

Towards the light of prosperity



Annual Report 2014

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Moving towards the light of prosperity

Amidst steep challenges faced by the banking industry in the previous year, we are proud of forging ahead, achieving an outstanding performance in the year 2014.

The year under review was mainly significant in loan disbursements, recording LKR 6.6 billion, the highest ever figure the bank has achieved in its journey of thirty six years.

This is testimony to the untiring efforts of our staff in operational departments and branches to promote loans and advances in the highly competitive business environment, created by the prevailing low interest rate regime in commercial banks.

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

State Mortgage and Investment Bank has played a leading role in providing financial assistance to the housing needs of the citizens of Sri Lanka irrespective of their income category in order to uplift the living standards of the citizens.

Our pledge is to ensure continuous service to be a valued partner in national development, while corporate governance remains the board's highest priority, duty and responsibility.

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	2014 Rs.Mn	2013 Rs.Mn	Change %
Interest Income	3,633	3,635	(0.06)
Interest Expenses	(2,214)	(2,459)	(9.99)
Net Interest Income	1,419	1,176	20.68
Profit before Tax	413	343	20.42
Taxation	140	110	26.41
Profit after Tax	273	232	17.57
Investment in Government Securities	45	-	-
Loans and Advance (Gross)	24,263	21,377	13.50
Total Assets	30,301	26,825	12.96
Customer Deposits	24,146	21,201	13.89
Borrowings	1,120	901	24.27
Stakeholders' Fund	4,018	3,930	2.23
Ratio Analysis			
Profitability Analysis	%	%	%
Net Interest Margin	4.97	4.76	4.39
Return on equity	6.87	6.00	14.52
Return on Average Assets	1.44	1.39	3.95
Capital Adequacy			
Equity / Total Assets	13.26	14.65	(9.50)
Equity / Gross Loans & Advances	16.56	18.38	(9.93)
Tier 1	25.32	28.09	(9.86)
Tier 1 & 11	25.32	28.09	(9.86)
Liquidity			
Liquid Asset Ratio	22.79	21.24	7.30
Deposit/Gross Loans and Advances	99.52	99.18	0.35
Borrowings/Gross Loans and Advances	4.61	4.21	9.49
Rating			
Asset Quality	A(Ika)	A(Ika)	
NPL/Gross Loans and Advances	33.42	35.33	(5.41)
Loans and Advance to Total Assets	80.07	79.69	0.48

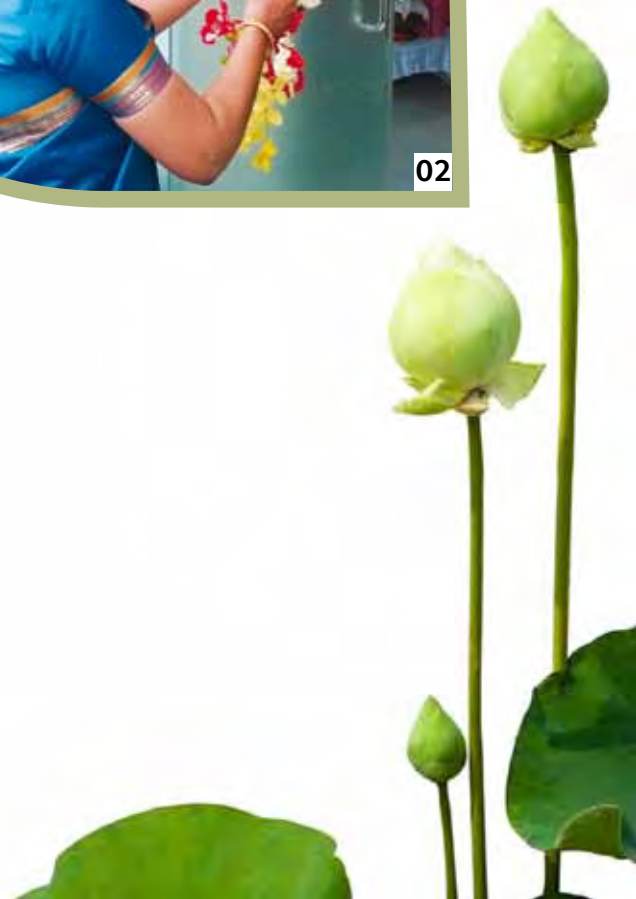
Rs. 6.6 Billion
Loan Disbursements

Operating Highlights 2014



01 Anuradapura Branch Opening

02 Matale Branch Opening



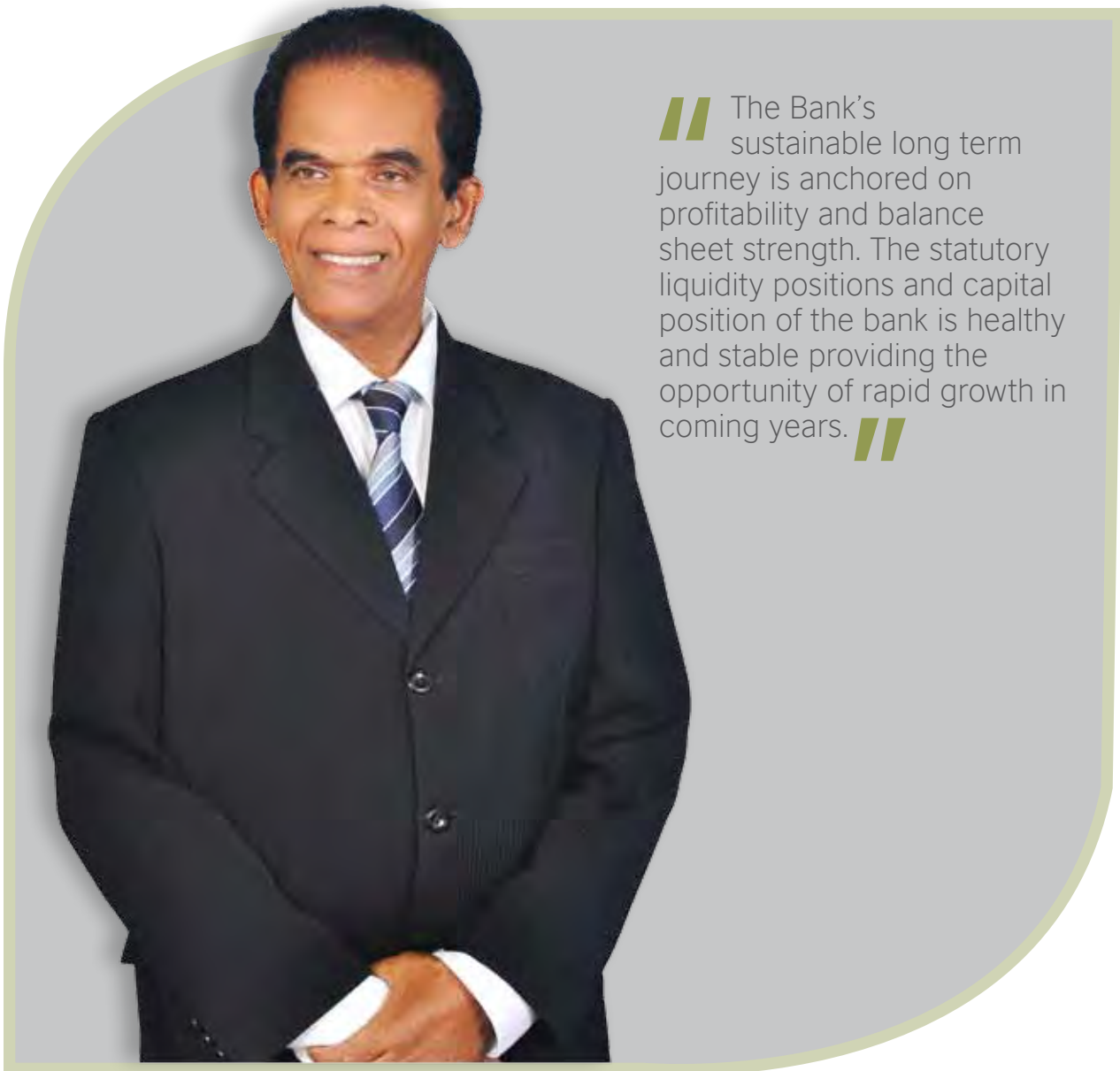




Management review

We are on track with our five year strategic plan. The bank increased its branch network expanding access throughout the country and strengthened staff positions by recruiting skilled people. Our product range and services are expanding, creating value and customer friendly service in our primary objective of upgrading living standards of the nation. We are in the process of upgrading the technological platform of the bank and infrastructure facilities.

Chairman's Review



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

State Mortgage and Investment Bank (SMIB) is one of the oldest bank in Sri Lanka serving national economic purposes, especially as nation’s housing bank over the last four decades. The bank played a leading role in providing financial assistance to the housing needs of the citizens of Sri Lanka irrespective of their income category in order to uplift the living standards of the citizens.

The bank sets its direction and scope under the macroeconomic and development policies of the government of Sri Lanka, financing housing, agricultural and industrial needs of the economic persons in the system. The limited scope of activities defined from the SMIB Act of incorporation has laid certain restriction to the bank in market penetration and increasing market share, but the bank has displayed stable financial performance amid both domestic and global uncertainties and severe competitiveness.

Chairman's Review Contd...

Sri Lanka's economic growth has been one of the fastest among Asia's developing economies in recent years. Real GDP grew by 7.4% in 2014 and GDP per capita increased to US dollars 3,625 in 2014 from US dollars 3,280 in the previous year. Inflation remained at single digit levels for the sixth consecutive year, with year-on-year inflation declining to 2.1 per cent from 4.7 per cent.

Central Bank of Sri Lanka maintained its reduced policy rates throughout 2014 with the aim of facilitating greater stability in short term interest rates and lowering the interest rate spreads in financial market. High levels of excess liquidity in domestic market significantly pushed down money market rate further.

The market showed low credit growth, despite of low interest rate maintained, with credit growth picking up only in the latter half of the year. Industry was focusing on retail lending with the stagnation of corporate lending. Reduced interest rates, low growth in credit and high liquidity in the market led low net interest margin and banks increasing lending volumes by stepping into retail lending mainly for consumption.

SMIB was facing a severe competition from the players due to the environment prevailing in the industry but has achieved 13.5% growth in loans and advances in 2014 with a Return on Asset ratio of 1.44%. Depositors have placed confidence on the bank with the year on year deposit growth of 14%. Total loan disbursement for the year was 6.6Bn which is a 20% growth from year 2013. The banks profit after tax has increased by 18%.

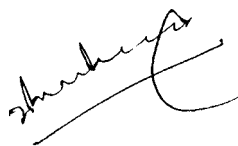
The bank's sustainable long-term journey is anchored on profitability and balance sheet strength. The statutory liquidity positions and capital position of the bank is healthy and stable providing the opportunity of rapid growth in coming years. The bank intends to overcome sectoral and activity limitations stipulated from the Act and searching avenues in expanding potential.

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

In conclusion, 2014 was another year of good performance, in reaching the journey towards prosperity. I, as your Chairman and the Board of Directors assure a strong performance in the year ahead.

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

Finally I would like to thank the H.E. the President, Honorable Prime Minister, Honorable Minister of Finance, Honorable State Minister of Finance, the Secretary to the Treasury, officials of Central Bank, Departments of Attorney General and Auditor General, and heads of regulatory bodies for their corporation, guidance and assistance extended in discharging my responsibilities as the Chairman of the bank.



Tissa Jinadasa
Chairman

General Manager's Review



// Year 2014 records the Loan disbursement of Rs. 6.6 billion, the highest ever amount the bank has achieved in its journey of Thirty Six years recognizing the untiring effort of all the staff in operational departments and branches

//

Year 2014 records the Loan disbursement of Rs. 6.6 billion, the highest ever amount the bank has achieved in its journey of thirty six years recognizing the untiring effort of all the staff in operational departments and branches to promote loans and advances in the highly competitive business environment specially due to lower interest rates offered by other banks. Facing the threat of early settlement of Loans still the bank has been able to maintain the credit growth of 13.5%.

Deposits from customers as at Balance Sheet date records a sum of Rs.24 billion with year to year increase of Rs.2.9 billion and deposit growth of 13.9%.

Even with the limited number of products available to meet customer requirements the bank was able to achieve results with the proper understanding of the customer needs.

CEO's Review Conted...

A remarkable increase of 20% is recorded in the net interest income leaving room to accommodate the increase in non-interest expenses of Rs.184 Mn. , resulting to Net Profit before Tax of Rs.413 Mn. a 20% increase compared to the year 2013. Net Profit after Tax for the year amounted to Rs.273 Mn. posting a 17.6% increase compared to that of previous year.

Rs.30 Bn. Of total assets of the bank shows a 13% increase compared to the position at the beginning of the year while credit growth contributes for 82% of the asset growth. During the year under review the bank has spent Rs.50 Mn. for purchase of office furniture and equipment.

Branch network was expanded further by opening two more branches in Anuradhapura and Matale increasing the total number of branches upto twenty four island wide, resulting 60% increase during two years 2013 and 2014.

Risk Management functions have been streamlined to mitigate the overall business risk of the bank while improving the quality of services in all functional areas.

During the year 2014 more attention has been paid to strengthen the recovery process and to reduce the high NPL ratio of the bank.

Bank recruited 83 number of staff including Management Trainees and Trainee Banking Assistants to strengthen the work force while making arrangements to fill 21 vacancies in the approved cadre by internal promotions.

Operational processes and procedures were improved by continuous reviewing simplifying, regularizing and introducing proper internal control mechanisms. Staff training activities were promoted paying more attention to ensure efficiency and effectiveness and to gain competitive advantage by developing skills, attitudes, behavioral aspects, quality of the services provided by the staff while complying with the laws, rules and regulations. Actions were initiated to provide better working atmosphere by improving the infrastructure facilities of the head office premises.

Proper guidance and advise of the Chairman and the Board of Directors had been the main factor of the successful achievements of the bank and we pay our utmost respect for the leadership given by the Board of Directors.

I wish to make a note of appreciation for the significant emphasis of the senior management for shouldering responsibilities to mark upliftments of the bank, without their continuous effort the bank would not have been able to embark on the achieved results.

My special thanks goes to the rest of the staff including those who have retired for the infinite support given to the management by their lawful service to achieve the given targets.

Customers of the bank who keep the bank march forward will get our sincere gratitude and the assurance of trusted service in all times for their financial needs.

I admire the co-operation extended by the Director and the staff of the Bank Supervision department of the Central Bank of Sri Lanka, Director Generals and the staff of Ministry of Finance, and Department of Public Enterprises of the General Treasury in performing the operational activities of the bank.



Ms.W.J.K.Geeganage
Acting General Manager

Board of Directors



Profile of The Board of Directors

1. Mr. Jagath Wellawatta

Chairman

Mr. Jagath Wellawatta is the Chairman of SMIB since 2010 and is guiding the organization to be the pioneer Housing Bank to the nation. Mr. Wellawatta is a Master of Sociology and a Bachelor of Arts (Honours) from the University of Colombo. He is currently reading for his PhD in Sociology. He is also a Senior Lecturer in the University of Colombo. He was a former Chairman of National Child Protection Authority and Foreign Employment Bureau of Sri Lanka.

2. Mr. D. Weerasekara

Director

Mr. Weerasekara Director was appointed to the Board of SMIB in 2006 and reappointed in 2009, 2010 and 2013 consecutively. He holds over 10 years' experience in Sri Lanka Education Administrative Service. Mr. Weerasekara currently serves as a Divisional Educational Director.

3. Mr. V. S. Bandara

Director

Mr. V. S. Bandara Director was appointed to the Board of SMIB in 2010 and re-appointed in 2013. He is an Attorney - at - Law, Notary Public and Commissioner of Oaths. He is a Bachelor of Arts (Honours) in Criminology and Criminal Justice.

4. Mr. M. Y. M. Shamraz Yehiya

Director

Mr. Shamraz Yehiya Director was appointed to the Board of SMIB in 2010. He is currently a Director at Ceylinco Stock Brokers and Continental Business Exchange too. He is engaged in financial and business field over twelve years.

5. Mr. P. H. L. W. Perera

Director

Mr. W. Perera Director was appointed to the Board of SMIB in 2012. He is a Master of Sociology and a Bachelor of Arts. Whilst serving as a Director to SMIB he is also serving as the Secretary to the Ministry of Constructions, Engineering Services, Housing and Common Amenities.

6. Mr. Sarath Hycinth

Director

Mr. Sarath Hycinth Director was appointed to the Board of SMIB in 2011. He is a member of the Sri Lanka Accountants Service (Class 01). He holds a Higher National Diploma in Management. He has been a member of Accounting Technicians of Sri Lanka and fellow of Institute of Public Finance and Development Accountancy of Sri Lanka. He is currently the Chief Accountant at Ministry of Livestock and Rural Community Development.

7. Mr. S. L. G. Bandusiri

Director

Mr. Bandusiri Director was appointed to the Board of SMIB on 21st of June 2012. He holds a B.Sc. Degree and a member of the Sri Lanka Accountants Service (Class 01). He is presently employed as the Chief Accountant of the Ministry of Agriculture.

8. Mr. N. P. N. Fernando

Director

Mr. Nandun Fernando Director was appointed to the Board of SMIB on 30th May 2013. He is an Attorney-at-Law, holding a B.Sc. Special Degree in Quantity Surveying.

9. Mr. M. S. D. Ranasiri

Director

Mr. M. S. D. Ranasiri Director was appointed as a Director to the Board of Directors of SMIB on 25th November 2013. He holds a B.Com Special Degree and is a member of the Sri Lanka Accountant Service (Class 01). He is the Director General of Treasury Operations of the Ministry of Finance and Planning, having more than 29 years' experience in the Government Service.

New Board of Directors



Profile of The New Board of Directors

1. Mr.Tissa Jinadasa

Chairman

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

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

2. Dr. Namal Rathnayake

Director

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

3. Mr.Phiroze Pestonjee

Director

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

4. Mr.Chandrasiri Senevirathne

Director

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

5. Mr.H.M.B.Senaratna

Director

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

6. Dr.Niroshan Gamage

Director

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

7. Mr.K.A.Thilakaratne

Director

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

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

8. Mr.M.S.D.Ranasiri

Director

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

9. Mrs.L.U.N.Sumanasekara

Director

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

Senior Management



Senior Management



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14



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01. Ms. W.J.K. Geeganage

Deputy General Manager
(Finance & Planning)
/ Acting General Manager

02. Mr. R.P.U. Pathirana

Acting DGM (Credit)

03. Mrs. D.K. Hedellearachchi

AGM (Post Disbursement & Monitoring)

04. Mr. T.M.J. Wickramasekera

AGM (Credit Unit "C")

05. Mr. A.D.N. Dharmaratne

AGM (Valuation)

06. Mrs. S.V.P. Cooray

AGM (Legal)

07. Mrs. K.P.K.H.D. Perera

AGM (Recoveries)

08. Mr. K.L.N.A. Perera

Acting AGM (Finance)

09. Mrs. J.I. Senanayaka

AGM (Risk Management)

10. Mr. S. Wijethunga

AGM (IT)

11. Mr. S.S. Wijedoru

Acting AGM (HR & Logistics)

12. Mrs. N.P.K. Lokuge

Chief Manager (Legal)

13. Mr. D.M.R. Dissanayake

Chief Manager (Branch Operations)

14. Mr. R.M. Abeyratne

Senior Accountant

15. Mr. K.G. Karunaratne

Chief Manager (Valuation)

16. Mrs. W.K. Perera

Chief Manager (Legal)

17. Mr. S. Wickramasinghe

Chief Manager (Credit)

18. Mr. L.W. Samarawickrama

Chief Manager (Credit)

19. Mr. D.B.P. Willarachchi

Internal Auditor

Not in Picture

01. Mr. W.M. Dayasinghe

General Manager

02. Mr. I.K. Gamini

Chief Manager (Credit)

03. Mr. D.L. Dias

Chief Manager (Credit)

Financial Review

SMIB continued its growth momentum during the year 2014 despite the decreased interest rates in the market. Through sound asset management policies and efficient market oriented strategies, the bank successfully faced the challenges in the financial market.

Profitability

SMIB recorded a Pre-Tax Profit of Rs.413 Mn for the year ended 2014 compared to Rs. 343 Mn in 2013, marking a 20% increase which is a remarkable achievement of the Bank. This is mainly due to the decline of interest cost on deposits and expansion of the branch network of the Bank.

Interest Income

Interest income from loans and advances increased by 7% during 2014, backed by the expansion of the loan portfolio of the Bank. Interest income from the investments was decreased up to certain extent due to get realization of investments to invest in loans and advances, which provides higher return, while maintaining minimum statutory investment level in high liquid assets.

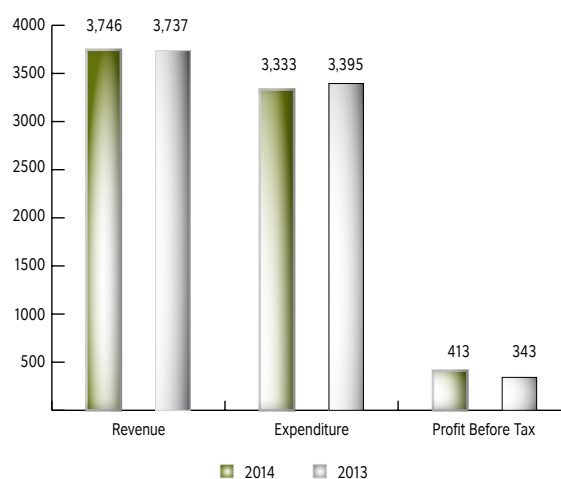
	2014 Rs.Mn	2013 Rs.Mn
Income from Loans and Advances	3,150.83	2,946.03
Interest Income from Investments	482.07	689.20
Total Interest Income	3,632.90	3,635.23

Interest Expenditure

Due to the low interest rates in the market the Bank's interest expenditure decreased significantly in 2014 showing a decrease of 10% of the interest expenses compared to the year of 2013.

	2014 Rs.Mn	2013 Rs.Mn
Deposits	2,189.40	2,441.31
Short Term Borrowings	0.30	0.53
Long Term Borrowings	23.91	17.35
Total	2,213.61	2,459.19

Revenue, Expenses and Profit comparison (Rs. Mn)



Portfolio Growth

Loans and Advances

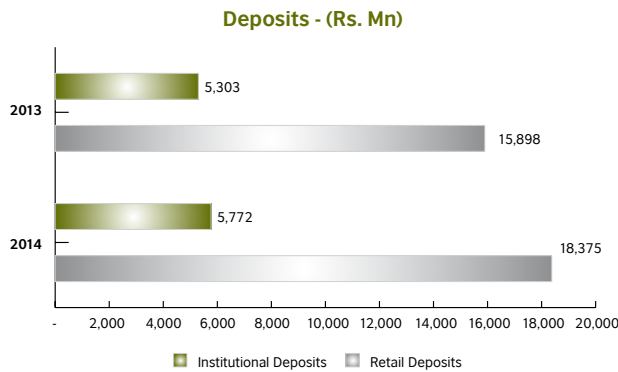
The Bank recorded an increase of 13% in its loan portfolio compared to 2013. This growth can be mainly attributable to the Mortgage, EPF and Personal Loan increase during the year which attracted a wider customer base. SMIB endeavoured to improve the quality of its credit portfolio while increasing the volume.

Product	2014 Rs.Mn	2013 Rs.Mn
Mortgage Loans	8,366.99	8,056.45
EPF Loans	12,131.07	10,593.52
Vehicle Loans	80.26	66.53
Personal Loans	2,269.14	1,254.91
Other Loans	1,415.10	1,405.93
Total	24,262.56	21,377.34

Financial Review. Contd...

Deposits

The Bank's customer deposits also grew significantly by 14% from Rs.21,201 Mn to Rs.24,146 Mn as at 31st December 2014 while Institutional Deposit increased by 9% and the Retail Deposits by 16% during the year which is a remarkable achievement of the bank.



Asset Quality

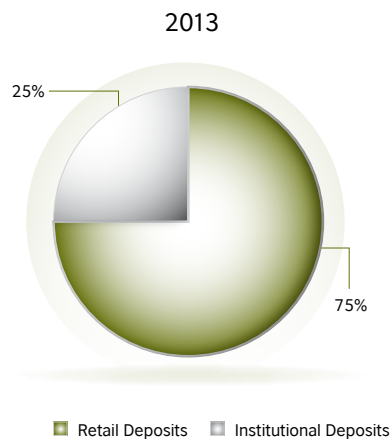
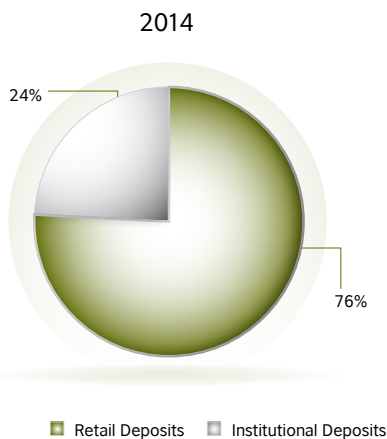
SMIB continued its prudent credit management policy in 2013 increasing its credit volume and maintained the credit quality simultaneously. Gross NPL ratio of the Bank stood at 33.42% in comparison to 33.42% in 2013. The NPL ratio has been decreased during the recent past.

Contribution to National Economy

SMIB as a responsible corporate citizen continued to make a considerable contribution to the economy in 2014. In 2014 the contribution to national economy in the form of taxes and other levies paid to the government amounted to Rs. 349.45 Mn in comparison to Rs. 324.89 Mn in 2013.

	2014 Rs.Mn	2013 Rs.Mn
VAT & NBT	123.37	100.81
Corporate Tax and Deemed Dividend Tax	263.50	199.33
Transfers to Consolidated Fund	10.00	40.00
Total	396.87	340.14

Deposit Composition



Human Resources

Management

The deep rooted purpose of existence of Human Resource Management Division is to support and guide the organization to manage its most vital asset of Human Resource towards achieving set organizational goals and objectives. Thus it includes hiring right people to the right jobs at the right time and then onwards motivate & develop them in the right way so that best individual output could be taken on the way towards significant success as a business entity. In brief, the functions of Human Resource Management include, Human Resource Planning, Requirement and Selection, Performance Appraisal, Training and Development, Employee Welfare and Motivation Employee Relations and Engagement, Career Management ect. Having considered Human Resource as the most valuable asset, bank believes that in creating a brighter future, the key players are its employees. Through their collective participation bank gets the strength to face the hurdles and turbulent times as we are in a highly competitive business environment. It is believed that the secret of obtaining competitive advantage is through developing the potentials of employees.

Human Resource Management Approach

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

During year 2014 bank Approved cadre was increased from 409 to 523 by creating 114 additional positions. Mainly it includes fifty (50) Trainee Banking Assistants. They were recruited as a cost effective solution and to ensure hiring of right people for entry level positions of the bank linked with the approved succession planning process.

Staff Strength

The total number of staff for the year accounted as 407 which was comparatively small but they have contributed to the bank performance at greater extent. During the year 20 staff members left the bank of which 12 retired from the bank and balance 8 staff members resigned due to personal reasons. We added ninety four (94) new staff members to Bank during the year which includes Branch Managers, Assistant Managers in the field of Valuation, Management Trainees, Legal Trainees and Trainee Banking Assistants, Steno Typist and other Minor Staff such as Drivers, Multi Duty Assistant. 44 employees were promoted internally based on their experience and performance. Filling vacancies were carried out as per our recruitment policy both internal and external.

Staff Variance

Management Level	Variance			
	Retired	Retired	Externally Recruited	Internally Promoted
Corporate Management	-	2	-	1
Senior Executive Management	-	-	-	-
Executive	11	3	32	21
Non Executives	1	3	62	22
Total	12	8	94	44

Staff Strength by Tier Wise

Management Level	No: of Employees as at 31.12.2013	No: of Employees as at 31.12.2014	Percentage
Corporate Management	21	20	5
Senior Executive Management	26	25	6
Executive	125	153	38
Non Executives	161	209	51
Total	333	407	100

Gender Profile

As an equal employee provider SMI bank provided employment for both males & females in an equal manner. Gender profile of the SMI bank accounted as 46% male and 54% female in the year of 2014.

Employee Age Profile

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

Age category	No: of Employees as at 31.12.2013	No: of Employees as at 31.12.2014	Percentage
50 or Above	112	106	26
40 - 49	85	89	22
30 - 39	90	106	26
29 or below	46	106	26
Total	333	407	100

Human Resources. Contd...

Employee Service

Service category (Years)	No: of Employees as at 31.12.2013	No: of Employees as at 31.12.2014	Percentage
0-4	85	175	43
5-9	52	52	13
10-14	42	27	7
15-19	46	60	15
20-24	8	-	-
25-29	65	64	16
30-34	27	24	6
35-40	8	5	1
Total	333	407	100

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

Employee Retention Strategy

Employee Retention Strategy recognized the staff those who had completed 25 years dedicated service to the Bank. In recognition of their valued long term service, they were awarded with gold coins.



Trainee Banking Assistant receiving her Letter of appointment at the Induction program held in SLFI-29th May, 2014



Winners of the quiz competition - 2014

Risk Management

Risk Management-Management Discussion and Analysis

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

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

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

Risk Management Framework of the bank

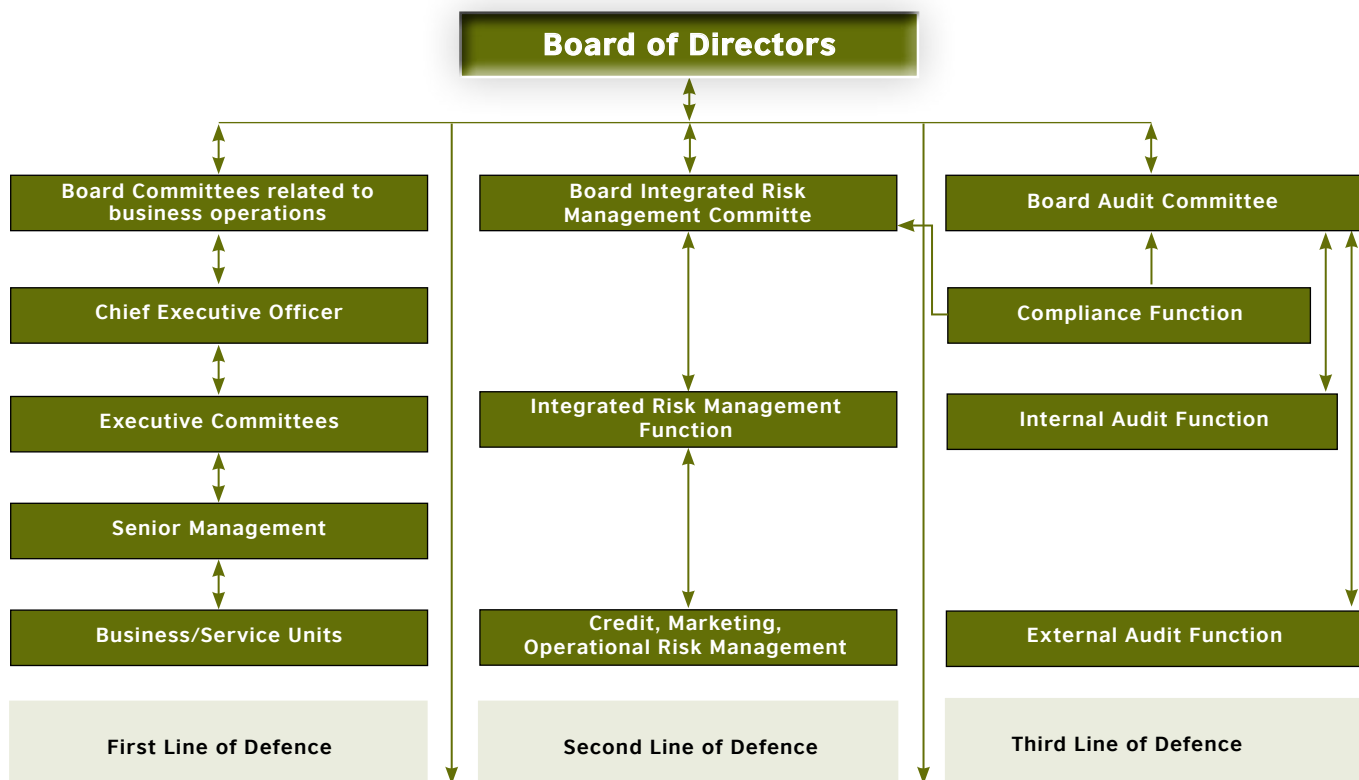
Risk management structure of SMIB includes three segments

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

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

Governance Structure for the Risk Management of SMIB

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



Risk Management Contd...

Board and the Senior Management Oversight

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

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

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

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

To keep these policies in line with significant changes in internal and external environment, Board of Directors periodically review these policies and make appropriate changes as and when deemed necessary.

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

The Board Audit Committee ensures that operational controls are in place and that operations are carried out as per the relevant policies, procedures and guidelines. In particular, it carries out credit audits in line with the prevailing operational controls.

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

Evolving Risk Management Function of SMIB

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

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

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

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

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

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

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

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

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

Capital Adequacy Position

SMIB compute capital adequacy as per the regulator's direction where risk (pillar I) is quantified using the Standard Approach for Credit and market risk and Basic Indicator Approach for operational risk. Tier I capital ratio of SMIB is 25.32% and total capital ratio is 25.32% as at 31.12.2014. These ratios are well above the industry average and indicate a stronger capacity for risk absorption.

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

Managing Key Risks

Credit Risk

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

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

Risk Management Contd...

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

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

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

Credit Risk Management

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

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

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

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

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

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

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

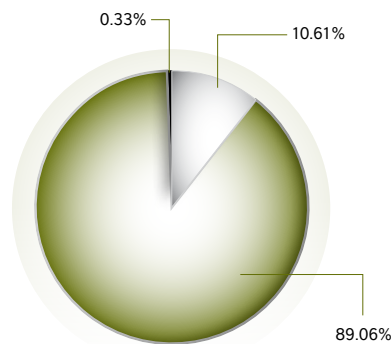
Credit Concentration Risk

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

Sector wise Exposure

Sectors	Amount (Rs.)
Agriculture & Fishing	2,573,965,623
Housing & Construction	21,608,339,450
Tourism	80,256,324
Total	24,262,561,397

Sector wise Exposure



■ Agriculture & Fishing ■ Housing & Construction ■ Tourism

Risk Management Contd...

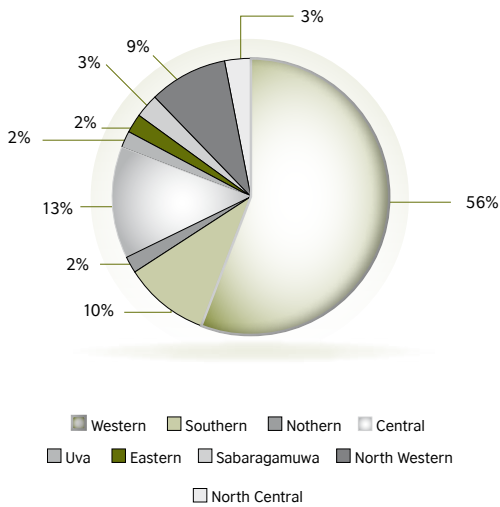
Geographical Concentration

Province	Amount (Rs.)
Western	13,682,636,951
Southern	2,313,235,998
Northern	425,375,557
Central	3,154,242,129
Uva	499,673,803
Eastern	438,094,099
Sabaragamuwa	746,379,184
North Western	2,161,009,413
North Central	841,914,264
Total	24,262,561,397

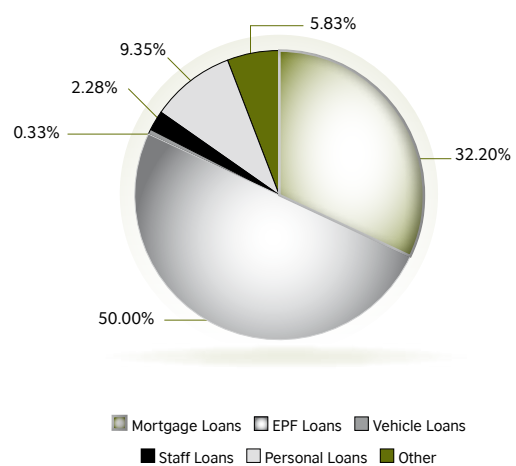
Product Concentration

Product	Amount (Rs.)
Mortgage Loans	7,813,511,885
EPF Loans	12,131,065,228
Vehicle Loans	80,256,324
Staff Loans	553,487,008
Personal Loans	2,269,143,427
Others	1,415,097,526
Total	24,262,561,397

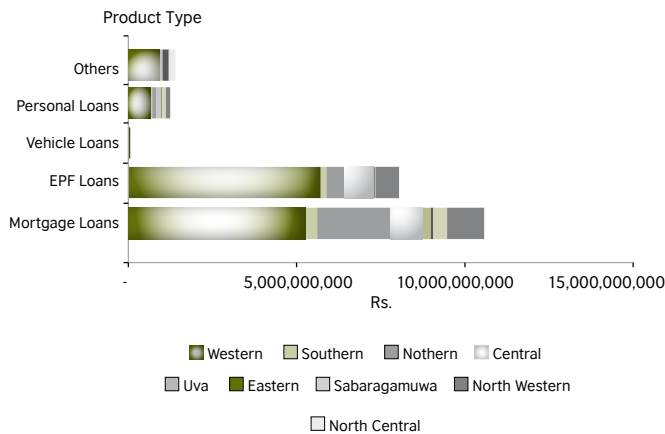
Geographical Concentration



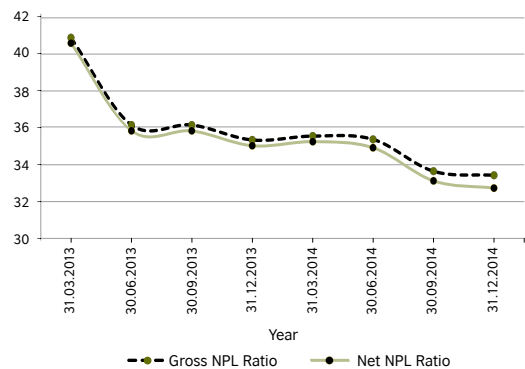
Product Concentration



Geographic distribution of Loan Portfolio – Product wise as at December 31, 2014



Movement of Gross & Net Non-Performing Advances Ratios during the years 2013 & 2014



Risk Management Contd...

High Non Performing Allowance (NPA) ratio is due to the NPA position of EPF Loans 29.99% as at 31/12/2014 which is being recovered annually from EPF balances of customers held in Central Bank of Sri Lanka.

Market Risk

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

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

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

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

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

Interest Rate Risk

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

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

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

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

Liquidity Risk

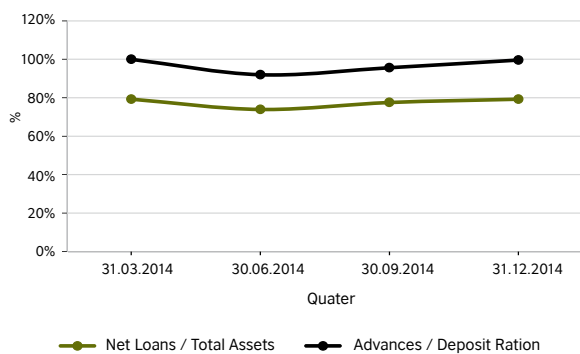
Liquidity risk is the potential for loss to an institution arising from either its inability to meet its obligations or to fund increases in assets as they fall due without incurring unacceptable cost or losses. Liquidity risk cannot be seen in isolation, because it is often triggered by consequence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

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

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

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

Liquidity Related Ratios



Risk Management Contd...

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

Maturity Mismatch Analysis as at 31/12/2014 (Rs.Mn)

	less than 7 Days	7-30 Days	1-3 Months	3-6 Months	6-12 Months	1-3 years	3-5 years	Over 5 years	Unclas- sified	Total
Total Assets	739	1,490	2,574	776	2,546	3,574	3,183	6,835	8,583	30,301
Total Liabilities	1,577	1,276	4,948	3,630	8,186	1,743	3,345	1,469	4,127	30,301
Gap	(838)	214	(2,374)	(2,854)	(5,640)	1,830	(162)	5,366	4,457	

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

The bank comfortably meets the regulatory requirements relating to liquidity.

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

Operational Risk

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

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

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

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

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

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

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

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

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

Legal Risk

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

Strategic Risk Management

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

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

Compliance Risk

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

Corporate Governance

To strike balance between economy and social goals thus upholding the concept of Good Governance which is introduced under Banking Act Direction No12 of 2007 for Licensed specialized Banks of Sri Lanka, the Board of Directors of the State Mortgage and Investment Bank (SMIB) which established under the State Mortgage and Investment Bank Law No: 13 of 1975 and subsequent amendments thereto, maintains Transparency accountability and fairness in diligently in accordance with the same.

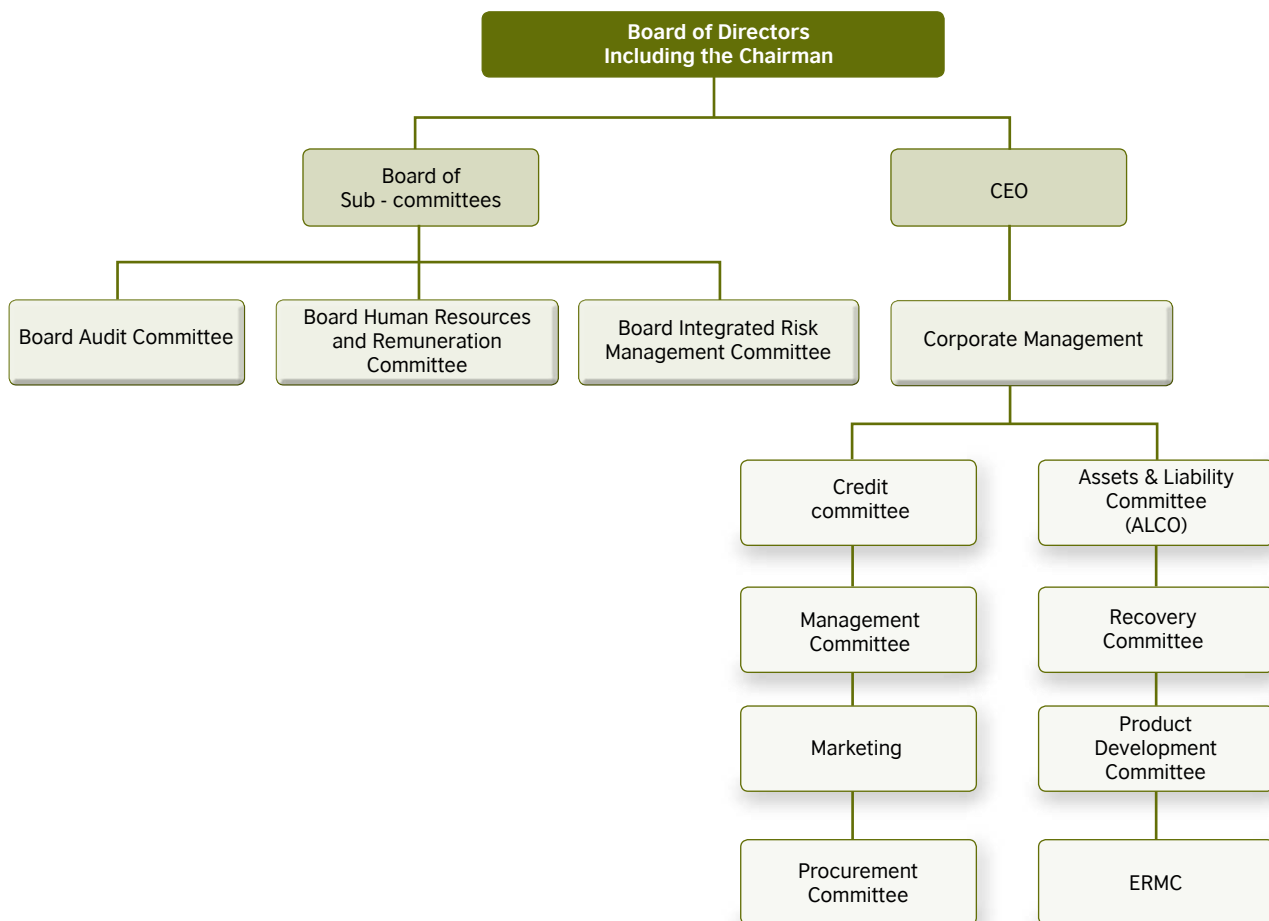
To provide financial assistance particularly to its valuable customers to make their dream house a reality while contributing to the national economy by granting loans to the Housing, Industrial and Agricultural Sectors, the SMIB strongly sustains its growth.

The warranty offered by the SMIB towards the interest of its entire stake holders, depositors, comprising of customers, employees and community which itself care for with utmost dedication such as trust, integrity, accountability, creditability and social responsibility highlights the commitment of SMIB towards the corporate governance.

Corporate Governance is defined as the framework /structure of rules and practices by which a Board of Directors ensures fairness accountability and transparency in an institution's relationship with all its stakeholders. Specifically, modern corporate Governance practices provide directions on the responsibilities of the Board of Directors including the Chairman, CEO and the Senior Management along with the Board delegated Committees.

As it is well understood that the success becomes meaningful only when it is achieved in the right way, with right values, the SMIB believes that it is the key to enhance and maintain public trust and confidence towards the Bank, which is essential to maintain its long term success and sustainability.

In implementing Corporate Governance within the SMIB, the Board of Directors takes every possible step to comply with the applicable practice and accepted procedure.



Corporate Governance Contd...

Corporate Governance at high priority starting from the Board of Directors and Senior Management down to all operational level staff members. The Board of Directors and all staff members at SMIB are committed to the highest business integrity and ethical values and are dedicated to fully-complying with the best Corporate Governance Practices spelt in the SMIB Law, Banking Act and Direction No. 12 of 2007 on Corporate Governance to Licensed Specialized Banks issued by the Central Bank of Sri Lanka (CBSL) and best business practices. The guidelines and their amendments/updates issued by the CBSL from time to time are well followed by SMIB for its effective governance.

The Bank is in compliance with all the applicable regulatory requirements of the CBSL including the "Know Your Customer (KYC)" requirements along with the Anti-Money Laundering provisions issued under the Financial Transaction Act and the Anti-Money Laundering Act.

In setting out the corporate governance aspects within SMIB, the Board of Directors takes every possible attempt to comply with the applicable best practice for corporate governance.

Board of Directors One of the main aims of the Board of Directors is to ensure the smooth and efficient functioning of the Corporate Governance of the Bank.

The Board is collectively responsible for the efficient operation and success of the Bank by directing and supervising the Bank's affairs.

The Board of Directors is responsible and accountable for the overall operation and financial stability of the Bank and its resolute strategy and accuracy while adhering to statutory requirements of the Bank.

The Board of Directors consists of nine directors appointed by the Minister of Finance. The Directors of the Board are selected from persons who have extensive knowledge and experience in Sociology, Finance, Legal, and Commercial fields. The Directors who have knowledge, skills and adequate experience in various fields help to face existing challenges in the Banking sector and to maintain strong procedural policies in conformity with the governing laws of the country and thereby enhance the prevailing interconnection between current needs & future aspirations of the Bank to lead it towards a better position in the competitive Banking field

Hon. Minister is empowered to appoint the Chairman among the Directors. The Chairman should provide leadership to the Board affairs and ensure that the Board works effectively, discharging its responsibilities, ensuring that all key and appropriate issues are discussed and implemented by the Board in time and thus makes a full and active contribution towards the development of the Bank.

BOARD MEETINGS

The Board meetings are held at least once a month while special Board meetings are held as and when the need arises. The Board meetings are held on prior notice.

The Directors are provided with all required information and given adequate time so that they could peruse all documents and make correct decisions.

The main objective is to implement Bank's strategies, corporate value and ensure that the affairs and proposals related to the promotion of business and management are undertaken properly and promptly.

Matters mainly considered at these meetings include approving or reviewing of corporate, business operational strategies, budgetary operations, financial performance, delegation of authority and approving loans.

Thirteen Board meetings were held during the year 2014 and the minutes of the Board are maintained by the secretary to the Board in accordance with the rules and regulations.

The Functions of the General Manager

The managerial and operational activities of the Bank has been delegated to the General Manager who heads the Corporate Management team in line with the Board approved strategic objectives, Corporate Values, Risk Policy and Risk Management procedures in a very confident manner.

Sub Committees

There are three Board sub committees, with a defined scope of work and term of reference. These committees are responsible for providing expert advice to the Board on the subjects assigned.

Also these committees are chaired by the Directors who have experience in the relevant field and who work independently. In view of the Corporate Governance to ensure that the Bank's oversees control affairs are functioning smoothly. The Board has appointed several sub committees to focus on Audit, Credit, Human Resources and Remuneration, Assets and Liability (ALCO), Risk Management and Marketing.

The Board Audit Committee

The Board Audit Committee (BAC) was constituted by the Board of Directors in compliance with the section 3(6)(ii) of the Direction 12 of 2007, according to the corporate Governance direction for Licensed Specialized Banks in Sri Lanka issued by the Monetary Board of Central Bank of Sri Lanka. It comprises of four Directors of the Bank with the Chief Internal Auditor / Board Secretary functioning as the Secretary. The Acting General Manager, DGM (Finance), AGM (Risk Management) and AGM (Finance) attend the

Corporate Governance Contd...

committee meetings on invitation. Also the Superintendent of the Government Audit attends these meetings.

Following directors served on the Committee during the year 2014:

- 1) Mr. S.L.G.Bandusiri - Chairman of the Committee
- 2) Mr. V.S. Bandara - Director
- 3) Mr. Sarath Hysinth - Director
- 4) Mr. Shamraz Yahiya - Director

The Chief Internal Auditor functioned as the secretary to the Committee up to 10th September 2014 .Thereafter secretary to the Board functioned as the secretary to the Board Audit Committee.

The Audit Committee is authorized to determine the scope of the Internal Audit unit, review the management letters, consider contents of internal audit reports, examine the adequacy and effectiveness of internal control systems, review the statutory accounts and publish Financial Statements, assess compliance with regulatory requirements, evaluate performance including budgetary reports and review the implementation of the recommendations of the Committee on Public Enterprises (COPE).

The subcommittee meetings of the Bank are held regularly, in accordance with the regulatory requirement and the needs of the Bank. Four meetings were held during the year of 2014.

The Board Human Resource & Remuneration Committee (BHRRC)

The BHRRC committee was constituted by the Board of Directors in compliance with the section 3(6) (iii) of the Direction 12 of 2007, according to the corporate Governance direction for Licensed Specialized Banks in Sri Lanka issued by the Monetary Board of Central Bank of Sri Lanka . It comprises of four Directors of the Bank with the AGM -Legal, Board Secretary functioning as the Secretary. AGM (Human Resources & Logistic) attends the committee meetings. The Acting General Manager attends the meeting on invitation.

Following directors served on the Committee during the year 2014:

- 1) Mr. Sarath Hysinth - Chairman of the Committee
- 2) Mr. V.S. Bandara - Director
- 3) Mr. Dammika Weerasekara - Director
- 4) Mr. Shamraz Yahiya - Director

The BHRRC is responsible for determining the remuneration policy relating to the Directors and the Key Management Personnel of the Bank other than the remunerations determined by the Collective Agreements. The Committee reviews all significant Human Resource policies and initiatives, salary structures and terms and conditions relating to staff at senior

executive level. In this process, necessary information and recommendations are obtained from the General Manager /CEO / Acting General Manager.

The subcommittee meetings of the Bank are held regularly, in accordance with the regulatory requirement and the needs of the Bank. Four meetings were held during the year of 2014.

Board Integrated Risk Management Committee (BIRMC)

The BIRMC committee was constituted by the Board of Directors in compliance with the section 3(6) (v) of the Direction 12 of 2007, according to the corporate Governance direction for Licensed Specialized Banks in Sri Lanka issued by the Monetary Board of Central Bank of Sri Lanka . It comprises of Three Directors.

- Mr. S.L.G .Bandusiri - Chairperson
- Mr. W.M.D.S.Hysinth - Director
- Mr. Shamraz Yehiya - Director

Acting General Manager, Actg.AGM (Finance) AGM (Recoveries) AGM (Credit) and AGM (Risk and Management), functions as the Secretary.

The said committee functions in accordance with the regulations of the Board and guideline issued by the Central Bank. As per the Charter, key responsibilities of the BIRMC are as follows.

- Assist the Board of Directors in understanding the Risk Management function adopted by the bank in operating the Banking business and the adequacy of the same.
- Review bank's risk factor.
- Review and approve Bank's key risk policies on the establishment of risk limits and receive reports on Bank's adherence to significant limits.
- Receive reports from , review with ,and provide feedback to ,Management on the categories of risk the bank faces, including credit ,Market, Liquidity and operational risk ,the exposures in each category, significant concentrations within those risk categories, the metrics used to monitor the exposures and Management's view on the acceptable and appropriate levels of those risk exposures.
- Review bank's credit, market, liquidity and operational risk Management frame works, including significant policies, processes and systems that management uses to manage risk exposures, as well as risk measurement methodologies and approaches to stress testing .
- Review the independence and authority of the risk Management function.

BIRMC meets on quarterly basis. Four meetings were held during the year of 2014.

Executive Credit Committee

The Executive Credit Committee headed by the Actg. General Manager, comprises of Actg. DGM(Credit),AGM(Credit),

Corporate Governance Contd...

AGM(Finance), AGM (Recoveries),AGM (Legal), AGM (Risk Management) and AGM (Valuation). This committee formulates the Bank's Credit Policies and monitors the Management of Credit Risk.

Facilities over and above the delegated authority of the Management are also referred to this Committee for approval. Thirty six meetings were held during the year 2014.

Assets & Liabilities Management Committee

The main function of the Assets & Liabilities Committee (ALCO) is to monitor the assets and liabilities of the Bank and thereby assess and manage the risk involved.

The ALCO is headed by the Acting General Manager and consists of the Deputy General Manager (Finance) Deputy General Manager (Credit) ,AGM (Risk Management), Assistant General Manager (Finance) and AGM (IT) with Treasury Executive as the Secretary. The authority to the ALCO is delegated by the Board of Directors. The Committee functions as a top operational unit, which manages the balance sheet within the parameters laid down by the meeting. Eighteen meetings were held during the year 2014.

Management Committee

Corporate Management is responsible for the day -to day operations of the Bank, working within the controlled environment and framework set out by the Board of Directors. The Management Committee is headed by the Actg.General Manager, comprises of senior management above Chief Manager Grade and Branch Managers. It meets once a month to discuss the performance regarding targets, opportunities, issues and current developments. Ten (10) meetings were held during the year 2014.

Ethics

The Bank requires all Directors, Higher Management, Middle Management and Employees to maintain highest standards of integrity and honesty in performing their duties in a well-disciplined atmosphere. Following are the key measures adopted by the Board to create a strong ethical culture.

- We will not risk the Bank's reputation by knowingly associating with people, organizations, products or transactions that could potentially damage our reputation.
- We are positive about complying with our legal and regulatory obligations. This protects our stakeholders and us.
- Each member of the staff has a personal responsibility to contribute towards the Bank's success and reputation by carrying out his or her job conscientiously, efficiently, effectively and honestly, and maintaining the highest standards of integrity and personal conduct in all matters.
- We encourage the means whereby staff can report any suspicion of wrongdoing to senior management.
- Consistent with the highest standards of integrity, we do

not approve solicitation or acceptance of hospitality of gifts, which may be mistaken for an inducement. We also do not approve the use of information received in the course of our business dealings, for personal gains.

- We seek business relationships, which are mutually beneficial and lead to success through fair dealing and high standards of business integrity.
- We will normally seek competitive proposals from suitable suppliers and service providers.
- We acknowledge responsibility for all employee related issues, including health and safety.
- We encourage employees to develop a lifestyle which integrates both work and family.
- We believe it is important for all staff to be able to share the benefits of good performance by the Bank.
- The Bank encourages employees to adopt a responsible attitude to work, with explicable self-imposed discipline. The main aim of the Bank's discipline rule is to be corrective rather than punitive and it is in accordance with the government regulations. It sets reasonable standards of performance and behavior and aims to ensure consistency and fairness of treatment to all employees.
- We aim to lend with responsibility and base our credit decisions on a thorough understanding of the customer.
- We seek a clear link between equality, diversity and business excellence.

Corporate Governance Contd...



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கணக்காய்வாளர் தலைமை அறிப்பதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல
My No.

FB/E/SMIB/CG/2014

ඔබේ අංකය
உமது இல
Your No.

දිනය
திகதி
Date

11 May 2015

The Chairman,
State Mortgage and Investment Bank.

Auditor General's Report of Agreed-upon procedures performed on the compliance of the Corporate Governance requirements by the State Mortgage and Investment Bank.

I have performed the procedures enumerated in Annexure to the report, with respect to the Corporate Governance direction issued by the Central Bank of Sri Lanka (CBSL). This engagement has been performed in accordance with the principles set out in Sri Lanka Standards on Related Service 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. To perform this agreed upon procedures, I was assisted by a firm of Chartered Accounts in public Practice.

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

Because the above procedures do not constitute an audit or a review made in accordance with Sri Lanka Auditing Standard, I do not express any assurance on the compliance with the directives of corporate governance issued by CBSL.

Had I performed additional procedures or had I performed an audit or a review of the Financial Statements in accordance with Sri Lanka Auditing Standards, 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
Acting Auditor General

අංක 306/72 පොල්දූව පාර,
වත්තරමුල්ල, ශ්‍රී ලංකාව

දුරකථනය
தொலைபேசி
Telephone. } 2887028 /034

இல. 306/72, பொத்துவ வீதி,
புத்தரமுல்லை இலங்கை

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#- மெயில்
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Corporate Governance Contd...

Annexure to the Report on Factual Findings

NOTE: The below mentioned numbering is used to coincide with the "section 3" of the Banking Act Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka, the sections 1 & 2 are not applicable for this document.

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
3(1)	The Responsibilities of the Board				
3(1)(i)	Agreed upon procedures carried out to ensure the board has strengthened the safety and soundness of the bank.				
	a) Checked the board approval, the bank's strategic objectives and corporate values.	Complied			Corporate Plan for the period 2013-2017 was presented to the board under the board paper 12/12/14 Corporate Plan for the 2013-2017 was approved by the board at the board meeting held on 31 st January 2013.
	Checked whether the bank has communicated the bank's strategic objectives and corporate values throughout the bank.	Complied			Strategic objectives and corporate values are communicated through heads of departments at each division.
	b) Checked the board approval of the overall business strategy of the bank.	Complied			Overall business strategy (Corporate Vision/Mission and objectives) included in the corporate plan and it was approved by the board at the meeting held on 31 st January 2013.
	Checked that the overall business strategy that includes the overall risk policy, risk management procedures and mechanisms and they are documented.	Complied			The bank has documented goals to improve the risk management of the bank and observed that it was included in the corporate plan.
	Checked that the overall business strategy contains measurable goals, for at least the next three years.	Complied			Observed that the measurable goals for 2013 to 2017 are included in the Corporate Plan.
	c) Checked that the appropriate systems to manage the risks identified by the board are prudent and are properly implemented.	Complied			The board has appointed "Integrated Risk Management Committee" in 2013 for the purpose of addressing the risk identified periodically. Therefore board reviews IRMC minutes and reports to ensure that the bank has appropriate systems to manage the risk. Observed the board minutes and board papers. Minutes of the board meeting held on 29/04/2014. B/M-14.05.43 Board paper No. 14.05.04. Minutes of the board meeting held on 22/08/2014. B/M-14.11.110 Board paper No. 14.11.11. Further, board has given approval for the IRMC Charter, Risk and Self Assessment Process, Operational Risk Management System and for Stress Testing Policy.

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
	d) Checked that the board has approved and implemented a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	Complied			<p>The Customer Charter is used for the purpose of effective communication between customers and the bank. Perused the Customer Charter-</p> <p>Further, Government has 100% ownership of the bank and all directors are appointed by the minister of finance and planning. Therefore effective communication between government/ shareholders and the bank is maintained.</p>
	e) Checked that the board has reviewed the adequacy and the integrity of the bank's internal control systems and management information systems;	Complied			<p>The adequacy and integrity of the internal controls and management information system had been reviewed by the Board Audit Committee and the board reviewed the respective Board Audit Committee. papers/minutes at the board meetings.</p> <p>No.14.02.18 in the minutes of the board meeting held on 31st January 2014.</p> <p>No.14.09.87 in the minutes of the board meeting held on 24th July 2014.</p>
	f) Checked 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			<p>The Board has identified and designated KMP's as defined by LKAS 24 and disclosed in the 2013 annual report.</p> <p>(Page No.12 and 13 of 2013 annual report.)</p> <p>Further, board has appointed a management committee which consists of senior management above chief manager grade and that committee directs activities and exercise controls over the bank. (Page No.22 of 2013 annual report.)</p>
	g) Checked that the board has exercised appropriate oversight of the affairs of the bank by key management personnel, that is consistent with board policy;	Complied			<p>The board has exercised appropriate oversight of the affairs of the bank by key management personnel.</p> <p>We observed that the board has carried out special investigation over the former general manager of the bank for his chargeable actions and interdicted him from the post of G.M.</p> <p>No. 14.07.72 in the minutes of the board meeting held on 22/05/2014.</p> <p>Board paper No. 14.07.28 This will ensure that the board has exercised appropriate oversight of the affairs of the bank by key management personnel.</p> <p>Further, the board oversees the affairs of the bank through the appointed committees and the financial performance review.</p>

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
	h) Checked that the board has defined the areas of authority and key responsibilities for the board of directors themselves and for the key management personnel;	Complied			<p>Director's powers and authority defined in SMIB Law No.13 of 1975 as the Section 07.</p> <p>Further, we observed that charter of Board Audit Committee included the Power of the Board, Board Audit Committee, Acting General Manager and Responsibility of the Chief Internal Auditor.</p> <p>Above charter was presented to the board under board paper 14.01.07 and it is approved by the board at the meeting held on 20th January, 2014.</p>
	i) Checked that the board has periodically assessed the effectiveness of the board directors' own governance practices, including: (i) the selection, nomination and election of directors and key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary.	Partly Complied			<p>Selections, nominations and elections of the board of directors are done by the finance minister according to the SMIB Law No.13 of 1975.</p> <p>Some directors confirmed in their self evaluation forms that the board has undertaken an annual evaluation of its own governance practices.</p>
	j) Checked that the board has a succession plan for key management personnel.		Not Complied		Succession plan for key management personnel for the year 2014 has not been identified.
	k) Checked 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			<p>In each meeting the board has invited the Acting G.M to be present at the board meetings and through that the board has established communication lines and monitor progress towards corporate objectives.</p> <p>Further, the board has directed to hold management committee meetings and senior management meetings every month to ensure that management is working towards corporate objectives.</p>

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
	l) Checked 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			<p>The board audit committee assists the bank in this regard as per the charter of audit committee TOR.</p> <p>Above charter was presented to the board under board paper 14.01.07 and it was approved by the board at the meeting held on 20th January, 2014.</p> <p>Further, there is a separate compliance officer in the bank who represents the bank in this regard.</p> <p>Further, the board has granted approval for the SLFRS policy manual to comply with the Sri Lanka Accounting Standards through following board meeting: Meeting held on 25th September, 2014.</p>
	m) Checked that the board has a process in place for hiring and oversight of external auditors.			N/A	External auditor has been appointed as per the provision contained in the State Mortgage and Investment Bank Law No.13 of 1975. As per such provisions Auditor General is the external auditor.
3(1)(ii)	Checked that the board has appointed the chairman and the Chief Executive Officer (CEO).	Complied			According to the SMIB Law No.13 of 1975, The chairman has been appointed by the Finance Minister and Acting General Manager/CEO has been appointed by the board.
	Checked that the functions and responsibilities of the chairman and the CEO are in line with direction 3(5) of these directions.	Complied			Please refer the result observed under direction 3 (5) of the direction.
3(1)(iii)	Checked that the board has met regularly and held board meetings at least twelve times a year at approximately monthly intervals.	Complied			The board has met 14 times during the year 2014. Observed board minutes and directors attendance register.
3(1)(iv)	Checked 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			<p>The agenda is prepared under the authority of the board secretary and it is checked by the Acting GM.</p> <p>The notice of the meeting and agenda for the meeting circulated to all directors at least 7 days prior to the meeting to provide reasonable time to study and make any proposals.</p> <p>Accordingly matters and proposals related to the promotion of business and the management of risks of the bank is discussed by the board of directors.</p>
3(1)(v)	Checked that the board has given notice of at least 7 days for a regular board meeting to provide all directors an opportunity to attend. And for all other board meetings, notice has been given.	Complied			According to the board secretary, prepared agenda was sent to each director of the board which is signed and approved by the secretary by post or by hand at least 7 days prior to the meeting.

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
3(1)(vi)	Checked that the board has taken required action on directors who have not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held. Participation at the directors' meetings through an alternate director, however, to be acceptable as attendance.			N/A	The directors have attended the meetings as required and hence, no such action required. Observed the "Directors' Attendance Register" and Board Meetings.
3(1)(vii)	Checked that the board has appointed a company secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and whose primary responsibilities shall be to handle the secretariat services to the board and shareholder meetings and carry out other functions specified in the statutes and other regulations.	Complied			The board has appointed Mrs.S.V.P.Cooray (Attorney-at-law) as a secretary to the board in accordance with the section 43 of the Banking Act No. 30 of 1988 and the Companies Act No 7 of 2007. Secretary to the board is responsible for handling the secretariat services to the board and shareholder meetings and carry out other functions specified in the statutes and other regulations.
3(1)(viii)	Checked the process to enable all directors to have access to advice and services of the company secretary.	Complied			According to the secretary to the board, all directors have access to advice and obtain the services of the company secretary.
3(1)(ix)	Checked that the company secretary maintains the minutes of board meetings and there is a process for the directors to inspect such minutes.	Complied			All the minutes of the board meetings are filed sequentially and kept under the board secretaries' authority. At any time any director shall have access to any information regarding the board meetings. Observed Board meetings' minutes.
3(1)(x)	Checked that the minutes of a board meeting contained or refer to the following: a) a summary of data and information used by the board in its deliberations b) the matters considered by the board c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the board was carrying out its duties with due care and prudence; d) the matters which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations; e) the understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted; and f) the decisions and board resolutions.	Complied			Information required under this section is included in the board minutes. Generally followings are included in the contents of the board minutes. i) Confirmation minutes of the previous meeting. ii) Matters arising out of the minutes of the previous meetings. iii) Deferred from the previous meeting iv) Recovery matters v) Financial matters vi) Marketing and publication matters vii) Administration and personal matters. viii) Credit matters ix) Risk matters x) Legal matters xi) IT matters and, xii) Any other matters. Please refer minutes of the board meeting.

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
3(1)(xi)	Checked 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			<p>The board of directors obtains independent professional advice whenever necessary while carrying out duties and making decisions, at the bank's expense.</p> <p>Generally for this, bank follows Government approved tender procedures.</p> <p>Further, the board has instructed to get an opinion from the Attorney General for some recovery matters.</p> <p>No. 14.09.93 in the minutes of the board meeting held on 24th June 2014.</p>
3(1)(xii)	Checked 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			<p>For this it followed the SMIB Law No.13 of 1975 section 17.</p> <p>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:</p> <p>(Please refer note 34 of page 112 of the annual report – 2013)</p>
	Checked that a director has abstained from voting on any board resolution in relation to which he/she or any of his/her close relation or a concern in which a director has substantial interest, is interested.	Complied			<p>There's no disclosure of interest made in minutes during the year 2014 as it is required by the SMIB Law No.13 of 1975 section 17 to disclose the interest in the minutes if any.</p> <p>Please refer note 34 of page 112 of the annual report – 2013.</p> <p>Further, "Directors' Report" of 2013 annual report disclosed that "no director was directly or indirectly interested in any contract with bank for the year ended 31st December 2013.</p> <p>(Please refer page 64 of the annual report – 2013)</p>
	Checked that has he/she been counted in the quorum for the relevant agenda item at the board meeting.			N/A	Such a matter has not arisen during the year 2014 and therefore this section is not applicable.
3(1)(xiii)	Checked 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.		Not Complied		<p>As per the secretary to the board, the board maintain schedule of matters specifically reserved to it for decision to identify the direction and control of the bank is firmly under its authority.</p> <p>However, we did not receive any written document in this regard.</p>

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
3(1)(xiv)	Checked 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 a situation has not been evident through the review of the board minutes.
3(1)(xv)	Checked that the board has the bank capitalized at levels as required by the monetary board.	Complied			The required capital adequacy ratio as per the CBSL is 5% (Tier I) and 10% (Tier II) and as at 31/12/2014 the SMIB shows capital adequacy (Tier 1) as 21.42% and Total capital ratio (Tier II) as 21.80%. We observed computation of capital adequacy ratio as at 31/12/2014.
3(1)(xvi)	Checked that the board publishes, in the bank's annual report, an annual corporate governance report setting out the compliance with direction 3 of these directions.	Complied			The board has published annual corporate governance report setting out the compliance with direction 3 of these directions in the annual report – 2013. The same practice will be continued in 2014 as well. Please refer page no.32 of the annual report-2013
3(1)(xvii)	Checked that the board adopts a scheme of self-assessment to be undertaken by each director annually, and maintains records of such assessments.	Partly Complied			Some of directors' self assessment/ evaluation process has been carried out by the board of directors for the year 2014. Observed directors' self evaluation forms.
3(2) 3(2)(i)	The Board's Composition Checked that the board comprise of not less than 7 and not more than 13 directors.	Complied			The board consists of 9 directors at the year ended 31 st December 2014. One director has resigned during the year and one director was newly appointed during the year 2014. Observed the board attendance register.
3(2)(ii)	(A) Checked that the total period of service of a director other than a director who holds the position of CEO, does not exceed nine years.	Complied			No director has exceeded 9 years of service in the capacity of director. Observed the directors' correspondence files.
	(B) In the event of any director serving more than 9 years, check that the transitional provisions have been applied with.			N/A	As we observed above, no directors have exceeded 9 years in the capacity of directors.
3(2)(iii)	Checked that the number of executive directors, including the CEO does not exceed one-third of the number of directors of the board.	Complied			In accordance with the provisions of the SMIB Law No.13 of 1975 the board consists of nine directors and appointed by the Minister of Finance and Planning and all are non executive directors.

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
3(2)(iv)	Checked that the board has at least three independent non-executive directors or one third of the total number of directors, whichever is higher.	Complied			Since directors are appointed by the Minister of Finance and Planning, all are independent non executive directors.
	Checked if non-executive directors can be considered independent if he/she:				
	a) Holds a direct and indirect shareholdings of more than 1 per cent of the bank;			N/A	There's no share holding by the director 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 percent of the regulatory capital of the bank.			N/A	According to the directors' statements in the 2013 annual report "no director was directly or indirectly interested in any contract with the bank for the year ended 31 st December, 2013. (Please refer page no.64 of 2013 annual report.)
	c) has been employed by the bank during the two year period immediately preceding the appointment as director.			N/A	There's no such non executive director 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)			N/A	Appointments of directors are done by the minister of finance. There's no such non- executive director has had a close relation according to the self declaration made by board of directors. Observed self declaration made by the directors according to the section 42 of the Banking Act.
	e) represents a specific stakeholder of the bank			N/A	No such a director represents a specific stakeholder of the bank since the bank is fully owned by the government.
	f) is an employee or a director or a material shareholder in a company or business organization:				
	I. which currently has a transaction with the bank as defined in Direction 3(7) of these Directions, exceeding 10 per cent of the regulatory capital of the bank, or			N/A	According to the directors' report of the 2013 annual report "no director was directly or indirectly interested in any contract with the bank for the year ended 31 st December, 2013".
	II. in which any of the other directors of the bank are employed or are directors or are material shareholders; or			N/A	No incident was observed in this regard.
	III. in which any of the other directors of the bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10 percent of regulatory capital in the bank.			N/A	According to the directors' report of the 2013 annual report "no director was directly or indirectly interested in any contract with the bank for the year ended 31 st December, 2013.

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
3(2)(v)	In the event an alternate director was appointed to represent an independent director, Checked the person so appointed meet the criteria that applies to the independent director.			N/A	No alternative directors were appointed during the year as per the board secretary's explanations.
3(2)(vi)	Checked that the bank has a process for appointing independent directors.	Complied			Directors are appointed by the Minister of Finance and Planning.
3(2)(vii)	Checked that the stipulated quorum of the bank includes more than 50% of the directors and out of this quorum more than 50% should include nonexecutive directors.	Complied			Required quorum is 3 members as per the SMIB Law (Section 16) and all directors are non –executives.
3(2)(viii)	Checked that the bank discloses the composition of the board, by category of directors, including the names of the chairman, executive directors, nonexecutive directors and independent non-executive directors in the annual corporate governance report.	Complied			The bank has disclosed the composition of the board, including the names of the chairman, executive directors, non-executive directors and independent non-executive directors of the 2013 annual report. Please refer page 12 and 13 of the annual report 2013.
3(2)(ix)	Checked the procedure for the appointment of new directors to the board.	Complied			The appointment of directors is done by the minister of finance and planning under SMIB Law No.13 of 1975.
3(2)(x)	Checked that all directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after their appointment.			N/A	The directors are appointed by the minister of finance and planning in accordance with the SMIB Law No.3 of 1975.
3(2)(xi)	Checked if a director resigns or is removed from office, the board: <ul style="list-style-type: none"> a) announce the director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the bank, if any; and b) Issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders. 	Complied			The removal of the directors is also done by the minister of finance and planning in accordance with the SMIB Law No.3 of 1975 During the year Mr.P.H.L.W. Perera was resigned from the board and it was announced by the chairman at the board meeting. Please refer minute of the meeting held on 22 nd August 2014. N/A The removal of the directors is done by the minister of finance and planning in accordance with the SMIB Law No.3 of 1975.

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
3(2)(xii)	Checked 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			<p>There's no director or employee elected or nominated as a director of another bank.</p> <p>The directors are appointed by the minister of finance and planning in accordance with the SMIB Law no.3 of 1975.</p> <p>Further, we observed the declaration provided by the directors in term of section 42 of the banking act.</p>
3(3)	Criteria to Assess the Fitness and Propriety of Directors				
3(3)(i)	Checked that the age of a person who serves as director does not exceed 70 years.	Complied			<p>No director whose age exceeds 70 years as at 31.12.2014.</p> <p>Checked the correspondence files of the directors.</p>
	A) Checked that the transitional provisions have been complied with.			N/A	<p>Since no directors exceed age of 70 years, this section does not apply.</p>
3(3)(ii)	Checked 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			<p>No director holds office as a director of more than 20 companies/ entities/ institutions.</p> <p>Checked the correspondence files of the directors and self declarations made by the directors.</p>
3(4)	Management Functions Delegated by the Board				
3(4)(i)	Checked that the delegation arrangements have been approved by the board.	Complied			<p>Power delegation by the BOD to manage the business to the general manager done according to the SMIB Law No.13 of 1975-section 20, 21.</p> <p>Other than that the board appointed sub committees and delegate power accordingly.</p>
3(4)(ii)	Checked that the board not delegate any matters to a board committee, chief executive officer, executive directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the board as a whole to discharge its functions.	Complied			<p>As per the secretary to the board explanation, the board limits delegation of any function to board committees, CEO or key management personnel to an extent that will not reduce the ability of the board to discharge its functions.</p>
3(4)(iii)	Checked 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			<p>The board reviews the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the bank.</p> <p>Minute of the board meeting held on 24th June 2014. Board minute No.14.09.93</p>

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
3(5)	The Chairman and CEO				
3(5)(i)	Checked that the roles of Chairman and CEO are separate and not performed by the same individual.	Complied			Roles of the chairman and CEO are separate and not performed by the same individual. Chairman – Mr. Jagath Wellawatta CEO/Acting GM – Ms. W.J.K Geeganage (Please refer page 12-13 of the annual report – 2013)
3(5)(ii)	Checked that the chairman is a non-executive director.	Complied			Chairman is a non –executive director and he is appointed by the minister of finance and planning under the SMIB Law No.13 of 1975.
	In the case where the chairman is not an independent director, check that the board designate an independent director as the senior director with suitably documented terms of reference.			N/A	Chairman is appointed by the minister of finance and planning and therefore chairman is an independent director.
	Checked that the designation of the senior director be disclosed in the bank's annual report.			N/A	N/A
3(5)(iii)	Checked that the board has a process to identify and disclose in its corporate governance report, which shall be a part of its annual report, any relationship (including financial, business, family or other material/relevant relationship(s)), if any, between the chairman and the CEO and board members and the nature of any relationships including among members of the board.	Complied			This has been disclosed in the self declaration made by the directors in accordance with the term of Section 42 of the Banking Act. Checked those self declarations and the annual report - 2013 disclosures in this regard. Refer page No. 64 of the annual report – 2013.
3(5)(iv)	Checked 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.	Partly Complied			Self evaluation process has been carried out by the board in 2014. However, all the directors have not made self evaluation process for the year 2014. Observed self evaluation forms of directors.
3(5)(v)	Checked that a formal agenda is circulated by the company secretary approved by the chairman.	Complied			The agenda was circulated to each and every director by the board secretary with the approval of the chairman. Observed agendas for the board meetings.
3(5)(vi)	Checked 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. Checked the board minutes and the board papers.

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
3(5)(vii)	Checked 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.	Partly Complied			Self evaluation process has been carried out by the board in 2014 and it encourages directors to make a full and active contribution to the board's affairs. However, all the directors have not made self evaluation process for the year 2014. Observed self evaluation forms of directors.
3(5)(viii)	Checked that the board has a self evaluation process that assesses the contribution of non-executive directors.	Partly Complied			Self evaluation process has been carried out by the board in 2014 and it assesses the contribution of non-executive directors. However, all the directors have not made self evaluation process for the year 2014. Observed self evaluation forms of directors.
3(5)(ix)	Checked that the chairman does not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied			The chairman does not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.
3(5)(x)	Checked that there is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the board.	Complied			Government has the 100% ownership of the bank and all directors are appointed by the minister of finance and planning. Therefore effective communication between government/ shareholders and the board is maintained.
3(5)(xi)	Checked that the CEO functions as the apex executive-in-charge of the day to day management of the bank's operations and business.	Complied			CEO/ Acting GM participate to the day to day management of the bank operations as an apex executive in charge.
3(6) 3(6)(i)	Board Appointed Committees Checked that the bank has established atleast four board committees as set out in Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions.	Complied			Bank has established following board sub Committees; <ul style="list-style-type: none"> • Audit Committee • Human Resources, Remuneration and Nomination Committee • Board Integrated Risk Management Committee (BIRMC) • Assets and Liabilities Management Committee.(ALCO) • Executive Credit Committee • Management Committee.
	Checked that each board committee report is addressed directly to the board.	Complied			Each board sub-committee reports/ minutes are directly addressed to the board. Observed the board papers and minutes.
	Checked that the board presents in its annual report, a report on each committee on its duties, roles and performance.	Complied			The bank has disclosed sub-committee details in the 2013 annual report. (Please refer page 30 and 31 of the annual report – 2013).

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
3(6)(ii)	Audit Committee: a) Checked that the chairman of the committee is an independent non-executive director and possesses qualifications and related experience.	Complied			The chairman is an independent non-executive director. The chairman of the board audit committee has necessary qualifications and experience. (Hold Bsc. Degree of University of Sri Jayawardhanapura and has over 25 years' experience in Finance and Management. Presently he holds an office of Chief Accountant in the ministry of agriculture.)
	b) Checked that all members of the committee are non-executive directors.	Complied			Board audit committee consists of 3 members and all three members are independent non-executive directors.
	c) Checked 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			N/A The external auditor has been appointed by the minister of finance and planning and external auditor is the auditor general. The audit committee has no authority to deal with external auditors since they are appointed by the finance minister. N/A Board audit committee has made recommendations on the application of relevant accounting standards as necessary. Please refer no.10.03.14 in the minute of the BAC held on 22 nd September 2014. N/A The external auditor has been appointed by the minister of finance and planning according to the SMIB Law No.13 of 1975. Therefore, auditor general is the external auditor.
	d) Checked that the committee has obtained representations from the external auditor's on their independence, and that the audit is carried out in accordance with SLAS.			N/A	The external auditor has been appointed by the finance minister according to the SMIB Law. As per such provisions, auditor general is the external auditor.

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
	e) Checked 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	The external auditor has been appointed by the finance minister according to the SMIB Law. As per such provisions, auditor general is the external auditor.
	f) Checked that the committee has discussed and finalized the nature and scope of the audit, with the external auditors in accordance with SLAS before the audit commences.			N/A	The external auditor has been appointed by the finance minister according to the SMIB Law. As per such provisions, auditor general is the external auditor.
	g) Checked that the committee has a process to review the financial information of the bank, in order to monitor the integrity of the financial statements of the bank, its annual report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following; <ul style="list-style-type: none"> i. major judgmental areas; ii. any changes in accounting policies and practices; iii. the going concern assumption; and iv. the compliance with relevant accounting standards and other legal requirements, and; v. in respect of the annual financial statements the significant adjustments arising from the audit. 	Complied			The board audit committee has reviewed the financial information of the bank through following audit committee meetings. Meeting Date- 10/04/2014 Meeting Date- 07/07/2014 Meeting Date- 22/09/2014 Meeting Date- 21/11/2014
	h) Checked that the committee has met the external auditors relating to any issue in the absence of the executive management with relation to the audit.			N/A	As per the given explanation, board audit committee has not met the external auditor as required, because there are no such matters arisen during the year.
	i) Checked that the committee has reviewed the external auditor's management letter and the management's response thereto.	Complied			The BAC reviewed the audit related issues/ quarries and management's response thereto. Refer No 05.03.2014 in the minutes of the BAC meeting held on 22/09/2014.

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
	<p>j) Checked that the committee shall take the following steps with regard to the internal audit function of the bank:</p> <p>I. Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;</p> <p>II. Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;</p> <p>III. Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;</p> <p>IV. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</p> <p>V. Checked that the committee is appraised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;</p> <p>VI. Checked that the internal audit function is independent of the activities of audits.</p>	Complied			<p>Committee has reviewed the adequacy of the scope, functions and resources of the internal audit department.</p> <p>Observed audit committee meeting minutes. BAC Minute No.12.03.14 at the meeting held on 22/09/2014. BAC Minute No.06.01.14 at the meeting held on 07/07/2014.</p> <p>Committee has reviewed the internal audit program and results of the internal audit process. BAC Minute No.12.03.14 at the meeting held on 22/09/2014. BAC Minute No.06.01.14 at the meeting held on 07/07/2014.</p> <p>There is no appraisal or assessment of performance of the internal audit staff carried out during the year 2014.</p> <p>However, this process is mentioned in the TOR of the BAC as their responsibility.</p> <p>During the year 2014, new internal auditor has been appointed and recommended by only Board of Directors Board Minute No. 14.13.146.</p> <p>N/A CIA of the bank has been appointed as the AGM Finance with effect from 14th August 2014 by releasing the duties of post of CIA. The Board instructed to assign an officer to cover up the duties of post of CIA until the above post is confirmed. Other than above transfer between two divisions no resignations during the year 2014.</p> <p>The charter of board audit committee mentioned, BAC ensures that internal audit functions are carried out independently of audits.</p>
	k) Checked the minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.			N/A	Minutes were not available which discussed about major findings of internal investigations.

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
	l) Checked whether the committee has had at least two meetings with the external auditors without the executive directors being present.	Complied			The superintendent audit of external audit (Mr. B. W. D. Lasantha & Mrs. E.A.N.P. Edirisinghe) attended three out of four meetings held by BAC during the year on behalf of the auditor general.
	m) Checked the terms of reference of the committee to ensure that there is; <ul style="list-style-type: none"> i) explicit authority to investigate into any matter within its terms of reference; ii) the resources which it needs to do so; iii) full access to information; and iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary. 	Complied			TOR of the board audit committee includes required terms.
	n) Checked that the committee has met, at least four times and maintained minutes.	Complied			The committee has met four times for the period of 2014 and maintains minutes of those meetings. Checked the BAC meeting minutes.
	o) Checked that the board has disclosed in the annual report, <ul style="list-style-type: none"> i) details of the activities of the audit committee; ii) the number of audit committee meetings held in the year; and iii) details of attendance of each individual director at such meetings. 	Complied Complied Complied			The annual report - 2013 contains a board audit committee report and it includes the required details. Please refer page No.68 and 69 of the annual report - 2013.
	p) Checked that the secretary of the committee is the company secretary or the head of the internal audit function.	Complied			Secretary of the board audit committee is chief internal auditor -Mr. K. L. N. A. Perera. (up to 14 th of August 2014) After that board secretary is the secretary of audit committee. (Mrs.S.V.P. Cooray)

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
	<p>q) Checked that the “whistle blower” policy covers the process of dealing with;</p> <p>i) The improprieties in financial reporting, internal control or other matters.</p> <p>ii) In relation to (i) the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters, and</p> <p>iii) Appropriate follow-up action.</p>		Not Complied		There’s no Whistle Blower policy for the Bank.
3(6)(iii)	<p>Checked whether the following rules apply in relation to the Human Resources and Remuneration Committee:</p> <p>a) Checked that the committee has implemented a policy to determine the remuneration (salaries, allowances and other financial payments) relating to directors, CEO and key management personnel of the bank by review of the “Terms of Reference” and minutes.</p>	Complied			TOR for the Human Resources and Remuneration and Nomination committee include that committee shall determine the remuneration policy. The committee has approved the TOR in year 2013 and the same TOR has been used without any changes for the year 2014.
	b) Checked that the goals and targets for the directors, CEO and the key management personnel are documented.	Complied			Goals and target for the directors, CEO/ Acting GM and for the key management personnel are documented in the corporate plan 2013-2017.
	c) Checked that the committee has considered evaluations of the performance of the CEO and key management personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.		Not Complied		Committee has not considered the periodical evaluation of the performance of the CEO and Key management personnel.
	d) Checked 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.

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
3(6)(iv)	Does the following rules apply in relation to the Nomination Committee: a) Checked that the committee has implemented a procedure to select/appoint new directors, CEO and key management personnel.	Complied			TOR of the Human Resources and Remuneration and Nomination Committee stated that "Committee" shall implement a procedure to select/appoint new directors, CEO and key management personnel. However, directors are appointed by the ministry of finance according to SMIB Law No.13 of 1975.
	b) Checked that the committee has considered and recommended (or not recommended) the re-election of current directors.			N/A	The directors are appointed by the minister of finance and planning according to the SMIB Law No.13 of 1975.
	c) Checked that the committee has set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the key management personnel, by review of job description.	Complied			Committee has set the criteria required for eligibility to be considered for appointment or promotion to the post of CEO, and the key management personnel. Observed " Human Resource Policy and Procedure Manual"
	d) Checked 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			Committee has obtained from all directors, key management personnel signed declarations that they are fit and proper persons to hold office.
	e) Checked that the committee has considered a formal succession plan for the retiring directors and key management personnel.		Not Complied		Formal succession plan is not documented and it is not considered by the committee.
	f) Checked 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- executives directors who are appointed by the ministry of finance and planning and CEO/ Acting GM has presented himself to the meeting by invitation.
3(6)(v)	Checked whether the following rules apply in relation to the Integrated Risk Management Committee (IRMC): a) The committee shall consist of at least three non-executive directors, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.	Complied			The BIRMC consists from three non-executive directors, CEO/Acting GM and other key management personnel on invitation.

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
	b) Checked 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			<p>The bank has assessed all risks to the bank on a monthly basis and BIRMC has reviewed those risk exposure report at each meeting.</p> <p>Observed risk exposure reports and reports include market, credit, liquidity, Operational, strategic risk, compliance and KPI.</p> <p>No.2014/BR/01/07 in the minutes of the meeting held on 26th March 2014.</p> <p>No.2014/BR/02/04-06 in the minutes of the meeting held on 26th June 2014.</p>
	c) Checked 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 risks of credit, liquidity, operational, strategic, compliance.
	d) Checked that the committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	Complied			<p>Committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.</p> <p>No.2014/BR/02/02 in the minutes of the meeting held on 26th June 2014.</p>
	e) Checked how many times the committee has met at least quarterly.	Complied			<p>BIRMC has met four times during the year 2014.</p> <p>Meeting Date- 26/03/2014</p> <p>Meeting Date- 26/06/2014</p> <p>Meeting Date- 22/09/2014</p> <p>Meeting Date- 30/12/2014</p>
	f) Checked 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			<p>Bank Risk Management Policy include that "Committee shall take appropriate action against the officers responsible for failure to identify specific risks".</p> <p>During the year such a situation has not arisen as per the explanation of secretary to the board.</p>
	g) Checked 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.	Partially Complied			The committee has not submitted the risk assessment report within a week of each meeting. However, committee has submitted the risk assessment report on monthly basis.

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
	h) Checked 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.	Partially Complied			The board has appointed AGM-Risk Manager as acting compliance officer for the compliance function. Acting compliance officer reports compliance function to the board annually instead of periodically.
3(7)	Related Party Transactions				
3(7)(i)	Checked that there is a established and documented process by the board to avoid any conflicts of interest that may arise from any transaction of the bank with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction: 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.		Not Complied		There is no established and documented process by the board to avoid any conflicts of interest that may arise from any transaction of the bank with any persons who shall be considered as "related parties"
3(7)(ii)	Checked 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.		Not Complied		There is no established and documented process by the board to identify and report the transactions been identified as transactions with related parties.

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
	<p>d) The creation or maintenance of reporting lines and information flows between the bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.</p>		Not Complied		There is no established and documented process by the board to identify and report the transactions been identified as transactions with related parties.
3(7)(iii)	<p>Checked whether the board has a process to ensure that the bank does not engage in transactions with related parties as defined in direction 3(7)(i) above, in a manner that would grant such parties "more favorable treatment" than that accorded to other constituents of the bank carrying on the same business.</p> <p>a) Granting of "total net accommodation" to related parties, exceeding a prudent percentage of the bank's regulatory capital, as determined by the board. For purposes of this sub-direction:</p> <p>i) "Accommodation" shall mean accommodation as defined in the Banking Act Directions, No.7 of 2007 on Maximum Amount of Accommodation.</p> <p>ii) The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the bank's share capital and debt instruments with a maturity of 5 years or more.</p> <p>b) Charging of a lower rate of interest than the bank's best lending rate or paying more than the bank's deposit rate for a comparable transaction with an unrelated comparable counterparty.</p> <p>c) Providing of preferential treatment, such as favorable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;</p> <p>d) Providing services to or receiving services from a related-party without an evaluation procedure;</p> <p>e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.</p>		Not Complied		<p>There's no proper procedure in this regard.</p> <p>There's no proper procedure in this regard.</p>

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
3(7)(iv)	Checked that the bank has a process for granting accommodation to any of its directors and key management personnel, and that such accommodation is sanctioned at a meeting of its board of directors, with not less than two thirds of the number of directors other than the director concerned, voting in favour of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary board as well.			N/A	As per the secretary to the board explanation, no such incident was reported.
3(7)(v)	a) Checked that the bank has a process, where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a director of the bank, that steps have been taken by the bank to obtain the necessary security as may be approved for that purpose by the Monetary board, within one year from the date of appointment of the person as a director.			N/A	As per the secretary to the board explanation, no such incident was reported.
	b) Checked where such security is not provided by the period as provided in Direction 3(7)(v)(a) above, has the bank taken steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such director, whichever is earlier.			N/A	As per the secretary to the board explanation, no such incident was reported.
	c) Checked that there is a process to identify any director who fails to comply with the above sub-directions be deemed to have vacated the office of director and has the bank disclose such fact to the public.			N/A	As per the secretary to the board explanation, no such incident was reported. Further, directors are appointed by the ministry of finance and planning.
	d) Checked the process in place to ensure clause 3 (7) (v) (c) does not apply to any director who at the time of the grant of the accommodation was an employee of the bank and the accommodation was granted under a scheme applicable to all employees of such bank.			N/A	No such incident was observed.

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
3(7)(vi)	Checked that there is a process in place to identify when the bank grants any accommodation or “more favorable treatment” relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary board in respect of accommodation granted as per Direction 3(7)(v) above.			N/A	Bank does not grant 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.
3(7)(vii)	Checked that there is a process to obtain prior approval from the Monetary board for any accommodation granted by a bank under Direction 3(7) (v) and 3(7)(vi) above, nor any part of such accommodation, nor any interest due thereon been remitted without the prior approval of the Monetary board and any remission without such approval is void and has no effect.			N/A	Bank does not grant any accommodation or “more favorable treatment” to any employee or a close relation of such employee.
3(8)	Disclosures				
3(8)(i)	Checked that the board has disclosed: <ul style="list-style-type: none"> 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. b) Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English. 	Complied			<p>Annual audited financial statements are prepared in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards.</p> <p>Further, those statements were published in the following newspapers.</p> <ol style="list-style-type: none"> 1. The Island 2. Divaina 3. Thinakural <p>Observed that the quarterly financial statements are also published as above as per the requirements of CBSL.</p>

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
3(8)(ii)	<p>Checked that the board has made the following minimum disclosures in the annual report:</p> <p>a) The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.</p> <p>b) The report by the board on the bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.</p> <p>c) Checked that the board has obtained the external auditor's report on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above.</p> <p>d) Details of directors, including names, qualifications, age, experience fulfilling the requirements of the guideline fitness and propriety, transactions with the bank and the total of fees/ remuneration paid by the bank.</p> <p>e) Total net accommodation as defined in 3(7)(iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the bank's regulatory capital.</p>	<p>Complied</p> <p>Complied</p> <p>Complied</p> <p>Complied</p>			<p>These details are disclosed in the "Directors' Responsibility, for the Financial Reporting"</p> <p>(Page No. 70 of the annual report – 2013).</p> <p>Director's statement on Bank's internal control was included in the 2013 annual report.</p> <p>(Page No. 59 of the annual report – 2013).</p> <p>Auditor general's report on Bank's Internal Control presented in page No.60 of the 2013 annual report.</p> <p>Directors' profile has been disclosed in page No.12 and 13 of the 2013 annual report.</p> <p>Directors' remuneration disclosed in page No.92 of the 2013 annual report.</p> <p>N/A No accommodation provided to related parties as per the explanation of the board secretary.</p>

Sec.	Procedure Performed	Complied	Not Complied	N/A	Reference
	t) The aggregate values of remuneration paid by the bank to its key management personnel and the aggregate values of the transactions of the bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the bank.	Complied			
	g) Checked 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 page No. 32 of the annual report - 2013.
	h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance.		Not Complied		There is no separate report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance in the annual reports. However, directors' report includes the statement of compliance with applicable laws and regulations. (Page No. 66 in the annual report - 2013).
	i) A statement of the regulatory and supervisory concerns on lapses in the bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary board to be disclosed to the public, together with the measures taken by the bank to address such concerns.			N/A	As per the explanation given by the AGM Risk Management, Director of Bank Supervision has not sent any reports highlighting the non compliances during the year 2014.

Directors Report on Bank's Internal Control System

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

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

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

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

- The Board has established different sub committees to ensure the adequacy and integrity of the internal control system within the bank and delegated the authority of the board among the layers of corporate management, senior management and managers of the bank in order to assist the board in implementation of; policies, procedures for assessing and management of risk faced by the bank.
- Board Integrated Risk Management Committee consists of independent non-executive directors. The committee is responsible to review the risk profile of the bank, identifies the principal risk faced by the bank and prepares the policies based on the risk management of the bank.
- The Internal Audit Division of the Bank performs the tests on sample basis to ensure whether the financial and operational activities of the bank are in agreement with the laid down internal control procedures. Audits are carried out on all units and branches frequently of which is determined based on level of risk associate with the functional units and the products of the bank. Head of internal audit is responsible to submit independent objective report to Chairman of the Board of Directors in respect of the audit observations on irregularities, misstatements, frauds in financial and operational affairs of the bank.
- In general, the Board Audit Committee reviews the overall effectiveness of the internal control system in place and report to the Board of directors regularly in respect of the specific observations on internal control weaknesses. In this respect, mechanism used by the committee includes; review of the Auditor General's report, Internal Audit reports, regulatory reports, annual/ monthly financial statements and progress reports.
- The Board has reviewed whether the financial reporting processes of the bank ensure that the annual financial statements are prepared in accordance with the Sri Lanka Accounting Standards and the guidance on reporting requirements issued by the Central Bank of Sri Lanka.

- Even though a structured annual review of design and effectiveness of bank's internal control over financial reporting has not been carried out, the Board has already determined that the documentation of the internal control system of the bank which would facilitate review of the effectiveness of the internal controls is of paramount importance.
- The Board has realized that there are additional control procedures to be designed and implemented over the financial reporting process in order to ensure more effective internal control system of the bank. Following steps that have been identified during last year for further strengthening the processes are still in progress.


- I. Completion of documentation of significant processes related to financial reporting and further strengthening the documentation standards to comply with the best practices.
- II. Performing much more structured control testing to ensure that the implementation of particular controls were in effect throughout the year and significant deficiencies have been discussed and addresses at the Board. If there are weaknesses/additional risks identified by the Internal Auditors/Audit Committee these have to be properly addressed by providing additional control with adequate follow - up procedures.

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

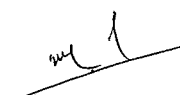
The external auditors have reviewed the above Directors Statement on Internal Control included in the annual report of the Bank for the year ended 31 December 2014 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system of the Bank. Further the external auditors have given an emphasis of matter paragraph highlighting the procedures followed by the Board and the risk management aspect of the bank.



Chairman of the Audit Committee



Director



Director

Auditor General's Report on Bank's Internal Control



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මගේ අංකය
எனது இல
My No.

FB/E/SMIB/FA/2014

මබේ අංකය
உமது இல
Your No.

දිනය
திகதி
Date

21 August 2015

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

Introduction

This report is to provide assurance on the Director's Statement on Internal Control ("Statement") of the State Mortgage and Investment Bank included in the annual report for the year ended 31 December 2014. In carrying out this assurance engagement I was assisted by a firm of Chartered Accountants in public practice.

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 section 3(8) (ii) (b) of the Banking Act Direction No.12 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

My Responsibility and Compliance with SLSAE 3050

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

Summary of Work Performed

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

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

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

My Conclusion

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

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

W.P.C. Wickramaratne
Acting Auditor General

අංක 306/72 පොල්දූව පාර,
වත්තරමුල්ල, ශ්‍රී ලංකාව

දුරකථනය
தொலைபேசி
Telephone. } 2887028 /034

இல. 306/72, பொல்துவ வீதி,
புத்தரமுல்லை இலங்கை

ෆැක්ස් අංකය
பக்ஸ் இல
Fax No. } 2887223

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Battaramulla, Sri Lanka

ඉලෙක්ට්‍රොනික් තැපැල්
#- மெயில்
E-mail. } oaggov@sltnet.lk

ANNEXURE 1

1. Reviewed the documentation prepared by or for the directors to support their statement intended to be made.
2. Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.
3. Considered whether the Director's statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.
4. Obtained written representations from directors on matters material to the statement on internal control when other sufficient appropriate audit evidence cannot reasonably be expected to exist.

Corporate Social Responsibility

The State Mortgage and Investment bank is committed to serving our customers with attractive financial solutions that help to upgrade their lives.

Best practices that we have integrated into the fabric of our institution have allowed us to provide a superior and quality service that not only put the customer first but also creates shared value among all our stakeholders.

We are proud to have assisted our society through a multitude of avenues such as Housing, agriculture, fisheries, tourism, industrial development and even intellectual support.

Social responsibility and sustainability have become an integral part of our activities. Just as you have invested in us, we too like to invest in our society, helping to address various societal challenges. As a State bank, this is paramount to our nature and we are constantly seeking to give back and positively impact upon our society.

Over the last year our CSR activities have been further strengthened through our local branch network. We have been able to uplift and contribute to the development of mothers, children and all importantly their health needs.

Upgrading of children and maternity wards, building friendly environments and assisting in medical needs are just some of the key actions that we have taken to credit and benefit our society.



World Children's day Celebration - Hatton



Painting of Children's Ward - National Hospital of Anuradapura

Products and Services

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

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

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

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

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

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



Financial review

The limited scope of activities defined from the SMIB Act of incorporation has laid certain restrictions to the bank in market penetration and increasing market share, but the bank has displayed stable financial performance amid both domestic and global uncertainties and severe competitiveness.



Directors' Report

General

The Directors of the State Mortgage and Investment Bank have pleasure in presenting their Annual Report on the affairs of the Bank together with the Audited Financial Statements of the Bank for the year ending 31st December 2014 in conformity with the requirements of the State Mortgage & investment Bank Law No 13 of 1975 and Banking Act No: 30 of 1988 and amendments thereto. The report also includes certain disclosures required to be made under the Act direction 12 of 2007 on Corporate Governance for Licensed Specialized Banks issued by the Central Bank of Sri Lanka and subsequent amendments thereto.

The State Mortgage & investment Bank was incorporated in Sri Lanka by State Mortgage & 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 Registered office of the Bank is at No 269, Galle Road, Colombo 03 at which the Bank's Head Office is located.

Principal Activities of the Bank

Promoting Housing, Agricultural and Industrial Development Finance and Savings Mobilizations are the main activities of the Bank. Expanded its network and introduced more efficient customer service strategy. It also simultaneously introduced a new recovery procedure. The Bank has not engaged in any activity which contravenes the Laws and Regulations of the country.

Review of Operations and Future Developments

An overview of the Financial and Operational performance and future Developments of the Bank during the financial year and the results of those operations are contained in the Chairman's Report, General Manager's Report and Management Discussion and Analysis on Page 8 to 9, 10 to 11 and 18 to 19 respectively of this reports.

Branch Expansion

The Bank extended its services through the addition of two new branches during the period under review. At the end of the year the Bank had Twenty Four Branches in its network.

Directors

In accordance with the provisions of the SMIB Act No.13 of 1975 as amended the Board consists of nine fit and proper persons appointed by the Minister of Finance and Planning. Three members represent the Ministry of Agriculture, Ministry of Housing and Ministry of Livestock Development. The said Directors of the Bank including the Chairman possess wide knowledge and experience in Social Science, Finance, Legal, and Commercial. Three members constitute a Quorum. The Board meetings are held at least once a month or more if the Chairman decides it necessary. Fourteen meetings were held in the year 2014.

Directors' interest in contracts

No Director was directly or indirectly interested in any contract with the Bank during the year ending 31st December 2014. Directors have disclosed their other directorships and connections at Board Meetings to ensure that they refrain from voting on matters in which they have any interest.

List of Directors

The Directors of the Bank who held office during the year 2014 under review were as follows:-

Names of the Board of Directors served up to January 2015	Date of appointment	No of Board Meetings Eligible to Attend	No of Board Meetings Attended
Mr.Jagath Wellawatte Chairman	Appointed on 07.05.2010 Reappointed on 06.05.2013	14	14
Mr.D. Weerasekara Director	Appointed on 03.01.2006 Reappointed on 02.01.2009 Resigned on 25.03.2010 Reappointed on 17.05.2010 Re appointed on 17.05.2013	14	12
Mr. V.S.Bandara Director	Appointed on 30.06.2010 Reappointed on 16.06.2013	14	14
Mr.ShamrazYehiya Director	Appointed on 17.05.2010 Reappointed on 17.05.2013	14	05
Mr. Sarath Hysinth Director	Appointed on 23.10..2011	14	14
Mr S.L.G. .Bandusiri Director	Appointed on 21.06.2012	14	14
Mr.P.H.L.W Perera Director	Appointed on 18.09.2012 Resigned on 18.08.2014	09	03
Mr.Nandun Fernando Director	Appointed on 30.05.2013	14	12
Mr.M.S.D.Ranasiri Director	Appointed on 25.11.2013	14	10
Mr.K.A. Thilakerathne Director	Appointed on	03	03

Directors' Report Contd...

Names of the present Board of Directors	Date of appointment	No. of Board Meetings eligible to attend	No. of Board Meetings attended
Mr.Tissa Jinadasa	09.02.2015	06	06
Dr.P.A.Namal Rathnayake	09.02.2015	06	05
Mr.Phiroze Pestonjee	09.02.2015	06	05
Mr.Chandrasiri Senevirathne	09.02.2015	06	06
Mr.H.M.B.Senaratna	09.02.2015	06	06
Dr.Niroshan Gamage	06.03.2015	05	03
Mr.K.A.Thilakaratne	17.09.2014 06.03.2015 (Re-appointed)	05	05
Mr.M.S.D.Ranasiri	25.11.2013 24.02.2015 (Re-appointed)	05	04
Mr.L.U.N.Sumanasekera	27.04.2015	03	02

Directors 'Remuneration & Other Benefits

The allowances / fees payable to Board of Directors are made in terms of the provisions / contents in the Public Enterprises Circular No. PED 58(2) dated 15 September 2011 and letter dated 12 November 2013 issued by the Department of Public Enterprises of the Ministry of Finance and Planning and its amendments.

The Directors' remunerations in respect of the Bank for the financial year ended 31 December 2014 are given on page 90.

Chief Executive Officer

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

Vision, Mission and Values

The Bank's Vision, Mission, and Values are given on page 2 and 3 of this Annual Report. The Bank maintains high ethical standards in its activities whilst pursuing the objectives stated under 'Vision' and 'Mission'. All permanent employees are made aware about the code of conduct of Bank and are abide by it to reach the Vision and Mission of the Bank.

Future Development

The Bank formulated a new Strategic Plan for 2014 to - 2017 to achieve the set of goals and objectives. The bank will also look for the new business opportunities to enter in agricultural and Industrial.

Corporate Governance

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

Board Sub Committees

The Board while assuming the overall responsibility and accountability has also constituted three sub committees complying with the aforesaid Banking Act, direction No: 12 of **Board Audit Committee**

It comprises of Four Non- Executive Directors of the Bank and Chief Internal Auditor / Board Secretary functioning as the secretary. The Acting General Manager, AGM –Finance, AGM – Risk Management and AGM –Credit attended the meetings. Four meetings were held in the year 2014.

All the members of the committee are Non Executive Directors and their report is contained on Page 69 of this Report.

Board Human Resources and Remuneration Committees

It comprises of Four Non- Executive Directors of the Bank and AGM -Legal functioning as the secretary. The Acting General Manager, AGM –Legal and AGM –HR & L attended the meetings. Four meetings were held in the year 2014.

Board Integrated Risk Management Committee

It comprises of Three Non- Executive Directors of the Bank and AGM – Risk Management functioning as the secretary. The Acting General Manager, AGM – Finance, AGM – Risk Management and Actg. DGM – Credit, AGM – Credit attended the meetings, Four meetings were held in the year 2014.

All members of the committee are Non-Executive Directors and their report is contained on Page 68 of this Report.

Income

The income of the Bank for 2014 was Rs. 3,745.63 Mn (2013 Rs 3,737.41Mn.) Details of the income are given in Note 01 to the Financial Statement.

Directors' Report Contd...

Profit and Appropriations

The Total Income of the Bank for 2014 was Rs. 3,745.63 Mn. An analysis of the Net Income is given on page 89.

	2013 Rs.Mn	2014 Rs.Mn
Gross Income	3,737,408	3,745,632
Interest Income	3,635,239	3,632,905
Interest Expenses	2,459,200	2,213,615
Net Interest Income	1,176,039	1,419,289
Other Income	102,169	112,728
Net Income	1,278,208	1,532,017
Less: Operating expenses	834,656	995,927
VAT	100,811	123,373
Operating Profit before Tax	342,741	412,717
Less: Provision for Taxation	110,480	139,653
Profit for the Year	232,262	273,065
Retained Profits	1,818,416	1,842,522
Profit available for appropriation	2,050,677	2,115,587
Appropriations	-	-
Deemed Dividend Tax	73,598	76,424
Payments to consolidated Fund	40,000	10,000
Transfers to Reserve Fund	8164	10,211
Transfers to from Investment Fund	86,393	312,174
Other Comprehensive Income	-	101,935
Balance carried forward	1,842,522	2,229,191

Deemed Dividend & Reserves

Deemed Dividend tax for the year 2014 has been provided at 25% on the net profit for the year after taxation in accordance with provisions of the Inland Revenue Act .

Reserves

Total reserves as at 31st December 2014 amounted to Rs.3,127.87mn (2013- Rs.3,040.37 million) movement of which are given on page 76 in the statement of Changes in Equity.

The Bank reserves consist of the following.

	2014 Rs. Mn	2013 Rs. Mn
Permanent Reserve Fund	191.36	181.14
Revaluation reserve	-	-
Primary dealer Special risk reserve	-	-
Exchange translation reserve	-	-
Investment Fund Account	-	312.17
Available for sale reserve	13.84	11.05
Other reserve	693.49	693.49
Retained Profits	2,229.19	1,842.52
Total	3,127.88	3,040.37

Corporate Sustainability and Responsibility

The programmes carried out under the Corporate Social Responsibility are detailed on page 61 in the sustainability Report.

Capital Expenditure

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

Contributed Capital

Sri Lankan Government has contributed the capital amounting to Rs. 890 million.

Substantial Shareholding and share information

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

Payment to consolidated Fund

The payments made to the Consolidated Fund for the period of year 2013 to 2014 totaled to Rs.50 Million.

Contribution to the Government

The Bank contributed Rs.263.50 Mn by way of taxes and levies to the Government in 2014. (2013 - Rs.199.33Mn) Rs.123Mn of NBT and value Added Tax (2013 - Rs. 101) & Rs. 10Mn of contribution to the consolidated Fund (2013- Rs. 40Mn.)

Statutory payments

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

Directors' Report Contd...

Taxation

Income tax for 2014 has been provided at 28% on taxable income arising from the operations of the Bank.

Compliance with Applicable Laws and Regulations:

The Bank has at all times ensured that it complied with the State Mortgage and Investment Bank Law No: 13 of 1975 and all other applicable laws and Regulations and prudential requirements.

Environmental Protection

The Bank has initiatives to safeguard and enhance the environment which are vital for sustainable development and growth of the Bank. The Bank has not engaged in any activity that is harmful or hazardous to environment.

Customers and borrowers

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

Depositors

Depositors are the main fund providers to the Bank. Deposit rates are published and are competitive. Capital and Interest on due dates are paid promptly.

Suppliers

It is the Banks policy to call for quotations for the supply of goods and services and ensure prompt payment.

Events after the Balance Sheet Date

There have been no material events occurring after the Balance Sheet date that require adjustments to or disclosure in the financial statements.

Going Concern

The Board of Directors has reviewed and satisfied that the Bank has adequate resources to continue its operations in the foreseeable future without materially curtailing its operations. Therefore, the financial Statements of the Bank have been prepared on going concern basis in accordance with the Sri Lanka Accounting Standards laid down by the Institute of Chartered Accounts of Sri Lanka and in conformity with the generally accepted accounting principles applied consistently. Reasonable and prudent judgments have been made wherever necessary when preparing Financial Statements.

Equitable Treatment to all Stakeholders

While valuing the patronage of all our stakeholders, the Bank has made all endeavors to ensure equitable treatment to all our stakeholders.

The Auditor's Report

The Auditor General is the Auditor of the State Mortgage & Investment Bank. The audit of the Financial Statements of the State Mortgage & Investment Bank for the year ended 31st December 2014 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. Report of the Auditor General on the Financial Statements of the Bank for the year ended 31st December, 2014 is given on page 71 of this Annual Report.

By order of the Board



S.V.P. Cooray
Secretary to the Board

Board Integrated Risk Management Committee Report

Composition of the Board Integrated Risk Management Committee

The Board appointed Integrated Risk Management Committee (BIRMC) as at the end of the year comprised of following members.

Mr S.L.G. Bandusiri	- Chairman of the BIRMC-Non Executive Director
Mr. Shamraz Yehiya	- Non Executive Director
Mr.W.M.D.S. Hysinth	- Non Executive Director
Ms.W.J.K.Geeganage	- Acting General Manger
Mr. R.P.U. Pathirana	- Deputy General Manager-Credit
Mr. E.M.R.L. Munaweera/	
Mr.K.L.N.A.Perera	- Assistant General Manager -Finance
Mrs.J.I.Senanayake	- Assistant General Manager -Risk Management (Secretary to the committee)

All the members were appointed by the Board of Directors at the meeting held on 10/06/2013. The committee consist of three non executive directors and five members from the senior management.

Brief profiles of each member are given on pages 13 & 17.

Charter of the BIRMC

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

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

- Assist the Board of Directors in understanding the risk management function adopted by the bank in operating the banking business and the adequacy of the same.
- Review bank's risk appetite.
- Review and approve bank's key risk policies on the establishment of risk limits and receive reports on bank's adherence to significant limits.
- Receive reports from, review with, and provide feedback to, Management on the categories of risk the bank faces, including credit, market, liquidity and operational risk, the exposures in each category, significant concentrations within those risk categories, the metrics used to monitor the exposures and Management's views on the acceptable and appropriate levels of those risk exposures.

- Review bank's credit, market, liquidity and operational risk management frameworks, including significant policies, processes and systems that management uses to manage risk exposures, as well as risk measurement methodologies and approaches to stress testing.
- Review the independence and authority of the risk management function.
- Review bank's Risk Capital Framework (credit, market, liquidity and operational risks), including significant inputs and assumptions.

BIRMC meetings

BIRMC meets on quarterly basis. During the year the bank convened four BIRMC meetings. The attendance of members is listed below.

Name of Director	"No of Meetings Attended" / "No of Meetings Held"
Mr. W.M.D.S. Hysinth	4/4
Mr. Shamraz Yehiya	0/4
Mr. S.L.G. Bandusiri	4/4

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

Reporting

Processes proposed and discussed at the BIRMC meetings are reported to the Board for the approval, with the recommendation of the BIRMC. Recommendations made by the BIRMC during the year under review were approved by the Board without any material change. Minutes of the BIRMC is reported to the board with required elaborations for the information of the board.



S. L. G. Bandusiri
Chairman-Board Integrated Risk Management Committee

31st December 2014

Board Audit Committee Report

Chairman's Overview 2014

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

Composition of the Committee

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

Attendance

Member	Status of BAC	Committee member		Attendance of meeting during the year 2013
		since	to	
Mr. S.L.G. Bandusiri	Chairman	2012 December	2015 December	04
Mr.V.S.Bandara	Member	2010 January	2015 December	04
Mr.W.W.D.S. Hysinth	Member	2012 December	2015 December	04
Mr.Shamraz Yahiya	Alternative Member	2012 December	2015 December	Not Invited

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

Task & Responsibility of the Committee

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

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

Meetings

During the financial year ended December 2014, four meetings were held. Brief overview of the matters taken up at the meetings are listed below,

Branch Performance

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

Financial Reporting

Reviewed financial statement in the annual report 2014 issued on February 2015, and formal announcement in the financial position.as well as committee reviewed the external auditors report on the financial statement.

Regulatory Compliance

Quarterly review has been performed by the committee to

ensure that financial and operational activities of the bank are conducted in line with all regulatory requirements.

Internal Control and Risk Assessment

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

Internal Audit Function

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

Reviewed and recommended the risk based internal audit program for implementation of the year 2014.


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

External Audit Reports

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

System of Internal Controls

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



S.L.G. Banbusiri
Chairman of the Committee

Directors' Responsibility for the Financial Reporting

This Report is specifically made for the purpose of explaining and discussing the responsibility vested on the directors regarding the Financial Statements of the Statement of the State Mortgage and Investment Bank for the year ending 2014. With respect of the responsibility of the Auditors towards the Financial Statements of the State Mortgage and Investment Bank is clearly set out in the auditor's report mentioned in Page No. 71.

It is well understood that the respective responsibilities relating to financial reporting bestowed on the directors and the auditor are distinguished.

The State Mortgage and Investment Bank Law No. 13 of 1975 and its subsequent amendments and the provisions contained in the Banking Act No. 30 of 1988 and its amendments and directions issued by the Central Bank of Sri Lanka, the directors of the Bank are responsible for ensuring that the Bank maintains proper books of accounts which disclose with reasonable accuracy at any time the financial position of the Bank and prepare proper financial statements in accordance with the generally accepted accounting principles, Sri Lanka Accounting Standards & Sri Lanka Financial Reporting Standards to give a true and fair view of the state of affairs of the Bank at the end of each financial year in compliance with the statutory requirements.

Furthermore, the Board of directors should assume the overall responsibility and accountability of the licensed specialized Banks.

The Financial statement comprise of Income Statement, Statement of comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Cash Flow for the year ending 2014, significant accounting policies and notes thereto.

While preparing these financial statements, the directors have ensured following in preparation of Financial Statements:

1. The appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any have been disclosed and explained.
2. Reasonable and prudent judgments and estimates have been made when and where necessary while preparing the financial statements.
3. All applicable accounting standards, as relevant, have been complied with and
4. Effective internal control over Financial Reporting has been carried out.

The Directors are also responsible for the system of internal financial controls and risk management and place considerable importance on maintaining a strong control environment to protect and safeguard the Bank's assets and prevent fraud and mismanagement. Whilst inherent and residual risks cannot be completely eliminated, the Bank endeavors to minimise them by ensuring that appropriate infrastructure, controls, systems and ethical behavior are applied and practiced within predetermined procedures and constraints.

A report by the Directors on the Bank's internal control mechanism confirming that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting is given on page 58 of this annual report.

The Directors and Management have put in place risk management policies and guidelines. Management Committees are established to monitor and manage material risks. Arrangements are made to submit reports on risk to the Integrated Risk Management Committee on a quarterly basis for discussion.

The Audit Committee and Integrated Risk Management Committee, on an ongoing basis, have acted in strengthening the effectiveness of internal controls and risk management procedures. The reports of the Audit Committee and Integrated Risk Management Committee are included on pages 69 and 68 respectively of this Annual Report.

The responsibilities of the Directors are to safeguard the interest and sustain the transparency of the Bank and ensure the interest of the Bank depositors, Creditors, Shareholders and other stakeholders.

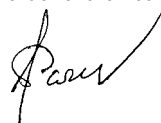
As per provisions of Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka, the Auditor General is the auditor of the Bank and issues the final opinion on the financial statement of the Bank. Issues identified in their reports were submitted to the management regularly for prompt action. Having confirmed the accuracy of the financial reporting, the financial statements, together with necessary data and information were made available to the Auditor General for examination. The responsibilities of the auditor in relation to the financial statement are set out in the Report of the Auditor General on page 71 of this Annual Report.

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

The Directors confirm that to best of their knowledge and belief, are satisfied that the statutory payments in relation to all relevant regulatory and statutory authorities which were due and payable by the Bank as at the Balance Sheet date has been paid by the Bank or where relevant, provided for in the financial statement.

The Directors are of the view that they have discharged their responsibilities honorably, effectively, diligently and transparent manner as set out in the above statement.

By order of the Board



Assistant General Manager (Legal)/Board Secretary

Auditor General's Report



විගණකාධිපති දෙපාර්තමේන්තුව கணக்காய்வாளர் தலைமை அறிப்பதி திணைக்களம் AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல
My No.

FB/E/SMIB/1/14/1

ඔබේ අංකය
உமது இல
Your No.

දිනය
திகதி
Date

31 August 2015

The Chairman,
State Mortgage and Investment Bank

Report of the Auditor General on the Financial Statements of the State Mortgage and Investment Bank for the year ended 31 December 2014 in terms of Section 14(2) (c) of the Finance Act, No.38 of 1971.

The audit of financial statements of the State Mortgage and Investment Bank for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No.38 of 1971 and Section 65(2) of the State Mortgage and Investment Bank Law No.13 of 1975. My comments and observations which I consider should be published with the Annual Report of the Bank in terms of Section 14 (2) (c) of the Finance Act, appear in this report. A detailed report in terms of Section 13(7) (a) of the Finance Act was issued to the Chairman of the Bank on 07 July 2015.

1.2 Management's Responsibility for the Financial Statements

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

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme

Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of the Section 13 of the Finance Act, No 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

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

1.4 Basis for Qualified Opinion

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

අංක 306/72 පොල්දූව පාර,
වත්තරමුල්ල, ශ්‍රී ලංකාව

දුරකථනය
தொலைபேசி
Telephone. } 2887028 /034

இல. 306/72, பொல்துவ வீதி,
புத்தரமுல்லை இலங்கை

ෆැක්ස් අංකය
பக்ஸ் இல
Fax No. } 2887223

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

ඉලෙක්ට්‍රොනික් තැපෑල
ஈ-மெயில்
E-mail. } oaggov@sltnet.lk

Auditor General's Report Contd...

2 Financial Statements

2.1 Opinion

In my opinion, except for the effect of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the State Mortgage and Investment Bank as at 31 December 2014 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following accounting deficiencies were observed.

- a) Although the financial statements had been prepared in terms of Sri Lanka Accounting Standards (SLFRS and LKAS), the general ledger accounts had not been updated in order to reflect the balances shown in the financial statements.
- b) A Loan from Government amounting to Rs. 250,000,000 at an interest rate of 9 percent had been received in 2001. Nevertheless, repayment of capital or interest had not been made to Treasury up to 31 December 2014. Even though interest aggregating Rs.134,321,918 had been provided up to end of the year 2006, no provision for interest aggregating Rs.180,000,000 had been made in the accounts for the period from 2007 to 2014.
- c) Sums aggregating Rs.7,063,376 deposited by the customers during the period from 01 July 2013 to 31 December 2014 in the Gampaha Branch had been omitted from the accounts.
- d) Loan installment (Estate) recovered from the Central Bank of Sri Lanka by the Kandy Branch amounting to Rs. 13,731,140 had not been transferred to relevant account. As such the income and loan balances had been understated and overstated by Rs. 5,574,509 and Rs. 6,157,031 respectively.
- e) There was a debit balances in cheque on realization account as at 31 December 2014 due to and error in posting. Thus the other debtors shown in the financial statements had been overstated by Rs.22,810,493.
- f) Long due balances in un-presented cheque account amounting to Rs. 2,841,347 had been carried forward since 2006 without being cleared.

- g) Even though the Bank had reconciled a balance of Rs. 1,122,255 remained in the Cheque on realization account- 004/1/09/1607 of the Gampaha Branch as at 31 December 2013, the entries thereon had not been made in the accounts up to 31 December 2014.

2.2.2 Un-reconciled Control Accounts

An unreconciled opening difference of Rs. 18,580,615 was observed between the current account with the Branches and the current account with the Head Office held in Branches.

2.2.3 Unexplained Differences

The following unexplained differences were observed.

- a) A difference of Rs. 69,963,530 had been observed between the amount shown in the financial statements and the balances generated by the computerized systems with regard to the fixed deposits, saving accounts, inappropriate accounts, loans against fixed deposits etc. as at 31 December 2014.
- b) Differences of Rs.648,772 and Rs.326,282 had been observed between the ledger balances and the balances in the fixed asset register relating to the cost of assets and accumulated depreciation respectively.

2.2.4 Unidentified Transactions

The following observations are made in this connection.

- a) Deposits aggregating Rs. 1,137,732 had remained unidentified even up to end of the year under review.
- b) A balance of Rs.4,209,582 had been shown in the advance account without being identified and adjusted in the accounts.
- c) Unidentified amount of Rs.2,165,961 shown in the financial statements as other liabilities relating to the encashment of Head Office cheque accounts had been remained in the accounts without being identified and reconciled for more than one year.

2.2.5 Lack of Evidence for Audit

The detail schedules and reconciliations in respect of cheque sent for collection, cheque receivable on collection, fixed deposits receivable, Branch advice accounts-other assets and Branch advice account-other liabilities aggregating Rs.21,056,587 had not been submitted to audit although they were called for.

Auditor General's Report Contd...

2.3 Non-compliances with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliance were observed in audit

Reference to Law, Rules, Regulation etc.

- (a) Financial Transactions Reporting Act, No. 10 of 2006
- (b) Section 213 of the Inland Revenue Act, No. 10 of 2006
- (c) Financial Regulations of the Government of the Democratic Socialist Republic of Sri Lanka
- (i) Financial Regulation 396(d)
- (ii) Financial Regulation 507
- (iii) Financial Regulation 754
- (d) Internal Circulars
- (i) Circular No. 559 dated 14 November 2014 issued by Acting General Manager
- (ii) The letter dated 25 March 2014 issued by the Chief Manager (Branch Operation)

Non-compliance

Seventeen "Know Your Customer" forms valued at Rs. 3,800,000 relating to Kiribathgoda and Kegalle Branches had not been duly completed.

Kiribathgoda and Kegalle Branches had failed to submit withholding tax return on due dates to the Department of Inland Revenue.

The Bank had not taken action to cancel the following along outstanding un-presented cheques and an age analysis thereon is shown below.

Bank Account Number	06 to 12 Months	01 to 02 Years	02 to 03 Years
	Rs.	Rs.	
A	80,000	447,041	-
B	2,930	17,150	-
C	67,300	261,112	62,975

The physical verification of inventory items for the year 2014 had not been done.

Even though the Bank had purchased the fixed assets valued at Rs. 67,544,820 during the year under review, movement of inventory had not properly updated

The Branches had not sent certified copies of running charts relating to 15 motor bicycles to the Transport Division within one week after the end of the following month as requested by the Circular.

The Branches had not maintained any register for Dormant Accounts.



W.P.C. Wickramaratne
Acting Auditor General

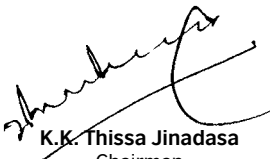
Statement of Financial Position

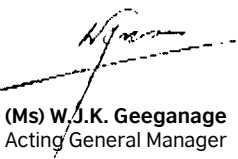
As at 31 st December	Note	2014 Rs.	2013 Rs.
ASSETS			
Cash and Cash Equivalents	09	119,947,523	67,150,590
Placements with Banks	10	5,505,201,576	5,102,011,723
Loans and Receivables to Customers	11	24,037,620,498	21,185,660,704
Financial Investments - Available for Sale	12	24,219,078	22,424,078
Financial Investments - Held to Maturity	13	44,621,403	-
Property, Plant and Equipment	14	96,493,049	66,643,263
Deferred Tax Assets	15	86,813,541	55,279,860
Other Assets	16	385,993,293	326,219,472
Total Assets		30,300,909,960	26,825,389,689
Liabilities			
Due to Banks	17	21,779,984	47,723,617
Due to Customers	18	24,146,419,043	21,200,990,762
Other Borrowings	19	1,119,601,741	900,958,846
Employee Benefit Liability	20	307,549,249	189,779,872
Other Liabilities	21	687,873,177	555,750,641
Total Liabilities		26,283,223,194	22,895,203,737
Equity			
Stated Capital/Assigned Capital	22	889,812,899	889,812,899
Statutory Reserve Fund	23	191,356,249	181,145,695
Retained Earnings	24	2,229,190,619	1,842,521,667
Other Reserves	25	707,327,000	1,016,705,691
Total Equity		4,017,686,767	3,930,185,953
Total Equity and Liabilities		30,300,909,960	26,825,389,689
Contingent Liabilities and Commitments	26	-	-

Certification:

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

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


K.K. Thissa Jinadasa
Chairman


(Ms) W.J.K. Geeganage
Acting General Manager


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

Income Statement

For the year ended 31 st December	Note	2014 Rs.	2013 Rs.
Interest Income		3,632,904,504	3,635,238,691
Interest Expenses		(2,213,615,266)	(2,459,200,065)
Net Interest Income	1	1,419,289,237	1,176,038,626
Fee and Commission Income		102,889,786	97,250,758
Fee and Commission Expenses		-	-
Net Fee and Commission Income	2	102,889,786	97,250,758
Other Operating Income (net)	3	9,838,201	4,918,546
Total Operating Income		1,532,017,225	1,278,207,930
Impairment Charge for Loans and Other Losses	4	(33,264,417)	(53,338,578)
Net Operating Income		1,498,752,808	1,224,869,352
Personnel Expenses	5	(574,788,139)	(468,873,067)
Other Expenses	6	(387,874,191)	(312,444,366)
Operating Profit/(Loss) before Value Added Tax (VAT)		536,090,478	443,551,919
Value Added Tax (VAT) on Financial Services		(105,748,422)	(100,810,623)
NBT on Financial Services		(17,624,737)	-
Profit/(Loss) before Tax		412,717,319	342,741,295
Tax Expenses	7	(139,652,509)	(110,479,788)
Profit/(Loss) for the Year		273,064,810	232,261,507

Statement of Comprehensive Income

For the year ended 31 st December	Note	2014 Rs.	2013 Rs.
Profit/(Loss) for the Year		273,064,810	232,261,507
Other Comprehensive Income, net of Tax			
Gains and Losses on Re-Measuring Available-for-Sale Financial Assets		2,795,000	1,780,000
Actuarial Gains/(Losses) on Defined Benefit Plans (+/-)		(101,935,176)	-
Total Comprehensive Income for the Year		173,924,634	234,041,507

Statement of Changes in Equity

	Contributed Capital	Statutory Reserve	Capital Reserve	General Reserve	Title Indemnity Fund	Investment Fund	Retained Earnings	AFS Reserve	Total
Balance as at 31.12.2012	889,812,899	172,981,335	9,176,000	683,280,000	1,031,000	225,780,447	1,818,415,611	9,265,000	3,809,742,292
Net Profit for the Year							232,261,507		232,261,507
Deemed Dividend Tax							(73,597,847)		(73,597,847)
Other Comprehensive Income							-	1,780,000	1,780,000
Transfer During the Year		8,164,360					(8,164,360)		-
Transfer to Investment Fund						86,393,244	(86,393,244)		-
Transfer to Consolidated Fund							(40,000,000)		(40,000,000)
Balance as at 31.12.2013	889,812,899	181,145,695	9,176,000	683,280,000	1,031,000	312,173,691	1,842,521,667	11,045,000	3,930,185,953
Net Profit for the Year							273,064,810		273,064,810
Deemed Dividend Tax							(76,423,819)		(76,423,819)
Other Comprehensive Income							(101,935,176)	2,795,000	(99,140,176)
Transfer During the Year		10,210,554					(10,210,554)		-
Transfer to Investment Fund						(312,173,691)	312,173,691		-
Transfer to Consolidated Fund							(10,000,000)		(10,000,000)
Balance as at 31.12.2014	889,812,899	191,356,249	9,176,000	683,280,000	1,031,000	-	2,229,190,619	13,840,000	4,017,686,767

Statement of Cash Flows

For the year ended 31 st December	2014 Rs.	2013 Rs.
Cash Flows from Operating Activities		
Interest Received	3,150,826,860	2,946,030,933
Interest Payments	(2,213,615,266)	(2,459,200,065)
Payments to Employees and Suppliers	(574,788,139)	(468,873,067)
Receipts from Other Operating Activities	112,727,987	102,169,304
Payments on Other Operating Activities	(387,874,191)	(312,444,366)
Operating Profit before Changes in Operating Assets	87,277,251	(192,317,262)
(Increase)/Decrease in Operating Assets:		
Funds Advanced to Customers (net)	(2,885,224,211)	(2,689,386,457)
Other Short-Term Securities	(449,606,256)	(1,855,072,455)
	(3,334,830,467)	(4,544,458,912)
Increase /(Decrease) in Operating Liabilities:		
Deposits from Customers (net)	2,945,428,281	3,964,427,158
Others	(112,705,277)	(84,146,019)
	2,832,723,004	3,880,281,139
Net Cash from Operating Activities before Income Tax	(414,830,212)	(856,495,035)
Income Tax & Deemed Divident Tax Paid	(153,604,527)	(206,060,000)
Net Cash from Operating Activities	(568,434,739)	(1,062,555,035)
Cash Flows from Investing Activities		
Dividends Received	3,741,500	3,370,750
Proceeds from Sales of Property, Plant & Equipment	2,897,000	50,510
Purchase of Property, Plant & Equipment	(50,249,352)	(19,922,580)
Interest Received from Deposits with Other Banks	425,994,526	662,450,094
Interest Received from Government Securities	56,083,117	26,757,665
Net Cash from Investing Activities	438,466,792	672,706,439
Cash Flows from Financing Activities		
Repayment of Debentures	-	-
Repayment of Loans	(66,031,487)	(34,299,756)
Proceeds from Borrowings	284,740,000	201,010,000
Payment to the Consolidated Fund	(10,000,000)	(40,000,000)
Net Cash from Financing Activities	208,708,513	126,710,244
Net Increase in Cash and Cash Equivalents	78,740,565	(263,138,353)
Cash and Cash Equivalents at the Beginning of the Year	19,426,973	282,565,326
Cash and Cash Equivalents at End of the Year	98,167,539	19,426,973
Reconciliation of Cash and Cash Equivalents		
Cash and Short Term Funds	119,947,523	67,150,590
Government of Sri Lanka Treasury Bills	-	0
Borrowings from Banks	(21,779,984)	(47,723,617)
	98,167,539	19,426,973

Accounting Policies

1. Corporate Information

1.1 General

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

1.2 Principal Activities and Nature of Operations

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

1.3 Directors' Responsibility Statement

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

1.5 Date of Authorization

The Financial Statements of State Mortgage & Investment Bank for the year ended 31 December 2014 were authorized for issue in accordance with a resolution of the Board of Directors on 27.02.2015.

The staff strength of the Bank as at December 31, 2014 was 407 (334 as at December 31, 2013).

2. Summary of Significant Accounting Policies

2.1. Basis of Preparation

These Financial Statements for the year ended 31 December 2014 were prepared in accordance with Sri Lanka Financial Reporting Standards (SLFRS).

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

2.1.1. Statement of compliance

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

2.1.2. Presentation of Financial Statements

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

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position

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

2.2. Significant accounting Judgments, Estimates and Assumptions

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

2.2.1. Judgements

Taxation

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

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

2.2.2. Estimates and Assumptions

Going concern

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

Fair value of financial instruments

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

Accounting Policies Contd...

Impairment losses on loans and advances

Individually assessed Loans and Advances

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

Impairment of Available For Sale Investments

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

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

Deferred Tax Assets

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

Employee Benefit Liability- Gratuity

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

	2014	2013
Rate of Interest	9.00%	13.00%
Rate of Salary Increase	8.50%	8.50%
Retirement Age	55-60 years	55-60 years

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

Employee Benefit Liability - Medical Benefit

The cost of the defined benefit plan - medical benefit is determined using an actuarial valuation. Actuarial valuation involves making assumptions about inter-alia

discount rates, medical inflation and mortality rates. Due to the long term nature of these obligations, such estimates are subject to significant uncertainty.

The assumptions used are as follows.

	2014	2013
Discount Rate	9.00%	13.00%
Medical Inflation	10.00%	10.00%
Participant Data (Actives) census information at	31.12.2014	31.12.2013

Description of employee benefits is given in Note 20.

2.3. Summary of Significant Accounting Policies

2.3.1. Financial Instruments - Initial Recognition and Subsequent Measurement

a. Date of Recognition

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

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

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

b. Initial Measurement of Financial Instruments

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

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

The Bank has not designated any loans or receivables as available for sale. After initial measurement, available

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for sale financial investments are subsequently measured at fair value.

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

d. Held to Maturity Financial Investments

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

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

e. Other Financial Liabilities

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

Other financial liabilities include, deposits from customers, amount due from banks, borrowings from bank and others and debentures. After initial measurement, other financial liabilities are

subsequently measured at amortised cost using the EIR. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

f. Financial Assets classified as Loans and Receivables

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

- Those that the bank intends to sell immediately or in the near term and those that the bank, upon initial recognition, designates as at fair value through profit or loss
- Those that the bank, upon initial recognition, designates as available for sale
- Those for which the bank may not recover substantially all of its initial investment, other than because of credit deterioration

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

g. Day 1' Difference for staff loan

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

h. Reclassification of financial assets

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

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

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

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

2.3.2. De-Recognition of Financial Assets and Financial Liabilities

a) Financial assets

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

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

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

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

b) Financial Liabilities

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

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

2.3.3. Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'Due to Banks', reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR.

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

2.3.4. Determination of Fair Value

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

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

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

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

2.3.5. Impairment of Financial Assets

a) Loans and Advances

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

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter Bankruptcy or other financial reorganisation; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

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

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

Collectively assessed loans and advances

Impairment is assessed on a collective basis in two circumstances:

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

Incurred but not yet identified impairment

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

The collective impairment allowance is determined after taking into account:

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

Homogeneous groups of loans and advances

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

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

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

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

Under this methodology, loans are grouped into ranges

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

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

These additional macro and portfolio risk factors may include:

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

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

b) Financial Assets Carried at Amortised Cost

For financial assets carried at amortised cost (such as amounts due from Banks and loans and advances to customers), the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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

The interest income is recorded as part of 'Interest and similar income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred

to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Impairment expense'.

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

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

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

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

c) Available for Sale Financial Investments

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

In the case of equity investments classified as available for sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The Bank treats 'significant' generally as 20% and 'prolonged'

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generally as greater than six months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised in other comprehensive income.

d) Renegotiated Loans

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

e) Collateral Valuation

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

2.3.6. Offsetting Financial Instruments

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

2.3.7. Leasing

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

2.3.8. Recognition of income and expenses

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

a) Interest and Similar Income and Expense

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

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

b) Fee and commission income

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

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

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

Fee Income from Providing Transaction Services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

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c) Dividend income

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

d) Net trading income

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

e) Other Income

Other income is recognized on an accrual basis.

f) Other Expenses

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

2.3.9. Cash and cash equivalents

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

2.3.10. Property, Plant and equipment

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

a) Cost Model

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

b) Subsequent Cost

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

c) Restoration Cost

Expenditure incurred on repairs or maintenance of Property, Plant & Equipment in order to restore

or maintain future economic benefits is charged to Statement of Comprehensive Income as incurred.

d) Capital Work-in-Progress

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

e) Depreciation

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

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

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

f) Derecognition

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 derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the income statement in the year the asset is derecognised.

2.3.11. Intangible Assets

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

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

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite

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

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

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

2.3.12. Impairment of Non-Financial Assets

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

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

2.3.13. Financial Guarantees

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

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

2.3.14. Retirement Benefit Obligation

a) Gratuity

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

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

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

Recognition of Actuarial Losses / Gains

Actuarial losses / gains are recognized in profit or loss.

Expected Return on Assets

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

Interest Cost

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

Funding Arrangements

The Gratuity liability is not externally funded.

b) Defined contribution plan

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

The Bank contributes to the following schemes:

Employees' Provident Fund

The Bank and employees contribute 15% and 10%

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

Employees' Trust Fund

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

c) Medical Benefit

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

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

Normal and Early Retirement

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

Recognition of Actuarial Losses / Gains

Actuarial losses / gains are recognized in profit or loss.

Expected Return on Assets

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

Interest Cost

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

Funding Arrangements

The Medical Benefit Scheme is not externally funded

2.3.15. Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources

embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

2.3.16. Taxes

a) Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted by the Balance Sheet date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 10 of 2006 and the amendment thereto, at the rates specified in Note 08 to the Financial Statements.

b) Deferred Taxation

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

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

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

- Where deferred tax assets relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor the taxable profit or losses; and

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- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognized only to the extent it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which temporary differences can be utilised

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

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

c) Value Added Tax on Financial Services (VAT)

Bank's total value addition was subjected to a 12% Value Added Tax as per section 25A of the Value Added Tax No. 14 of 2002 and amendments thereto.

2.3.17. Events after the Balance Sheet Date

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

2.3.18. Related Party Transactions with Government and Government Related Entities

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

2.3.19. Standards Issued but not yet Effective

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

- SLFRS 9 -Financial Instruments: Classification and Measurement
SLFRS 9, as issued reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities.
- SLFRS 13 -Fair Value Measurement SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 provides guidance on all fair value measurements under SLFRS. SLFRS 9 and SLFRS 13 will be effective for financial periods beginning on or after 01 January 2015 and 2014 respectively.

Notes to the Financial Statements

1. Net Interest Income	2014 Rs.	2013 Rs.
Interest Income		
Sri Lanka Government Securities	56,083,117	26,757,665
Loans and Advances	3,150,826,860	2,946,030,933
Financial Investments	425,994,526	662,450,094
Total Interest Income	3,632,904,504	3,635,238,691
Interest Expenses		
Due to Banks	297,545	536,610
Due to Customers	2,189,399,127	2,441,305,093
Other Borrowings	19,043,593	12,483,362
Debt Securities Issued	4,875,000	4,875,000
Total Interest Expenses	2,213,615,266	2,459,200,065
Net Interest Income	1,419,289,237	1,176,038,626

a. Net Income from Sri Lanka Government Securities	2014 Rs.	2013 Rs.
Interest Income	56,371,867	26,757,665
(Less): Interest Expenses	(288,750)	-
Net Interest Income	56,083,117	26,757,665

2. Net Fee and Commission Income	2014 Rs.	2013 Rs.
Fee and Commission Income	102,889,786	97,250,758
Fee and Commission Expenses	-	-
Net Fee and Commission Income	102,889,786	97,250,758
Comprising		
Bank Service Charges	94,443,484	89,612,754
Legal & Technical Fees	1,972,172	1,828,118
Other Loan Charges	6,474,130	5,809,886
Net Fee and Commission Income	102,889,786	97,250,758

3. Other Operating Income (net)	2014 Rs.	2013 Rs.
Other Income		
Dividend Income	5,241,500	3,370,750
Sundry Income	4,596,701	1,547,796
Other Operating Income (net)	9,838,201	4,918,546

4. Impairment Charges/ (Reversal) for Loans and Other Losses	2014 Rs.	2013 Rs.
Individual Impairment	6,449,755	-
Collective Impairment	26,814,661	53,338,578
Total	33,264,417	53,338,578

Notes to the Financial Statements Contd...

5. Personnel Expenses

	2014 Rs.	2013 Rs.
Salaries and Bonus	359,730,722	323,954,796
Contribution to Defined Contribution Plans	60,908,406	52,880,118
Contribution to Defined Benefit Plans	53,528,999	39,101,884
Other Staff Expenses	100,620,012	52,936,269
Total	574,788,139	468,873,067

6. Other Expenses

	2014 Rs.	2013 Rs.
Directors' Emoluments	3,315,873	3,243,429
Auditors' Remuneration	1,106,920	1,294,778
Professional and Legal Expenses	2,544,692	2,585,022
Depreciation/Amortisation of Property, Plant and Equipment	38,351,500	21,345,473
Office Administration and Establishment Expenses	136,131,141	114,420,017
Advertising and Promotional Expenses	105,041,136	96,398,662
Motor Vehicle Maintenance & Travelling	8,129,951	6,961,550
General Expense	13,963,488	17,078,974
District Rep's Commission	46,000	25,175
Other Losses, Bad Debts and Write Offs	9,833,480	(36,228)
CBSL Deposit Insurance	20,373,790	11,842,342
Other Expenses	49,036,219	37,285,172
Total	387,874,191	312,444,366

7. Tax Expenses

	2014 Rs.	2013 Rs.
Current Tax Expense	171,186,190	115,340,473
Current Year		
Deferred Tax Expense/(Credit)	(31,533,681)	(4,860,684)
Total	139,652,509	110,479,788

a. Reconciliation of Tax Expenses

Profit/(Loss) before Tax	536,090,478	443,551,919
Adjustment in Respect of Current Income Tax of Prior Periods		
Add: Tax Effect of Expenses that are not Deductible for Tax Purposes	129,711,148	70,250,534
(Less): Tax Effect of Expenses that are Deductible for Tax Purposes	(46,265,049)	(56,697,707)
Disposal of Assets	(2,915,828)	-
Dividends	(5,241,500)	(3,370,750)
Adjusted Profits for the Year	611,379,249	453,733,996
Taxation Based on Profit for the Year	171,186,190	127,045,519
Transfer to/from Deffered Taxation	(31,533,681)	(4,860,684)
(Over)/Under Provision in Previous years	-	(11,705,046)
Tax Expense for the Period	139,652,509	110,479,788

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

Deferred Tax Assets		
Property, Plant & Equipment	(699,751)	(2,141,496)
Employee Benefit Obligations	(86,113,790)	(53,138,364)
Deferred Tax (Credit)/Charge to Income Statement	(86,813,541)	(55,279,860)

Notes to the Financial Statements Contd...

8. Analysis of Financial Instruments by Measurement Basis**Bank - Current Year (2014)**

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

Notes to the Financial Statements Contd...

8. Analysis of Financial Instruments by Measurement Basis

Bank - Previous Year (2013)

In Rs.	HTM	Loans & Receivables	AFS	Total
ASSETS				
Cash and Balances with Central Banks		67,150,590		67,150,590
Sri Lanka Government Securities				-
Balances with Banks				-
Investment Securities			5,379,078	5,379,078
Placement with and Loans to Other banks & Financial Institutions				-
Commercial Papers		1,282,741,540		1,282,741,540
Trust Certificates		32,708,548		32,708,548
Treasury Bills Held Under Resale Agreement		6,000,000		6,000,000
Fixed Deposits		3,780,561,635		3,780,561,635
Debentures				-
Loans and Receivables to Other Customers		21,185,660,704		21,185,660,704
Financial Investments - Pyramid Trust			17,045,000	17,045,000
Other Assets -Prepaid Staff Loans		171,235,862		171,235,862
Total Financial Assets		26,526,058,879	22,424,078	26,548,482,957
LIABILITIES				
Due to Banks		47,723,617		47,723,617
Due to Customers				-
Deposits		14,985,794,904		14,985,794,904
Institutional Deposits		5,303,359,899		5,303,359,899
Scheme Deposits		911,835,958		911,835,958
Debt Securities Issued		195,307,192		195,307,192
Other Borrowings				-
Government of Sri Lanka		384,321,918		384,321,918
AHF		56,797,405		56,797,405
USAID		868,344		868,344
Refinance Borrowing		263,663,987		263,663,987
Other Liabilities		311,332,762		311,332,762
Total Financial Liabilities		22,461,005,986		22,461,005,986

9. Cash and Cash Equivalents

	2014 Rs.	2013 Rs.
Cash and Balances with Banks	119,947,523	67,150,590
Total	119,947,523	67,150,590

10. Placements with Banks

	2014 Rs.	2013 Rs.
Placements	-	-
Others		
Commercial Paper	532,089,857	1,282,741,540
Treasury Bills Held under Resale Agreement	1,238,583,813	6,000,000
Debentures	-	-
Trust Certificates	-	32,708,548
Fixed Deposits	3,734,527,906	3,780,561,635
Total	5,505,201,576	5,102,011,723

Notes to the Financial Statements Contd...

11. Personnel Expenses	2014 Rs.	2013 Rs.
Gross Loans and Receivables	24,262,561,397	21,377,337,187
Individual Impairment	(6,449,755)	-
Collective Impairment	(218,491,144)	(191,676,483)
Net Loans and Receivables	24,037,620,498	21,185,660,704
a. Analysis		
	2014 Rs.	2013 Rs.
By product		
Mortgage	7,813,511,885	7,568,516,547
EPF	12,131,065,228	10,593,518,629
Vehicle	80,256,324	66,530,827
Staff loans	553,487,008	487,929,579
Personal Loans	2,269,143,427	1,254,908,300
Others	1,415,097,526	1,405,933,304
Gross Total	24,262,561,397	21,377,337,187
By industry		
Construction of Houses	8,841,397,080	8,127,234,241
Home Improvements	8,067,283,598	6,400,362,778
Purchase of Building Sites	109,262,194	112,930,407
Purchase of Houses	2,972,441,897	3,525,462,030
Agriculture	587,935,676	550,506,128
Personal loans	2,269,143,427	1,254,908,300
Other	1,415,097,526	1,405,933,304
Gross Total	24,262,561,397	21,377,337,187
By Security		
Collateral held as Security	20,578,320,445	18,716,495,583
Other Credit Enhancement	3,684,240,952	2,660,841,604
Gross Total	24,262,561,397	21,377,337,187
b. Movements in Individual and Collective Impairment		
	2014 Rs.	2013 Rs.
Individual Impairment		
Opening Balance as at 1st January	-	-
Charge/(Write back) to Income Statement	6,449,755	-
Closing Balance on 31st December	6,449,755	-
Collective Impairment		
Opening Balance as at 1st January	191,676,483	138,337,905
Charge/(Write Back) to Income Statement	26,814,661	53,338,578
Closing Balance on 31st December	218,491,144	191,676,483
Total	224,940,900	191,676,483

Notes to the Financial Statements Contd...

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

	2014 Rs.	2013 Rs.
Equity Securities- Unit Trust	18,840,000	17,045,000
Unquoted Shares	5,379,078	5,379,078
(Less): Impairment Charges		
Net Available-for-sale Investments	24,219,078	22,424,078

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

13. Financial Investments-Held to Maturity

	2014 Rs.	2013 Rs.
Debt Securities - Treasury Bills	44,621,403	-
(Less): Impairment Charges	-	-
Net Held to Maturity Investments	44,621,403	-

Notes to the Financial Statements Contd...

14. Property, Plant and Equipment

In Rs.	Vehicles	Furniture and Equipment	Total
2014 (Current Year)			
Cost/Fair Value			
Opening Balance as at 01/01/2014	62,573,739	136,019,928	198,593,667
Additions	16,437,700	51,763,586	68,201,286
Disposals	(8,107,500)	-	-
Adjustments	-	-	-
Closing Balance as at 31/12/2014	70,903,939	187,783,514	266,794,953
(Less): Accumulated Depreciation			
Opening Balance as at 01/01/2014	36,455,962	95,494,442	131,950,403
Charge for the Year	16,916,489	21,435,012	38,351,500
Additions	-	-	-
Disposals	(8,107,500)	-	-
Adjustments	-	-	-
Closing Balance as at 31/12/2014	45,264,950	116,929,454	170,301,904
(Less): Impairment Charges	-	-	-
Net Book Value as at 31/12/2014	25,638,989	70,854,060	96,493,049
2013(Previous Year)			
Cost/Fair Value			
Opening Balance as at 01/01/2013	46,044,139	115,316,050	161,360,189
Additions	16,529,600	20,703,878	37,233,478
Disposals	-	-	-
Adjustments	-	-	-
Closing Balance as at 31/12/2013	62,573,739	136,019,928	198,593,667
(Less): Accumulated Depreciation			
Opening Balance as at 01/01/2013	29,437,573	81,167,358	110,604,931
Charge for the Year	7,018,389	14,327,084	21,345,473
Additions	-	-	-
Disposals	-	-	-
Adjustments	-	-	-
Closing Balance as at 31/12/2013	36,455,962	95,494,442	131,950,403
(Less): Impairment Charges	-	-	-
Net Book Value as at 31/12/2013	26,117,778	40,525,486	66,643,263

Notes to the Financial Statements Contd...

15. Deferred Tax Assets/(Liabilities)	2014 Rs.	2013 Rs.	2014 Rs.	2013 2013
Property, Plant & Equipment	699,751	2,141,496	(1,441,745)	5,237,853
Employee Benefit Obligations	86,113,790	53,138,364	32,975,426	(377,169)
Net Total	86,813,541	55,279,860	31,533,681	4,860,684

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

16. Other Assets	2014 Rs.	2013 Rs.
Cost		
Stationary Stock	12,798,675	10,305,210
Deposits and Prepayments	29,619,213	45,175,154
Prepaid Staff Loans	200,766,937	171,235,862
Others	142,808,468	99,503,245
Total	385,993,293	326,219,472

17. Due to Banks	2014 Rs.	2013 Rs.
Bank Overdraft	21,779,984	47,723,617
Total	21,779,984	47,723,617

18. Due to Customers	2014 Rs.	2013 Rs.
Total Amount Due to Customers	24,146,419,043	21,200,990,762
Total	24,146,419,043	21,200,990,762
Analysis		
By Product		
Deposits	17,406,860,430	14,985,794,904
Institutional Deposits	5,771,714,101	5,303,359,899
Scheme Deposits	967,844,512	911,835,958
Total	24,146,419,043	21,200,990,762

19. Other Borrowings	2014 Rs.	2013 Rs.
Debentures	195,307,192	195,307,192
Government of Sri Lanka	384,321,918	384,321,918
AHF	46,121,559	56,797,405
USAID	-	868,344
Affordable Housing Finance(Refinance)	493,851,073	263,663,987
Total	1,119,601,741	900,958,846

Notes to the Financial Statements Contd...

20. Employee Benefit

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

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

The key assumptions used by the actuary include the following.

	2014 Rs.	2013 Rs.
Rate of Interest	9.00%	13.00%
Rate of Salary Increase	8.50%	8.50%
Retirement Age	55-60 years	55-60 years
Gratuity	2014 Rs.	2013 Rs.
Provision for Gratuity		
Balance at the Beginning of the Year	135,154,730	127,696,724
Current Service Cost	6,962,669	7,045,474
Interest Cost	15,191,216	18,486,027
Benefit Paid	(15,773,568)	(18,309,190)
Actuarial (Gains)/Losses	20,464,552	235,695
Provision for the Year	-	-
Transition Liability/(Assets)	-	-
Total	161,999,599	135,154,730
Medical	2014 Rs.	2013 Rs.
Provision for Medical Benefit		
Balance at the Beginning of the Year	54,625,142	63,430,180
Current Service Cost	3,273,300	3,624,693
Interest Cost	8,820,675	7,572,479
Actuarial (Gain)/Losses	81,470,624	1,144,655
Benefit Paid	(2,640,091)	(21,146,865)
Total	145,549,650	54,625,142
Total Employee Benefit Liability	307,549,249	189,779,872

21. Other Liabilities

	2014 Rs.	2013 Rs.
Income Tax & Deemed Dividend Tax	44,621,357	6,661,610
NSL,WHT & PAYE Payable	3,198,450	2,989,542
VAT & Debit Tax	67,806	(84,361)
Accrued Expenditure	54,420,837	63,615,225
Others	384,797,790	311,332,762
Allowance for Day 1 Difference - Staff Loans	200,766,937	171,235,862
Total	687,873,177	555,750,641

Notes to the Financial Statements Contd...

22. Stated Capital/Assigned Capital

	2014 Rs.	2013 Rs.
Authorised Capital	2,000,000,000	2,000,000,000
Contributed Capital	889,812,899	889,812,899

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

The Government after the appointment date of 1st January 1979 made a contribution to the capital of the Bank so that the amounts of such contribution together with the amounts referred to the above paragraph amounted to RS.889,812,899 as at 31st Decemebr 2014.

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

23. Statutory Reserve Fund

	2014 Rs.	2013 Rs.
Opening Balance as at 01st January	181,145,695	172,981,335
Transfer During the Period	10,210,554	8,164,360
Closing Balance as at 31st December	191,356,249	181,145,695

24. Retained Earnings

	2014 Rs.	2013 Rs.
Opening Balance as at 01st January	1,842,521,667	1,818,415,611
Profit for the Year	273,064,810	232,261,507
Transfers from/(to) Other Reserves	291,963,137	(134,557,604)
Other Comprehensive Income	(101,935,176)	-
Deemed Dividend Tax	(76,423,819)	(73,597,847)
Closing Balance as at 31st December	2,229,190,619	1,842,521,667

Notes to the Financial Statements Contd...

25. Other Reserves**a. Bank - Current year (2014)**

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

b. Bank – Previous year (2013)

	Opening balance at 01/01/2013	Movements/ transfers	Closing Balance at 31/12/2013
General Reserve	683,280,000	-	683,280,000
Capital Reserve	9,176,000	-	9,176,000
Title Indemnity Fund	1,031,000	-	1,031,000
Investment Fund	225,780,447	86,393,244	312,173,691
AFS Reserve	9,265,000	1,780,000	11,045,000
Total	928,532,447	88,173,244	1,016,705,691

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

26. Contingent Liabilities and Commitments

	2014 Rs.	2013 Rs.
Guarantees Issued	-	-
Other Commitments	-	-
Total	-	-

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

27. Transactions with Key Management Personnel (KMPs)

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

27.1 (A) Compensation to Key Management Personnel

	2014 Rs.	2013 Rs.
Short - Term Employment Benefits	37,038,410	40,488,565
Post - Employment Benefits	7,434,119	5,440,875
Total	44,472,529	45,929,440

Notes to the Financial Statements Contd...

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

	2014 Rs.	2013 Rs.
Income Statement		
Interest Earned	3,872,673	1,844,564
Interest Paid	1,042,251	382,183
Payment made as Shown in 27.1 (A)	44,472,529	45,929,440
Statement of Financial Position		
Assets		
Loans and Advances	61,157,829	47,065,113
Liabilities		
Deposits	16,196,479	12,719,030

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

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

Financial Investments – Available For sale

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

28.1 Determination of Fair Value and Fair Value Hierarchy

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

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

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

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

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

31st December 2014	Level 1 Rs	Level 2 Rs	Level 3 Rs	Total Rs
Financial Assets				
Financial Investments available for Sale				
Quoted Investments - Unit Trust	18,840,000	-	-	18,840,000
Total Financial Assets	18,840,000	-	-	18,840,000
Financial Liabilities				
Total Financial Liabilities	-	-	-	-

Notes to the Financial Statements Contd...

Determination of fair value and fair value hierarchy - continued

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

	2014 Carrying amount Rs.	Fair Value Rs.
Assets		
Cash and Cash Equivalents	119,947,523	119,947,523
Placements with Banks	5,505,201,576	5,505,201,576
Loans and Receivables to Customers	24,037,620,498	24,037,620,498
Financial Investments – Available-for-Sale	5,379,078	5,379,078
Financial investments – Held-to-Maturity	44,621,403	44,621,403
Other Assets	200,766,937	200,766,937
Total Financial Assets	29,913,537,014	29,913,537,014
Liabilities		
Due to Banks	21,779,984	21,779,984
Due to Customers	24,146,419,043	24,146,419,043
Other Borrowings	1,119,601,741	1,119,601,741
Other Liabilities	384,797,790	384,797,790
Total Financial Liabilities	25,672,598,557	25,672,598,557

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

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

Assets for which Fair Value Approximates Carrying Value

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

Fixed Rate Financial Instruments

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

29. RISK MANAGEMENT**29.1 Introduction and Overview**

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

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

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

Notes to the Financial Statements Contd...

Risk Management Structure

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

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

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

29.2 Credit risk

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

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

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

Impairment Assessment

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

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

Individually Assessed Allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis, including any overdue payments of interests, credit rating downgrades, or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

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

The Bank generally bases its analyses on historical experience. However, when there are significant market developments,

Notes to the Financial Statements Contd...

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

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

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

The loans are impaired using risk migration method.

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows

The Bank obtains mortgages over residential properties for lending.

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

Analysis of Risk Concentration

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

Notes to the Financial Statements Contd...

Industry analysis	As at 31.12.2014							Total Rs.million
	Financial Services Rs.million	Government Rs.million	Construction and Housing Rs.million	Consumers Rs.million	Agriculture Rs.million	Other Rs.million		
Financial Assets								
Cash and Cash Equivalents	119,947,523							119,947,523
Placement with Other Banks	5,102,011,723							5,102,011,723
Loans and Receivables to Customers								
Mortgage			7,225,576,209		587,935,676			7,813,511,885
EPF			12,131,065,228					12,131,065,228
Vehicle				80,256,324				80,256,324
Staff loans			553,487,008					553,487,008
Personal Loans				2,269,143,427				2,269,143,427
Others					1,415,097,526			1,415,097,526
Impairment Charge								-
Net Loans and Advances								-
Financial investments – Available-for-Sale	22,424,078							22,424,078
Financial investments – Held-to-Maturity		44,621,403						44,621,403
	5,244,383,323	44,621,403	19,910,128,445	2,349,399,750	587,935,676	1,415,097,526	29,551,566,124	

29.3 Liquidity Risk and Funding Management

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

Liquidity Ratios

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

	2014	2013
Liquid Asset Ratio (%)		
Year - End	22.79	21.98
Maximum	29.32	26.11
Minimum	15.69	18.22
Average	23.61	22.88

Refer to the note on Risk Management in Page 22.

Notes to the Financial Statements Contd...

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

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 2014.

Contractual maturities of undiscounted cash flows of financial assets and liabilities

The table below summarises the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 2012.

As at 31 December 2014

	Less than 7 days	7-30 days	1-3 months	3-6 months	6-12 months	1-3 years	3-5 years	Over 5 years	Unclassified	Total
Cash	119,947,523	-	-	-	-	-	-	-	-	119,947,523
Due from Banks	602,157,427	947,493,089	2,033,598,668	307,258,460	1,082,604,075	-	-	-	-	4,973,111,719
Investment Currents	-	101,430,107	-	-	430,659,750	-	44,621,403	24,219,078	-	600,930,338
Investment Non Performing	-	-	-	-	-	-	-	-	-	-
Loan & Advances Current	-	254,438,881	397,368,783	462,893,838	961,342,645	3,569,393,554	3,136,107,341	6,672,624,168	-	15,454,169,210
Loan & Advances NPL	-	-	-	-	-	-	-	-	8,583,451,288	8,583,451,288
Fixed Assets	-	-	-	-	-	-	-	96,493,049	-	96,493,049
Other Assets	16,894,042	187,051,772	143,292,732	6,216,555	71,480,438	4,112,255	2,286,285	41,472,754	-	472,806,834
Total Assets	738,998,991	1,490,413,849	2,574,260,183	776,368,853	2,546,086,908	3,573,505,809	3,183,015,029	6,834,809,049	8,583,451,288	30,300,909,960
Total Capital Fund	-	-	-	-	-	-	-	-	4,017,686,767	4,017,686,767
Deposits	1,448,317,316	1,051,055,964	4,745,169,365	3,453,145,677	7,731,605,019	1,572,308,357	3,042,086,549	993,689,795	109,041,000	24,146,419,043
Borrowings	115,545,579	21,933,637	42,737,204	65,389,977	217,024,865	130,985,421	211,095,078	314,889,980	-	1,119,601,741
Other Liabilities	12,903,376	203,372,979	159,984,955	111,443,470	237,195,037	40,151,474	91,607,770	160,543,350	-	1,017,202,409
Total Liabilities	1,576,766,270	1,276,362,580	4,947,891,524	3,629,979,124	8,185,824,921	1,743,445,252	3,344,789,396	1,469,123,125	4,126,727,767	30,300,909,960

Notes to the Financial Statements Contd...

29.4 Market Risk and Operational Risk

As discussed in the Risk Management -Management discussion

29.5 Capital Management

Regulatory Capital

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

Capital Adequacy

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

As of 31st December 2014, SMIB reported a Tier 1 ratio of 25.85% and a total CAR is also 25.85 which remain comfortably above the CBSL's capital requirements.

29.6 Market Risk

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

29.6.1 Market risk – non-trading

Interest Rate Risk

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

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

Prepayment Risk

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

29.7 Operational Risk

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

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

Notes to the Financial Statements Contd...

30. Maturity Gap Analysis

	Less than 7 days	7-30 days	1-3 months	3-6 months	6-12 months	1-3 years	3-5 years	Over 5 years	Unclassified	Total
Total Assets	738,998,991	1,490,413,849	2,574,260,183	776,368,853	2,546,086,908	3,573,505,809	3,183,015,029	6,834,809,049	8,583,451,288	30,300,909,960
Cash	119,947,523	-	-	-	-	-	-	-	-	119,947,523
Due from Banks	602,157,427	947,493,089	2,033,598,668	307,258,460	1,082,604,075	-	-	-	-	4,973,111,719
Investment Currents	-	101,430,107	-	-	430,659,750	-	44,621,403	24,219,078	-	600,930,338
Investment Non performing	-	-	-	-	-	-	-	-	-	-
Loan & Advances Current	-	254,438,881	397,368,783	462,893,838	961,342,645	3,569,393,554	3,136,107,341	6,672,624,168	-	15,454,169,210
Loan & Advances NPL	-	-	-	-	-	-	-	-	8,583,451,288	8,583,451,288
Fixed Assets	-	-	-	-	-	-	-	96,493,049	-	96,493,049
Other Assets	16,894,042	187,051,772	143,292,732	6,216,555	71,480,438	4,112,255	2,286,285	41,472,754	-	472,806,834
Total Liabilities	1,576,766,270	1,276,362,580	4,947,891,524	3,629,979,124	8,185,824,921	1,743,445,252	3,344,789,396	1,469,123,125	4,126,727,767	30,300,909,960
Total Capital Fund	-	-	-	-	-	-	-	-	4,017,686,767	4,017,686,767
Deposits	1,448,317,316	1,051,055,964	4,745,169,365	3,453,145,677	7,731,605,019	1,572,308,357	3,042,086,549	993,689,795	109,041,000	24,146,419,043
Borrowings	115,545,579	21,933,637	42,737,204	65,389,977	217,024,865	130,985,421	211,095,078	314,889,980	-	1,119,601,741
Other Liabilities	12,903,376	203,372,979	159,984,955	111,443,470	237,195,037	40,151,474	91,607,770	160,543,350	-	1,017,202,409
Maturity Gap	(837,767,279)	214,051,268	(2,373,631,341)	(2,853,610,272)	(5,639,738,012)	1,830,060,557	(161,774,367)	5,365,685,924	4,456,723,522	-
Cumulative M.Gap	(837,767,279)	(623,716,011)	(2,997,347,352)	(5,850,957,623)	(11,490,695,636)	(9,660,635,079)	(9,822,409,446)	(4,456,723,522)	-	-

Notes to the Financial Statements Contd...

31. The Events Occuring After the Balance Sheet Date

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

32. Assets Pledged

No assets have been pledged as security for liability.

33. Related Party Transactions

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

34. Directors' Interest in Contracts and Proposed Contracts

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

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

Capital Adequacy

Rs. 000'	31.12.2014	31.12.2013	Risk Weighted Balance	
			31.12.2014	31.12.2013
Cash	32,359	28,054	-	-
Treasury Bill and other securities eligible for Re-discounting with Central Bank	44,621	-	-	-
Securities purchased under Resale Agreement				
Claims on Financial Institutions	468,721	1,337,873	387,577	566,664
Claims on Central Bank of Sri Lanka	1,238,584	6,000	-	-
Claims on Public Sector entities	383,613	256,760	383,613	256,760
Claims on Banks exposures	3,822,116	3,780,563	1,315,353	794,805
Loans against Cash Deposits	421,926	474,022	-	-
Loans guaranteed by CBSL	12,131,065	10,523,824	-	-
Secured by Primary Mortgage over Residential Property	8,408,626	8,167,620	8,408,626	8,167,620
Other Loans and Advances	2,692,391	1,763,435	2,692,391	1,763,435
Due from Local Banks	87,589	39,097	17,518	7,819
Property, Plant and Equipment	96,493	66,643	96,493	66,643
Other Assets	472,805	381,499	472,805	381,499
Total	30,300,909	26,825,390	13,774,376	12,005,245

Basis of Computation

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

	31.12.2014	31.12.2013
Total Risk Weighted Assets for Credit Risk	13,844,447	11,997,426
Total Risk Weighted Assets for Operational Risk	2,021,691	1,992,329
Total Risk Weighted Assets	15,866,138	13,989,755
Core Capital%	25.32	28.09
Total Risk Weighted Capital ratio %	25.32	28.09

Sources and Utilisation of Income

	2014 Rs.	2013 Rs.
For the year ended at 31 st December		
Sources of Income		
Loans and Advances	3,150,826,860	2,946,030,933
Government Securities & Other Investments	482,077,644	689,207,759
Fee and Commission Income	102,889,786	97,250,758
Other Income	9,838,201	4,918,546
Total	3,745,632,491	3,737,407,995
Utilisation of Income		
Employees		
Salaries and other payment to staff	676,723,315	468,873,067
Suppliers		
Interest paid	2,213,615,266	2,459,200,065
Other Expenses	544,511,767	466,593,568
Government		
Corporate Taxes	139,652,509	110,479,788
Deemed Dividends	76,423,819	73,597,847
Payment to consolidated Fund	10,000,000	40,000,000
Retained Profit	84,705,814	118,663,660
Total	3,745,632,491	3,737,407,995

Ten Year Summary

Year ended 31st December (Rs.Million)	2014 *	2013 *	2012*	2011*	2010	2009	2008	2007	2006	2005
Income Statement										
Interest Income	3,633	3,635	2,879	2,611	2,709	2,636	2,102	1,532	1,379	1,213
Interest Expenditure	2,214	2,459	1,725	1,214	1,368	1,939	1,636	1,002	608	468
Net Interest Income	1,419	1,176	1,154	1,397	1,341	697	466	530	771	745
Other Operating Income	113	102	79	76	41	36	120	39	47	28
	1,532	1,278	1,233	1,473	1,382	733	586	569	818	773
Non Interest Expenses	1,119	935	803	785	740	612	535	445	500	359
Net Profit before Tax	413	343	430	689	642	120	51	124	318	414
Taxation	140	110	158	178	179	46	30	41	105	102
Net Profit after Tax	273	232	272	510	463	74	21	83	213	312
Assets										
Investment Securities	19	17	14	5	5	5	1	1	1	1
Loans and Advances (Net)	24,038	21,186	18,550	16,170	13,670	13,433	13,142	10,995	9,488	8,475
Other Assets	6,148	5,556	3,928	4,276	3,531	3,368	1,336	1,219	679	663
Property, Plant and Equipment	96	67	51	58	39	40	37	37	30	31
Total Assets	30,301	26,825	22,543	20,509	17,245	16,847	14,516	12,252	10,198	9,170
Fund Employed										
Capital Contributed	890	890	890	890	890	890	890	890	890	890
Reserves	3,128	3,040	2,920	2,753	1,763	1,480	1,507	1,634	1,597	1,507
Liabilities										
Deposits	24,146	21,201	17,237	15,088	12,506	12,350	10,174	7,517	5,663	4,690
Debentures	195	195	195	195	195	250	250	250	250	250
Other Liabilities	2,137	1,694	1,301	1,583	1,891	1,877	1,695	1,961	1,798	1,833
Total Liabilities	30,301	26,825	22,543	20,509	17,245	16,847	14,516	12,252	10,198	9,170
Ratio										
Return on Average Assets-NPBT%	1.44	1.39	2.01	3.65	3.77	0.77	0.38	1.18	3.28	5.42
Return on Average Funds Employed%	6.87	6.00	7.31	16.21	18.46	3.06	0.88	3.32	12.78	13.14
Number of Employees (no.)	407	334	323	302	308	320	328	345	349	304
Net Profit per Employee (Rs. Mn)	0.67	0.70	0.84	1.69	2.08	0.38	0.16	0.36	0.91	1.61
Statutory Reserve Fund	191.36	181.15	172.98	163.19	135.44	112.26	108.59	106.42	102.26	91.60
Advances to Deposits(Times)	1.00	1.00	1.08	1.07	1.09	1.29	1.36	1.46	1.68	1.80
Interest Cover(Times)	1.19	1.14	1.25	1.60	1.47	1.26	1.03	1.12	1.52	1.88
Debt to Equity Ratio(Times)	0.28	0.23	0.19	0.18	0.21	0.28	0.30	0.48	0.53	0.48
Equity Assets Ratio(Times)	0.13	0.15	0.17	0.18	0.15	0.14	0.17	0.21	0.24	0.26
Total Assets per Rupee Contributed	34.05	30.14	25.33	25.04	19.38	18.93	16.31	13.77	11.46	10.30
Effective Deemed Dividend Rate%	25.00	25.00	20.00	19.84	20.22	5.74	3.33	2.34	10.96	10.74
Deemed Dividend Cover	3.57	3.16	3.46	3.14	2.58	1.44	0.71	4.00	2.18	3.26
Our Contribution to the Nation										
Deemed Dividend Tax	76.42	73.60	79.00	177.00	180.00	52.12	29.65	20.82	97.49	95.64
Payments to Consolidated Fund	10.00	40.00	25.00	-	-	50.00	-	25.00	25.00	126.00

* Based on New SLFRS

Value Added Statement

For the year ended at 31st December	2014 Rs.	2013 Rs.
Interest Income	3,632,904,504	3,635,238,691
Other Income	112,727,987	102,169,304
Total Income	3,745,632,491	3,737,407,995
Interest Expenses	(2,213,615,266)	(2,459,200,065)
Cost of Services	(472,895,850)	(391,909,517)
(Provision)/Reversal for Impairment	(33,264,417)	(53,338,578)
Total	1,025,856,958	832,959,835
Distribution of Value Added		
For the year ended at 31st December	2014 Rs.	2013 Rs.
To Employees		
Salaries and other benefits	676,723,315	468,873,067
To Government		
Corporate Tax	139,652,509	110,479,788
Deemed Dividends	76,423,819	73,597,847
Payment to Consolidated Fund	10,000,000	40,000,000
To Expansion and Growth		
Depreciation	38,351,500	21,345,473
Retained Profit	84,705,814	118,663,660
Total	1,025,856,958	832,959,835

Corporate Information

Name of the Bank

State Mortgage & Investment Bank

Legal Form

A body corporate Incorporated under the State Mortgage & Investment Bank Law No. 13 of 1975

Registered Office

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

Head Office

269, Galle Road, Colombo 03.
Tel; 011-2573561, 011-7722722-3
Fax : 011-2573346
E-Mail: agmit@smib.lk
Web: www.smib.lk

Kandy Branch

No. 61,1st Floor, King's Street, Kandy.
Tel: 081- 7722722, 081- 4471826
kandy.mgr@smib.lk

Gampaha Branch

No.232,Colombo Rd, Gampaha.
Tel: 033- 7722722/3, 033- 2221316/17
gampaha.mgr@smib.lk

Galle Branch

No.119, GW Tower, Wakwella Road, Galle.
Tel: 091 -7722722/3, 091- 2246788
galle.mgr@smib.lk

Kurunegala Branch

No. 46/1, Mihindu Mawatha, Kurunegala.
Tel: 037- 7722722/3, 037- 2231234
kurunegala.mgr@smib.lk

Matugama Branch

141/1, 1st Floor, Agalawatta Road, Matugama.
Tel: 034- 7722722/3, 034 -2243714
matugama.mgr@smib.lk

Matara Branch

No.45A1/1 1st Floor, Anagarika Dharmapala Mw, Matara.
041 -7722722/3
matara.mgr@smib.lk

Chilaw Branch

No.15A,Bishop Edmand Peiris Mw, Chilaw.
Tel - 032 -7722722, 032- 2223996
chilaw.mgr@smib.lk

Kegalle Branch

No.82, Main Street, Kegalle.
Tel: 035- 7722722/3, 035-2222877
kegalle.mgr@smib.lk

Kiribathgoda Branch

No.63, Kandy Rd, Kiribathgoda.
Tel: 011 -7723575/6, 011-2908833
kiribathgoda.mgr@smib.lk

Battaramulla Branch

No 156/2, Main Street, Battaramulla.
Tel: 011- 7723570 , 011-2882144
battaramulla.mgr@smib.lk

Horana Branch

No. 45, Rathnapura Rd, Horana.
Tel: 034 -7722733 , 034-57409312
horana.mgr@smib.lk

Ambalantota Branch

No.122,Main Street, Ambalantota.
Tel: 047- 7722722, 047 -5677818
ambalantota.mgr@smib.lk

Batticaloa Branch

No.44, Station Rd, Batticaloa.
Tel: 065 -7722722
batticaloa.mgr@smib.lk

Jaffna Branch

No.127, Stanley Rd, Jaffna.
Tel: 021- 7722722, 021-2220263
jaffna.mgr@smib.lk

Vavuniya Branch

No. 291/1, Bazaar Street, Vavunia.
Tel: 024 -7722722/3
vavuniya.mgr@smib.lk

Ampara Branch

No. 864, D. S. Senanayaka Street, Ampara
Tel: 063-7722722 /3
ampara.mgr@smib.lk

Ratnapura Branch

No. 101, Main Street, Ratnapura.
Tel: 045-7722722/3
rathnapura.mgr@smib.lk

Kaduruwela Branch

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

Hatton Branch

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

Badulla Branch

No. 38, Bank Road, Badulla.
Tel: 055-7722722
badulla.mgr@smib.lk

Monaragala Branch

No. 218, Kachcheri Junction, Monaragala
Tel: 055-7722733/4
monaragala.mgr@smib.lk

Anuradhapura Branch

No.521/7, New Bus Stand, Main Street,
Anuradhapura
Tec:025-7722722/3
anuradhapura.mgr@smib.lk

Matale Branch

No .343, Trinco Street, Matale
Tec:066-7722722/3
matale.mgr@smib.lk

Board of Directors

Mr. Tissa Jinadasa	-	Chairman
Mr. H.M.B.Senaratne	-	Director
Mr. Phiroze Pestonjee	-	Director
Mr. C. Senaviratne	-	Director
Dr. N.Gamage	-	Director
Mr. K.A.Thilakarathne	-	Director
Mr. M.S.D.Ranasiri	-	Director
Mr. L.U.N.Sumanasekara	-	Director
Dr. Namal Rathnayake	-	Director

General Manager

Ms. Wasantha Geeganage-
Acting. General Manager

Board Secretary

Mrs. S.V.P. Cooray

Audit Committee

Mr.K.A.Thilakarathne	-	Chairman
Mr.M.S.D.Ranasiri	-	Director
Mr. Phiroze Pestonjee	-	Director
Dr.N.Gamage	-	Director

Auditors

Auditor General,
Auditor General's Department,
Colombo 07.

Principal Lines of Business

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



Towards
the light of prosperity

State Mortgage & Investment Bank

No. 269, Galle Road, Colombo 03,

Visit : www.smib.lk | E Mail : info@smib.lk | Dial : 011 - 7722722