratorium interest on 5th wave	1,097,973	3,230,271
less-7% moratorium bank charges of 1,3,4,5 waves recovered to income	(1,576,156)	(1,495,605)
- Debt and Other Instruments	360,532,839	140,585,854
Total Interest Income	7,401,968,299	5,253,662,217
Interest Expenses		
Due to Banks	68,915	33,260
Financial Liabilities at Amortised Cost		
- Due to Depositors	5,433,421,943	2,933,607,391
- Due to Other Borrowers	29,490,550	17,825,632
Total Interest Expenses	5,462,981,407	2,951,466,283
Net Interest Income	1,938,986,892	2,302,195,934

a. Net Income from Sri Lanka Government Securities

Interest Income	262,575,535	55,278,205
(Less):Interest Expenses	-	-
Net Interest Income	262,575,535	55,278,205

5. Net Fee and Commission Income

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

	2022 Rs.	2021 Rs.
Fee and Commission Income	91,724,320	138,785,088
Net Fee and Commission Income	91,724,320	138,785,088
Comprising		
Bank Service Charges - Loans and Advances	84,406,618	127,228,221
Legal & Technical Fees - Loans and Advances	80,317	320,325
Other Charges	7,237,386	11,236,543
Net Fee and Commission Income	91,724,320	138,785,088

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

Accounting Policy

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

	2022 Rs.	2021 Rs.
Gains on financial assets at fair value through profit or loss	(2,134,408)	4,100,000
Losses on financial assets at fair value through profit or loss	-	-
Total	(2,134,408)	4,100,000

7. Other Operating Income (net)

Accounting Policy

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

	2022 Rs.	2021 Rs.
Dividend Income	21,324,000	23,449,000
Sundry Income	4,245,713	5,279,618
Other Operating Income (net)	25,569,713	28,728,618

8. Impairment Charges (Reversal) for Loans and Other Losses

Accounting Policy

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

	2022 Rs.	2021 Rs.
Financial Assets at AC - Loans and Advances		
Stage 1	130,450,499	84,595,623
Stage 2	114,418,254	60,460,538
Stage 3	119,179,592	220,666,168
Other Financial assets at amortised cost		
Stage 1	2,691,805	(203,003)
Stage 2	(993,122)	(3,398,550)
Stage 3	-	-
Total	365,747,028	362,120,776

9. Personnel Expenses

Accounting Policy

01. Defined contribution plans

Bank operate under mentioned Defined Contribution plan during the financial year 2022. Contributions made were recorded as an expense under “Personnel expenses”. Unpaid contributions are recorded as a liability.

(a) Employees’ Provident Fund

Accounting policy is disclosed in the 2.4.1

(b) Employees’ Trust Fund

Accounting policy is disclosed in the 2.4.1

Accounting Policies & Notes to the Financial Statements *Contd.*

9. Personnel Expenses Contd.

Staff Expenses	2022 Rs.	2021 Rs.
Salaries and Bonus	830,283,079	723,390,830
Defined Contribution Plan- EPF & ETF	118,346,815	104,649,263
Defined Benefits Plans - Gratuity Provision	41,353,107	32,329,459
Encashment of Sick Leave	31,020,486	30,081,413
Overtime and Out of Pocket Allowance	8,648,568	14,221,750
Staff Study and Training	1,044,050	475,409
Medical Scheme - Payments	70,936,477	57,262,827
Medical Scheme - Provision (IFRS)	15,568,572	8,048,748
Welfare	4,128,876	4,031,347
Insurance	1,061,997	901,657
Staff Loan day 1 Difference (IFRS)	(38,525,209)	106,508,572
Compensation	459,558	-
PAYE Tax on Employment Income	5,628,889	2,058,589
Total	1,089,955,264	1,083,959,864
Less - IFRS Provisions		
Staff Loan day 1 Difference (IFRS)	38,525,209	(106,508,572)
Medical Scheme - Provision (IFRS)	(15,568,572)	(8,048,748)
Actual Total	1,112,911,901	969,402,544

9.1 Contribution – Retired staff medical scheme

For the Year ended 31 December	2022 Rs.	2021 Rs.
Amount recognized as expense	30,993,049	22,211,888

9.2 Retired staff medical scheme has been established for the all employees of the Bank. Actuarial valuation was carried out by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries, on 31 December 2022. (Refer Note)

Contribution – Gratuity	2022	2021
Amount recognized as expense	41,353,107	32,329,458

10. Other Expenses

Accounting Policy

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

For the Year ended 31 December

	2022 Rs.	2021 Rs.
Directors' Emoluments	3,565,629	3,612,740
Auditors' Remuneration	3,000,000	3,000,000
Professional and Legal Expenses	4,338,676	2,923,640
Office Administration and Establishment Expenses	135,892,205	106,349,210
Advertising and Promotional Expenses	17,329,178	8,363,236
Motor Vehicle Maintenance & Travelling	11,084,248	18,041,603
General Expense	20,042,587	13,938,047
Other Losses, Bad Debts and Write Offs	-	3,920
CBSL Deposit Insurance	47,776,181	42,175,161
Other Expenses	110,399,574	107,865,980
Total	353,428,278	306,273,537
Depreciation/Amortisation of Property, Plant and Equipment		
Depreciation - Property, Plant and Equipment	17,994,398	17,592,171
Depreciation - Leased Assets	78,581,186	82,442,896
	96,575,584	100,035,067

11. Tax Expenses

Accounting Policy

Current Tax Expenses -Tax Rate 24% and 30%

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

Deferred taxation-Tax Rate 30%

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

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

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

Bank's standard tax rate increased from 24.0% to 30.0% during the year, and a newly implemented Social Security Contribution Levy of 2.5% came in to effect, while VAT on financial services increased from 15.0% to 18.0% w.e.f. 1st January 2022. Increase in deferred tax asset as a result of change in corporate tax rate to 30% and substantial impairment charges recognized along with the reversal of previous years' tax provisions with the settlement of past tax assessments, the Bank recognized a tax credit of Rs. 185 Mn for the current year

For the Year ended 31 December

	2022 Rs.	2021 Rs.
Current Tax Expense		
Current Year	104,722,527	143,556,660
Deferred Tax Expense/(Credit)	(395,525,635)	8,651,469
Total	(290,803,108)	152,208,129

Accounting Policies & Notes to the Financial Statements *Contd.***11 Tax Expenses contd.**

11.1 Reconciliation of Tax Expenses

For the Year ended 31 December

	2022	2021
	Rs.	Rs.
Profit/(Loss) before Tax	147,105,580	621,420,396
Adjustment in Respect of Current Income Tax of Prior Periods		
Add: Tax Effect of Expenses/income reductions that are not Deductible for Tax Purposes	566,927,276	534,797,717
(Less): Tax Effect of Expenses that are Deductible for Tax Purposes	(150,683,823)	(418,984,170)
Disposal of Assets	-	-
Dividends	(19,189,592)	(27,549,000)
Adjusted Profits for the Year	544,159,441	709,684,944
Taxation Based on Profit for the Year	146,923,049	170,324,386
Taxation based on dividend income at 14%	2,985,360	3,282,860
Transfer to/from Deferred Taxation	(395,525,635)	8,651,469
(Over)/Under Provision in Previous years	(45,185,882)	(30,050,587)
Tax Expense for the Period	(290,803,108)	152,208,129

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

For the Year ended 31 December

	2022	2021
	Rs.	Rs.
Deferred Tax Assets		
Property, Plant & Equipment	(7,264,080)	(4,708,134)
Employee Benefit Obligations	156,548,011	105,021,333
Impairment Provision	480,556,755	118,944,358
Right to use Assets	(2,748,015)	(804,299)
Moratorium First Day Impact	5,063,781	4,405,946
Deferred Tax Assets	632,156,452	222,859,204

12. Analysis of Financial Instruments by Measurement Basis - Bank - Current Year (2022)**Accounting Policy**

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

In Rs.	AC	FVPL	FVOCI	Total
Assets				
Cash and cash equivalents	126,480,437	-	-	126,480,437
Placements with banks	13,002,272,044	-	-	13,002,272,044
Loans and advances	39,267,237,754	-	-	39,267,237,754
Debt instruments	300,476,712	-	-	300,476,712
Reverse Repos	70,055,770	-	-	70,055,770
Treasury Bills	1,813,150,803	-	-	1,813,150,803
Treasury Bonds	382,476,118	-	-	382,476,118
Unquoted Shares	-	-	5,379,078	5,379,078
Total financial assets	54,962,149,639	-	5,379,078	54,967,528,717
Liabilities				
Due to banks	23,380,935	-	-	23,380,935
Financial liabilities				
- Due to depositors	49,139,971,357	-	-	49,139,971,357
- Due to other borrowers	278,050,561	-	-	278,050,561
Total Financial Liabilities	49,441,402,853	-	-	49,441,402,853

AC - Financial assets/liabilities measured at amortised cost

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

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

Bank - Previous Year (2021)

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

13. Cash and Cash Equivalents

Accounting Policy

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

For the Year ended 31 December

	2022 Rs.	2021 Rs.
Cash in hand	67,855,968	74,965,241
Balances with banks	58,624,470	68,888,921
Total	126,480,437	143,854,162

14. Placements with Banks

Accounting Policy

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

14.1	2022 Rs.	2021 Rs.
Fixed Deposits		
NDB	-	2,285,356,648
NSB	2,871,326,932	2,995,786,853
PB	3,981,240,459	3,469,932,837
SDB	876,057,140	401,112,329
BOC	4,222,567,216	1,812,187,891
Call Deposit		
BOC	302,268,493	-
Savings Accounts-Investments		
SDB	203,033,575	877,277
NDB	548,725,264	810,894,754
Gross Total	13,005,219,079	11,776,148,590

Accounting Policies & Notes to the Financial Statements *Contd.*14. Placements with Banks *Contd.*

	2022	2021
14.2		
Stage 1		
Opening balance as at 01/01/2022	255,230	458,233
Charge/(Write back) to income statement	2,691,805	(203,003)
Write-off during the year	-	-
Other movements	-	-
Closing balance at 31/12/2022	2,947,034	255,230
Stage 2		
Opening balance as at 01/01/2022	993,122	4,391,671
Charge/(Write back) to income statement	(993,122)	(3,398,550)
Write-off during the year	-	-
Other movements	-	-
Closing balance at 31/12/2022	-	993,122
Stage 3		
Opening balance as at 01/01/2022	-	-
Charge/(Write back) to income statement	-	-
Write-off during the year	-	-
Other movements	-	-
Closing balance at 31/12/2022	-	-
C. Net Placement with banks	13,002,272,044	11,774,900,238

15. Financial Assets Recognized Through Profit or Loss

For the Year ended 31 December

	2022 Rs.	2021 Rs.
Unit Trusts (NDB)	-	25,450,000
Total	-	25,450,000

a. Analysis

	2022 Rs.	2021 Rs.
By collateralisation		
Pledged as collateral	-	-
Unencumbered	-	25,450,000
Gross total	-	25,450,000

16. Financial Assets at Amortised Cost - Loans and Advances

Accounting Policy

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

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

16.1	2022 Rs.	2021 Rs.
Gross loans and advances	41,117,340,406	39,590,389,732
Stage 1	28,514,541,265	28,134,980,807
Stage 2	3,548,045,184	2,559,981,285
Stage 3	9,054,753,958	8,895,427,640
(Less): Accumulated impairment under:	1,833,223,382	1,469,175,037
Stage 1	462,950,878	332,500,378
Stage 2	264,086,290	149,668,036
Stage 3	1,106,186,214	987,006,623
Net Loans and Advances	39,284,117,024	38,121,214,695
Less - First Day impact of Moratorium Loans	16,879,270	18,358,109
Carrying Value of Loans and Advances	39,267,237,754	38,102,856,586

16.2 Analysis

	2022 Rs.	2021 Rs.
By product		
Mortgage	10,836,307,405	10,607,559,455
EPF	6,644,199,224	6,830,450,037
Vehicle	-	-
Staff loans	1,360,479,032	1,410,660,258
Personal Loans	20,751,939,449	20,062,117,026
Others	1,973,856,456	1,167,569,324
Less-		
Allowance for Day 1 Difference - Staff Loans	(449,441,159)	(487,966,369)
Gross Total	41,117,340,406	39,590,389,732
By collateralization		
Collateral held as Security	17,480,506,629	17,438,009,492
Other Credit Enhancements	23,636,833,777	22,152,380,240
Gross Total	41,117,340,406	39,590,389,732

16.3 Movements in impairment during the year

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

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

a Collective Assessment of Impairment

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

b Individual assessment of impairment

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as financial assets at amortised cost – debt and other instruments), the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually

Accounting Policies & Notes to the Financial Statements *Contd.*

assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of a impairment provision account and the amount of the loss is recognized in the Income Statement. Interest income continues to be accrued on the carrying amount at the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest and similar income"

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

Write-off of loans and advances

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

For the Year ended 31 December

	2022 Rs.	2021 Rs.
Stage 1		
Opening balance as at 01/01/2022	332,500,378	247,904,755
Charge/(Write back) to income statement	130,450,499	84,595,623
Write-off during the year	-	-
Closing balance at 31/12/2022	462,950,878	332,500,378
Stage 2		
Opening balance as at 01/01/2022	149,668,036	89,207,499
Charge/(Write back) to income statement	114,418,254	60,460,538
Write-off during the year	-	-
Closing balance at 31/12/2022	264,086,290	149,668,036
Stage 3		
Opening balance as at 01/01/2022	987,006,623	766,340,454
Charge/(Write back) to income statement	119,179,592	220,666,168
Write-off during the year	-	-
Closing balance at 31/12/2022	1,106,186,214	987,006,623
Total	1,833,223,382	1,469,175,037

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

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

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

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

b Allowance for credit impairment for moratorium Facilities

To determine as to whether significant increase in credit risk (SICR) has occurred on COVID 19 pandemic, it is required to followed management judgments in evaluation of macroeconomic variables and mortotuium relief packages granted under waive 1 to 5 to retail and corporate clients. Interest or principal deferments and associated other relief programmes were resulted to SICR which would trigger migration of facilities from stage 1 to Stage 2 by reason only that a deferral under the programme was granted.

Relief prorams granted to customers may not resulted to migration stage 2 unless determined that there was a evidence for SIRC based on our assessment of the changes in the risk of a default occurring over the expected life of a loan which requires additional provision for impairment. judgment is being used to identify of the business segment and individual customers highly affected by COVID-19, associated credit risk of such groups which are classified in the both12-month and lifetime expected credit losses based on SIRC.

c Use of Management overlays

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

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

d Move loans and advances from Stage 1 to Stage 2

Retail loans and advances of selected sectors which were initially group under Stage 1 moved to Stage 2. As a result, Loans and Advances amounting to Rs.. 476.73 Mn. were moved from State 1 to Stage 2 and provision for impairment was increased by Rs.. 29.82 Mn. for the year ended 31 December 2022.

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

Accounting Policy

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

For the Year ended 31 December	2022 Rs.	2021 Rs.
Treasury Bills	1,819,859,101	892,573,481
Treasury Bonds	384,601,856	383,204,143
Debenture	300,476,712	-
Reverse Repos	70,055,770	716,130,665
Commercial Paper	-	-
Gross total	2,574,993,439	1,991,908,289

Accounting Policies & Notes to the Financial Statements *Contd.*

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

17.1 Analysis

For the Year ended 31 December

	2022 Rs.	2021 Rs.
By collateralization		
Pledged as collateral	-	-
Unencumbered	2,574,993,439	1,991,908,289
Gross total	2,574,993,439	1,991,908,289

17.2 Impairment

	2022	2021
Opening balance as at 01/01/2022	-	-
Charge/(Write back) to income statement	-	-
Write-off during the year	-	-
Other movements	-	-
Closing balance at 31/12/2022	-	-
C. Net Financial Assets at Amortized Cost	2,574,993,439	1,991,908,289

18. Financial Assets at Fair Value Through Other Comprehensive Income

Accounting Policy

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

Equity instruments fair value through other comprehensive income

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

Financial Assets at Fair Value Through Other Comprehensive Income

	2022 Rs.	2021 Rs.
Unquoted Shares		
CRIB	4,754,078	4,754,078
Fitch Rating	625,000	625,000
Gross Total	5,379,078	5,379,078
a. Analysis		
By collateralization		
Pledged as collateral	-	-
Unencumbered	5,379,078	5,379,078
Gross Total	5,379,078	5,379,078

19. Property, Plant and Equipment

Accounting Policy**Basis of Recognition**

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

Basis of measurement

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

Cost model

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

19.1.a. Property, Plant and Equipment

In Rs.	Vehicles	Furniture & Fittings & Office Equipment	Computer Equipment	Computer Software	WEB Site Development	Total
2022 (Current Year)						
Cost/Fair Value						
Opening Balance as at 01/01/2022	70,798,254	157,416,485	142,496,324	4,395,518	-	375,106,581
Additions	-	13,646,740	26,282,918	-	460,000	40,389,658
Disposals	-	(2,094,060)	(1,768,737)	-	-	(3,862,797)
Adjustments	-	-	-	-	-	-
Closing Balance as at 31/12/2022	70,798,254	168,969,165	167,010,505	4,395,518	460,000	411,633,442
(Less): Accumulated Depreciation						
Opening Balance as at 01/01/2022	70,798,254	112,487,293	131,569,752	4,395,518	-	319,250,817
Charge for the Year	-	11,037,212	6,939,699	-	17,486	17,994,398
Disposals	-	(2,092,564)	(1,768,737)	-	-	(3,861,301)
Adjustments	-	36,720	-	-	-	36,720
Closing Balance as at 31/12/2022	70,798,254	121,468,661	136,740,714	4,395,518	17,486	333,420,634
Net Book Value as at 31/12/2022	-	47,500,504	30,269,790	-	442,514	78,212,808
In Rs.	Vehicles	Furniture & Fittings & Office Equipment	Computer Equipment	Computer Software	WEB Site Development	Total
2021 (Current Year)						
Cost/Fair Value						
Opening Balance as at 01/01/2021	70,798,254	141,450,868	137,296,484	4,404,518	-	353,950,124
Additions	-	15,965,617	5,199,840	-	-	21,165,457
Disposals/Adjustments	-	-	-	-	-	-
Adjustments	-	-	-	(9,000)	-	(9,000)
Closing Balance as at 31/12/2021	70,798,254	157,416,485	142,496,324	4,395,518	-	375,106,581
(Less): Accumulated Depreciation						
Opening Balance as at 01/01/2021	70,798,254	98,644,759	128,000,455	4,404,518	-	301,847,986
Charge for the Year	-	12,686,886	4,905,286	-	-	17,592,171
Disposals/Adjustments	-	1,155,649	(1,335,989)	(9,000)	-	(189,340)
Closing Balance as at 31/12/2021	70,798,254	112,487,293	131,569,752	4,395,518	-	319,250,817
Net Book Value as at 31/12/2021	-	44,929,192	10,926,572	-	-	55,855,764

Accounting Policies & Notes to the Financial Statements *Contd.*

19.2 Fully Depreciated Property Plant and Equipment

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

As at 31 December	2022	2021
Vehicles	70,798,254	70,798,254
Furniture & Fittings & Office Equipment	83,134,589	75,070,223
Computer Equipment	122,429,081	124,197,818
Computer Software	4,395,518	4,395,518
Total	280,757,442	272,459,773

19.3 Temporarily Idle Property Plant and Equipment

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

19.4 Property Plant and Equipment Retired from Active Use

There were not property ,plan and equipment retired from active use which were not classified as held for sale in accordance with SLFRS 5 - Non current assets held for sale and discontinued operations.

20. Deferred Tax Assets/(Liabilities)

Accounting Policy

Accounting Policy on Deferred tax disclosed in the Note 11

As at 31 December	2022 Rs.	2021 Rs.
Opening Balance 01/01/2022	222,859,204	234,711,041
Charge for the year Recognized in		
- Profit/(Loss)	339,810,834	(8,651,469)
- Profit/(Loss) - Impact on changes in Tax Rate	55,714,801	-
- Other Comprehensive Income (30% taken)	13,771,613	(3,200,369)
Closing Balance 31/12/2022	632,156,452	222,859,204

21. Other Assets

As at 31 December	2022 Rs.	2021 Rs.
Stationary Stock	14,174,317	13,027,940
Deposits and Prepayments	2,067,702	6,262,681
Prepaid Staff Loans	449,441,159	487,966,369
VAT Receivable	-	17,855,075
NBT Receivable	3,603,588	3,603,588
DRL Receivable	15,591,023	15,591,023
7% Interest Receivable on Moratorium Interest	6,742,821	7,221,003
Interest Receivable - Senior Citizens Fixed Deposits	571,719,963	313,337,784
Others	13,135,684	26,221,887
Total	1,076,476,258	891,087,350

22. Due to Banks
As at 31 December

	2022 Rs.	2021 Rs.
Borrowings (ODs)	23,380,935	31,476,885
Repo agreements	-	-
Total	23,380,935	31,476,885

23. Financial liabilities at amortised cost

Accounting Policy

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

For the Year ended 31 December

	2022 Rs.	2021 Rs.
Due to depositors	49,139,971,357	45,738,377,529
Repo agreements	-	-
Other borrowings	278,050,561	270,354,226
Total	49,418,021,919	46,008,731,755

23.1 Analysis of amount due to depositors

	2022 Rs.	2021 Rs.
By Product		
Savings deposits	2,019,713,462	2,621,046,652
Fixed deposits	46,114,086,448	42,041,071,375
Other deposits (Schemes)	1,006,171,448	1,076,259,502
Total	49,139,971,357	45,738,377,529

23.2 Analysis of other borrowings

	2022 Rs.	2021 Rs.
Bank Loans	-	-
AHF	(2)	220,183
CBSL Refinance Loans	79,948,078	169,914,570
Lease Liability	198,102,485	100,219,472
Total	278,050,561	270,354,226

Accounting Policies & Notes to the Financial Statements *Contd.***24. Employee Benefit**

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

The actuarial valuation involves making assumptions about discount rate, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The employee benefit obligation as at 31st December 2022 is calculated based on the actuarial valuation report as of 31st December 2022, carried out by Actuarial & Management Consultants (Put) Ltd.

The key assumptions used by the actuary include the following:

As at 31 December	2022	2021
Rate of Interest	18.00%	11.00%
Rate of Salary Increase	10.00%	6.50%
Retirement Age	55-60 years	55-60 years

As at 31 December	2022 Rs.	2021 Rs.
Gratuity		
Provision for Gratuity		
Balance at the Beginning of the Year	212,239,593	228,345,520
Current Service Cost	16,945,554	14,061,817
Interest Cost	24,407,553	18,267,642
Benefit Paid	(18,589,241)	(38,712,873)
Actuarial (Gains)/Losses	10,559,230	(9,722,513)
Total	245,562,689	212,239,593

Sensitivity Analysis of Present Value of Defined Benefit Obligation

Assumption changed (while all other assumptions remain unchanged)	2022 PV-DBO (Rs.)	2021 PV-DBO (Rs.)
A one percentage point increase (+1%) in the discount rate	234,841,503	199,181,690
A one percentage point decrease (-1%) in the discount rate	257,416,374	227,117,808
A one percentage point increase (+1%) in the salary/wage increment rate	259,314,946	228,689,546
A one percentage point decrease (-1%) in the salary/wage increment rate	232,988,743	197,625,763

Maturity Profile of the Gratuity Provision as at 31.12.2022

Age Group	No_Emps	TOT_Basic Salary (Rs.)	TOT_COLA (Rs.)	AVG_Future Working Lifetime (years)	TOT_Provision (PV-DBO) (Rs.)
XV: 20 to 24	11	271,900	124,123	18.5	30,856
XV: 25 to 29	63	2,416,050	2,668,650	17.3	5,959,214
XV: 30 to 34	60	2,999,720	3,723,697	16.2	10,899,587
XV: 35 to 39	74	5,440,910	4,592,560	13.9	24,338,159
XV: 40 to 44	53	4,170,250	3,289,266	11.6	26,812,835
XV: 45 to 49	44	4,142,675	2,730,711	9.0	32,055,057
XV: 50 to 54	31	2,999,725	1,923,910	5.7	45,071,468
XV: 55 to 59	44	4,032,555	2,730,711	2.2	99,978,768
XV: > 59	1	72,750	0	-	416,744
TOTAL	381	26,546,535	21,783,629	12.0	245,562,689

Medical

	2022 Rs.	2021 Rs.
Provision for Medical Benefit		
Balance at the Beginning of the Year	225,349,295	220,912,904
Current Service Cost	5,077,880	4,538,856
Interest Cost	25,915,169	17,673,032
Actuarial (Gain)/Losses	35,346,147	(3,612,357)
Benefit Paid	(15,424,477)	(14,163,140)
Total	276,264,014	225,349,295
Total Employee Benefit Liability	521,826,703	437,588,888

Sensitivity Analysis of Present Value of Benefit Obligation

Category	+1% Discount Rate PV-DBO (Rs..)	-1% Discount Rate PV-DBO (Rs..)
Active employees -Pensioner Medical benefits (Medical Fund)	70,317,305	93,821,260
Pensioners -Medical benefit (Medical Fund)	183,333,502	209,041,783
Total	253,650,807	302,863,043

25. Other Liabilities

Accounting Policies

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

	2022 Rs.	2021 Rs.
Taxes Payable	156,567,462	115,939,488
Accrued Expenditure	82,307,504	121,158,723
Other liabilities	88,231,424	126,797,056
Estate Refund Creditors	19,857,397	23,769,113
Margin Account-SP.Loan for ETF board (BETWEEN 2MN&3M)	58,400,108	42,128,349
Margin Account	67,720,997	56,673,793
Margin Account-Waste Management	25,072,048	24,845,923
Customer Refund-Closed Loan	29,073,781	50,370,784
Total	527,230,720	561,683,230

25.1 Taxes Payable

As at 31 December	2022 Rs.	2021 Rs.
Income Tax	134,000,281	115,088,376
Payee Tax	2,172,154	848,165
WHT Payable	-	2,947
VAT Payable	17,016,191	-
SSCL Payable	3,378,836	-
Taxes Payable	156,567,462	115,939,488

Accounting Policies & Notes to the Financial Statements *Contd.*

26. Stated Capital/Assigned Capital

As at 31 December

	2022 Rs.	2021 Rs.
Authorized Capital	2,000,000,000	2,000,000,000
Contributed Capital	889,812,899	889,812,899

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

The Government after the appointment date of 1st January 1979 made a contribution to the capital of the Bank so that the amounts of such contribution together with the amounts referred to the above paragraph amounted to RS.889,812,899 as at 31st December 2022. Further, as per the provisions of the Act, SMIB may from time to time, raise such sums of money as further contribution to the capital of the Bank in such a manner as the Bank deems fit, from the Government or any other source what so ever in or outside of the Republic of Sri Lanka and where such sums of money raised from the Government which shall be charged on the consolidated fund.

27. Statutory Reserve Fund

As at 31 December

	2022 Rs.	2021 Rs.
Opening Balance as at 01st January	296,560,939	283,911,474
Transfer During the Period	10,089,899	12,649,465
Closing Balance as at 31st December	306,650,839	296,560,939

28. Retained Earnings

As at 31 December

	2022 Rs.	2021 Rs.
Opening Balance as at 01st January	4,019,389,735	3,767,975,310
Prior Period Adjustments	21,247,904	940,079
Impairment 1st day Adjustment	-	-
OCI Reserve Transfer	-	-
Profit for the Year	201,797,990	252,989,310
Transfers to Other Reserves	(10,089,899)	(12,649,465)
Other Comprehensive Income	(32,133,764)	10,134,501
Deemed Dividend Tax	-	-
Closing Balance as at 31st December	4,200,211,965	4,019,389,735
Prior Period Adjustments		
Error occurred due to over under provision of liabilities	22,111,034	426,043
Over provision of accumulated depreciation	(36,720)	180,340
Error occurred due to reversal of interest receivable	-	333,695
Unreconciled Control Account	(826,410)	
Total	21,247,904	940,079

29. Other Reserves**a. Bank - Current year (2022)**

Reserve	Opening balance as at 01/01/2022 Rs.	Movements/ Transfers	Closing Balance as at 31/12/2022 Rs.
General Reserve	683,280,000	-	683,280,000
Capital Reserve	393,498,004	-	393,498,004
Title Indemnity Fund	1,031,000	-	1,031,000
Total	1,077,809,004	-	1,077,809,004

29.1**b. Bank - Previous year (2021)**

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

30. Contingent Liabilities and Commitments**Accounting Policy**

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

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

As at 31 December	2022 Rs.	2021 Rs.
Guarantees issued	350,000	-
Other commitments	40,802,056	127,979,662
Total	41,152,056	127,979,662

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.

Accounting Policies & Notes to the Financial Statements *Contd.*

31. Related party disclosures

Accounting Policy

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

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

As at 31 December

	2022 Rs.	2021 Rs.
Investments made on Government Securities	2,112,448,122	1,264,605,168
Investments on state and state-controlled entities	11,677,879,812	8,277,907,581
Securities purchased under resale agreements	70,000,001	716,000,001
Other receivables from Government	571,719,963	313,337,784
Total	14,432,047,898	10,571,850,535
Tax paid		
Income tax	85,810,622	147,002,986
Value added tax & SSCL	224,608,218	263,455,214
Total	310,418,840	410,458,200

32. Transactions with Key Management Personnel (KMPs)

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

32.1 Compensation to Key Management Personnel

	2022 Rs.	2021 Rs.
Short - Term Employment Benefits	43,947,612	40,331,967
Post - Employment Benefits	7,911,734	25,781,299
Total	51,859,347	66,113,266

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

	2022 Rs.	2021 Rs.
Income Statement		
Interest Earned (From Loans)	2,613,865	2,345,594
Interest Paid (To Deposits)	2,328,357	919,757
Payment made as shown in 33 (A)	51,859,347	66,113,266
Statement of Financial Position		
Assets		
Loans and Advances	55,811,615	41,814,794
Liabilities		
Deposits	27,691,700	19,879,605

33. Leases

Accounting Policy

Basis of Recognition

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

Basis of measurement

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

Useful economic life and amortisation

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

33.1 Amounts recognized in the balance sheet

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

	2022 Rs.	2021 Rs.
Right-of-use Assets		
Cost		
Opening Balance	257,645,546	170,793,348
Additions- Buildings	171,415,236	86,852,198
Closing Balance	429,060,781	257,645,546
Accumulated Depreciation		
Opening Balance	148,742,882	66,299,986
During the year charge	78,581,186	82,442,896
Closing Balance	227,324,068	148,742,882
Net Book Value	201,736,713	108,902,663
Lease liabilities		
Opening Balance	100,219,472	86,826,813
Additions	153,839,400	78,405,188
Interest Charge	25,079,981	11,070,850
Payments	(81,036,369)	(76,083,379)
Closing Balance	198,102,484	100,219,472

33.2 Amounts recognized in the statement of profit or loss

The Income Statement shows the following amounts relating to leases:

	2022 Rs.	2021 Rs.
Depreciation charge of right-of-use assets		
Building	78,581,186	82,442,896
Interest Expense	25,079,981	11,070,850

33.3 Impact of income statements due to interest rate shock

	Impact to profitability
1%+ Scenario 01	(676,382)
1% - Scenario 01	723,250

Accounting Policies & Notes to the Financial Statements *Contd.*

34. Reconciliation of VAT Expense

	2022 Rs.	2021 Rs.
Profit/(Loss) before Tax	147,105,580	621,420,396
Adjustment in Respect of Current period		
Add: Expenses/income reductions that are not Deductible for VAT Purposes	1,105,882,807	1,100,658,020
(Less): Expenses that are Deductible for VAT Purposes	(23,148,882)	(15,985,322)
Adjusted Profits for the Year	1,229,839,505	1,706,093,094
VAT Based on Profit for the Year	186,629,594	222,533,882
(Over)/Under Provision in Previous years	44,437,052	(6,310,924)
Tax Expense for the Period	231,066,646	216,222,958

VAT Payable Reconciliation

	2022 Rs.	2021 Rs.
Opening VAT Receivable	(17,855,075)	(7,440,500)
payments made	(196,195,380)	(226,637,532)
Provision made	231,066,646	234,345,576
During the year tax addition to P&L	-	(18,122,618)
Closing VAT Receivable	17,016,191	(17,855,075)

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

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

36. Fair Value of Financial Instruments

Determination of Fair Value and Fair Value Hierarchy

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

Technique

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

31st December 2022	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial investments FVOCI				
CRIB	-	-	4,754,078	4,754,078
Fitch Rating	-	-	625,000	625,000
Total Financial Assets	-	-	5,379,078	5,379,078
Financial Liabilities	-	-	-	-

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

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

Assets and Liability of which Fair Value Approximates Carrying Value

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

The fair value of the financial investment in CRIB and Fitch remain same as their cost as the values represent membership interest of said companies.

Fixed Rate Financial Instruments

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

Variable Rate Financial Instruments (Including Loans and Advances)

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

37. Assets

	2022		2021	
	Carrying Amount Rs.	Fair Value Rs.	Carrying Amount Rs.	Fair Value Rs.
Cash and Cash Equivalents	126,480,437	126,480,437	143,854,162	143,854,162
Placements with Banks	13,002,272,044	11,811,735,024	11,774,900,238	11,774,900,238
Loans and receivables	39,267,237,754	38,907,219,312	38,102,856,586	40,003,218,925
Debt and Other Instruments	2,566,159,404	2,113,414,423	1,991,908,289	1,989,230,071
Financial Assets – FVPL	-	-	25,450,000	25,450,000
Financial Assets – FVOCI	5,379,078	5,379,078	5,379,078	5,379,078
Other assets	2,011,376,008	2,011,376,008	1,278,704,981	1,278,704,981
Total Financial Assets	56,978,904,725	54,975,604,282	53,323,053,333	55,220,737,455
Liabilities				
Due to banks	23,380,935	23,380,935	31,476,885	31,476,885
Due to customers	49,139,971,357	49,139,971,357	45,738,377,529	45,738,377,529
Other borrowings	278,050,561	278,050,561	270,354,226	270,354,226
Other liabilities	1,049,057,424	1,049,057,424	999,272,117	999,272,117
Total Financial Liabilities	50,490,460,277	50,490,460,277	47,039,480,757	47,039,480,757

Accounting Policies & Notes to the Financial Statements *Contd.***37. Assets Contd.****37.1** Determination of Fair value hierarchy**Level 1**

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

Level 2

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

Level 03

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

	Level 01	Level 02	Level 03	Total
2022				
Financial Assets				
Treasury Bills and Bonds	2,113,414,423	-	-	2,113,414,423
Unit Trust	-	-	-	-
Loans and Advances	-	-	38,907,219,312	38,907,219,312
Total	2,113,414,423	-	38,907,219,312	41,020,633,735
2021				
Treasury Bills and Bonds	1,989,230,071	-	-	1,989,230,071
Unit Trust	25,450,000	-	-	25,450,000
Loans and Advances	-	-	40,003,218,925	40,003,218,925
Total	2,014,680,071	-	40,003,218,925	42,017,898,996

38. Risk Management

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

38.1 Risk Management Structure

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

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

Board Integrated risk Management Committee

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

Executive Integrated Risk Management Committee

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

Credit Committee

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

Asset/Liability Management Committee (ALCO)

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

38.2 Risk Management and reporting

Credit risk

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

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

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

38.2.1. Measurement of Expected Credit Losses (ECL)

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

Measurement of ECL

Stage 1: 12 - Months ECL

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

Stage 2: Lifetime ECL - not credit impaired

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

Stage 3: Lifetime ECL - credit impaired

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

PD estimation process

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

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

The exposure at default (EAD)

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

Accounting Policies & Notes to the Financial Statements *Contd.***38. Risk Management Contd.****Loss given default (LGD)**

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

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

ECLs must reflect an unbiased and probability-weighted estimate of credit losses over the expected life of the financial instrument. Considering of the every possible macro economic variable and seniors are not practicable hence the Bank used variable and scenarios which are most likely to impact on ECL of the assets impairment. To ensure completeness and accuracy, the Bank obtained independent assurance from third party to validate the data used for EFA. Uncertainties in macroeconomic environment is being continued as of end of the 2021 resulting resilient negative outlook in the macro economic variable. Management overlay was used revised assumption of worst case scenario from 20% to 60% as at 31.12.2022.

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

As at 31 December	Note	2022				2021			
		Rs. 000 State 1	Rs. 000 Stage 2	Rs. 000 Stage 3	Rs. 000 Total	Rs. 000 State 1	Rs. 000 Stage 2	Rs. 000 Stage 3	Rs. 000 Total
Cash & cash equivalents		-	-	-	-	-	-	-	-
Placements with banks	14	2,947,034	-	-	2,947,034	255,230	993,122	-	1,248,351
Financial Assets at amortized cost		-	-	-	-	-	-	-	-
Loans & Advances	16	462,950,878	264,086,290	1,106,186,214	1,833,223,382	332,500,378	149,668,036	987,006,623	1,469,175,037
Debt & Other instruments		-	-	-	-	-	-	-	-
Total allowance for expected credit losses		465,897,912	264,086,290	1,106,186,214	1,836,170,416	332,755,608	150,661,158	987,006,623	1,470,423,388

Credit loss expense

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

31st December 2022	Stage 1	Stage 2	Stage 3	Total
Cash & cash Equivalents	-	-	-	-
Cash & Balances with Central Bank	-	-	-	-
Sri Lanka Government Securities	-	-	-	-
Placement with other Banks	2,691,805	(993,122)	-	1,698,683
Loans & Advances to Customers	130,450,499	114,418,254	119,179,592	364,048,345
Total Impairment Loss	133,142,304	113,425,132	119,179,592	365,747,028

31st December 2021	Stage 1	Stage 2	Stage 3	Total
Cash & cash Equivalents	-	-	-	-
Cash & Balances with Central Bank	-	-	-	-
Sri Lanka Government Securities	-	-	-	-
Placement with other Banks	(203,003)	(3,398,550)	-	(3,601,553)
Loans & Advances to Customers	84,595,623	60,460,538	220,666,168	365,722,329
Total Impairment Loss	84,392,620	57,061,988	109,437,584	362,120,776

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

As at 31 December	2022			2021		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Financial Assets at amortised cost - Loans and Advances						
Stage 0 to 2 - Performing loans	24,290,940,953	2,835,765,303	113,965,281	28,134,980,806	2,559,981,285	540,470,221
Stage 03:NPA - Special mentioned	-	-	1,598,081,449	-	-	622,077,420
Stage 04: NPA -Substandard	4,217,834,729	712,279,881	796,963,793	-	-	634,275,676
Stage 05: NPA - Doubtful	-	-	660,042,650	-	-	4,325,532,232
Stage 05: NPA - Loss	-	-	5,891,466,366	-	-	2,773,072,092
Total and Advances	28,508,775,681	3,548,045,184	9,060,519,541	28,134,980,806	2,559,981,285	8,895,427,641
Expected Credit loss allowances	(462,950,878)	(264,086,290)	(1,106,186,214)	(332,500,378)	(149,668,036)	(987,006,623)
Net Loans and Advances	28,045,824,804	3,283,958,894	7,954,333,327	27,802,480,428	2,410,313,249	7,908,421,018

Financial Assets at amortised cost -Debt and other instruments

Unit Trust and unquoted shares	5,379,078	-	-	30,829,078	-	-
Government Debt securities- Treasury bills and Bonds	2,204,460,957	-	-	1,275,777,624	-	-
Reverse Repos	70,055,770	-	-	716,130,665	-	-
Debentures	300,476,712	-	-	-	-	-
Placement with Banks	13,002,272,044	-	-	11,774,900,238	-	-
Total Debts and Other Instruments	15,582,644,562	-	-	13,797,637,605	-	-
Expected Credit loss allowances	(2,947,034)	-	-	(993,122)	-	-
Net Debt and other instrument	15,579,697,527	-	-	13,796,644,483	-	-

38.2.3 Analysis of Risk Concentration

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

As at 31.12.2022	Financial Services	Government Securities	Construction and Housing	Consumers	Other	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets						
Cash and cash equivalents	126,480,437	-	-	-	-	126,480,437
Placement with other banks	13,005,219,079	-	-	-	-	13,005,219,079
Loans and receivables to customers						
Mortgage	-	-	10,836,307,405	-	-	10,836,307,405
EPF	-	-	6,644,199,224	-	-	6,644,199,224
Staff loans	-	-	911,037,873	-	-	911,037,873
Personal Loans	-	-	-	20,751,939,449	-	20,751,939,449
Others	-	-	-	-	1,973,856,456	1,973,856,456
Financial investments – AC	70,055,770	2,204,460,957	-	-	-	2,274,516,727
Financial investments – FVOCI	5,379,078	-	-	-	-	5,379,078
Total	13,207,134,364	2,204,460,957	18,391,544,502	20,751,939,449	1,973,856,456	56,528,935,727

Accounting Policies & Notes to the Financial Statements *Contd.*

38. Risk Management Contd.

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

38.3 Liquidity Risk and Funding Management

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

Liquidity Ratios

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

Liquid Asset Ratio

	2022	2021
Year - End	34.62%	32.88%
Maximum	35.02%	34.31%
Minimum	31.25%	31.93%
Average	33.15%	33.12%

38.4 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarises the maturity profile of the undiscounted cash flows of the bank's financial assets and liabilities as at 31 December 2022 Contractual maturities of undiscounted cash flows of financial assets and liabilities.

As at 31 December 2022	Less than 7 days	7-30 days	1-3 months	3-6 months	6-12 months	1-3 years	3-5 years	Over 5 years	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Total Assets	2,607,376,798	3,353,956,511	5,346,431,263	4,594,888,961	3,589,810,984	3,985,888,729	9,335,543,322	48,710,261,870	81,524,158,439
Cash and Cash Equivalents	126,480,437	-	-	-	-	-	-	-	126,480,437
Placement with Banks	1,054,027,332	2,909,122,871	3,385,075,882	4,127,437,994	2,499,742,123	-	-	-	13,975,406,202
Financial Assets- FVPL & FVOCI	-	-	-	-	-	-	-	-	-
Debt and Other Instruments	70,055,770	400,000,000	1,208,400,000	235,765,402	269,165,402	55,592,415	238,689,105	-	2,477,668,095
Loans and Advances	932,414,448	44,548,082	134,359,640	216,654,573	812,447,287	3,920,587,330	9,096,854,217	48,710,261,870	63,868,127,447
Other Assets	424,398,810	285,558	618,595,741	15,030,992	8,456,171	9,708,985	-	-	1,076,476,258
Total Liabilities	926,512,614	2,368,048,515	6,836,560,540	19,935,550,877	17,885,257,638	2,547,094,505	1,912,405,723	7,409,981,573	59,799,954,195
Total Equity	-	-	-	-	-	-	-	6,474,484,706	6,474,484,706
Due to Banks	23,380,935	-	-	-	-	-	-	-	23,380,935
Due to Depositors	532,468,422	2,364,900,343	6,811,081,097	19,675,013,901	17,858,373,810	2,260,639,810	1,804,870,409	667,632,774	51,974,980,565
Due to Other Borrowers	-	2	19,183,103	7,994,808	7,994,808	210,898,613	31,979,231	-	278,050,565
Employee Benefit Liability	-	3,148,170	6,296,340	9,444,510	18,889,021	75,556,082	75,556,082	332,936,498	521,826,703
Other Liabilities	284,133,063	-	-	243,097,657	-	-	-	-	527,230,720
Maturity Gap	1,680,864,184	985,907,996	(1,490,129,277)	(15,340,661,915)	(14,295,446,654)	1,438,794,225	7,423,137,599	41,300,280,297	-
cumulative M.Gap	-	2,666,772,180	1,176,642,903	(14,164,019,012)	(28,459,465,667)	(27,020,671,442)	(19,597,533,843)	21,702,746,455	-

Accounting Policies & Notes to the Financial Statements *Contd.***38. Risk Management Contd.****38.4.1 Maturity analysis**

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

Assets or Liability (a)	2022			2021		
	Rs. 000 Less than 12 months	Rs. 000 More than 12 months	Rs. 000 Total	Rs. 000 Less than 12 months	Rs. 000 More than 12 months	Rs. 000 Total
Total Assets	28,114,037	28,848,658	56,962,695	28,381,357	24,941,697	53,323,053
Cash and Cash Equivalents	126,480	-	126,480	143,854	-	143,854
Placements with Banks	13,002,272	-	13,002,272	11,774,900	-	11,774,900
Financial Assets - FVPL & FVOCI	-	-	-	-	25,450	25,450
Financial Assets - AC	-	-	-	-	-	-
Debt and Other Instruments	2,049,543	525,450	2,574,993	1,608,704	383,204	1,991,908
Loans & Advances	11,130,165	28,137,072	39,267,238	14,143,213	23,959,643	38,102,857
Financial Assets - FVOCI	-	5,379	5,379	-	5,379	5,379
Property, Plant and Equipment	-	78,213	78,213	-	55,856	55,856
Right-of-use Assets	108,903	92,834	201,737	104,493	4,409	108,903
Deferred Tax Assets	632,155	-	632,155	-	222,859	222,859
Other Assets	1,066,767	9,709	1,076,476	606,192	284,896	891,087
Total Liabilities	46,069,623	10,895,321	56,964,944	40,762,928	12,560,125	53,323,053
Total Equity	-	6,474,485	6,474,485	-	6,283,573	6,283,573
Due to Banks	23,381	-	23,381	31,477	-	31,477
Financial Liabilities at Amortised Cost	-	-	-	-	-	-
Due to Depositors	45,446,061	3,693,910	49,139,971	40,251,505	5,486,873	45,738,378
Due to Other Borrowers	35,173	242,878	278,051	34,203	236,151	270,354
Employee Benefit Liability	37,778	484,049	521,827	-	437,589	437,589
Other Liabilities	527,231	-	527,231	445,744	115,939	561,683
Maturity Gap	(17,953,337)	17,953,337		(12,381,572)	12,381,572	

38.5 Capital Management**38.5.1 Minimum Regulatory capital**

The minimum regulatory capital requirement Rs. 5 Billion compiled by the Bank as at 01/01/2018 (as per the letter dated on 12/07/2016 by CBSL). This has further been enhanced to Rs. 7.5 Billion with effect from 31.12.2020 as per the direction No 5 of 2017 dated on 26 October 2017 and subsequently which was extended until 31.12.2023 as per the Governor of Central Bank of direction number 04 of 2022. Accordingly, The Bank expects to complied with the 7.5 Billion through the internally generated funds via expanding the business as per the provisions in the State mortgage Act no 13 of 1975 in next two years.

38.5.2. Capital Adequacy Ratio and Regulatory Capital of the bank

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

i. Capital Base

Capital Adequacy Item	Rs. 000 31.12.2022	Rs. 000 31.12.2021
Common Equity Capital after adjustment	5,765,187	6,047,379
Total Tier 1 Capital	6,408,310	6,047,379
Minimum regulatory capital to be fulfilled as at 31.12.2022	7,500,000	7,500,000
Capital shortfall	1,734,813	1,452,621
Total Tier I capital shortfall	1,091,690	1,452,621
Capital Adequacy ratio		
Common Equity Tier 1 Capital Ratio	18.36%	21.91%
Total Capital Ratio	20.41%	23.87%

ii. Risk Adjusted on Balance Sheet Exposures

	2022		2021	
	Principal Amount of On-Balance Sheet Items	Risk Weighted Assets Amount	Principal Amount of On-Balance Sheet Items	Risk Weighted Assets Amount
Exposures				
Claims on Central Bank of Sri Lanka	2,265,683	-	1,991,908	-
Claims on Public Sector Entities (PSEs)	23,276	23,276	62,090	62,090
Claims on Banks Exposures				
Due From local Banks Less Than 03 Months (AAA to BBB)	2,200,991	440,198	7,837,502	1,567,500
Due From local Banks More than 03 Months (A+ to BBB)	736,146	368,073	401,990	200,995
A to BBB	10,424,236	4,591,040	3,572,821	954,800
Claims in Financial Institutions Regulated by CBSL	-	-		
Claims on Other Financial Institutions	5,379	5,379	30,830	30,830
Retail Claims				
Individual exposures	20,313,315	15,234,986	18,961,107	14,220,830
Claims Secured by Residential Property	10,088,337	3,530,918	10,003,977	3,501,392
Claims Secured by Residential Property				
Claims that qualify for regulatory capital purposes	-	-	-	-
Non-Performing Assets (NPAs)				
Specific Provisions are equal to or more than 20%	1,374,896	1,374,896	1,243,245	1,243,245
Specific Provisions are less than 20%	41,599	62,398	147,894	221,841
Non-Performing Assets Secured by Residential Property				
Specific Provisions are more than 20%	84,450	42,225	7,111	3,555
Specific Provisions are less than 20%	1,439,388	1,439,388	1,359,346	1,359,346
Cash Items and Other Assets				
Notes and Coins in own vault	67,856	-	74,965	-
Property Plant and Equipment	279,950	279,950	55,856	55,856
Other Assets/Exposures	1,101,520	1,101,520	891,087	891,087
Risk Weighted Amount for Credit Risk	50,447,022	28,494,247	46,641,728	24,313,367

Accounting Policies & Notes to the Financial Statements *Contd.***38. Risk Management Contd.****38.6 Market Risk**

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

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

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

Sensitivity of the income statements of the bank for the year ended 2022 in response to reasonable changes in the interest rates of the rate sensitive assets and liabilities of the bank are summarised below.

As at 31 December	2022 Rs. 000	2021 Rs. 000
Rate Sensitive Assets - RSA	20,562,859	17,333,501
Rate Sensitive Liabilities RLA	45,441,813	39,107,613
RSA - RLA	(24,878,954)	(21,774,112)

Impact of income statements due to interest rate shock

As at 31 December	2022 Rs. 000	2021 Rs. 000
0.50%	(60,108)	(48,290)
1%	(119,555)	(138,348)
-0.50%	59,777	48,111
-1%	119,555	138,348

Prepayment Risk

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

38.7 Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The bank cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

39. The Events Occurring After the Balance Sheet Date

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

40. Assets Pledged

No assets have been pledged as security for liability.

41. Related Party Transactions

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

42. Directors' Interest in Contracts and Proposed Contracts

As per the State Mortgage and Investment Bank law, No 13 of 1975, a Director who, or whose spouse or dependent child is directly or indirectly interested in any business transacted or proposed to be transacted by the Board shall disclose the nature of such interest discussed. The disclosure shall be recorded in the minutes of the Board, and such Director shall not take part in any deliberation or decision of the Board with respected with that business, and shall withdraw from such meeting while such deliberation is in progress or decision is being made. As per the Act, No loan shall be granted by the bank to any Director or employee of the bank or to the spouse or a dependent child of a Director or employee or to any company or firm in which a Director or employee has a substantial interest: "Provided however that the bank may grant to its employees loans for the purchase of any land for the construction of a dwelling house or for the purchase, construction, repair, renovation of or any extension to, a dwelling house or for any other purpose prescribed by the rules made under this law. Outstanding balance of loans given to employees as per this paragraph is disclosed in note number 32 in the Financial Statements. The Directors of SMIB were not directly or indirectly interested.

43. Value Added Statement

For the Year Ended 31 December

	2022 Rs.	2021 Rs.
Interest Income	7,401,968,299	5,253,662,217
Other Income	115,159,625	171,613,707
Total Revenue	7,517,127,924	5,425,275,924
Interest Expenses	(5,462,981,407)	(2,951,466,283)
Cost of Services	(590,873,759)	(522,496,494)
Impairment Provision	(365,747,028)	(362,120,776)
Total Distribution of Value Added	1,097,525,730	1,589,192,370

For the Year Ended 31st December

	2022 Rs.	2021 Rs.
To Employees		
Salaries and other benefits	1,089,955,263	1,083,959,864
To Government		
Corporate Tax	(290,803,107)	152,208,129
Depreciation	96,575,584	100,035,067
Retained Profit	201,797,989	252,989,310
Total	1,097,525,730	1,589,192,370

44. Source of Utilization

For the Year Ended 31 December

	2022 Rs.	2021 Rs.
Sources of Income		
Loans and Advances	4,710,774,972	4,477,755,970
Government Securities & Other Investments	2,691,193,328	775,906,248
Fee and Commission Income	91,724,320	138,785,088
Other Income	23,435,305	32,828,618
Total	7,517,127,924	5,425,275,924
Utilization of Income		
Employees		
Salaries and other payment to staff	1,089,955,264	1,083,959,864
Suppliers		
Interest paid	5,462,981,407	2,951,466,284
Other Expenses	1,053,196,371	984,652,337
Government		
Corporate Taxes	(290,803,108)	152,208,129
Retained Profit	201,797,990	252,989,310
Total	7,517,127,924	5,425,275,924

Ten Year Statistical Summary

Year ended 31st December (Rs. Mn)	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Income Statement										
Interest Income	7,402	5,254	6,082	5,982	5,524	4,745	4,241	3,879	3,633	3,635
Interest Expenditure	5,463	2,951	3,960	3,951	3,577	3,102	2,425	2,057	2,214	2,459
Net Interest Income	1,939	2,302	2,122	2,030	1,947	1,643	1,815	1,822	1,419	1,176
Other Operating Income	115	172	178	142	134	171	131	120	113	102
Total Operating Income	2,054	2,474	2,300	2,174	2,081	1,814	1,947	1,941	1,532	1,278
Non Interest Expenses	1,540	1,490	1,239	1,226	1,164	1,435	1,240	1,260	1,119	935
Net Profit before tax	(89)	405	572	500	480	379	706	681	413	343
Taxation	291	(152)	(216)	(81)	(235)	200	270	271	140	110
Net Profit after tax	202	253	356	419	244	179	436	410	273	232
Assets										
Investment Securities	-	25	21	19	18	18	17	432	19	17
Loans and Advances	39,267	38,103	36,857	35,893	34,225	32,987	28,164	26,523	24,038	21,186
Other Assets	1,076	891	1,104	1,178	932	8,946	7,073	7,201	6,148	5,556
Property, Plant and Equipment	78	56	52	56	64	71	94	74	96	67
Total Assets	56,965	53,323	52,802	47,311	42,597	42,022	35,347	34,232	30,301	26,825
Fund Employed										
Capital Contributed	890	890	890	890	890	890	890	890	890	890
Reserves	5,585	5,394	5,130	4,769	4,297	4,067	4,028	3,373	3,128	3,040
Total Equity	6,475	6,284	6,020	5,659	5,187	4,957	4,918	4,263	4,018	3,930
Liabilities										
Deposits	49,140	45,738	45,388	38,872	34,272	33,620	28,845	27,836	24,146	21,201
Debentures	-	-	-	110	110	110	110	110	195	195
Other Liabilities	1,350	1,301	1,394	2,670	3,028	3,336	1,474	2,022	1,942	1,499
Total Liabilities	50,490	47,039	46,782	47,311	42,597	42,022	35,347	34,232	30,301	26,825
Ratio										
Return on Average Assets-NPBT% (ROA)	(0.16)	0.76	1.15	1.11	1.13	0.98	2.03	2.11	1.44	1.39
Return on Average Funds Employed% (ROE)	3.17	4.11	6.06	7.73	4.82	3.62	9.50	9.90	6.87	6.00
Number of Employees(no.)	387.00	365.00	369.00	378.00	385.00	392.00	392.00	392.00	407.00	334.00
Net Profit per Employee (Rs. Mn)	0.52	0.69	0.96	1.11	0.63	0.46	1.11	1.05	0.67	0.70
Statutory Reserve Fund	306.65	296.56	283.91	270.92	261.67	246.64	231.36	203.05	191.36	181.15
Advances to Deposits(Times)	0.80	0.83	0.81	0.92	1.00	0.98	0.98	0.95	1.00	1.00
Equity Assets Ratio(Times)	0.11	0.12	0.11	0.12	0.12	0.12	0.14	0.12	0.13	0.15
Total Assets per Rupee Contributed	64.01	59.91	59.34	52.79	47.87	47.22	39.72	38.46	34.05	30.14
Effective deemed dividend Rate %	-	-	-	-	25.00	25.00	25.00	25.00	25.00	25.00
Deemed Dividend Cover	-	-	-	-	-	1.91	2.52	2.44	3.57	3.16
Our Contribution to the Nation										
Deemed Dividend Tax	-	-	-	-	(40.36)	93.27	173.35	167.86	76.42	73.60
Payments to Consolidated Fund	-	-	-	-	-	10.00	10.00	10.00	10.00	40.00

Notes

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Corporate Information

Name of the Bank

State Mortgage & Investment Bank

Legal Form

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

Registered Office

No.269,Galle Road,Colombo 03,
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State Mortgage & Investment Bank

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