ජාතික විගණන කාර්යාලය
தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

මගේ අංකය / எனது இல. / My No. BAN/F/SMIB/FS/2024/39 ඔබේ අංකය / உமது இல. / Your No.

දිනය / திகதி / Date 28 February 2025

Chairman

State Mortgage and Investment Bank

**Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the State Mortgage and Investment Bank for the year ended 31 December 2024 in terms of Section 12 of the National Audit Act, No. 19 of 2018.**

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## 1. Financial Statements

### 1.1 Opinion

The audit of the Financial Statements of the State Mortgage and Investment Bank (the "Bank") for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the financial statements, including material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No.38 of 1971. My report to parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, the accompanying financial statements of the Bank give a true and fair view of the financial position of the Bank as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.





අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. இல. 306/72, பொல்துவ வீதி, பத்தரமுல்லை, இலங்கை. No. 306/72, Polduwa Road, Battaramulla, Sri Lanka.
+94 11 2 88 70 28 - 34 +94 11 2 88 72 23 ag@auditorgeneral.gov.lk www.naosl.gov.lk

## 1.2 Basis for Opinion

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

## 1.3 Other information included in the Bank's 2024 Annual Report

The other information comprises the information included in the Bank's 2023 Annual Report, but does not include the financial statements and my auditor's report thereon, which is expected to be made available to me after the date of this auditor's report. Management is responsible for the other information.

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

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

When I read the Bank's 2024 Annual Report, if I conclude that there are material misstatements therein, I am required to communicate that matter to those charged with governance for correction. If further material uncorrected misstatements are existed those will be included in my report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution that will be tabled in due course.

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Bank.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

## 2. Report on Other Legal and Regulatory Requirements

2.1 The section 39 of the Banking Act No.30 of 1988 (as amended by Banking Act No.24 of 2024) include specific provisions for following requirement.

2.1.1 The disclosures made in the accompanying financial statement are in accordance with the requirement of Circular No.05 of 2024 issued by Central Bank of Sri Lanka.

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

2.2.1 I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Bank as per the requirement of section 12 (a) of the National Audit Act, No. 19 of 2018.

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

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

2.3 Based on the procedures performed and evidences obtained which were limited to matters that are material, nothing has come to my attention;

2.3.1 to state that any member of the governing body of the Bank has any direct or indirect interest in any contract entered into by the Bank which are out of the normal course of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018.

2.3.2 to state that the Bank has not complied with any applicable written law, general and special directions issued by the governing body of the Bank as per the requirement of section 12 (f) of the National Audit Act, No. 19 of 2018.

2.3.3 to state that the Bank has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018.

2.3.4 to state that the resources of the Bank had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018.

W.P.C. Wickramaratne
Auditor General

**STATE MORTGAGE AND INVESTMENT BANK**

**FINANCIAL STATEMENTS**

**31 December 2024**

## 1. Corporate Information

### 1.1. General

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

### 1.2. Principal Activities and Nature of Operations

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

### 1.3. Directors' Responsibility Statement

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

### 1.4. Date of Authorization

These Audited Financial Statements of the Bank for the year ended 31st December 2024 were authorized for issue in accordance with the approval given by the Board of Directors of the Bank at the meeting.

The staff strength of the Bank as at December 31, 2024 was 353 (354 as at December 31, 2023)

**STATE MORTGAGE AND INVESTMENT BANK**
**STATEMENT OF FINANCIAL POSITION**
**AS AT 31 DECEMBER 2024**

| | Note | 2024 Rs | 2023 Rs |
|---|---|---|---|
| **Assets** | | | |
| Cash and Cash Equivalents | 13 | 124,664,750 | 122,600,853 |
| Placements with Banks | 14 | 152,682,844 | 2,923,132,097 |
| Financial Assets - FVPL | 15 | 2,943,277,961 | 3,552,533,227 |
| Financial Assets - AC | | | |
| - Loans and Advances | 16.1 | 41,730,024,581 | 38,603,322,207 |
| - Debt and Other Instruments | 17 | 8,979,104,008 | 12,162,743,730 |
| Financial Assets - FVOCI | 18 | 5,379,078 | 5,379,078 |
| Property, Plant and Equipment | 19 | 404,644,985 | 171,651,164 |
| Right-of-use Assets | 33.1 | 99,174,660 | 156,519,188 |
| Deferred Tax Assets | 20 | 633,635,649 | 745,677,897 |
| Other Assets | 21 | 595,607,504 | 622,951,236 |
| **Total Assets** | | **55,668,196,019** | **59,066,510,678** |
| **Liabilities** | | | |
| Due to Banks | 22 | - | 2,732,792 |
| Financial Liabilities at Amortised Cost | | | |
| - Due to Depositors | 23 | 48,160,520,558 | 52,138,134,453 |
| - Due to Debt Securities Holders | | - | - |
| - Due to Other Borrowers | 23 | 140,800,069 | 178,986,770 |
| Employee Benefit Liability | 24 | 677,787,456 | 597,674,223 |
| Income Tax Liability | 25 | - | - |
| Other Liabilities | 25 | 1,268,890,469 | 694,813,406 |
| **Total Liabilities** | | **50,247,998,551** | **53,612,341,643** |
| **Equity** | | | |
| Stated Capital/Assigned Capital | 26 | 889,812,899 | 889,812,899 |
| Statutory Reserve Fund | 27 | 306,650,839 | 306,650,839 |
| Retained Earnings | 28 | 3,145,924,725 | 3,179,896,294 |
| Other Reserves | 29 | 1,077,809,004 | 1,077,809,004 |
| **Total Equity** | | **5,420,197,467** | **5,454,169,036** |
| **Total Equity and Liabilities** | | **55,668,196,018** | **59,066,510,678** |

Certification:

These Financial Statements give a true and fair view of the state of affairs of the State Mortgage and Investment Bank as at 31 December 2024 and its profit for the year then ended.

..............................................
Mr. K.L.N.A.Perera
Deputy General Manager - Finance & Planning

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

| Mr.M. P. Kuragama<br>Chairman<br>28.02.2025 | Mr. D.R.L.Wickramasinghe<br>Director | Mr.I.T.Asuramanna<br>General Manager / CEO |
|---|---|---|

# STATE MORTGAGE AND INVESTMENT BANK

## INCOME STATEMENT

### FOR THE YEAR ENDED 31ST DECEMBER 2024

| | Note | 2024<br>Rs | 2023<br>Rs |
|---|---|---|---|
| Interest Income | 4 | 7,590,650,416 | 9,324,132,408 |
| Interest Expenses | 4 | (5,392,222,204) | (8,732,594,619) |
| **Net Interest Income** | 4 | **2,198,428,212** | **591,537,789** |
| Fee and Commission Income | 5 | 172,631,902 | 96,293,245 |
| Fee and Commission Expenses | | - | - |
| **Net Fee and Commission Income** | 5 | **172,631,902** | **96,293,245** |
| Net Fair Value Gains/(Losses) from FA at FVPL | 6 | 377,996,544 | 157,533,227 |
| Net Other Operating Income | 7 | 31,145,845 | 21,943,478 |
| **Total Operating Income** | | **2,780,202,503** | **867,307,739** |
| Impairment Charges | 8 | (540,890,034) | (561,392,330) |
| **Net Operating Income** | | **2,239,312,470** | **305,915,409** |
| Personnel Expenses | 9 | (1,229,142,717) | (1,015,292,893) |
| Depreciation and amortization expenses | 10, 33.2 | (126,686,733) | (99,608,144) |
| Other Expenses | 10 | (447,408,400) | (355,869,747) |
| **Operating profit/(loss) before VAT, NBT & DRL** | | **436,074,620** | **(1,164,855,374)** |
| Value Added Tax (VAT) on Financial Services | 34 | (244,987,282) | (5,125,869) |
| Social Security Levy (SSCL) | | (33,289,319) | 5,200,577 |
| **Profit/(Loss) before Tax** | | **157,798,019** | **(1,164,780,667)** |
| Income tax expenses | 11 | (125,756,722) | 161,649,247 |
| **Profit/(Loss) for the Year** | | **32,041,296** | **(1,003,131,419)** |

# STATE MORTGAGE AND INVESTMENT BANK
## STATEMENT OF COMPREHENSIVE INCOME
### FOR THE YEAR ENDED 31ST DECEMBER 2024

| | 2024 | 2023 |
|---|---|---|
| | Rs | Rs |
| **Profit/(Loss) for the Year** | 32,041,296 | (1,003,131,419) |
| **Items that will be reclassified to income statement** | | |
| Gains and Losses on Re-Measuring Financial Assets | - | - |
| **Items that will not be reclassified to income statement** | | |
| Re-measurement of post-employment benefit obligations | (45,714,913) | (24,548,931) |
| Deferred Tax effect on Actuarial Gains Losses on defined benefit obligations | 13,714,474 | 7,364,679 |
| **Total Comprehensive Income for the Year** | **40,857** | **(1,020,315,671)** |

**STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED 31ST DECEMBER 2024**
**STATE MORTGAGE AND INVESTMENT BANK**

**Rs**

| | Assigned Capital | Statutory Reserve | Capital Reserve | General Reserve | Title Indemnity Fund | Retained Earnings | Total |
|---|---|---|---|---|---|---|---|
| **Balance as at 31.12.2022** | **889,812,899** | **306,650,838** | **393,498,004** | **683,280,000** | **1,031,000** | **4,200,211,965** | **6,474,484,706** |
| Prior Period Adjustments | | | | | | - | - |
| Net Profit for the Year | | | | | | (1,003,131,419) | **(1,003,131,419)** |
| Other Comprehensive Income | | | | | | (17,184,252) | **(17,184,252)** |
| Transfer During the Year | | | | | | - | - |
| Transfer to Consolidated Fund | | | | | | - | - |
| **Balance as at 31.12.2023** | **889,812,899** | **306,650,838** | **393,498,004** | **683,280,000** | **1,031,000** | **3,179,896,294** | **5,454,169,035** |
| Prior Period Adjustments | | | | | | (34,012,426) | (34,012,426) |
| Net Profit for the Year | | | | | | 32,041,296 | 32,041,296 |
| Other Comprehensive Income | | | | | | (32,000,439) | (32,000,439) |
| Transfer During the Year | | - | | | | - | - |
| Transfer to Consolidated Fund | | | | | | - | - |
| **Balance as at 31.12.2024** | **889,812,899** | **306,650,838** | **393,498,004** | **683,280,000** | **1,031,000** | **3,145,924,725** | **5,420,197,466** |

**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED 31ST DECEMBER 2024**
**STATE MORTGAGE & INVESTMENT BANK**

| | From 01/01/2024 to 31/12/2024 | From 01/01/2023 to 31/12/2023 |
|---|---|---|
| | Rs. | Rs. |
| **Cash flows from operating activities** | | |
| Interest Received | 4,934,027,163 | 8,921,615,611 |
| Interest Payments | (6,732,425,069) | (9,337,465,140) |
| Net commission receipts | 172,631,902 | 96,293,245 |
| Payments to Employees | (1,119,439,181) | (846,574,251) |
| VAT, DLR & NBT ,ESC on financial services | (166,242,018) | (5,125,869) |
| Receipts from Other Operating Activities | 2,368,345 | 5,250,254 |
| Payments on Other Operating Activities | (467,871,894) | (302,958,619) |
| **Operating profit before changes in Operating Assets & Liabilities** | **(3,376,950,752)** | **(1,468,964,770)** |
| | | |
| (Increase)/Decrease in Operating Assets | | |
| Financial assets at amortised cost - loans & advances | (605,999,021) | 448,871,346 |
| Other Assets | 27,650,831 | 473,203,052 |
| | (578,348,190) | 922,074,398 |
| **Increase/(Decrease) in Operating Liabilities** | | |
| Financial liabilities at amortised cost - due to depositors | (2,655,990,025) | 3,607,292,902 |
| Financial liabilities at amortised cost - due to other borrowers | (38,186,700) | (96,420,481) |
| Other liabilities | 379,834,326 | 228,785,113 |
| | **(2,314,342,400)** | **3,739,657,534** |
| | | |
| **Net cash generated from operating activities before Income Tax** | **(6,269,641,342)** | **3,192,767,162** |
| Gratuity Paid | (73,719,634) | (62,358,388) |
| Income Taxes Paid | (15,564,251) | (78,507,801) |
| **Net Cash from Operating Activities** | **(6,358,925,227)** | **3,051,900,973** |
| | | |
| **Cash flows from investing activities** | | |
| Dividend Received | 23,070,500 | 18,765,120 |
| Proceeds from the sale of property, plant and equipment | 5,707,000 | 885,920 |
| Purchase of Property ,Plant & Equipment | (234,813,235) | (151,172,660) |
| Net Proceeds from the sale and maturity of financial investments | 6,569,757,649 | (2,903,610,343) |
| | | |
| **Net cash (used in)/from investing activities** | **6,363,721,915** | **(3,035,131,963)** |
| | | |
| **Cash flows from financing activities** | | |
| Repayment of subordinated debt | - | - |
| Payments to Consolidated Fund | - | - |
| **Net cash from financing activates** | **-** | **-** |
| | | |
| **Net increase/(decrease) in cash & cash equivalents** | 4,796,688 | 16,769,010 |
| Cash and cash equivalents at the beginning of the period | 119,868,062 | 103,099,052 |
| **Cash and cash equivalents at the end of the period** | **124,664,749** | **119,868,062** |
| | | |
| **Reconciliation of Cash and Cash Equivalents** | | |
| | | |
| Cash and Short Term Funds | 124,664,750 | 122,600,853 |
| Borrowings from Banks (OD) | - | **(2,732,792)** |
| **Cash and cash equivalents at the end of the period** | **124,664,750** | **119,868,062** |

**2 Accounting Policies**

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

**2.1 Basis of Preparation**

**2.1.1 Statements of compliance**

These Financial Statements for the year ended 31 December 2024 were prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRS and LKAS) laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and are in compliance with the information required by the Banking Act No. 30 of 1988 and subsequent amendments thereto. These Financial Statements, except for the information in cash flow have been prepared following the accrual basis of accounting. The formats used in the preparation of Financial Statements and the disclosures made therein also comply with the specified formats prescribed by the Central Bank of Sri Lanka for the preparation, presentation and publication of Annual Audited Financial Statements of Licensed Banks.

**2.1.2 Presentation of Financial Statements**

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

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

**2.1.3 Significant accounting Judgments, Estimates and Assumptions**

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

**2.1.3.1 Classification of financial assets and liabilities**

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

**2.1.3.2 Fair value of financial instruments**

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

**2.1.3.3 Impairment losses on financial assets**

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

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

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

**2.1.4 Rounding**

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

**2.1.5 Basis of measurement**

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

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

**2.1.6 Going Concern**

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

**2.1.7 Materiality and aggregation**

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

**2.1.8 Comparative information**

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

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

**2.2.1 Interest Income and Expenses**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Details of "income and expenses" are given in Notes 03 & 4

**The Effective Interest Rate Method**

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

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

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

**2.2.2 Dividend Income**

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

**2.2.3 Net Trading Income**

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

**2.2.4 Other Income**

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

**2.2.5 Other Expenses**

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

**2.2.6 SLFRS 15 – Revenue from Contracts with Customers**

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

**2.3 Tax Expenses**

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

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

**2.3.1 IFRIC 23 – Uncertainty over income tax treatment**

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of LKAS 12 "Income Taxes". It does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated within certain tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately

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

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

**2.3.2 Amendments to the Income Tax Law Announced by the Government**

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

Corporate Income Tax rate was revised from 24% to 30% with effect from October 01, 2022.

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

**2.3.3 Deferred Tax Assets**

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

Details of deferred tax disclosed in the note number 20

**2.3.4 Value Added Tax on Financial Services (VAT)**

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

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

**2.3.5 Social Security Contribution Levy (SSCL) on Financial Services**

In accordance with Social Security Contribution Levy (SSCL) Act No. 25 of 2022, the Bank calculated and paid SSCL on financial services at 2.5% of the value addition used for the purpose of VAT on Financial Services with effect from 1 October 2022.

**2.3.6 Debt Repayment Levy (DRL) on Financial Services**

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

**2.3.7 Economic Service Charge (ESC)**

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

**2.3.8 Crop Insurance Levy (CIL)**

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

## 2.4 Significant accounting policies – Recognition of assets and liabilities

### 2.4.1 Employee Benefit Liability- Gratuity

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

**Normal and Early Retirement**

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

**Interest Cost**

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

**Funding Arrangements**

The Gratuity liability is not externally funded.

**Actuarial Valuation**

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

| | 2024 | 2023 |
|---|---|---|
| Interest Rate | 11.00% | 13.00% |
| Rate of Annual Salary Increase | 6.5% - 10% | 10% |
| Retirement Age | 55-60 years | 55-60 years |

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

**2.4.2 Employee Benefit Liability - Medical Benefit**

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

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

The assumptions used are as follows.

| | 2024 | 2023 |
|---|---|---|
| Discount Rate | 11% | 13% |
| Medical Expense Escalation | 12% | 12% |
| Participant Data (Actives) census information | 31.12.2024 | 31.12.2023 |

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

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

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

**Funding Arrangements -** The Medical Benefit Scheme is not externally funded

**2.4.3 Defined Contribution Plan**

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

**2.4.3.1 Employees' Provident Fund**

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

**2.4.3.2 Employees' Trust Fund**

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

**2.4.4 Leases**

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

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

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

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

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

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

**2.4.4.1 Identifying a lease**

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

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

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

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

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Details of the cash and short-term funds are given in Note 33 to the Financial Statements.

**2.4.5 Cash and Cash Equivalents**

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

**2.4.6 Property, Plant and Equipment**

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

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

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

**2.4.6.2 Basis of Recognition**

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

**2.4.6.3 Basis of Measurement**

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

**2.4.6.4 Depreciation**

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

The estimated useful lives are as follows

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

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

**2.4.6.5 Subsequent Cost**

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

**2.4.6.6 Restoration Cost**

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

**2.4.6.7 Capital Work-in-Progress**

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

**2.4.6.8 De-recognition**

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

**2.4.7 Intangible Assets**

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

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

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

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

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

### 2.4.8 Impairment of Non-Financial Assets

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

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

**2.4.9 Financial Guarantees**

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

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

**2.4.10 Provisions**

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

**2.4.11 Financial Instruments - Initial Recognition**

**2.4.11.1. Date of Recognition**

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

**2.4.11.2 Initial Measurement of Financial Instruments**

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

**2.4.11.3 Day 1 Profit or Loss**

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

**2.4.11.4 Measurement Categories of Financial Assets and Liabilities**

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

- Amortised cost
- FVOCI
- FVPL

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

**2.4.12 Financial Assets and Liabilities**

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

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

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

The details of these conditions are outlined below.

**2.4.12.2 Business Model Assessment**

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

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

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

**2.4.12.3 The SPPI Test**

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

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

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

**2.4.12.4 Debt Instruments at FVOCI**

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

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

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

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

**2.4.12.5. Equity Instruments at FVOCI**

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

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Bank hold unquoted equity instrument of Fitch rating company and Credit information Bureau for the year ended 2002. Note Number 18.

**2.4.12.6 Debt Issued and Other Borrowed Funds**

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

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

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

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

Or

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

Financial assets and financial liabilities at FVPL are recorded in the statement of Financial Position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Bank’s own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, considering any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using contractual interest rate, Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established. Unit trust hold as at 31 December, 2024 was measured at FVPL.

**2.4.12.8 Reclassification of Financial Assets and Liabilities**

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2023 & 2024.

**2.4.12.9 De-recognition of Financial Assets and Liabilities**

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

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

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

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

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

**2.4.12.9.2 De-recognition Other than for Substantial Modification**

**Financial Assets**

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

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

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

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

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

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

A transfer only qualifies for de recognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset

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

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

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

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

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

**Financial liabilities**

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

### 2.4.12.10 Impairment of Financial Assets

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

**2.4.12.10.1 Individual Impairment Method**

i. Individual Impairment is made for the loans excluding cash back loans including all loans over Rs 5 Mn or 0.1% of the capital base is considered as individually significant. Facilities for individual impairment test shall be selected based on availability of objective evidence of impairment.

ii. **Individually significant assessment and not impaired individually**

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

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

**2.4.12.10.2 Collective Impairment Method**

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

**2.4.12.10.2.1 Overview of the ECL Principles**

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

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

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument’s credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.
Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

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

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

**2.4.12.10.2.3 The Calculation of ECLs**

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

PD The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously recognised and is still in the portfolio.

EAD The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, either scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

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

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

### 2.4.12.10.2.4 The Mechanics of the ECL Method are Summarised Below:

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

### 2.4.12.11 Debt Instruments Measured at Fair Value through OCI

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

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

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

**2.4.12.13 Forward Looking Information**

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

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

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

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

**2.4.12.14 Collateral Valuation**

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

**2.4.12.15 Collateral Repossessed**

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

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

**2.4.12.16 Write-offs**

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

**2.4.13 Events after the Reporting Period**

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

**Change in rate of VAT on financial services**

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

**New NPL Direction**

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

**2.4.14 Related Party Transactions with Government and Government Related Entities**

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

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

**2.5.1 Interest Income**

Details interest income are given in the note number 03

**2.5.2 Interest and Similar Income**

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

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

**2.5.3 Fee and commission income**

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

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

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

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

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

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

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

**2.7 Impact due to the COVID–19**

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

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

The impact of the COVID-19 on the loans and advances portfolio of the Bank has been assessed and adjusted in these Financial Statements based on the available Information and assumptions made as at reporting date in line with the guidelines issued by the

CBSL and the CA Sri Lanka. However, the actual losses may differ depending on how borrowers avail the moratorium.

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

## 03. Gross income

**Accounting Policy**

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

| | 2024<br>Rs. | 2023<br>Rs. |
|---|---|---|
| Interest Income | 7,590,650,416 | 9,324,132,408 |
| Fee and Commission Income | 172,631,902 | 96,293,245 |
| Net Fair Value Gains/(Losses) from FA at FVPL | 377,996,544 | 157,533,227 |
| Net Other Operating Income | 31,145,845 | 21,943,478 |
| Gross Income | **8,172,424,707** | **9,599,902,358** |

## 04. Net Interest Income

Accounting Policy is disclosed in Note 2.2.1

| | 2024<br>Rs | 2023<br>Rs |
|---|---|---|
| **Interest Income** | | |
| Placements with Banks (Fixed+Savings Accounts) | 207,957,256 | 1,975,533,930 |
| Financial Assets at Amortised Cost | | |
| - Loans and Advances | 6,073,826,180 | 5,600,330,194 |
| First Day Impact of Moratorium Loans | 2,507,045 | 3,031,481 |
| Deferred 7% interest Income on Moratorium interest on 5th wave | - | - |
| less-7% moratorium bank charges of 1,3,4,5 waves recovered | (897,949) | (532,942) |
| - Debt and Other Instruments | 1,307,257,884 | 1,745,769,745 |
| **Total Interest Income** | **7,590,650,416** | **9,324,132,408** |
| **Interest Expenses** | | |
| Due to Banks | - | 51,052 |
| Financial Liabilities at Amortised Cost | | |
| - Due to Depositors | 5,374,590,961 | 8,706,701,092 |
| - Due to Other Borrowers | 17,631,243 | 25,842,475 |
| **Total Interest Expenses** | **5,392,222,204** | **8,732,594,619** |
| **Net Interest Income** | **2,198,428,212** | **591,537,789** |

**a. Net Income from Sri Lanka Government Securities**

| | 2024 | 2023 |
|---|---|---|
| Interest Income | 973,039,690 | 1,286,407,489 |
| (Less):Interest Expenses | - | - |
| **Net Interest Income** | **973,039,690** | **1,286,407,489** |

### 05. Net Fee and Commission Income

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

| | 2024<br>Rs | 2023<br>Rs |
|---|---|---|
| Fee and Commission Income | 172,631,902 | 96,293,245 |
| **Net Fee and Commission Income** | **172,631,902** | **96,293,245** |
| **Comprising** | | |
| Bank Service Charges - Loans and Advances | 160,872,603 | 84,074,511 |
| Legal & Technical Fees - Loans and Advances | 5,315,042 | 1,841,929 |
| Other Charges | 6,444,257 | 10,376,804 |
| **Net Fee and Commission Income** | **172,631,902** | **96,293,245** |

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

**Accounting Policy**

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

| | 2024<br>Rs | 2023<br>Rs |
|---|---|---|
| Gains on financial assets at fair value through profit or loss | 377,996,544 | 157,533,227 |
| Losses on financial assets at fair value through profit or loss | - | - |
| **Total** | **377,996,544** | **157,533,227** |

### 07. Other Operating Income (net)

**Accounting Policy**

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

| | | |
|---|---|---|
| Dividend Income | 23,070,500 | 15,950,352 |
| Sundry Income | 8,075,345 | 5,993,126 |
| **Other Operating Income (net)** | **31,145,845** | **21,943,478** |

## 08. Impairment Charges (Reversal) for Loans and Other Losses

**Accounting Policy**

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

| | 2024<br>Rs | 2023<br>Rs |
|---|---|---|
| Financial Assets at AC - Loans and Advances | | |
| Stage 1 | (25,466,851) | (34,814,940) |
| Stage 2 | 24,889,011 | 167,142,810 |
| Stage 3 | 547,881,282 | 423,926,677 |
| Other Financial assets at amortised cost | | |
| Stage 1 | (6,413,408) | 5,137,783 |
| Stage 2 | - | - |
| Stage 3 | - | - |
| **Total** | **540,890,034** | **561,392,330** |

## 09. Personnel Expenses

**Accounting Policy**

01. Defined contribution plans

Bank operate under mentioned Defined Contribution plan during the financial year 2024. Contributions made were recorded as an expense under "Personnel expenses". Unpaid contributions are recorded as a liability.

**(a) Employees' Provident Fund**

Accounting policy is disclosed in the 2.4.1

**(b) Employees' Trust Fund**

Accounting policy is disclosed in the 2.4.1

| **Staff Expenses** | **2024** | **2023** |
|---|---|---|
| | **Rs** | **Rs** |
| Salaries and Bonus | 863,549,970 | 717,390,410 |
| Defined Contribution Plan- EPF & ETF | 145,930,461 | 126,556,908 |
| Defined Benefits Plans - Gratuity Provision | 61,445,114 | 59,542,589 |
| Encashment of Sick Leave | 38,815,577 | 29,964,922 |
| Overtime and Out of Pocket Allowance | 14,931,001 | 5,850,366 |
| Staff Study and Training | 2,248,850 | 1,944,205 |
| Medical Scheme - Payments | 60,086,208 | 62,874,231 |
| Medical Scheme - Provision (IFRS) | 46,672,840 | 54,114,387 |
| Welfare | 5,787,930 | 7,171,626 |
| Insurance | 486,579 | 469,387 |
| Staff Loan day 1 Difference (IFRS) | (33,386,997) | (51,453,677) |
| Compensation | 872,710 | 867,538 |
| KPI Allowance | 21,702,473 | - |
| **Total** | **1,229,142,717** | **1,015,292,893** |
| | | |
| **Less - IFRS Provisions** | | |
| | | |
| Staff Loan day 1 Difference (IFRS) | 33,386,997 | 51,453,677 |
| Medical Scheme - Provision (IFRS) | (46,672,840) | (54,114,387) |
| **Actual Total** | **1,215,856,873** | **1,012,632,183** |

| 09.1 **Contribution – Retired staff medical scheme** | **2024** | **2023** |
|---|---|---|
| | **Rs.** | **Rs.** |
| Amount recognized as expense | **46,672,840** | **54,114,387** |

**09.2** Retired staff medical scheme has been established for the all employees of the Bank. Actuarial valuation was carried out by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries, on 31 December 2024. (Refer Note)

| **Contribution – Gratuity** | **2024** | **2023** |
|---|---|---|
| Amount recognized as expense | **61,445,114** | **59,542,589** |

**10. Other Expenses**

**Accounting Policy**

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

| | **2024** | **2023** |
|---|---|---|
| | **Rs** | **Rs** |
| Directors' Emoluments | 4,017,257 | 1,998,974 |
| Auditors' Remuneration | 11,660,898 | 5,564,435 |
| Professional and Legal Expenses | 8,523,264 | 7,399,866 |
| Office Administration and Establishment Expenses | 185,346,169 | 156,567,575 |
| Advertising and Promotional Expenses | 40,986,467 | 9,359,051 |
| Motor Vehicle Maintenance & Travelling | 9,139,958 | 7,984,571 |
| General Expense | 23,046,704 | 11,690,094 |
| Other Losses, Bad Debts and Write Offs | - | - |
| CBSL Deposit Insurance | 50,198,203 | 51,678,387 |
| Other Expenses | 114,489,481 | 103,626,794 |
| **Total** | **447,408,400** | **355,869,747** |
| **Depreciation/Amortisation of Property, Plant and Equipment** | | |
| Depreciation - Property, Plant and Equipment | 49,185,811 | 21,007,983 |
| Depreciation - Leased Assets | 77,500,923 | 78,600,161 |
| | **126,686,733** | **99,608,144** |

## 11. Tax Expenses

**Accounting Policy**

**Current Tax Expenses -Tax Rate 24% and 30%**

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

**Deferred taxation-Tax Rate 30%**

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

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

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

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

| | **2024** | **2023** |
|---|---|---|
| | **Rs** | **Rs** |
| **Current Tax Expense** | | |
| Current Year | - | (55,492,480) |
| Deferred Tax Expense/(Credit) | 125,756,722 | (106,156,767) |
| **Total** | **125,756,722** | **(161,649,247)** |

**11.1 Reconciliation of Tax Expenses**

| | | |
|---|---|---|
| Profit/(Loss) before Tax | 157,798,019 | (1,164,780,667) |
| **Adjustment in Respect of Current Income Tax of Prior Periods** | | |
| Add: Tax Effect of Expenses/income reductions that are not Deductible for Tax Purposes | 952,658,272 | 615,883,520 |
| (Less): Tax Effect of Expenses that are Deductible for Tax Purposes | (804,527,551) | (606,532,475) |
| Disposal of Assets | 5,707,700 | 885,920 |
| Dividends | 23,070,500 | 15,950,352 |
| Qualifing Payment - Tax Losses | - | - |
| Adjusted Profits for the Year | 334,706,940 | (1,138,593,349) |
| Taxation Based on Profit for the Year | - | - |
| Taxation based on dividend income at 14% | - | - |
| Transfer to/from Deferred Taxation | 125,756,722 | (106,156,767) |
| (Over)/Under Provision in Previous years | - | (55,492,480) |
| **Tax Expense for the Period** | **125,756,722** | **(161,649,247)** |

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

| | | |
|---|---|---|
| **Deferred Tax Assets** | | |
| Property, Plant & Equipment | (21,377,623) | (35,613,577) |
| Employee Benefit Obligations | 203,336,237 | 179,302,267 |
| Impairment Provision | 257,636,159 | 257,809,511 |
| Right to use Assets | (1,813,934) | (1,552,645) |
| Moratorium First Day Impact | 3,402,223 | 4,154,337 |
| Unused Tax Losses | 192,452,587 | 341,578,005 |
| **Deferred Tax Assets** | **633,635,650** | **745,677,898** |

## 12. Analysis of Financial Instruments by Measurement Basis - Bank - Current Year (2024)

**Accounting Policy**

The carrying amounts of financial instruments by category as defined in Sri Lanka Financial Reporting Standard –

SLFRS 9 on "Financial Instruments" under headings of the Statement of Financial Position are summarised below

| In Rs. | AC | FVPL | FVOCI | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 124,664,750 | - | - | 124,664,750 |
| Placements with banks | 152,682,844 | - | - | 152,682,844 |
| Loans and advances | 44,666,805,952 | - | - | 44,666,805,952 |
| Debt instruments | 694,208,564 | - | - | 694,208,564 |
| Reverse Repos | 2,256,431,869 | - | - | 2,256,431,869 |
| Treasury Bills | 5,607,545,953 | - | - | 5,607,545,953 |
| Treasury Bonds | 422,577,047 | - | - | 422,577,047 |
| Unit Trusts | - | 2,943,277,961 | - | 2,943,277,961 |
| Unquoted Shares | - | - | 5,379,078 | 5,379,078 |
| **Total financial assets** | **53,924,916,979** | **2,943,277,961** | **5,379,078** | **56,873,574,017** |
| **LIABILITIES** | | | | |
| Due to banks | - | - | - | - |
| Financial liabilities | | | | |
| - Due to depositors | 48,160,520,558 | - | - | 48,160,520,558 |
| - Due to other borrowers | 140,800,069 | - | - | 140,800,069 |
| **Total Financial Liabilities** | **48,301,320,627** | **-** | **-** | **48,301,320,627** |

AC **-** Financial assets/liabilities measured at amortised cost

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

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

**Bank - Previous Year (2023)**

| In Rs. | AC | FVPL | FVOCI | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 122,600,853 | - | - | 122,600,853 |
| Placements with banks | 2,923,132,097 | - | - | 2,923,132,097 |
| Loans and advances | 40,992,800,137 | - | - | 40,992,800,137 |
| Debt instruments | 781,224,416 | - | - | 781,224,416 |
| Reverse Repos | 970,572,268 | - | - | 970,572,268 |
| Treasury Bills | 9,840,233,022 | - | - | 9,840,233,022 |
| Treasury Bonds | 415,464,023 | - | - | 415,464,023 |
| Commercial Papers | 155,250,000 | - | - | 155,250,000 |
| Unit Trusts | - | 3,552,533,227 | | 3,552,533,227 |
| Unquoted Shares | - | - | 5,379,078 | 5,379,078 |
| **Total financial assets** | **56,201,276,816** | **3,552,533,227** | **5,379,078** | **59,759,189,122** |
| **LIABILITIES** | | | | |
| Due to banks | 2,732,792 | - | - | 2,732,792 |
| Financial liabilities | | | | |
| - Due to depositors | 52,138,134,453 | - | - | 52,138,134,453 |
| - Due to other borrowers | 178,986,770 | - | - | 178,986,770 |
| **Total Financial Liabilities** | **52,319,854,014** | **-** | **-** | **52,319,854,014** |

## 13. Cash and Cash Equivalents

**Accounting Policy**

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

| | 2024 | 2023 |
|---|---|---|
| | Rs | Rs |
| Cash in hand | 94,473,374 | 62,943,092 |
| Balances with banks | 30,191,375 | 59,657,762 |
| **Total** | **124,664,750** | **122,600,853** |

## 14. Placements with Banks

**Accounting Policy**

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

### 14.1

| | 2024 | 2023 |
|---|---|---|
| | Rs | Rs |
| **Fixed Deposits** | | |
| NSB | - | - |
| PB | - | 2,929,999,099 |
| **Call Deposit** | | |
| BOC | - | - |
| **Savings Accounts-Investments** | | |
| SDB | 1,252,059 | 1,213,045 |
| NDB | 1,360,802 | 4,770 |
| Sampath | 25,358 | - |
| MCB | 150,056,610 | - |
| **Gross Total** | **152,694,828** | **2,931,216,914** |

| 14.2 | 2024 | 2023 |
|---|---|---|
| **Stage 1** | | |
| Opening balance as at 01/01/2024 | 8,084,817 | 2,947,034 |
| Charge/(Write back) to income statement | (8,072,834) | 5,137,783 |
| Write-off during the year | - | - |
| Other movements | - | - |
| **Closing balance at 31/12/2024** | **11,983** | **8,084,817** |
| **Stage 2** | | |
| Opening balance as at 01/01/2024 | - | - |
| Charge/(Write back) to income statement | - | - |
| Write-off during the year | - | - |
| Other movements | - | - |
| **Closing balance at 31/12/2024** | - | - |
| **Stage 3** | | |
| Opening balance as at 01/01/2024 | - | - |
| Charge/(Write back) to income statement | - | - |
| Write-off during the year | - | - |
| Other movements | - | - |
| **Closing balance at 31/12/2024** | - | - |
| **C. Net Placement with banks** | **152,682,844** | **2,923,132,097** |

## 15. Financial Assets Recognized Through Profit or Loss

| | 2024 | 2023 |
|---|---|---|
| | **Rs** | **Rs** |
| Unit Trusts (NDB) | 2,943,277,961 | 3,552,533,227 |
| **Total** | **2,943,277,961** | **3,552,533,227** |

**a. Analysis**

| | 2024 | 2023 |
|---|---|---|
| | **Rs** | **Rs** |
| **By collateralisation** | | |
| Pledged as collateral | - | - |
| Unencumbered | 2,943,277,961 | 3,552,533,227 |
| **Gross total** | **2,943,277,961** | **3,552,533,227** |

## 16. Financial Assets at Amortised Cost - Loans and Advances

**Accounting Policy**

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

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

### 16.1

| | 2024<br>Rs | 2023<br>Rs |
|---|---|---|
| **Gross loans and advances** | **44,678,146,696** | **41,006,647,925** |
| Stage 1 | 24,538,845,298 | 25,022,039,747 |
| Stage 2 | 5,401,181,793 | 5,325,583,522 |
| Stage 3 | 14,738,119,605 | 10,659,024,656 |
| **(Less): Accumulated impairment under:** | **2,936,781,371** | **2,389,477,929** |
| Stage 1 | 402,669,086 | 428,135,938 |
| Stage 2 | 456,118,112 | 431,229,101 |
| Stage 3 | 2,077,994,173 | 1,530,112,891 |
| **Net Loans and Advances** | **41,741,365,325** | **38,617,169,996** |
| | | |
| **Less - First Day impact of Moratorium Loans** | **11,340,744** | **13,847,789** |
| **Carrying Value of Loans and Advances** | **41,730,024,581** | **38,603,322,207** |

### 16.2 Analysis

| | 2024 | 2023 |
|---|---|---|
| **By product** | **Rs** | **Rs** |
| Mortgage | 10,881,107,701 | 10,179,549,598 |
| EPF | 13,938,716,138 | 8,857,459,543 |
| Vehicle | - | - |
| Staff loans | 149,610,566 | 1,208,081,194 |
| Personal Loans | 17,669,137,783 | 19,295,356,966 |
| Others | 2,404,174,993 | 1,864,188,107 |
| **Less-** | | |
| Allowance for Day 1 Difference - Staff Loans | (364,600,486) | (397,987,482) |
| **Gross Total** | **44,678,146,696** | **41,006,647,925** |
| | | |
| **By collateralization** | | |
| Collateral held as Security | 24,819,823,839 | 19,037,009,141 |
| Other Credit Enhancements | 19,858,322,857 | 21,969,638,784 |
| **Gross Total** | **44,678,146,696** | **41,006,647,925** |

**16.3 Movements in impairment during the year**

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

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

a **Collective Assessment of Impairment**

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

b **Individual assessment of impairment**

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

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

**Write-off of loans and advances**

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

| | **2024** | **2023** |
|---|---|---|
| **Stage 1** | **Rs** | **Rs** |
| Opening balance as at 01/01/2024 | 428,135,938 | 462,950,878 |
| Charge/(Write back) to income statement | (25,466,851) | (34,814,940) |
| Write-off during the year | - | - |
| **Closing balance at 31/12/2024** | **402,669,086** | **428,135,938** |
| **Stage 2** | | |
| Opening balance as at 01/01/2024 | 431,229,101 | 264,086,290 |
| Charge/(Write back) to income statement | 24,889,011 | 167,142,810 |
| Write-off during the year | - | - |
| **Closing balance at 31/12/2024** | **456,118,112** | **431,229,101** |
| **Stage 3** | | |
| Opening balance as at 01/01/2024 | 1,530,112,891 | 1,106,186,214 |
| Charge/(Write back) to income statement | 547,881,282 | 423,926,677 |
| Write-off during the year | - | - |
| **Closing balance at 31/12/2024** | **2,077,994,173** | **1,530,112,891** |
| **Total** | **2,936,781,371** | **2,389,477,929** |

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

**Accounting Policy**

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

| | 2024<br>Rs | 2023<br>Rs |
|---|---|---|
| Treasury Bills | 5,607,545,953 | 9,840,233,022 |
| Treasury Bonds | 422,577,047 | 415,464,023 |
| Debenture | 694,208,564 | 781,224,416 |
| Reverse Repos | 2,256,431,869 | 970,572,268 |
| Commercial Paper | - | 155,250,000.04 |
| **Gross total** | **8,980,763,433** | **12,162,743,730** |

### 17.1 Analysis

| | | |
|---|---|---|
| By collateralization | | |
| Pledged as collateral | - | - |
| Unencumbered | 8,980,763,433 | 12,162,743,730 |
| **Gross total** | **8,980,763,433** | **12,162,743,730** |

### 17.2 Stage 3

| | 2024 | 2023 |
|---|---|---|
| Opening balance as at 01/01/2024 | - | - |
| Charge/(Write back) to income statement | 1,659,425.20 | - |
| Write-off during the year | - | - |
| Other movements | - | - |
| **Closing balance at 31/12/2024** | **1,659,425** | **-** |
| **C. Net Financial Assets at Amortized Cost** | **8,979,104,008** | **12,162,743,730** |

**18. Financial Assets at Fair Value Through Other Comprehensive Income**

**Accounting Policy**

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

**Equity instruments fair value through other comprehensive income**

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

**Financial Assets at Fair Value Through Other Comprehensive Income**

| | 2024 | 2023 |
|---|---|---|
| | Rs | Rs |
| **Unquoted Shares** | | |
| CRIB | 4,754,078 | 4,754,078 |
| Fitch Rating | 625,000 | 625,000 |
| **Gross total** | **5,379,078** | **5,379,078** |
| **a. Analysis** | | |
| **By collateralization** | | |
| Pledged as collateral | - | - |
| Unencumbered | 5,379,078 | 5,379,078 |
| **Gross total** | **5,379,078** | **5,379,078** |

**19. Property, Plant and Equipment**

**Accounting Policy**

**Basis of Recognition**

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

**Basis of measurement**

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

**Cost model**

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

**19.1 a. Property, Plant and Equipment**

| In Rs. | Vehicles | Furniture & Fittings & Office Equipment | Computer Equipment | Computer Software | WEB Site Development | Total |
|---|---|---|---|---|---|---|
| **2024 (Current Year)** | | | | | | |
| **Cost/Fair Value** | | | | | | |
| **Opening Balance as at 01/01/2024** | **70,798,254** | **173,707,095** | **177,334,076** | **4,395,518** | **460,000** | **426,694,943** |
| Additions | - | 21,730,043 | 85,702,354 | 267,591,988 | - | **375,024,385** |
| Disposals | (6,605,500) | (2,193,231) | (7,014,041) | - | - | **(15,812,773)** |
| Adjustments | - | - | - | 460,000 | (460,000) | - |
| **Closing Balance as at 31/12/2024** | **64,192,754** | **193,243,906** | **256,022,389** | **272,447,506** | **-** | **785,906,556** |
| **(Less): Accumulated Depreciation** | | | | | | |
| **Opening Balance as at 01/01/2024** | **70,798,254** | **128,581,991** | **144,037,784** | **4,395,518** | **74,986** | **347,888,533** |
| Charge for the Year | - | 11,845,426 | 24,872,265 | 12,468,119 | - | **49,185,810** |
| Disposals | (6,605,500) | (2,193,231) | (7,014,041) | - | - | **(15,812,773)** |
| Adjustments | - | - | - | 74,986 | (74,986) | - |
| **Closing Balance as at 31/12/2024** | **64,192,754** | **138,234,185** | **161,896,008** | **16,938,623** | **0** | **381,261,571** |
| **Net Book Value as at 31/12/2024** | **-** | **55,009,721** | **94,126,381** | **255,508,883** | **(0)** | **404,644,985** |

| In Rs. | Vehicles | Furniture & Fittings & Office Equipment | Computer Equipment | Computer Software | WEB Site Development | Total |
|---|---|---|---|---|---|---|
| **2023 (Previous Year)** | | | | | | |
| **Cost/Fair Value** | | | | | | |
| **Opening Balance as at 01/01/2023** | **70,798,254** | **168,969,165** | **167,010,505** | **4,395,518** | **460,000** | **411,633,442** |
| Additions | - | 9,022,113 | 12,722,520 | - | 92,844,755 | **114,589,387** |
| Disposals/Adjustments | - | (4,284,184) | (2,398,948) | - | - | **(6,683,132)** |
| Adjustments | - | - | - | - | - | - |
| **Closing Balance as at 31/12/2023** | **70,798,254** | **173,707,095** | **177,334,076** | **4,395,518** | **93,304,755** | **519,539,697** |
| **(Less): Accumulated Depreciation** | | | | | | |
| **Opening Balance as at 01/01/2023** | **70,798,254** | **121,468,661** | **136,740,714** | **4,395,518** | **17,486** | **333,420,634** |
| Charge for the Year | - | - | - | | | - |
| Disposals | - | 11,254,465 | 9,696,018 | - | **57,500** | **21,007,983** |
| Adjustments | - | (4,141,136) | (2,398,948) | - | - | **(6,540,084)** |
| | - | - | - | - | - | |
| **Closing Balance as at 31/12/2023** | **70,798,254** | **128,581,991** | **144,037,784** | **4,395,518** | **74,986** | **347,888,533** |
| **Net Book Value as at 31/12/2023** | **-** | **45,125,104** | **33,296,292** | **-** | **93,229,768** | **171,651,164** |

**19.2 Fully Depreciated Property Plant and Equipment**

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

| **As at 31 December** | **2024** | **2023** |
|---|---|---|
| Vehicles | 64,192,754 | 70,798,254 |
| Furniture & Fittings & Office Equipment | 99,079,756 | 93,852,701 |
| Computer Equipment | 126,114,757 | 120,030,133 |
| Computer Software | 4,395,518 | 4,395,518 |
| Total | **293,782,786** | **289,076,606** |

**19.3 Temporarily Idle Property Plant and Equipment**

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

**19.4 Property Plant and Equipment Retired from Active Use**

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

## 20. Deferred Tax Assets/(Liabilities)

**Accounting Policy**

Accounting Policy on Deferred tax disclosed in the Note 11

| | 2024 Rs | 2023 Rs |
|---|---|---|
| **Opening Balance 01/01/2024** | **745,677,897** | **632,156,451** |
| Charge for the year Recognized in | | |
| - Profit/(Loss) | (125,756,722) | 106,156,767 |
| - Profit/(Loss) - Impact on changes in Tax Rate | - | - |
| - Other Comprehensive Income (30% taken) | 13,714,474 | 7,364,679 |
| **Closing Balance 30/09/2024** | **633,635,649** | **745,677,897** |

## 21. Other Assets

| | 2024 Rs | 2023 Rs |
|---|---|---|
| Stationary Stock | 16,920,483 | 15,038,906 |
| Deposits and Prepayments | 3,758,799 | 35,210,838 |
| Prepaid Staff Loans | 364,600,486 | 397,987,482 |
| VAT Receivable | 35,812,671 | 27,952,433 |
| NBT Receivable | - | 3,603,588 |
| DRL Receivable | - | 15,591,023 |
| WHT Receivable | 164,429,777 | 113,160,349 |
| SSCL Receivable | - | 3,321,741 |
| 7% Interest Receivable on Moratorium Interest | 5,311,931 | 6,209,879 |
| Interest Receivable - Senior Citizens Fixed Deposits | - | - |
| Others | 4,773,358 | 4,874,997 |
| **Total** | **595,607,504** | **622,951,236** |

## 22. Due to Banks

| | 2024 Rs | 2023 Rs |
|---|---|---|
| Borrowings (ODs) | - | 2,732,792 |
| Repo agreements | - | - |
| **Total** | **-** | **2,732,792** |

## 23. Financial liabilities at amortised cost

**Accounting Policy**

Due to depositors include savings deposits and term deposits. Subsequent to initial recognition deposits are

| | 2024 Rs | 2023 Rs |
|---|---|---|
| Due to depositors | 48,160,520,558 | 52,138,134,453 |
| Repo agreements | - | - |
| Other borrowings | 140,800,069 | 178,986,770 |
| **Total** | **48,301,320,627** | **52,317,121,222** |

### 23.1 Analysis of amount due to depositors

| | 2024 | 2023 |
|---|---|---|
| | Rs | Rs |
| **By Product** | | |
| Savings deposits | 3,574,326,835 | 2,202,016,436 |
| Fixed deposits | 44,319,050,968 | 49,323,667,095 |
| Other deposits (Schemes) | 267,142,754 | 612,450,922 |
| **Total** | **48,160,520,558** | **52,138,134,453** |

### 23.2 Analysis of other borrowings

| | 2024 | 2023 |
|---|---|---|
| | Rs | Rs |
| Bank Loans | - | - |
| AHF | - | - |
| CBSL Refinance Loans | 36,788,951 | 22,029,668 |
| Lease Liability | 104,011,119 | 156,957,101 |
| **Total** | **140,800,069** | **178,986,770** |

**24. Employee Benefit**

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

The actuarial valuation involves making assumptions about discount rate, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. the employee benefit obligation as at 31st December 2024 is calculated based on the actuarial valuation report as of 31st December 2024, carried out by Actuarial & Management Consultants (Put) Ltd.

The key assumptions used by the actuary include the following:

| | 2024 | 2023 |
|---|---|---|
| Rate of Interest | 11.00% | 13.00% |
| Rate of Salary Increase | 6.5% - 8% | 10.00% |
| Retirement Age | 55-60 years | 55-60 years |

**Gratuity**

| | 2024 Rs | 2023 Rs |
|---|---|---|
| **Provision for Gratuity** | | |
| Balance at the Beginning of the Year | 291,878,533 | 245,562,689 |
| Current Service Cost | 37,944,209 | 15,341,305 |
| Interest Cost | 23,500,905 | 44,201,284 |
| Benefit Paid | (57,161,366) | (45,509,997) |
| Actuarial (Gains)/Losses | 60,781,879 | 32,283,252 |
| **Total** | **356,944,160** | **291,878,533** |

Sensitivity Analysis of Present Value of Defined Benefit Obligation

| | 2024 | 2023 |
|---|---|---|
| **Assumption changed (while all other assu** | **PV-DBO (Rs.)** | **PV-DBO (Rs.)** |
| A one percentage point increase (+1%) in the discount rate | 336,260,853 | 275,457,498 |
| A one percentage point decrease (-1%) in the discount rate | 380,286,557 | 310,420,576 |
| A one percentage point increase (+1%) in the salary/wage increment rate | 382,503,514 | 312,316,801 |
| A one percentage point decrease (-1%) in the salary/wage increment rate | 333,977,441 | 273,530,916 |

Maturity Profile of the Gratuity Provision as at 31.12.2024

| AGE GROUP | No_Emps | TOT_ Basic Salary (Rs.) | TOT_COL A (Rs.) | AVG_ Future Working Lifetime | TOT_Provision (PV-DBO )(Rs.) |
|---|---|---|---|---|---|
| XV: 20 to 24 | 25 | 863,575 | 62,776 | 14.6 | 172,749 |
| XV: 25 to 29 | 32 | 1,660,730 | 1,004,415 | 14.0 | 3,644,593 |
| XV: 30 to 34 | 78 | 5,845,330 | 4,897,876 | 13.4 | 33,875,887 |
| XV: 35 to 39 | 43 | 4,793,780 | 2,699,365 | 12.3 | 31,059,573 |
| XV: 40 to 44 | 58 | 5,987,570 | 3,641,005 | 11.3 | 53,282,453 |
| XV: 45 to 49 | 47 | 5,826,960 | 2,950,469 | 9.7 | 63,432,867 |
| XV: 50 to 54 | 37 | 5,194,800 | 2,322,710 | 6.7 | 64,837,559 |
| XV: 55 to 59 | 34 | 4,902,840 | 2,134,382 | 1.9 | 106,638,479 |
| **TOTAL** | **354** | **35,075,585** | **19,712,998** | **10.8** | **356,944,161** |

### Medical

| Provision for Medical Benefit | 2024 Rs | 2023 Rs |
|---|---|---|
| Balance at the Beginning of the Year | 305,795,690 | 276,264,014 |
| Current Service Cost | 39,753,440 | 4,386,865 |
| Interest Cost | 6,919,400 | 49,727,522 |
| Actuarial (Gain)/Losses | (15,066,966) | (7,734,321) |
| Benefit Paid | (16,558,269) | (16,848,390) |
| **Total** | **320,843,296** | **305,795,690** |
| **Total Employee Benefit Liability** | **677,787,456** | **597,674,223** |

**Sensitivity Analysis of Present Value of Benefit Obligation**

| Category | +1% Discount Rate PV-DBO (Rs.) | -1% Discount Rate PV-DBO (Rs.) |
|---|---|---|
| Active employees -Pensioner Medical benefits (Medical Fund) | 99,937,988 | 143,656,110 |
| Pensioners -Medical benefit (Medical Fund) | 172,695,706 | 202,845,191 |
| **TOTAL** | **272,633,694** | **346,501,301** |

## 25. Other Liabilities

### Accounting Policies

Other liabilities include provisions made in account of , fees and expenses, tax payable unappropriated customer receipt,

leave encashment and other expenses. These liabilities are recorded at amounts expected to be payable at reporting data.

| | 2024 Rs | 2023 Rs |
|---|---|---|
| Taxes Payable | 149,578,309 | 35,637,120 |
| Accrued Expenditure | 160,275,343 | 93,706,978 |
| Other liabilities | 30,667,357 | 72,562,152 |
| Estate Refund Creditors | 8,452,291 | 12,006,515 |
| Margin Account-SP.Loan for ETF board (B | 910,984,285 | 467,485,793 |
| Customer Refund-Closed Loan | 8,932,884 | 13,414,849 |
| **Total** | **1,268,890,469** | **694,813,406** |

### 25.1 Taxes Payable

| | | |
|---|---|---|
| Payee Tax | 10,151,925 | 7,161,290 |
| WHT Payable | 15,863,435 | 21,485,961 |
| VAT Payable | 113,691,536 | 6,989,869 |
| SSCL Payable | 9,871,413 | - |
| **Taxes Payable** | **149,578,309** | **35,637,120** |

**Income Tax Payable**

| | | |
|---|---|---|
| Opening Balance | - | 134,000,281 |
| Provision for the year | - | - |
| over/(Under) Provision | - | (55,492,480) |
| Income Tax Paid | - | (78,507,801) |
| **Closing Balance** | **-** | **-** |

**26. Stated Capital/Assigned Capital**

| | 2024 Rs | 2023 Rs |
|---|---|---|
| Authorized Capital | 2,000,000,000 | 2,000,000,000 |
| Contributed Capital | 889,812,899 | 889,812,899 |

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

The Government after the appointment date of 1st January 1979 made a contribution to the capital of the Bank so that the amounts of such contribution together with the amounts referred to the above paragraph amounted to RS.889,812,899 as at 31st December 2024.

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

**27. Statutory Reserve Fund**

| | 2024 Rs | 2023 Rs |
|---|---|---|
| Opening Balance as at 01st January | 306,650,839 | 306,650,839 |
| Transfer During the Period | - | - |
| **Closing Balance as at 31st December** | **306,650,839** | **306,650,839** |

**28. Retained Earnings**

| | 2024 Rs | 2023 Rs |
|---|---|---|
| Opening Balance as at 01st January | 3,179,896,294 | 4,200,211,965 |
| Prior Period Adjustments | (34,012,426) | - |
| Impairment 1st day Adjustment | - | - |
| OCI Reserve Transfer | - | - |
| Profit for the Year | 32,041,296 | (1,003,131,419) |
| Transfers to Other Reserves | - | - |
| Other Comprehensive Income | (32,000,439) | (17,184,252) |
| Deemed Dividend Tax | - | - |
| **Closing Balance as at 31st December** | **3,145,924,725** | **3,179,896,294** |
| **Prior Period Adjustments** | | |
| Under provision of income tax expense | 15,564,251 | - |
| NBT Expense in year 2019 | 3,603,588 | - |
| DRL Expense in year 2019 | 15,591,023 | - |
| Excess Crop Insurance Levy | (746,436) | - |
| **Total** | **34,012,426** | **-** |

**29. Other Reserves**

**a. Bank - Current year (2024)** **Rs**

| Reserve | Opening balance as at 01/01/2024 | Movements/ Transfers | Closing Balance as at 30/09/2024 |
|---|---|---|---|
| General Reserve | 683,280,000 | - | 683,280,000 |
| Capital Reserve | 393,498,004 | - | 393,498,004 |
| Title Indemnity Fund | 1,031,000 | - | 1,031,000 |
| **Total** | **1,077,809,004** | **-** | **1,077,809,004** |

**29.1 b. Bank – Previous year (2023)** **Rs**

| Reserve | Opening balance as at 01/01/2023 | Movements/ Transfers | Closing Balance as at 31/12/2023 |
|---|---|---|---|
| General reserve | 683,280,000 | - | 683,280,000 |
| Capital Reserve | 393,498,004 | - | 393,498,004 |
| Title Indemnity Fund | 1,031,000 | - | 1,031,000 |
| **Total** | **1,077,809,004** | **-** | **1,077,809,004** |

**30. Contingent Liabilities and Commitments**

**Accounting Policy**

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

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

| | 2024<br>Rs | 2023<br>Rs |
|---|---|---|
| Guarantees issued | - | - |
| Other commitments | 305,236,517 | 62,395,844 |
| **Total** | **305,236,517** | **62,395,844** |

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.

**30.2 Assessment received by the Bank**

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

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

| Period / Tax Type | Charge No | Assessment Value | Current Status |
|---|---|---|---|
| 2018/2019 - Income Tax | 0201819002 | (5,191,892.28) | Court of Appeal |

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

**31. Related party disclosures**

**Accounting Policy**

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

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

| **As at 31 December** | **2024** | **2023** |
|---|---|---|
| | **Rs.** | **Rs.** |
| Investments made on Government Securities | 6,030,123,000 | 10,255,697,045 |
| Investments on state and state-controlled entities | 694,208,564 | 3,711,223,515 |
| Securities purchased under resale agreements | 2,256,431,869 | 970,572,268 |
| Other receivables from Government | - | - |
| Total | **8,980,763,433** | **14,937,492,828** |
| Tax paid | | |
| Income tax | - | - |
| Value added tax & SSCL | 152,807,634 | 18,000,000 |
| Total | **152,807,634** | **18,000,000** |

**32. Transactions with Key Management Personnel(KMPs)**

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

**32.1 Compensation to Key Management Personnel**

| | **2024** | **2023** |
|---|---|---|
| | **Rs** | **Rs** |
| Short - Term Employment Benefits | 58,631,193 | 60,869,340 |
| Post - Employment Benefits | 17,239,585 | 9,653,878 |
| **Total** | **75,870,779** | **70,523,218** |

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

| | | |
|---|---|---|
| **Income Statement** | | |
| Interest Earned (From Loans) | 1,114,524 | 1,917,773 |
| Interest Paid (To Deposits) | 77,786 | 2,998,160 |
| Payment made as shown in 33 (A) | 75,870,779 | 70,523,218 |
| **Statement of Financial Position** | | |
| **Assets** | | |
| Loans and Advances | 15,560,840 | 28,345,975 |
| **Liabilities** | | |
| Deposits | 12,735,423 | 18,527,716 |

**33. Leases**

**Accounting Policy**

**Basis of Recognition**

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

**Basis of measurement**

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

**Useful economic life and amortisation**

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

**33.1 Amounts recognized in the balance sheet**

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

| | 2024 | 2023 |
|---|---|---|
| | Rs. | Rs. |
| **Right-of-use Assets** | | |
| **Cost** | | |
| **Opening Balance** | 462,443,417 | 429,060,782 |
| Additions- Buildings | 20,156,395 | 33,382,636 |
| **Closing Balance** | 482,599,812 | 462,443,417 |
| **Accumulated Depreciation** | | |
| **Opening Balance** | 305,924,229 | 227,324,068 |
| During the year charge | 77,500,923 | 78,600,161 |
| **Closing Balance** | 383,425,152 | 305,924,229 |
| **Net Book Value** | **99,174,660** | **156,519,188** |

| | 2024 | 2023 |
|---|---|---|
| | Rs. | Rs. |
| **Lease liabilities** | | |
| **Opening Balance** | 156,957,101 | 198,102,485 |
| Additions | 18,508,495 | 19,367,336 |
| Interest Charge | 16,940,774 | 23,650,133 |
| Payments | (88,395,251) | (84,162,852) |
| **Closing Balance** | **104,011,119** | **156,957,101** |

### 33.2 Amounts recognized in the statement of profit or loss

The Income Statement shows the following amounts relating to leases:

| | 2024<br>Rs. | 2023<br>Rs. |
|---|---|---|
| **Depreciation charge of right-of-use assets** | | |
| Building | 77,500,923 | 78,600,161 |
| Interest Expense | 16,940,774 | 23,650,133 |

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

| | Impact to profitability |
|---|---|
| 1%+ Scenario 01 | (347) |
| 1% - Scenario 01 | 431 |

### 34. Reconciliation of VAT Expense

| | 2024<br>Rs. | 2023<br>Rs. |
|---|---|---|
| Profit/(Loss) before Tax | 436,074,620 | (1,164,855,374) |
| Adjustment in Respect of Current period | | |
| Add: Expenses/income reductions that are not Deductible for VAT Purposes | 1,280,583,989 | 1,036,435,632 |
| (Less): Expenses that are Deductible for VAT Purposes | (112,113,442) | (23,973,307) |
| Adjusted Profits for the Year | 1,604,545,167 | (152,393,049) |
| VAT Based on Profit for the Year | 239,683,095 | - |
| (Over)/Under Provision in Previous years | 5,304,187 | 5,125,869 |
| **Tax Expense for the Period** | **244,987,282** | **5,125,869** |

| **VAT Payable Reconciliation** | **2024<br>Rs.** | **2023<br>Rs.** |
|---|---|---|
| Opening VAT Receivable | 6,989,869 | 17,016,191 |
| payments made | (138,285,615) | (43,104,624) |
| Provision made | 244,987,282 | 6,989,869 |
| During the year tax addition to P&L | - | (1,864,000) |
| Transfer to VAT Receivable account | - | 27,952,433 |
| Closing VAT Receivable | **113,691,536** | **6,989,869** |

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

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

**36. Fair Value of Financial Instruments**

**Determination of Fair Value and Fair Value Hierarchy**

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

**Technique**

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

| 31st December 2024 | Level 1<br>Rs. | Level 2<br>Rs. | Level 3<br>Rs. | Total<br>Rs. |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| **Financial investments FVPL** | | | | |
| Quoted investments - Unit Trust | 2,943,277,961 | - | - | 2,943,277,961 |
| **Financial investments FVOCI** | | | | |
| CRIB | - | - | 4,754,078 | 4,754,078 |
| Fitch Rating | - | - | 625,000 | 625,000 |
| **Total Financial Assets** | **2,943,277,961** | **-** | **5,379,078** | **2,948,657,039** |
| **Financial Liabilities** | - | - | - | - |

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

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

**Assets and Liability of which Fair Value Approximates Carrying Value**

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

**Fixed Rate Financial Instruments**

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

**Variable Rate Financial Instruments**

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

| | 2024 | | 2023 | |
|---|---|---|---|---|
| **37. Assets** | **Carrying Amount** | **Fair Value** | **Carrying Amount** | **Fair Value** |
| | **Rs** | **Rs** | **Rs** | **Rs** |
| Cash and Cash Equivalents | 124,664,750 | 124,664,750 | 122,600,853 | 122,600,853 |
| Placements with Banks | 152,682,844 | 152,682,844 | 2,923,132,097 | 2,923,132,097 |
| Loans and receivables | 41,730,024,581 | 42,909,082,684 | 38,603,322,207 | 37,660,523,528 |
| Debt and Other Instruments | 8,979,104,008 | 8,732,385,184 | 12,162,743,730 | 12,392,310,881 |
| Financial Assets – FVPL | 2,943,277,961 | 2,943,277,961 | 3,552,533,227 | 3,552,533,227 |
| Financial Assets – FVOCI | 5,379,078 | 5,379,078 | 5,379,078 | 5,379,078 |
| Other assets | 1,733,062,798 | 1,733,062,798 | 1,696,799,486 | 1,696,799,486 |
| **Total Financial Assets** | **55,668,196,019** | **56,600,535,298** | **59,066,510,678** | **58,353,279,150** |
| **Liabilities** | | | | |
| Due to banks | - | - | 2,732,792 | 2,732,792 |
| Due to customers | 48,160,520,558 | 48,160,520,558 | 52,138,134,453 | 52,138,134,453 |
| Other borrowings | 140,800,069 | 140,800,069 | 178,986,770 | 178,986,770 |
| Other liabilities | 1,946,677,924 | 1,946,677,924 | 1,292,487,628 | 1,292,487,628 |
| **Total Financial Liabilities** | **50,247,998,551** | **50,247,998,551** | **53,612,341,643** | **53,612,341,643** |

**37.1 Determination of Faire value hierarchy**

Level 1
Inputs that are quoted market prices (unadjusted) in an active market for identical instruments. When available, the Bank measures the fair value of an instrument using active quoted prices or dealer price quotations, without any deduction for transaction costs.

Level 2
Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.

Level 03
This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

| **2024** | Level 01 | Level 02 | Level 03 | Total |
|---|---|---|---|---|
| Financial Assets | | | | |
| Treasury Bills and Bonds | 8,732,385,184 | - | - | 8,732,385,184 |
| Unit Trust | 2,943,277,961 | - | - | 2,943,277,961 |
| Loans and Advances | - | - | 42,909,082,684 | 42,909,082,684 |
| **Total** | **11,675,663,145** | **-** | **42,909,082,684** | **54,584,745,829** |
| **2023** | | | | |
| Treasury Bills and Bonds | 12,392,310,881 | - | - | 12,392,310,881 |
| Unit Trust | - | - | - | - |
| Loans and Advances | - | - | 37,660,523,528 | 37,660,523,528 |
| **Total** | **12,392,310,881** | **-** | **37,660,523,528** | **50,052,834,409** |

**38. Risk Management**

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

**38.1 Risk Management Structure**

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

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

**Board Integrated risk Management Committee**

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

**Executive Integrated Risk Management Committee**

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

**Credit Committee**

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

**Asset/Liability Management Committee (ALCO)**

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

## 38.2 Risk Management and reporting

### Credit risk

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

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

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

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

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

**Measurement of ECL**

**Stage 1: 12 - Months ECL**

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

**Stage 2: Lifetime ECL - not credit impaired**

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

**Stage 3: Lifetime ECL - credit impaired**

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

**PD estimation process**

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

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

**The exposure at default (EAD)**

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

**Loss given default (LGD)**

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

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

ECLs must reflect an unbiased and probability-weighted estimate of credit losses over the expected life of the financial instrument. Considering of the every possible macro economic variable and seniors are not practicable hence the Bank used variable and senatios which are most likely to impact on ECL of the assets impairment. To ensure completeness and accuracy, the Bank obtained independent assurance from third party to validate the date used for EFA. Uncertainties in macroeconomic environment is being continued as of end of the 2021 resulting resilient negative outlook in the macro economic variable.Mangment overlay was used revised assumption of worst case scenario from 20% to 70% as at 31.12.2024.

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

| As at 31 December | Note | 2024 Rs 000 State 1 | 2024 Rs 000 Stage 2 | 2024 Rs 000 Stage 3 | 2024 Rs 000 Total | 2023 Rs 000 State 1 | 2023 Rs 000 Stage 2 | 2023 Rs 000 Stage 3 | 2023 Rs 000 Total |
|---|---|---|---|---|---|---|---|---|---|
| Cash & cash equivalents | | - | - | - | - | - | - | - | - |
| Placements with banks | 14 | 11,983 | - | - | 11,983 | 8,084,817 | - | - | 8,084,817 |
| Financial Assets at amortized cost | | | | | | | | | |
| Loans & Advances | 16 | 402,669,086 | 456,118,112 | 2,077,994,173 | 2,936,781,371 | 428,135,938 | 431,229,101 | 1,530,112,891 | 2,389,477,929 |
| Debt & Other instruments | | - | | 1,659,425 | 1,659,425 | | | | |
| Total allowance for expected credit losses | | 402,681,069 | 456,118,112 | 2,077,994,173 | 2,938,452,780 | 436,220,755 | 431,229,101 | 1,530,112,891 | 2,397,562,746 |

**Credit loss expense**

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

| 31st December 2024 | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Cash & cash Equivalents | - | - | - | - |
| Cash & Balances with Central Bank | - | - | - | - |
| Sri Lanka Government Securities | | - | 1,659,425 | 1,659,425 |
| Placement with other Banks | (8,072,834) | - | - | (8,072,834) |
| Loans & Advances to Customers | (25,466,851) | 24,889,011 | 547,881,282 | 547,303,442 |
| Total Impairment Loss | (33,539,685) | 24,889,011 | 549,540,707 | 540,890,034 |

| 31st December 2023 | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Cash & cash Equivalents | - | - | - | - |
| Cash & Balances with Central Bank | - | - | - | - |
| Sri Lanka Government Securities | - | - | - | - |
| Placement with other Banks | 5,137,783 | - | - | 5,137,783 |
| Loans & Advances to Customers | (34,814,940) | 167,142,810 | 423,926,677 | 556,254,547 |
| Total Impairment Loss | -29,677,158 | 167,142,810 | 423,926,677 | 561,392,330 |

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

| As at 31 December | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Stage 1 | Stage 2 | Stage 3 |
| Financial Assets at amortised cost - Loans and Advances | | | | | | |
| Stage 0 to 2 - Performing loans | 26,371,942,197 | 4,792,399,466 | 3,594,725,610 | 25,024,165,494 | 5,325,583,522 | 52,577,161 |
| Stage 03:NPA - Special mentioned | 152,834,250 | 127,422,780 | 1,693,639,384 | - | - | 1,671,924,623 |
| Stage 04: NPA -Substandard | 26,841,181 | 14,134,104 | 987,337,843 | - | - | 1,009,602,129 |
| Stage 05: NPA - Doubtful | 10,290,011 | 1,303,383 | 1,059,328,970 | - | - | 4,518,286,737 |
| Stage 05: NPA - Loss | 26,511,656 | 14,573,876 | 5,816,202,728 | - | - | 3,461,136,299 |
| Total and Advances | 26,588,419,296 | 4,949,833,609 | 13,151,234,535 | 25,024,165,494 | 5,325,583,522 | 10,713,526,950 |
| Expected Credit loss allowances | (402,669,086) | (456,118,112) | (2,077,994,173) | (428,135,938) | (431,229,101) | (1,530,112,891) |
| Net Loans and Advances | 26,185,750,210 | 4,493,715,497 | 11,073,240,362 | 24,596,029,557 | 4,894,354,422 | 9,183,414,058 |
| **Financial Assets at amortised cost -Debt and other instruments** | | | | | | |
| Unit Trust and unquoted shares | 2,948,657,039 | - | - | 3,557,912,305 | - | - |
| Government Debt securities- Treasury bills and Bonds | 6,030,123,000 | - | - | 10,255,697,045 | - | - |
| Reverse Repos | 2,256,431,869 | - | - | 970,572,268 | - | - |
| Debentures | 694,208,564 | | | 781,224,416 | | |
| Commercial Papers | - | | | 155,250,000 | | |
| Placement with Banks | 152,694,828 | - | - | 2,931,216,914 | - | - |
| **Total Debts and Other Instruments** | **12,082,115,299** | | | **18,651,872,949** | | |
| Expected Credit loss allowances | **(1,671,409)** | | **-** | **(8,084,817)** | | |
| **Net Debt and other instrument** | **12,080,443,891** | **-** | **-** | **18,643,788,132** | | |

### 38.2.3 Analysis of Risk Concentration

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

Rs

| As at 31.12.2024 | Financial Services | Government Securities | Construction and Housing | Consumers | Other | Total |
|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | |
| Cash and cash equivalents | 124,664,750 | | | | | 124,664,750 |
| Placement with other banks | 152,694,828 | | | | | 152,694,828 |
| Loans and receivables to customers | | | | | | |
| Mortgage | | | 10,881,107,701 | | | 10,881,107,701 |
| EPF | | | 13,938,716,138 | | | 13,938,716,138 |
| Staff loans | | | 149,610,566 | | | 149,610,566 |
| Personal Loans | | | | 17,669,137,783 | | 17,669,137,783 |
| Others | | | | | 2,404,174,993 | 2,404,174,993 |
| Financial investments – FVPL | 2,943,277,961 | | | | | 2,943,277,961 |
| Financial investments – AC | 2,256,431,869 | 6,030,123,000 | | | | 8,286,554,869 |
| Financial investments – FVOCI | 5,379,078 | | | | | 5,379,078 |
| **Total** | 5,482,448,485 | 6,030,123,000 | 24,969,434,406 | 17,669,137,783 | 2,404,174,993 | 56,555,318,667 |

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

### 38.3 Liquidity Risk and Funding Management

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

**Liquidity Ratios**

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

**Liquid Asset Ratio**

| | 2024 | 2023 |
|---|---|---|
| Year - End | 106.00% | 175.14% |
| Maximum | 220.00% | 211.17% |
| Minimum | 100.00% | 88.94% |
| Average | 160.00% | 150.06% |

### 38.4 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarises the maturity profile of the undiscounted cash flows of the bank's financial assets and liabilities as at 31 December 2024
Contractual maturities of undiscounted cash flows of financial assets and liabilities.

**As at 31 December 2024**

RS.

| | Less than 7 days | 7-30 days | 1-3 months | 3-6 months | 6-12 months | 1-3 years | 3-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Total Assets** | **2,887,830,822** | **4,091,778,668** | **2,579,757,829** | **1,669,308,770** | **4,626,817,683** | **5,621,842,352** | **12,527,842,762** | **44,467,060,341** | **78,472,239,226** |
| Cash and Cash Equivalents | 124,664,750 | | | | | | | | 124,664,750 |
| Placement with Banks | 152,682,844 | | | | | - | - | - | 152,682,844 |
| Financial Assets -FVPL & FVOCI | 735,819,490 | 735,819,490 | 735,819,490 | 735,819,490 | | | | 5,379,078 | 2,948,657,039 |
| Debt and Other Instruments | 345,065,566 | 1,227,481,352 | 1,407,174,521 | 835,251,931 | 3,756,589,859 | 393,863,045 | 621,668,493 | 392,009,241 | 8,979,104,008 |
| Loans and Advances | 1,430,423,512 | 2,076,023,459 | 372,287,741 | 55,397,593 | 250,800,471 | 5,124,969,697 | 11,814,466,840 | 43,461,319,843 | 64,585,689,157 |
| Other Assets | 99,174,660 | 52,454,367 | 64,476,077 | 42,839,757 | 619,427,352 | 103,009,610 | 91,707,429 | 608,352,178 | 1,681,441,429 |
| | | | | | | | | | - |
| **Total Liabilities** | **926,512,614** | **2,368,048,515** | **6,836,560,540** | **19,935,550,877** | **17,885,257,638** | **2,547,094,505** | **1,912,405,723** | **7,409,981,573** | **55,710,772,837** |
| Total Equity | | | | | | | | 5,445,702,706 | 5,445,702,706 |
| Due to Banks | - | | | | | | | | - |
| Due to Depositors | 1,140,136,551 | 3,550,306,415 | 7,535,992,863 | 12,230,885,809 | 8,573,007,466 | 1,544,220,401 | 2,079,213,501 | 11,488,178,556 | 48,141,941,562 |
| Due to Other Borrowers | 9,752,176 | - | - | 2,703,678 | 2,703,678 | 10,814,710 | 10,814,710 | 104,011,119 | 140,800,070 |
| Employee Benefit Liability | - | 6,777,875 | 6,777,875 | 13,555,749 | 27,111,498 | 94,890,244 | 94,890,244 | 433,783,972 | 677,787,456 |
| Other Liabilities | 357,592,588 | - | - | 946,948,455 | - | - | - | | 1,304,541,043 |
| **Maturity Gap** | **1,961,318,208** | **1,723,730,153** | **(4,256,802,712)** | **(18,266,242,107)** | **(13,258,439,956)** | **3,074,747,847** | **10,615,437,040** | **37,057,078,768** | |
| **cumulative M.Gap** | | **3,685,048,361** | **(571,754,350)** | **(18,837,996,457)** | **(32,096,436,413)** | **(29,021,688,566)** | **(18,406,251,526)** | **18,650,827,242** | |

**38.4.1 Maturity analysis**

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

| | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| | **Rs 000** | **Rs. 000** | **Rs. 000** | **Rs.000** | **Rs. 000** | **Rs.000** |
| **Assets or Liability (a)** | **Less than 12 months** | **More than 12 months** | **Total** | **Less than 12 months** | **More than 12 months** | **Total** |
| **Total Assets** | **15,029,081,272** | **40,639,114,747** | **55,668,196,019** | **21,289,263,109** | **37,777,247,568** | **59,066,510,677** |
| Cash and Cash Equivalents | 124,664,750 | - | **124,664,750** | 122,600,853 | - | **122,600,853** |
| Placements with Banks | 152,682,844 | - | **152,682,844** | 2,923,132,097 | - | **2,923,132,097** |
| Financial Assets - FVPL & FVICI | 2,943,277,961 | - | **2,943,277,961** | - | 3,552,533,227 | **3,552,533,227** |
| Financial Assets - AC | - | - | - | - | - | - |
| Debt and Other Instruments | 7,571,563,229 | 1,407,540,780 | **8,979,104,008** | 10,966,055,289 | 1,196,688,439 | **12,162,743,729** |
| Loans & Advances | 3,358,520,277 | 38,371,504,304 | **41,730,024,581** | 6,316,845,255 | 32,286,476,952 | **38,603,322,207** |
| | | | - | | | - |
| Financial Assets - FVOCI | - | 5,379,078 | **5,379,078** | - | 5,379,078 | **5,379,078** |
| Property, Plant and Equipment | - | 404,644,985 | **404,644,985** | - | 171,651,164 | **171,651,164** |
| Right-of-use Assets | - | 99,174,660 | **99,174,660** | - | 156,519,188 | **156,519,188** |
| Deferred Tax Assets | 633,635,649 | - | **633,635,649** | 745,677,898 | - | **745,677,898** |
| Other Assets | 244,736,563 | 350,870,941 | **595,607,504** | 214,951,718 | 407,999,518 | **622,951,236** |
| **Total Liabilities** | **34,368,602,098** | **21,299,593,922** | **55,668,196,020** | **47,710,868,394** | **11,355,642,282** | **59,066,510,677** |
| Total Equity | - | 5,420,197,467 | **5,420,197,467** | - | 5,454,169,036 | **5,454,169,036** |
| Due to Banks | - | - | - | 2,732,792 | - | **2,732,792** |
| Financial Liabilities at Amortised Cost | | | - | | | - |
| Due to Depositors | 33,030,329,104 | 15,130,191,456 | **48,160,520,560** | 46,873,161,238 | 5,264,973,215 | **52,138,134,453** |
| Due to Other Borrowers | 15,159,531 | 125,640,539 | **140,800,070** | 92,347,023 | 86,639,746 | **178,986,770** |
| Employee Benefit Liability | 54,222,996 | 623,564,460 | **677,787,456** | 47,813,938 | 549,860,285 | **597,674,223** |
| Other Liabilities | 1,268,890,467 | - | **1,268,890,467** | 694,813,404 | - | **694,813,404** |
| **Maturity Gap** | **(19,339,520,826)** | **19,339,520,826** | | **(26,421,605,285)** | **26,421,605,286** | |

**38.5 Capital Management**

**38.5.1 Minimum Regulatory capital**

The minimum regulatory capital requirement Rs 5 Billion compiled by the Bank as at 01/01/2018 (as per the letter dated on 12/07/2016 by CBSL). This has further been enhanced to Rs 7.5 Billion with effect from 31.12.2020 as per the direction No 5 of 2017 dated on 26 October 2017 and subsequently which was extended until 31.12.2024 as per the Governor of Central Bank of direction number 04 of 2022. Accordingly, The Bank expects to complied with the 7.5 Billion through the internally generated funds via expanding the business as per the provisions in the State mortgage Act no 13 of 1975 in next two years.

**38.5.2. Capital Adequacy Ratio and Regulatory Capital of the bank**

All license specialised bank shall maintain, at all time, minimum Tier I capital including capital conservation buffer of 8.5% and total capital ratio of 12.5% with effect from 01 January 2019. Detail of the regulatory capital and capital adequacy ratio of the bank are given below.

**i. Capital Base**

| **Capital Adequacy Item** | **Rs.000 31.12.2024** | **Rs.000 31.12.2023** |
|---|---|---|
| Common Equity Capital after adjustment | 4,786,562 | 4,751,353 |
| Total Tier 1 Capital | 4,786,562 | 4,730,033 |
| Minimum regulatory capital to be fulfilled as at 31.12.2024 | 7,500,000 | 7,500,000 |
| Capital shortfall | 2,713,438 | 2,748,647 |
| Total Tier I capital shortfall | 2,713,438 | 2,769,967 |
| **Capital Adequacy ratio** | | |
| Common Equity Tier 1 Capital Ratio | 19.28% | 18.89% |
| Total Capital Ratio | 19.28% | 18.98% |

**ii. Risk Adjusted on Balance Sheet Exposures**

| | Principal Amount of On-Balance Sheet Items | Risk Weighted Assets Amount | Principal Amount of On-Balance Sheet Items | Risk Weighted Assets Amount |
|---|---|---|---|---|
| | 2024 | | 2023 | |
| **Exposures** | | | | |
| Claims on Central Bank of Sri Lanka | 8,286,555 | - | 11,226,269 | - |
| Claims on Public Sector Entities (PSEs) | - | - | 3,534 | 3,534 |
| **Claims on Banks Exposures** | | | | |
| Due From local Banks Less Than 03 Months (AAA to BBB) | 179,966 | 35,993 | 56,968 | 11,394 |
| Due From local Banks More than 03 Months (A+ to BBB) | 1,252 | 626 | 2,921,914 | 1,460,957 |
| A to BBB | - | - | 1,213 | 607 |
| Claims in Financial Institutions Regulated by CBSL | - | - | 155,250 | 77,625 |
| Claims on Other Financial Institutions | 5,380 | 5,380 | 5,380 | 5,380 |
| **Retail Claims** | | | | |
| Individual exposures | 14,762,705 | 11,072,029 | 16,650,956 | 12,488,217 |
| Claims Secured by Residential Property | 7,765,733 | 2,718,007 | 8,878,131 | 3,107,346 |
| **Claims Secured by Residential Property** | | | | |
| Claims that qualify for regulatory capital purposes | - | - | - | - |
| **Non-Performing Assets (NPAs)** | | | | |
| Specific Provisions are equal to or more than 20% | 2,089,837 | 2,089,837 | 1,881,288 | 1,881,288 |
| Specific Provisions are less than 20% | 131,433 | 197,149 | 108,710 | 163,064 |
| **Non-Performing Assets Secured by Residential Property** | | | | |
| Specific Provisions are more than 20% | 18,842 | 9,421 | 124,134 | 62,067 |
| Specific Provisions are less than 20% | 2,371,487 | 2,371,487 | 1,399,493 | 1,399,493 |
| **Cash Items and Other Assets** | | | | |
| Notes and Coins in own vault | 94,473 | - | 62,941 | - |
| Property Plant and Equipment | 503,820 | 503,820 | 334,572 | 334,572 |
| Other Assets/Exposures | 595,608 | 595,608 | 622,951 | 622,951 |
| Risk Weighted Amount for Credit Risk | **36,807,090** | **19,599,356** | **44,433,705** | **21,618,495** |

**38.6 Market Risk**

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The bank does not possess any trading portfolios at present and hence the Bank's portfolio is mainly none trading.

**38.6.1. Market risk – none trading**

**Interest Rate Risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The bank's policy is to monitor positions on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

Sensitivity of the income statements of the bank for the year ended 2024 in response to reasonable changes in the interest rates of the rate sensitive assets and liabilities of the bank are summerised below

| As at 31 December | 2024 Rs 000 | 2023 Rs 000 |
|---|---|---|
| Rate Sensitive Assets - RSA | 12,128,736 | 20,140,558 |
| Rate Sensitive Liabilities RLA | 33,051,162 | 46,880,001 |
| RSA - RLA | (20,922,426) | (26,739,443) |

**Impact of income statements due to interest rate shock**

| As at 31 December | 2024 Rs 000 | 2023 Rs 000 |
|---|---|---|
| 0.50% | (66,065) | (57,299) |
| 1% | (131,708) | (113,841) |
| -0.50% | 65,854 | 56,920 |
| -1% | 131,708 | 113,841 |

**Prepayment Risk**

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

**38.7 Operational Risk**

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The bank cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

**39 The Events Occurring After the Balance Sheet Date**

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

**40 Assets Pledged**

No assets have been pledged as security for liability.

**41 Related Party Transactions**

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

## 42 Directors' Interest in Contracts and Proposed Contracts

As per the State Mortgage and Investment Bank law, No 13 of 1975, a Director who, or whose spouse or dependent child is directly or indirectly interested in any business transacted or proposed to be transacted by the Board shall disclose the nature of such interest discussed. The disclosure shall be recorded in the minutes of the Board, and such Director shall not take part in any deliberation or decision of the Board with respected with that business, and shall withdraw from such meeting while such deliberation is in progress or decision is being made. As per the Act, No loan shall be granted by the bank to any Director or employee of the bank or to the spouse or a dependent child of a Director or employee or to any company or firm in which a Director or employee has a substantial interest: "Provided however that the bank may grant to its employees loans for the purchase of any land for the construction of a dwelling house or for the purchase, construction, repair, renovation of or any extension to, a dwelling house or for any other purpose prescribed by the rules made under this law. Outstanding balance of loans given to employees as per this paragraph is disclosed in note number 32 in the Financial Statements. The Directors of SMIB were not directly or indirectly interested.

## 43 Value Added Statement

| **For the Year Ended 31 December** | **2024** | **2023** |
|---|---|---|
| | **Rs.** | **Rs.** |
| Interest Income | 7,590,650,416 | 9,324,132,408 |
| Other Income | 581,774,291 | 275,769,950 |
| Total Revenue | 8,172,424,707 | 9,599,902,358 |
| Interest Expenses | (5,392,222,204) | (8,732,594,619) |
| Cost of Services | (725,685,001) | (355,795,039) |
| Impairment Provision | (540,890,034) | (561,392,330) |
| **Total Distribution of Value Added** | **1,513,627,469** | **(49,879,630)** |

| **For the Year Ended 31st December** | **2024** | **2023** |
|---|---|---|
| | **Rs.** | **Rs.** |
| **To Employees** | | |
| Salaries and other benefits | 1,229,142,716.68 | 1,015,292,893 |
| **To Government** | | |
| Corporate Tax | 125,756,722.32 | (161,649,247) |
| Depreciation | 126,686,733.34 | 99,608,144 |
| Retained Profit | 32,041,296.46 | (1,003,131,419) |
| **Total** | **1,513,627,469** | **(49,879,630)** |

## 44 Source of Utilization

| For the Year Ended 31 December | 2024<br>Rs | 2023<br>Rs |
|---|---|---|
| **Sources of Income** | | |
| Loans and Advances | 6,075,435,276 | 5,602,828,733 |
| Government Securities & Other Investment | 1,515,215,140 | 3,721,303,675 |
| Fee and Commission Income | 172,631,902 | 96,293,245 |
| Other Income | 409,142,389 | 179,476,705 |
| **Total** | **8,172,424,707** | **9,599,902,358** |
| **Utilization of Income** | | |
| **Employees** | | |
| Salaries and other payment to staff | 1,229,142,717 | 1,015,292,893 |
| **Suppliers** | | |
| Interest paid | 5,392,222,204 | 8,732,594,619 |
| Other Expenses | 1,393,261,768 | 1,016,795,513 |
| **Government** | | |
| Corporate Taxes | 125,756,722 | (161,649,247) |
| Retained Profit | 32,041,296 | (1,003,131,419) |
| **Total** | **8,172,424,707** | **9,599,902,358** |