

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the National Savings Bank (the “Bank”) and the consolidated Financial Statements of the Bank and its subsidiaries (the “Group”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the Financial Statements, including material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

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

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for 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 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 and the group’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 intend to liquidate the Bank and the group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank and the Group’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Bank and the Group are 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 and the Group.

1.4 Audit Scope

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 skepticism throughout the audit. I also:

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

The scope of the audit also extended to examine as far as possible and as far as necessary the following:

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Bank and the Group, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Bank and the Group have complied with applicable written law, or other general or special directions issued by the governing body of the Bank.
- Whether the Bank and the Group has performed according to its powers, functions and duties; and
- Whether the resources of the Bank and the Group had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements.

1.5.1 Internal Control over the preparation of financial statements.

Audit Issue	Management Comment	Recommendation
<p>A high risk towards the accuracy of the financial statement was observed due to manual intervention in the financial statement preparation process. Two main trial balances are being prepared separately for Branches and for the Head office. Trial balances of all branches are abstracted from CBOS system and convert it to MS Excel spread sheet format and create a single Trial Balance for branches. Trial balances of head office divisions are taken separately and amalgamated in to a single TB for Head office. Finally, by using both Trial Balances, financial statements are being prepared. This might lead to loss or manipulation of data. Therefore, the bank needs to evaluate the necessity of fully automated system solution to prepare the full set of financial statements to ensure the data accuracy.</p>	<p>The bank has already implemented the Core Banking Solution to overcome the discussed limitations. There is a separate Enterprise GL, which generates financial statements in the prescribed format.</p>	<p>Manual interventions in preparing financial statements should be minimized.</p>

1.5.2 Un-reconciled Control Accounts or Records

Audit Issue	Management Comment	Recommendation
<p>The inter branch balance of the Bank as at 31 December 2023 was amounting to Rs.269.328 million and the corresponding balance in the preceding year amounted to Rs.103.260 million. The inter branch balance has derived by aggregating several numbers of Branch ledger and Head office ledger accounts. Some of these balances were freeze balances since several years ago. However, no procedure</p>	<p>The following procedures are in place to reconcile the inter branch balances. <u>Manual HO Our Account</u> Reconciliation statements are being prepared by the branches on monthly basis to monitor the balances for the clearance. <u>Automated Head Office Our Accounts</u></p>	<p>Sufficient and adequate Procedures should be implemented to reconcile the Inter branch balances.</p>

had been formulated by the bank to reconcile these inter branch account balances and instead of has allocated full provision for the entire balance of Rs.269.328 million.

Comparison of inter branch balances are prepared monthly basis and regular meetings are conducted to monitor the balances for the clearance including settlement accounts.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
a) Section 47 of National Savings Bank Act, No.30 of 1971 - Section 47	Payments made by the Bank to customers through the Unclaimed Deposits Reserves Account should be reimbursed from the Consolidated Fund of General Treasury. However, a sum of Rs.834 million paid to customers up to 2023 had not been reimbursed even up to the audit date on 31 May 2024.	Quarterly requests are sent to the General Treasury. The Bank received Rs.750 Mn in July 2024 from the outstanding amount.	Bank should comply with the requirement of NSB Act.
b) Compliance Requirements as per Banking Act Direction No. 12 of 2007			
(i) Section 3 (2) (iv)	Although the Board should consist of at least three independent non-executive directors or one third of the total number of directors, whichever is higher, only two independent non-executive directors have been appointed for the Board during the year 2023 and all other five directors are designated as non-independent and non-executive directors.	Informed the said requirement to the appointing authority by our letters dated: 31.01.2023 12.04.2023 21.07.2023 07.11.2023 Accordingly, the same is fulfilled on 21.02.2024	Bank should comply with the relevant Section of the Banking Act Direction No. 12 of 2007.

(ii) Section 3.2 (i) and 3. 2 (ix)	As per Section 8 (1) (a) of the NSB Act No. 30 of 1971, appointments of Directors are carried out by the Minister of the relevant Ministry. However, actions have not been taken to appoint Board of Directors for the period of four months from January to April 2023. All functions of the Bank had been carried out in the absence of the Board of Directors during the above mentioned four months period and new appointments had taken place in May 2023.	Informed the said Bank should comply with the relevant sections of the Banking Act Direction No. 12 of 2007.
	31.01.2023 12.04.2023 21.07.2023 07.11.2023	

The Bank was unable to meet the minimum requirement of Directors during the period from January to April 2023 and therefore non-compliance with Section 3.2 (i) of the Corporate Governance Direction was observed.

(iii) Section 3 (6)(ii)(a)	Although the Chairman of the Board Audit Committee (BAC) should be an independent non-executive director, it was observed that the appointed Chairman for the BAC was a non-independent director due to holding a chairmanship of a subsidiary of NSB.	The Board composition consisted of only four members until February 2024. Among these four, there was only one Chartered Accountant, and he was appointed as the Chairman of the Board Audit Committee on 23.05.2023. The Board managed with three directors for all other committees and two subsidiaries until the vacancies are filled. In the meantime, Mr.	Bank should comply with the relevant Section of the Banking Act Direction No.12 of 2007.
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Dushyanta Basnayake was appointed as the Chairman of one of the subsidiaries by the Minister of Finance on 15.06.2023 and fitness and propriety approval received from CBSL accordingly.

The Board had no other option but keep the same individual as the Chairman of the Board Audit Committee.

We informed CBSL of the situation. However, the requirement was resolved immediately following the appointment of Mr. Ashane Jayasekara, a Chartered Accountant on 21.02.2024.

(iv) Section
(3)(6)
(iv)(f)

Although the Nomination Committee shall be chaired by an independent director and preferably be constituted with a majority of independent directors, it was observed that the majority of the Nomination committee was consisted from non-independent directors.

Out of the five Directors, we currently have only three independent directors. The Bank has been waiting for the appointment of the remaining two members to reconstitute the Board Sub Committees.

From time to time, we have received nomination for the Board of Directors, but the majority was not approved by the CBSL.

Bank should comply with the relevant Section of Banking Act Direction No. 12 of 2007.

- | c) | Public Enterprise Circular No. 03/2016 of 29 April 2016 | As per the provision included in the collective agreement, the Bank had paid Pay as You Earn (PAYE) tax or Advance Personnel Income Tax (APIT) from its own funds since January 2023, instead of being deducted from respective employee's salary. Payment details of last seven years are as follows. | The Bank Employee's remuneration is determined according to the Collective Agreement. Accordingly, the PAYE Tax for the previous assessment years was paid by the Bank from its own funds. However, effective from 01.01.2023, the PAYE tax is paid by the employees in accordance with the Public Enterprise Circular No. 01/2023 issued by the Ministry of Finance. Economic Stabilization and National Policies. | Bank should comply with the relevant Circular Instructions given by the Department of Public Enterprise (PED). | | | | | | | | | | | | | | | | |
|--------------------------------|--|---|---|--|-----------|--------|-----------|--------|-----------|--------|-----------|-------|-----------|------|-----------|-------|--------------------------------|-------|--|--|
| | | <table border="0"> <thead> <tr> <th style="text-align: left;">Year of Assessment</th> <th style="text-align: left;">Amount (Rs. Mn)</th> </tr> </thead> <tbody> <tr> <td>2016/2017</td> <td>155.15</td> </tr> <tr> <td>2017/2018</td> <td>157.11</td> </tr> <tr> <td>2018/2019</td> <td>125.75</td> </tr> <tr> <td>2019/2020</td> <td>146.8</td> </tr> <tr> <td>2020/2021</td> <td>11.8</td> </tr> <tr> <td>2021/2022</td> <td>30.44</td> </tr> <tr> <td>2022/2023 (up to January 2023)</td> <td>42.99</td> </tr> </tbody> </table> | Year of Assessment | Amount (Rs. Mn) | 2016/2017 | 155.15 | 2017/2018 | 157.11 | 2018/2019 | 125.75 | 2019/2020 | 146.8 | 2020/2021 | 11.8 | 2021/2022 | 30.44 | 2022/2023 (up to January 2023) | 42.99 | | |
| Year of Assessment | Amount (Rs. Mn) | | | | | | | | | | | | | | | | | | | |
| 2016/2017 | 155.15 | | | | | | | | | | | | | | | | | | | |
| 2017/2018 | 157.11 | | | | | | | | | | | | | | | | | | | |
| 2018/2019 | 125.75 | | | | | | | | | | | | | | | | | | | |
| 2019/2020 | 146.8 | | | | | | | | | | | | | | | | | | | |
| 2020/2021 | 11.8 | | | | | | | | | | | | | | | | | | | |
| 2021/2022 | 30.44 | | | | | | | | | | | | | | | | | | | |
| 2022/2023 (up to January 2023) | 42.99 | | | | | | | | | | | | | | | | | | | |
| d) | Extraordinary Gazettes Notifications No: 1824/23 of 23 August 2013 | The Crop Insurance Levy has not been charged as one per cent of profit after tax for the year 2023. | The Bank did not make any provision for Crop Insurance Levy in 2023 due to taxable losses incurred. | The Bank should charge Crop Insurance Levy as one per cent of profit after tax. | | | | | | | | | | | | | | | | |

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 7,216 million and the corresponding profit in the preceding year amounted to Rs. 2,530 million. Therefore, an increase amounting to Rs.4,686 million of the financial result was observed. The main reason for the increase was the decrease of income tax expenses by Rs. 4,909 million.

During the year 2023, total interest income of the Bank had increased by Rs.54,027 million or 31 percent due to increase of interest received from loan and advances, debt and other instruments. The total interest expenses for the year under review had also been increased by Rs.56,925 million or 41 per cent due to increase of interest paid for depositors.

Total interest income of the bank for the year 2022 includes an interest amount of Rs.6,764 million which was recognized as interest income receivable from General Treasury on outstanding interest subsidy receivable balance on Senior Citizen Special Interest Rate Fixed Deposit Scheme. Approval for the above provision has been granted by the Director General of the Department of Public Enterprises of the General Treasury on 13 January 2023 based on a decision taken by the Cabinet of Ministers at its meeting held on 19 December 2022.

2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the year under review compared with the preceding year with the percentage of increase or decrease are given below.

Description	Variance Amount Increase/(Decrease) (Rs. '000)	Variance %	Reason for the Variance
Net Interest Income	(2,897,733)	(9)	When compared with the preceding year, interest expense has increased by 41 percent which is more than the increase of interest income of 31 per cent, mainly due to increase of interest rates for deposits.
Net Fee and Commission Income	(663,842)	(34)	Decrease of fee and commission income generated from loans and card related services.
Net Other Operating Income	(157,384)	(38)	Revaluation of foreign exchange gain decreased by Rs. 107.62 million and dividend income decreased by Rs. 71.54 million
Impairment Charges	(603,370)	(12)	Impairment provision for loan and advances had been decreased by 2 percent or Rs.108 million which is mainly due to decrease in loan and advances.
Total Expenses	52,847,157	31	Impairment Charges, Value Added Tax on financial services and income tax expenses are decreased by Rs 603.37 million, Rs. 2,043 million and Rs.4,909 million respectively.

2.3 Ratio Analysis

According to the information made available, certain important ratios of the Bank for the year under review and the preceding year are given below.

Description	Sector Ratio*	Bank	
		2023 (%)	2022 (%)
Profitability Ratio			
Return on Equity (ROE)	10.6	9.36	3.40
Return on Assets (ROA)	1.5	0.26	0.28
Interest Margin	3.6	1.79	2.03
Assets Quality Ratio			
Stage 03 Loans to Total Loans and Advance Ratio	10.7	4.59	2.82
Capital Adequacy Ratios			
CAR-Tier I ratio (Minimum 8%)	13.8	16.91	15.78
Total CAR ratio (Minimum 12.5%)	16.9	19.26	18
Liquid Assets Ratio	44.9	54.99	40.62

*Sector ratios were extracted from the information published by Central Bank of Sri Lanka
The following observations are made in this regard.

- (i) The Return on Equity (ROE) Ratio and Return on Assets Ratio (ROA) of the Bank had been increased by 5.96 percent and decreased by 0.02 percent respectively in the year 2023 as compared with the previous year.
- (ii) The Liquidity Assets Ratio had increased by 14.37 percent when compared with the previous year and it is above the industry average of 44.9 percent.
- (iii) Total Capital Adequacy Ratio of the Bank had increased by 1.26 percent as at 31 December 2023 which is higher than the minimum statutory requirement of 12.5 percent.
- (iv) Net interest margin of the Bank in 2023 had decreased by 0.24 percent as compared with the previous year. However, interest margin of the year under review is considerably lesser than the industry interest margin of 3.6 per cent. The reasons for lesser interest margin is the increase of interest expenses due to increase of market interest rates and the decrease of interest income due to inability of the bank to reprise the loans and advances granted at fixed rate and reprise the investment made in long term treasury bond investments which are made at lesser interest rates.

3. Operational Review

3.1 Identified Losses

Audit Issue	Management Comment	Recommendation
The Bank has incurred an aggregated loss of Rs. 60.56 million as at 31 May 2023 due to 95 numbers of fraudulent activities and the loss has increased to Rs.81.72 million as at 31 May 2024 which were generated from 107 numbers of fraudulent activities.	Refer <u>Annexure I</u> to this report for comments.	Bank should implement sufficient internal controls over branch operations to avoid fraudulent activities and monitor them continuously.

- Fraudulent activities relating to losses of Rs.44.08 million were older than five years period.
- Thirty (30) numbers of fraudulent cases, which brought total loss of Rs. 89.88 million to the Bank had been done by staff members and outstanding balance of those losses were Rs.49.53 million or 61 percent from the total loss of Rs.81.72 million as at 31 May 2024.
- Fifty-five (55) numbers of cases are ATM cards related frauds which were occurred during the years from 2021 to 2024. Out of them, 38 numbers of frauds, valued at Rs.3.22 million were done by a third party by doing online shopping through the card related information hacked from the Payment App. Any insurance claim had not been received for those 38 numbers of fraudulent cases related to hacking up to the date of audit on 31 May 2024.

3.2 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) It has been taken more than 07 years by the Bank to complete the Core Banking Solution Project which was initiated in April 2016 at an estimated cost of USD 13,015,224 (revised-without taxes) and USD 5,998,971 had been spent up to now. Spending such a longer time period to implement this kind of highly technological applications may lead to obsolete the system at the end amidst the other banks in the industry are embracing the latest technologies constantly.	New Core Banking Solution was implemented on 18 th September 2024. The Bank commenced the procurement process for the procurement of a core banking solution in April 2016 and the procurement process was completed in April 2019 with the approval of the Cabinet of Ministers to award the tender to Temenos AG/Temenos Headquarters SA. The procurement process was comprised of two main stages i.e. calling for Expression of Interest (EOI) and issuing Request for Proposal (RFP) for pre-qualified bidders. Accordingly, calling for EOI and evaluation of proposals received, and short listing of bidder was completed by March 2017 and RFP	It is required to take every possible effort to integrate treasury function, pawning function and postal banking function to the Core -Banking System within a reasonable time period.

was issued to pre-qualified bidders. However, due to the complex nature of the procurement it took more time than expected for evaluation of Bids submitted by the short-listed bidders which include the site visits as well.

The core banking system implementation Project was commenced only from October 2019 and after completion of business requirements gathering workshops, the consultants of main implementation partner left the country due to COVID-19 pandemic and they could not return to Sri Lanka until September 2021 due to international travel restrictions which directly impacted the delay in completion of project activities. Further, additional time has to be allocated due to inclusion of Loan Origination and some other modules as per the requirements of the Bank and change of rollout approach from 5 Branches to Big Bang approach.

Further, the progress of project activities was adversely impacted due to unrest situation in the country from April to August 2022 as consultants working on-site left country due to security reasons.

In view of minimizing the impact on project timelines due to COVID-19 pandemic and other changes, the Project activities were carried out simultaneously.

The Bank is implementing the latest version of the core banking solution available at the time of finalization of business requirements, i.e. in 2021. Therefore, latest functions and capabilities of the core banking system are available for the Bank.

(b) Following observations are made regarding the Risk Management Function of the Bank.

(i) Several instances were observed that the Board and the top management have disregarded the recommendations and comments given by the Risk Management Division (RMD). Though the RMD has clearly identified risks involved with some major loans through their risk assessment reports, the Credit Committee and the Board had approved to grant such loans without considering highlighted risks. Some of those loans were categorized as Non-Performing Loan as at 31 May 2024. Two of such major loans were granted to Maldivian Company named RPI Pvt Ltd, (USD 9 million equivalent to Rs.1,806 million granted in 2018), and Techno Park Development Co. (Pvt) Ltd (Rs.750million granted in 2021). Total outstanding balances of those two loans as at 31 May 2024 were Rs.3,979 million, and Rs.332 million respectively.

(ii) The Risk Management Division (RMD) of the Bank has conducted Root Cause Analysis since year 2018 for selected loss events and attention of the relevant parties were drawn for taking necessary actions to minimize recurrences. However, similar fraudulent activities of the Bank's staff were observed continuously. Therefore, it was observed that, the attention has not been given by the relevant parties to implement the given

We observed that this concern has been raised previously. However, we write to reiterate that the current Board and the Management consider the risk reports submitted by the Risk Management Division which is very important to evaluate and make a sound credit decision. All credit papers especially these reflecting big values and all corporate facilities are submitted to the Risk Management Division to table their opinion to the Credit Committee. Both the Credit Committee recommendation and the Risk report along with the board paper are being submitted to the Board of Directors for their approval. The loan mentioned in the report, namely RPI and Techno park, were granted on 21st June 2018 and 30th November 2021 respectively and they were categorized as NPAs in Sep. 2021 and Nov. 2022 respectively.

Root cause analysis discussed each month at the Operational Risk Management Committee which comprises KMPs of the Bank. The actions which to be taken follow up by RMD and report to the next ORMC meeting. This process clearly depicts that the attention has been give all relevant parties.

Bank should pay attention to Risk related Recommendation and comments highlighted by the Risk Management Division before approving loans to the risky customers.

To prevent continuous fraudulent activities, bank should implement strict policies and actions against those reported incidents.

recommendations by the RMD.

(iii) Although it is required to address the unsolved matters arising from the previous meetings, there was no mechanism to review the progress of the delegated actions at the Operational Risk Management Committee (ORMC) meetings.

The bank has a mechanism to report and recover operational losses of the bank as given below.

1. Operational losses reporting through the Internal Audit Division manually and Operational Loss Event Data Reporting System (OASYS) by respective Branch Managers to the Administration Division.
2. Informing details to the Insurance Service Providers by the Admin Division
3. Insurance service providers confirm the claim intimation by issuing the claim number
4. After finalizing the investigation, claim related documents are forwarded to the Insurance Service Provider along with the Audit Report. (only for frauds)
5. After assessing the claims (frauds, pawning and asset damages) by the loss adjusters, receivable portion of the claim is settled by a cheque and salvage item of fixed asset damages to be handed over to the Service Provider.
6. Forwarding Claim Cheque forwarded along with the details to the Finance Division.

The bank should introduce the mechanism to review the progress of the delegated actions.

A mechanism will be introduced to report to the Corporate Management Committee, the unsolved matters until they are resolved and to review the progress of the actions taken until resolution.

(iv) Although the Risk and Control Assessments (RCSA) were conducted to identify the control lapses in major processes of the Bank and provided recovery measures for the improvements, RCSA for procurement, payments

The Risk Management Division (RMD) prioritized the critical areas for RCSA. Treasury Back Office operations and IBU are covered within the Treasury-RCS/RCSA for remaining IBU functions, procurement and payment will be

The risk and control assessments should be conducted for significant processes of the bank.

- and IBU operations had not been conducted.
- (v) Head of the Risk Management Division is not a corporate management position and it was observed that it has affected to Independency of the Risk management function within the bank.
- We understand that this is a repeated concern. However, please note the following. In terms of Section 2.1 (xix) of Banking Act Determination 01 of 2019, Officers in the immediate two layers below the level of CEO in the organizational structure i.e. AGM Level is determined as Officers Performing Executive Functions /KMPs. Accordingly, Head of Risk Management Division is a Key Management Personnel of the Bank in the AGM grade and directly reports to the Board Integrated Risk Management Committee (BIRMC). Therefore, Head of Risk Management Division holds an independent Key Managerial Position in the Bank. This matter has been discussed at the Board Integrated Risk Management (BIRMC) and the Board. However, board of directors' view is that the current organization structure of the Bank CRO in AGM position may be upgraded in the future if the need arises. Further, currently, the management structure of the Bank consists of two main tiers, Corporate Management and Executive Management. Corporate Management includes the Deputy General Managers (DGMs), while Executive Management comprises the Assistant General Managers (AGMs). We propose to present a board paper suggesting the inclusion of the AGMs in the Corporate Management category.
- The Risk Management Division is appropriate to be headed by an independent corporate managerial person for an effective and independence functioning of its activities.
- (c) Although the Bank had spent Rs.83.6 million for the construction activities on lands situated at Anuradhapura, Elpitiya,
- Anuradhapura: Legal Division staff members visited the Anuradhapura Divisional Secretariat on
- Bank should take lease hold right for above lands within

Galnewa, Katharagama, Kirindiwela, Moneragala, Ratnapura and Kekirawa, during the period from 1973 to 1996, the legal ownership of those lands had not been taken even as at end of the year 2023.

12.09.2024 and collected relevant documents and handed them over to the Land Commissioner General's Department. Matter still pending at the Land Commissioner General's Department.

reasonable period of time.

Elpitiya: Approval granted from Divisional Secretariat. The document is under preparation at the Land Commissioner General's Department.

Galnewa: We have requested/reminded Mahaweli Authority for the Lease Agreement.

Circuit Bungalow Kataragama: Received the completed Lease Agreement.

Kekirawa: NSB Management signed the Lease Agreement and sent to the Land Commissioner General's Department. We are awaiting the receipt of the duly completed Agreement.

Kirindiwela: Lease Agreement pending at the Presidential Secretariat.

Monaragala: NSB signed the Lease Agreement and forwarded same to the Land Commissioner General's Department. We are awaiting the receipt of the duly completed Agreement.

Rathnapura: Lease Agreement is pending signatures at NSB.

- (d) As per the confirmation received from regional managers, 330 numbers of loan files relating to granted loans of Rs. 262.295 million were misplaced as at 30 April 2024. The misplaced loan

files include 95 personal loan files, 229 housing loan files, 4 legal files and 2 loan files granted against fixed deposits. Following observations are made in this regard.

- | | | |
|---|---|---|
| <p>(i) Out of these 330 numbers of misplaced loan files, 29 percent or 96 numbers of loans are under non-performing category. Out of those 43 files are related to Housing Loans and 81 files are related to Personal Loans. Total outstanding amount of those Non-Performing Loans as at 30 April 2024 was Rs. 39.699 million or 68 percent of the total granted amount.</p> | <p>As concerns were raised, housing loan files and personal loan files have been destroyed or misplaced due to natural disasters, fraudulent activity, operational issues and etc. Consequently, the bank has taken recovery actions based on these categories. The bank continues its recovery efforts using the information available in the computer system.</p> | <p>Internal controls over file management should be strengthened in every branch.</p> |
| <p>(ii) Out of 330 numbers of misplaced loan files, four numbers of loan files relating to the aggregated outstanding balance of Rs.1.434 million are under legal proceedings. Due to misplacement of these files, the bank could not take legal actions against borrowers and deed of customers cannot be released after recovering the loans. This may impair the good image of the Bank in long run.</p> | <p>The loan application details, disbursement information, and repayment records for these loans are available in the computer system, which are sufficient to prove the outstanding liabilities of the borrowers, providing a basis for initiating legal action against them if necessary. Furthermore, the computer system captures and stores records related to loan disbursements, past repayments, and future repayment schedules, allowing the bank to ensure the complete settlement of the loans. Upon full settlement, the bank will release the deeds to the respective customers, following its established deed release procedures. However, in cases where the original deed has been destroyed or misplaced, issuing a duplicate deed will be inevitable, referencing the land registry and the initial attorney, after obtaining the concurrence and agreement of the customer.</p> | <p>The bank should establish stronger internal control procedures to ensure the safety of security documents.</p> |
| <p>(iii) Out of 330 numbers of misplaced loan files, 215 numbers of loan files or 65</p> | <p>The primary reason for the destruction or misplacement of files at the Kaduwela Branch of the bank</p> | <p>The bank should establish stronger internal control</p> |

percent were misplaced in Kaduwela branch due to flooding situation. Out of them 31 numbers of loans are in non-performing category. The total outstanding balance of these loans is aggregated to Rs. 10.282 million.

- (iv) The missing loan files in Head Office branch are 21 and out of that, 18 loans are under non-performing category from which 16 files are connected with fraud done by a staff member of that branch. The possibility of taking legal actions against the staff member who committed the fraud is questionable due to unavailability of loan files.

was due to a natural disaster. The bank has taken appropriate actions to recover these loans by addressing the root causes that led them to become non-performing. If necessary, the bank will proceed with legal action to recover the loans, using the information available in the computer system and the documents retained.

Legal actions are underway against the staff member who committed fraud involving 16 personal loans. However, 85% of the loss resulting from the said fraudulent activities has already been recovered through an insurance claim. Additionally, regular recovery actions are ongoing to recover the outstanding balances of the other loans of which files are misplaced.

procedures to ensure the safety of security documents.

The bank should establish stronger internal controls to avoid fraudulent activities by staff.

3.3 Operational Inefficiencies

3.3.1 Loan Disbursements

Audit Issue	Management Comment	Recommendation
(a) Total gross loans and advances granted by the bank as at 31 December 2023 was Rs.548,898 million and out of that , Rs.3,800 million (equivalents to USD 13.08 million) or 0.69 per cent represents the loan granted to a foreign company and accrued interest receivable thereon. The receivable balance of this foreign loan as at 31 May 2024 was Rs.3,978 million.	The foreign currency loan referred to is currently in NPL category. Recovery activities are currently being carried out and are given in (b). The Bank received one proposal for USD funding during FY 2023 (amount USD 2.5 Mn). However, the facility did not materialize due to the quoted interest rate being too low for the funding to be profitable for the Bank. The Bank has indicated its willingness to lend in USD through arrangers and other Banks and is currently on the lookout for possible opportunities.	The Bank should perform proper customer evaluations before granting loans and take every endeavor to recover the loan outstanding.
(b) Total outstanding balance of the corporate loans as at 31	Recovery actions taken by the Bank with regard to Non-Performing	The Bank should perform proper

December 2023 was Rs.80,202.94 million and out of that Rs.5,955.57 million was under non performing category. The total outstanding balance had been decreased to Rs. 79,941 million at the end of May 2024 and out of that, Rs.5,933 million was categorized under non-performing category. Out of the above non-performing loan balance, 67 percent represents foreign loan and 29 percent represents loan granted to a government related company which was secured by treasury guarantees.

Corporate Loans.

Foreign loan (67% of Corporate NPL) –

Discussions are underway to restructure the loan. The borrower has proposed to restructure the loan and the respective terms and conditions have been shared with NSB and Peoples' Bank (syndicate partner)

Rupee Loans backed by the Government Guarantee -

Correction – There is only one loan currently in NPL category granted to government related companies which is secured by treasury guarantee. Namely, Techno Park Development Company Ltd. The arrears installments due from National Water Supply & Drainage Board for the Bentota Water Supply Project was settled in December 2023 and the facility is no longer in NPL category.

Recovery actions taken with regard to Technopark Development Company (Pvt) Ltd

- The Bank has sent several reminders of the overdue to the Chairman - Techno Park Development Company (Pvt) Ltd.
- Upon inquiry from the Ministry of Finance (being the guarantor of the facility) it was informed to the Bank that the Company has been gazetted under the Ministry of Investment Promotion and that the previous Board of Directors and Chairman are not in operation.
- Under the directive of the Secretary, MOF, Director General, Department of Public Enterprises by letter dated 21.06.2023 informed the Bank that the matter has been referred

customer evaluations before granting loans and take every endeavor to recover the loan outstanding and minimize the Non-Performing Loan Balance of the Bank.

to Director General, Department of Project Management and Monitoring (DPMM) and Secretary, Ministry of Investment Promotions.

- The Bank contacted the Director General, DPMM and requested a meeting to discuss the matter with the respective officials.
- The Bank sent a reminder letter to Director General, DPMM on 20.02.2024 and a meeting was convened with chaired by the Secretary to the Prime Minister on 11.03.2024. At the meeting it was informed that an interim chairman has been appointed to oversee the company. Further it was informed that a proposal has been tabled to link the Kurunegala Techno Park with the Sri Jayawardenapura University and invite foreign investors to fund the project.
- The Bank informed the status of the overdue and requested urgent settlement of same. It was decided to further discuss the matter with MOF and the company officials to settle the dues the interim until a final settlement is reached and a definite arrangement made with regard to the future of Techno Park.
- As per the directive given by the Board of Directors the Bank requested the assistance of Director General, Department of National Budget [DG-DNB] in resolving the matter, by letter dated 04.07.2024. In reply, DG – DNB by letter dated 23.07.2024 informed that the matter has been referred to Director General, Department of Public Enterprises

for necessary action.

- (c) Outstanding balance of over 5 million loans granted by the bank, as at 31 May 2024 was Rs.24,566 million. Out of that, Rs.22,835 or 93 percent was granted by branches and remaining 7 per cent was granted by the credit division. Out of the over 5 million loans, Rs.7,864 million and Rs. 1,380 million granted by branches and credit division respectively were categorized under non-performing loan category as at 31 May 2024.

The Bank has initiated Parate Execution against following customers and temporarily on hold due to government suspension on “Parate Execution” until 15/12/2024 / Stay order.

Loan No.	Amount (Rs.) Mn	Board Approval/ CC approval obtained date
603086293217	20.00	27/03/2024
603086192076	43.16	22/03/2024
603086223216		
603086192088		
600020066379	16.00	20/02/2024
600670027840	20.05	22/03/2024
600630037332	6.5	22/03/2024
600240020355	17.7	22/03/2024
603086247060	12.6	Auction date: 18/01/2024 (Stay Order)
603086271300	7.5	26/09/2023
603086199176	6.5	05/03/2024
603086198761	13.6	22/03/2024
603086223230		
603086296961	9.7	12/02/2024
603086296973		
603086275201	21.37	22/02/2024
603086264063	41.46	27/03/2024
603086264013		
603086303876		

The Bank should perform proper customer evaluations before granting loans and take every endeavor to recover the loan outstanding and minimize the Non-Performing Loan Balance of the Bank.

- (d) The Bank had granted a joint property loan amounting to Rs.164.73 million on 23 December 2020. The borrower had paid only two installments and 27 installments valued at Rs.39.363 million were in arrears as at 31 May 2023. Total outstanding balance of the loan as at 06 February 2024 was Rs.222.381 million. This property has been vested with the Bank on 06 February 2024 after the auction conducted. However, according to

The mentioned loan was given to two individuals under House & Property Category. The borrowers were unable to make regular payments and the Bank has taken prompt recovery actions to recover the loan. The details of the valuations of the property are mentioned below:

Date	Market Value (Rs.)	FSV (Rs.)	Name of the Valuer
14/10/2020	195,610,000/-	190,000,000/-*	Mr. T M B Tennakoon
10/11/2020	218,000,000/-	210,000,000/-*	Mr. T B Balasuriya
17/12/2022	197,800,000/-	196,500,000/-	Mrs. I K Rajapaksha
04/07/2024	197,400,000/-	180,000,000/- *	Mr. U R Silva

The upset price was determined considering the market value of the

The Bank should perform proper customer evaluations before granting loans and take every endeavor to recover the loan outstanding and minimize the Non-Performing Loan Balance of the Bank.

the valuation report dated 04 July 2024, the market value of the land was Rs. 197.4 million. Hence, the recoverability of the remaining outstanding balance of Rs.24.981 million is doubtful.

property. The Board of Directors at its meeting held on 22.01.2024, has granted their approval to fix the upset price at Rs.198mn to sell the property by an auction although the recoverable amount is higher than the upset price. The Bank has done Public Auction of the property on 06.02.2024. However, no prospective buyers were present; hence the property was vested to the Bank. The Bank has initiated a tender to re-sell the property and Tender Notices published on 02.08.2024, and there was only one buyer to purchase the property.

- (e) A syndicate loan facility amounting to USD 10 million had been granted by National Savings Bank and Peoples Bank to a Maldivian company named RPI Private Limited on 14 June 2018. The NSB had contributed for USD 9 million which is 90 per cent of the total facility. The borrower had not paid any capital repayment or any arrears interest of USD 4.18 million which was outstanding as at 31 May 2024. Following observations are made in this regard.

(i) The aforesaid loan was granted to a foreign company which is operating under tourism industry for the purpose of a construction of Villas and this does not cover under the scope specified in the NSB Act.

According to Section 6 (g) of the NSB Act, the Bank is authorized to participate in the syndication of loans with other banks and financial institutions. Further, approval of the Central Bank of Sri Lanka and the necessary legal clearance of Legal Division of NSB was obtained prior to granting the loan.

Bank should participate for syndicated loans within the scope specified in the NSB Act.

(ii) No evidences were observed to prove whether the bank has done comprehensive credit evaluation or risks assessment prior to granting

Evaluation :

Country and Sector Risk

Bank perused Monthly Economic Reviews published by Maldives Monetary Authority in order to get an

Comprehensive credit evaluation and risk assessment should be undertaken by the Bank before granting

the loan.

idea about the economy of the Maldives while giving special attention to the details on tourism sector. Accordingly, the reasonableness of assumptions such as occupancy rates used in financial forecasts were crosschecked with the data published in Monthly Economic Reviews published by Maldives Monetary Authority. Further, the evaluation was carried out by comparing the Room Rates of similar hotels in Maldives as published in certain hotel websites and from sources such as Trip Advisor. These facts were considered by the Bank when carrying out the independent evaluation.

such type of loan facilities.

Legal Risk

Necessary clearances were obtained from the NSB Legal Division to cover the legal risk.

(iii) As per the Circular No.1641/2015 on Post Loan Review Mechanism, the bank has not reviewed the credit facility within 3 months after granting the approval.

Corporate Finance Division has forwarded the relevant loan files and other related security documents to the Risk Management Division on following days.

Risk Division of the Bank should review the loan within reasonable time period as per the circular instructions.

27/08/2018, 19/11/2018, 07/02/2019, 09/04/2019, 10/07/2019, 18/10/2019, 23/10/2019, 13/11/2019

(iv) The bank has granted initial grace period of one year for capital repayment from the first loan drawn date of 21 June 2018. However, the initial grace period had been extended several times for capital and interest repayments from June 2018 to June 2022 by stating several reasons.

Considering the request made by the client citing several reasons which included effects caused business disruptions and construction delays the Board of Directors approved the extension of initial grace period.

Decisions need to be taken to minimize the possible losses for the Bank.

(v) Although the Board of Directors had granted moratorium facilities to the above project, under the Circular No.5 of 2020 issued

According to the reply dated 14 May 2020 by Director, Bank Supervision Department of CBSL, providing any concession to this type of facility is a business decision to be taken by the

It is required to comply with the relevant Directions and Circular Instructions published

by the Central Bank of Sri Lanka, the above loan is not coming under the purview of aforesaid Circular since the borrower is a foreign company.

(vi) Insurance coverage had not been submitted to the bank for the period after July 2021.

(vii) According to the loan agreement, Debt Service Reserve Account (DSRA) should be opened and maintained in Bank with minimum value of USD 270,000. However, minimum balance in DSRA had not been maintained by the borrower (RPI) and balance as at 31 May 2024 of that account was USD 27,533.53.

(viii) According to the loan agreement, lenders should appoint a qualified expert in hotel construction as an independent project officer to monitor the progress of the project. However, lenders had not appointed such kind of person and relied on the progress report of the chartered quantity surveyor who has been appointed by the borrower, RPI Company (Pvt) Ltd.

(ix) As per available information, no site visit had been carried out by an independent party or officers who are having the

bank upon the customer's requests. Accordingly, based on the requests made by the client, the Bank granted moratoriums.

Reminder was sent on 24.07.2023 to the client to submit the insurance policy renewal. Renewed Insurance Policy is yet to be received.

The balance available in this A/C was utilized to recover the dues when it became overdue. Subsequently client was notified to replenish the minimum balance which did not materialize.

Settlement of installment through DSRA are as follows;

Recovery date	Amount (USD)	Installment date
May-2019	72,647.42	March -2019
May-2019	78,974.62	April -2019
May-2019	76,558.58	May-2019
Jan-2023	13,004.76	Penal Int

Both syndicate lenders (NSB and Peoples Bank) decided to proceed with the progress reports submitted by Mohamed Solah, as he is a professional with the required qualifications to provide a progress report on a project of this nature.

It is the general practice of the Corporate Finance Division for site visit and inspections to be carried out by Credit officers. As instructed by the management, site visit and inspection

by CBSL.

Bank should monitor and follow up the renewal of insurance policy in timely manner.

The Bank should monitor the buildup of Debt Service Reserve Account as per the loan agreement requirement.

The Bank should have appointed a qualified expert who should be independent from the borrower without depending on surveyor appointed by the borrower.

Site visit should be carried out by the officials having the required technical skills and

required technical skills and competence such as civil engineers. Although there are competent officers with necessary skills in the bank to inspect this construction, site visits from the Bank side have been carried out by officers in the credit division who have no technical skills to observe the quality and completion of construction.

were carried out by officers in the Corporate Finance Division. There is no recorded instance of independent parties being utilized by the Bank for site inspection previously too.

competencies.

(x) As per the Board Minute No. 207/2022 dated 04 July 2022, the Board has decided to appoint an independent advisor to carry out high level of review of RPI facility in different perspectives such as Legal, Engineering, Financial and Regulatory, Credit etc. and to advice the respective board regarding the most prudent cost effective and expeditious course of actions to recover all outstanding of RPI (Pvt) Ltd.

- As per Board Paper No. 288/2022, Board of Directors has granted approval to appoint a Global Accounting Firm in Sri Lanka to carryout said assignment by incurring a significant engagement fee of Rs.9.684 million. The Bank has already paid 75 percent of the said engagement fee.

- In terms of the Letter of Engagement the following payment structure was agreed:-

Upon signing the Engagement letter – 50% (Rs.4,842,200.00)

Upon the issuance of the draft report – 25% (Rs.2,421,100.00)

Upon the issuance of the final report – 25% (Rs.2,421,100.00)

- The Bank has paid the following payments up to date:-
75% of Financial and technical professional services.

50% Legal and tax professional services.

- Initially Independent Valuers planned to visit RPI site from 14.11.2022 to 17.11.2022. This was delayed due to no response from RPI. Thereafter, RPI site inspection took place by the independent valuers during the period from 03.01.2023 to 04.01.2023.

- By letter dated 04.11.2022 the Bank requested RPI to provide documentation requested by PWC.

- Further by letter dated 09.03.2024 the Bank requested RPI to provide access to the historical financial records, project forecasts and progress reports and budgeted and actual amounts of capital expenditure together with

The Bank should perform proper customer evaluations before granting loans and take every endeavor to recover the loan outstanding and minimize the Non-Performing Loan Balance of the Bank. It is required to provide all the information requested as the obligation of the Bank.

- Said accounting firm has agreed to give the final report of the above project within six weeks from the engagement date. However, despite several requests, the said report was not available for the auditor's review until the audit date on 31 May 2024. Deputy General Manager (Legal) has informed on 31 August 2023 that the bank is seeking advice from the Attorney General and the instructions from the Board of Directors to release the said report to the audit.
 - No evidences were available to the audit to confirm whether the bank has received any support from the said report to identify the current status of the RPI project, Legal and regulatory framework and most prudent ways to recover the outstanding amount of this loan.
- correspondence in connection with the head lease payments as well as the access to RPI auditors for any clarification and the current developments pertaining to the negotiation carried out by the RPI with the prospective investors.
- There was no favourable response from the RPI for the above request.
 - By letter dated 04.04.2023, PWC forwarded the draft Financial and Tax and Legal and Regulatory Reports and informed that PWC was unable to complete the Financial and Tax Review as critical information was not provided by RPI.
 - The Bank has not received any specific response from the Hon. Attorney General with regard to releasing documents.
 - By letter dated 11.03.2024 the Hon. Attorney General has advised the Bank regarding institution of legal proceedings against RPI with four options. The same was submitted to the Board for further instructions. As per the minute dated 03.05.2024 the Board has decided to pursue with Option I. Copy of the said letter is attached as Annex "A".
 - Meantime by letter dated 22.05.2024 the Bank has forwarded the information extracted from the Independent Financial and Tax Review, Valuation Report and Legal and Regulatory Review to the Hon. Attorney General.
 - By letter dated 08.08.2024, Hon. Attorney General has further advised the Bank based on the said information provided by the Bank. Copy of the said letter is attached as Annex "B".
 - As instructed by the Board of Directors, this matter has been referred

to the Nithya Partners, Law Firm and initial consultation was held on 12.08.2024 with the participation of General Manager/CEO. Subsequently relevant documents were forwarded to Nithya Partners by letter dated 14.08.2024 for further advice.

- Information extracted from the Valuation Report and Legal and Regulatory Review are attached as Annex “C” and “D” for information.

(f) The Bank had granted a loan amounting to Rs.12.6 million to Mohamad Siyam Ahamad Zaharan (Loan No-603086247060) on 23 September 2019. The outstanding balance and total arrears as at 31 May 2024 were Rs.12.930 million and Rs. 7.664 million respectively. The above loan has been granted to purchase a house and a property. Following observations are made in this regard.

(i) As per the 3rd Amendment of the GM Circular No. 955/2018, loans over Rs.12 million should be approved by the Credit Committee. However, the above loan of Rs.12.6 million had only been approved by the Assistant General Manager (AGM) (Credit).

As per the 3rd Amendment of the GM Circular No. 955/2018, “The authority limits of the credit line Officers of the Head Office and Regional Offices will not be affected by the NPA ratios of branches.” Accordingly, this loan file has been approved by the AGM (Credit) as per the given authority limits up to Rs. 15 Mn in the GM Circular No. 955/2018.

The Bank should ensure the compliance with delegation authority limits imposed by the Bank.

(ii) AGM (Credit) has approved this loan without considering the irregular repayments of 10 credit facilities stated in the CRIB status report of this borrower.

However, there’s a minute in the CRIB Report by DGM (Credit), instructing to closely monitor the repayments of the loan since the CRIB history is irregular.

The bank should assess customer repayment position before granting a loan according to the credit policy of the bank.

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| <p>(iii) The Zaharan Enterprises had provided Business Registration No. WA/11923 dated 10 August 2017 when obtaining the loan. However, the audit could not find any business registration under the above number in Provincial Department of Business Names Registration and Sri Lanka Bureau of Foreign Employment web site as a business which dealing with supply of manpower to foreign employment and language transaction affairs.</p> | <p>The customer has provided a copy of the translation of the “Certification of Registration of a Firm” issued by the Department of the Provincial Registrar of Business Names - Western Province dated 10.08.2017. This has been certified as a true copy by a Justice-in-Peace – P.S. Alagana (Reg. No. 09/3/nm /uos/188).</p> | <p>Bank should grant loans to proper established businesses.</p> |
| <p>(iv) This borrower had repaid only one (01) installment by 31 May 2024 and final notice regarding auction of property sent to the borrower by AGM (Recoveries) on 19 July 2022. When the bank had executed parate, the customer has obtained an enjoining order to prevent the auction on 18 January 2023. However, the bank has failed to take recovery actions against the loan.</p> | <p>The Bank has taken prompt recovery action to recover this loan. The Actions taken for recovery of the loan are as follows.</p> <ul style="list-style-type: none"> • Informed the customer about the prevailing balances over the phone. • First Reminder sent on 17/01/2020. • Second Reminder sent on 28/01/2020. • Final Notice sent on 13/02/2020. • Visit to the property on 05/03/2020. • Letter of Demand was sent to the client on 02/12/2020. • Legal Officer has sent the final notice on 29/01/2021 to the client regarding sale of property by public Auction and the letter was returned to the Bank. • Later, contacted the borrower and handed over the Final Notice to his secretary on 16/03/2021. • The Public Auction was scheduled on 19/01/ 2023. • Customer has taken a stay order | <p>All possible actions should be taken by the Bank to recover this loan.</p> |

to temporary suspend the Auction on 18/01/2023.

- However, it has temporarily been stopped due to the Stay-Order issued by the courts.
- Objections against the Stay Order was filed on 21/06/2023. The case was called on 09/01/2024 and the order was delivered in favour of the Bank.
- The learned district court Judge has refused the interim injunction requested by plaintiff (Mr. M S A Zaharan).
- Answers were filed for the pre-trial. Pre-trial conference was called on 09/08/2024. Pre-trial/settlement is scheduled to 20/12/2024.

(g) Top 25 customers of the NSB were granted 55 numbers of loans aggregating to Rs.786.552 million and total outstanding balance of those loans was Rs.838.678 million as at 30 September 2023 which represents 106 percent from the granted amount. Out of that 38 per cent of the loans were in 'Loss' category. The following observations are made in respect of sample audit examination performed on those top 25 non-performing loans.

(i) Though the loan of Rs. 20 million (loan number 603086293217) has been granted under a fixed rate for two years and floating rate thereafter as per the conditions stipulated in the loan agreement, it has not been complied with.

Since this is a Non-Performing Loan, the loan interest rate had not been converted.

The bank should comply with the terms and conditions stipulated in the loan agreement.

(ii) When granting a loan of Rs.

Though 02 directors were available at

The bank should

26.6 million (603086310931), the business income/profit has not been properly evaluated.

the inception of the company, one Director/Shareholder resigned in February 2021 and transfer the shares held by that Director/Shareholder to Mr. A G P I Perera. This process was properly documented, and proof documents were available in the other loan obtained by the customer under Loan No. 603086297651 in September 2021. The relevant documents were attached in the file.

properly evaluate the business income/profit before granting the loan.

Based on this information the entire profit from the business was treated as profit of the Sole Director.

- (iii) The bank has granted approval for a loan of Rs.28 million (603086275196), without considering the previous non-performing status of the customer.

This loan has been granted with the approval of the CC.

The bank should consider the previous non-performing status of the customer before granting the loan.

Status of the CRIB report

There were 04 loan facilities and 01 credit card facility in CRIB report. The status of the facilities in CRIB report are as follows.

Loan 1 - fully settled at the time of disbursement of the proposed facility.

Loan 2 & 3 - Intended to be settled from the proceeds of the proposed facility.

Loan 4 - 03 days in arrears.

Credit Card – 12 days in arrears.

3.3.2 Card Centre Operation

Audit Issue	Management Comment	Recommendation
(a) According to Section 5.6 of the General Direction No. 02 of 2022 dated 28 February 2022 under Payment and Settlement System Act No. 28 of 2005 regarding Operations of the Common ATM Switch (CAS), every CAS member shall be responsible for making regular backups of databases and all its information and data relating to the operations of CAS and establishing and maintaining recovery procedures in the event of system failure or data corruption or loss. However, card center has failed to maintain	All application related backups are taken by the IT division. And, with the implementation of “Network Accessible Storage” (NAS) in 2024 at Card Centre, all daily activities and files are encrypted and stored in a central backup.	Automated backup procedure for key functions should be maintained by the Card Centre for smooth operation.

automated backup procedure for some key functions such as customer refunds, dispute handling, charge backs and reconciliations.

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|-----|---|--|---|
| (b) | Some critical functions of the card center such as Chief Manager’s duties, Second Officer’s duties, Lanka Pay, VISA & Master Card Interchange activities and Head Office Our Account reconciliations have been executed by the same person for a longer period without rotation in order to minimize the risk of having frauds. | It is required to have specialized experience in handling interchange related work. However, we managed to rotate duties to a certain extent using the skills of existing staff. | The duties relating to card center operations need to be rotated in frequent intervals in order to overcome the fraud risk. |
|-----|---|--|---|

3.3.3 Anti – Money Laundering (AML) Reporting procedure

	Audit Issue	Management Comment	Recommendation
(a)	The Bank has procured ‘COMPASS’ AML software in year 2017 and it had been expired on 17 October 2023 and the first extension was taken until 16 April 2024 by paying USD 16,500 in every 06 months. However, hereinafter the renewal has not been done until the audited date of 30 June 2024.	The bank procured the Compass AML system in 2017 and entered into maintenance agreement with QDE till 17 th December 2023. In 2023, the board of directors decided to procure a new system and procurement was completed in January 2023. The RFP was floated to integrate the new AML system with New Core Banking System. As the implementation of Core Banking System was delayed and time line was not definite, CIO informed the BOD and got the approval to extend the maintenance service by every 3 months. As the new procurement of AML system was awarded to the same vendor (QDE), the maintenance was supported with the implementation.	The bank should regularly renew the software to ensure proper functioning.
(b)	The Bank had to incur additional loss from paying a penalty of Rs.750,000 for the violation of provisions of the Financial Transactions Reporting Act No. 06 of 2006 due to the failure to comply with the targeted financial sanctions.	The Compliance Division took all measures to screen the customers at the time of onboarding as well as the existing customers. Continuous training and awareness were carried out to all staff in this regard.	The bank should strengthen internal control to overcome additional losses.

3.4 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
(a) The Bank had obtained a land with an extent of 38.8 perches from 2008 from Urban Development Authority for 50 years' period. Although the management had decided to develop a new building in this land, any construction activities had not been started yet.	This land was leased in 2008 for a period of 50 years. In November 2009, the Bank had a discussion with UDA at which it was transpired the said land with a land of which extent 106.69 perches adjoining to the Bank's head office building to re-settle the encroaches of that land at the Bank's leased land. Due to this reason the Bank has not engaged in any development project on the leased land since then. However, the encroaches of the said land were provided house elsewhere in 2020. Thereafter, due to corona-19 outbreak and the prevailing economic condition of the country it was compelled to postpone the development project indefinitely.	Idle assets should be utilized for effective purposes.
(b) Although the Bank had rented out 4 storied building for the use of Pettah Branch in June 2019, two floors of the building with an extent of 4,629 square feet have remained idle without being used. The Bank had paid Rs.95.4 million as rent expenses up to May 2024.	The building owner of the previous location has insisted on vacating the building and the bank has been searching for a suitable location in Pettah for nearly 1 year period. The old building was planned to be renovated completely and due to our delay, the project was postponed several times. Lastly building owner informed to pay any liquidity damages if the Bank further delay evacuating the building. At that time current building was proposed and it was the only suitable location to the operation of the Pettah Branch. Even though the extent of the building excessive to the requirement, the management was compelled to grant approval to the proposed location by considering the situation. Apart from the extent of the building, the location is highly visible with the parking facility, located in the heavy foot traffic area. The building has a single entrance, and the stare way runs through the building for all three floors.	Idle assets should be utilized for effective purposes.

However, the Bank uses the 3rd and 4th floors to conduct training and seminars and part of it is being used for storage purposes by the surrounding branches at the moment. Since all floors are made in timber structure 100 years ago, its is in danger to use for heavy loads on the upper floors. Further, the Bank has being negotiation with the pervious building owner to get his premises back which renovations has already completed.

(c) Kottawa branch had obtained the 1st floor of the existing building at a monthly rental of Rs.200,000 for a five years period from August 2020 to August 2025. Though at the beginning, the Branch had paid Rs.3.6 million as a rent advance (18 rentals), and subsequently paid Rs. 7.085 million as rental for ground floor and 1st floor in year 2023, it had not used that 1st floor up to 31 May 2024 due to delay in refurbishment.

The upper floor of the Kottawa branch was hired with the view of expansion of the existing branch due to the congested condition, on the recommendation given by the branch operations. The agreement was signed by the two parties during the Covid-19 outbreak and the building owner got delayed handing over the building due to the lock down and material shortage prevailing in the country. Later, the premises division estimated the upper floor expansion project which was amended several times by the management due to the cost of the project was doubled to the previous prices. However, as per the direction given by the CBSL , the Bank has postponed all the development projects until the Bank came back to sound financial stability. Until such period the Manger Kottawa was advised to use the space for a useful purpose without any development work. However, the Bank has taken steps to carry out the interior modifications at its earliest.

Idle assets should be utilized for effective purposes.

3.5 Human Resources Management

	Audit Issue	Management Comment	Recommendation
(a)	At the end of May 2024, the board approved cadre of the Bank was 4034 and actual cadre was 3529 and therefore 505 numbers of vacancies existed. (Minor, Steno, CS and Typist are not included in		

Approved cadre of 2024 due to their waiting for the implementation of Core-Banking). The following observations are made in this regard.

(i) Out of the 871 of Executive Staff Cadre, 231 or 27 per cent was vacant and this includes 02 Deputy General Managers, 15 Chief Managers, 21 Senior Managers, 35 Managers, and 159 Assistant Managers.

Promotions granted to 37 Senior Managers and 87 Managers w.e.f. 01.04.2024 to fill the vacancies in the Banking Stream and 13 Senior Managers 23 Managers in the Non-Banking Stream. Written examination conducted for the promotion to Assistant Manager.

Bank should make recruitments within the approved cadre and recruitment should not be made for unapproved positions.

(ii) Out of the approved cadre of 1261 of Supervisory Grade (grade III-III and IV), 88 numbers of vacancies were existed as at the end of May 2024.

Interviews concluded for the promotion to Executive Officer (Grade III-III).

The Bank should ensure that the required number of staff and required positions are occupied for smooth running of the banking operations.

(iii) The bank has recruited employees for 06 excess positions which have not been approved by the Board of Directors. Details are given below.

Bank recruits staff only based on vacancies with the approval of the Board of Directors. These excess positions were created when adjusting the cadre provisioning them for future promotions and not due to excess recruitments. Therefore, these excess cadre will be adjusted with future promotions and when the cadre is reviewed.

The Bank should ensure that the required number of staff and required positions are occupied for smooth running of the banking operations.

Name of the Position	Number of Positions
Chief Manager (BMD)	01
Manager (Engineering/Premises)	01
Manager (Finance)	02
Translator	01
Manager (Compliance)	01
Total	06

(b) As per the Board Human Resource and Remuneration Committee (BHRRC) minute dated 25 October 2021 (BHRRC Paper No. BHRRC/2021/55) and board minute dated 09 December 2021 (Board Paper No.- 419/2021), the Bank has recruited 24 employees under contract

As a solution to a long-standing grievance, Board of Directors at its meeting held on 17.09.2015 granted approval to absorb all outsourced personnel on contract basis having considered the service on outsourced basis. Initially they

Applications for relevant posts should be called through an open advertisement for competitive recruitments.

basis and 27 employees under the permanent basis in to the different positions of the Bank during the year 2021. Applications for all of these posts had not been called through an open newspaper advertisement. Following observations are made in this regard.

were absorbed for a period of 5 years on contract basis and later as per the General Manager's Circular No. 902/2017 dated 08.03.2017, those who have completed two years on contract basis were considered for absorption into the permanent cadre subject to a job test and an interview.

Accordingly, the Bank has already absorbed the outsourced employees in the categories of Office Assistants, Typists, Telephone Operators, Call Centre Contact Associates, A/C Technician, Electrician, Motor Mechanic, Receptionist and Drivers.

There were few employees remaining in the above categories who were to be absorbed into the permanent cadre. Therefore, the Bank had to take a decision on them. Accordingly, BHRRC held on 25.10.2021 arrived at the said decision following the previous decision of the Board mentioned above.

(i) As per the Scheme of Recruitment (SOR) approved on 09 July 2020, written examination and interview should be conducted when recruiting Office Assistants. However, contrary to the SOR, 03 employees had been recruited as office assistants during the year 2021 without conducting written examination.

The said 3 employees were placed on contract basis following the same procedure explained above. They have faced the job test after completing 02 years contract period and absorbed to the permanent cadre subject to a probation period of 06 months with the approval of the Board of Directors held on 09.12.2021.

Recruitments should be made by complying with the conditions stated in the approved Scheme of Recruitment (SOR) for relevant post.

(ii) Seventeen (17) employees had been recruited to the Bank as "Trainees Call Center Associates" during the year 2021. Out of them two employees who have no minimum educational

The Scheme of Recruitment for the post of Call Centre Contact associates has been formulated and approved by the Board of directors on 07.09.2018 with a view to streamline future recruitments to the

Recruitments should be made as per the approved SOR of the Bank.

qualifications were absorbed to the permanent cadre during the year 2021 by mentioning that “there is no SOR at the time of outsourcing them in 2018”. However, it was observed that the SOR had been approved by the Board on 07 September 2018 before recruiting them under contract basis.

Another Six (6) employees who have joined at the end of year 2020 did not have the minimum qualifications as per the approved SOR and they had not been absorbed to the permanent cadre. However, Board has granted approval to absorb them in to the permanent cadre after completing required qualification within next two years and after completing 02 years’ contract period. It is questionable that why the board has given 02 years’ period to complete the minimum qualification to unqualified people without attracting the qualification completed candidates.

(iii) Six (6) numbers of people had been recruited as Drivers under contract basis during the years of 2020 and 2021. It was observed that CVs of two drivers had been forwarded to the chairperson through General Manager without following proper procedure of applying for the relevant post.

(iv) As per the conditions mentioned in the SOR, when recruiting typists, examination should have to be

post of Call Centre Contact Associates. In the past the Bank obtained the services of Call Centre Contact Associates on outsourced basis.

The aforesaid two employees had been outsourced to the Bank prior to the Board Decision on approving the scheme. Therefore, the said scheme was not considered when absorbing the two employees into the permanent cadre.

Further, the deployment of Call Center Contact Associates was an outsourcing arrangement. Further, the Board at its meeting held on 09.12.2021 removed the following clause from its decision. “ *Those who have not qualified with Bank’s minimum requirements should complete required qualifications within two years period*”

The said drivers were initially deployed on outsourced basis considering the staff requirement. As per the procedure adopted by the Bank for the outsourced staff in 2015 and thereafter, the outsourced staff are absorbed on contract basis. At the end of the two-year contract period, they were considered for absorption into the permanent cadre subject to a job test. Accordingly, the Bank conducts the job test (driving test) at the time they are absorbed into the Bank’s permanent cadre.

The outsourced personnel were initially absorbed on contract basis for a period of 5 years as

Recruitments should be made by complying with the conditions stated in the approved Scheme of Recruitment (SOR) for relevant post.

Recruitments should be made by complying with the

conducted to test whether candidates have the speed of shorthand of 70 w.p.m. and speed of typewriting of 25 w.p.m. However, twelve employees who passed the initial job tests had been absorbed to the permanent cadre during the year 2021 before conducting the above examination. One typist who failed the initial job tests was allowed to work under contract basis until sit for the exam and obtains a pass mark to be considered for absorption into the permanent cadre. It is questionable of giving such employee an interim period to complete the required qualifications.

(c) The Bank should prepare a SOR for every position which includes Educational Qualification, Experiences, Age Limits, Terms and Conditions, Selection Method etc in order to attract competitive candidates. However, two receptionist and trainee IT technical had been recruited during the year 2021 and no any recruitment procedure was included in approved SOR for such positions.

(d) (i) Human Resource Division of the Bank had taken considerable time period for conducting disciplinary inquiry procedures and taking disciplinary actions against accusers. Further, simple punishments had been given by the Human Resource Division for serious frauds under the sub section “a” of the disciplinary code of the bank which may lead to increase the

mentioned above. They were allowed to sit for a job test on completion of a two-year period on contract basis and those who have been successful at the job test were absorbed to the permanent cadre. Since the said typist was not successful on several attempts at the job test, her service has been terminated w.e.f. 01.12.2022 i.e. on the expiry of the five year contract period.

Trainee IT (Technical) has been recruited in 2019 on contract basis considering a vacancy existed in the approved cadre 2019. There was no approved scheme of recruitment at that time. However, since his performance was found to be good during the contract period, he was absorbed into the permanent cadre.

Two Receptionists were initially deployed on contract basis considering two vacancies at head office. An approved Scheme of Recruitment for the Post of Receptionist is currently in place.

As per the Disciplinary Code of the Bank, misconducts of serious nature are charged under Schedule ‘A’ followed by a disciplinary inquiry. The punishments are determined based on the outcome of the independent disciplinary inquiry. If the accused is found not guilty for at least few of the charges, the disciplinary committee of the Bank can impose him a

conditions stated in the approved SOR.

Approved SOR should be available for every approved cadre position of the Bank.

Bank should expedite the procedures of conducting disciplinary inquiry and taking disciplinary actions against staff members.

frauds done by the bank's staff due to reducing fear on punishment.

minor punishment depending on the nature of the misconduct. There is no rule to say that an employee who has been charged under Schedule 'A' should be given a major punishment.

- (ii) The following minor punishments given by the Human Resource Division were observed for serious nature frauds under the sub section "a" of the disciplinary code of the bank.

Disciplinary action should be straightforward which leads to minimize frauds done by the staff members.

Designation	Incident
Officer (grade iii-iii) at Badulla branch	The officer had been dismissed since 21 March 2013 due to 9 frauds including 5 serious nature frauds under the Disciplinary Code (DC) of the bank and after conducting another disciplinary inquiry he was release from all 9 frauds in October 2017. Since October 2020, he was reinstated in the service even after another fraud had been done by him by incurring a loss of Rs.6.834 million.
Executive (grade -iii – iii) at Kilinochchi branch	The officer had done 6 serious nature frauds relating to the pawning articles in 2019 and Bank had demoted this officer to Executive (grade iv) and defer the salary increment

Following an appeal made by the accused who has been dismissed in the Badulla case, Board of Directors instructed to re-inquire the case. At the second inquiry, as he has been found not guilty for the charges framed against him, he was reinstated in the Bank's service. He was not the main accused in the second case occurred at the Badulla Branch.

The accused in the Kilinochchi case has not been dismissed since it was unable to prove following matters during the preliminary investigation and disciplinary inquiries.

- Unable to correctly identify the accused.
- Unable to correctly identify the loss incurred to the customers
- Uncertainty in utilization of the relevant cash
- Unable to correctly identify

for a one year. Even though, the dismissal from the service is warranted to given the gravity of relevant charges, by considering her past service record, the management has decided to reinstate in service with immediate effect.

the exact amount of the fraud Due to the above reasons and the fact that the Bank had not incurred any loss from this incident, the inquiry officer has recommended to punish them without dismissing them from the Bank's Service. As a result, the disciplinary committee had imposed a major punishment and reinstated her in the Bank's service.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Issue	Management Comment	Recommendation
<p>Some of targets included in the Action Plan-2023 had been postponed and some are retained until the completion of the Core Banking System. It was observed that some important targets had become unrealistic until the completion of Core-Banking System such as Automation of data collection for Operational Risk Management Function, Automation of General Ledger, Financial Reporting, Budgetary Process and Business Intelligence Process Improvements, Amalgamating Postal Banking System with Core Banking System, Automating Requests for Loans and Prevention of Money Laundering etc.</p>	<p>The Bank requires an integrated system to automate data capturing and generate said reports. Further, due to the same reason, actions mentioned in the audit issue have become unrealistic. The Bank went live with the Core Banking System effective from 18th September 2024. However, at present the Bank is in the process of rectifying the issues post go-live. Upon completion of those issues, the Bank will continue to complete the actions postponed as well as unachieved actions. Those actions with the applicable time plan will be incorporated to the Action Plan 2025 – 2027.</p>	<p>Action plan should include achievable target base on futuristic information.</p>

Fraudulent Withdrawal A/C as at 31.05.2024

Annex I

<u>REF No</u>	<u>Date of the Fraud</u>	<u>Branch</u>	<u>Total Amount of Fraud Rs</u>	<u>Outstanding amount as at 31.05.2024(Rs.)</u>	<u>Nature of Fraud & Action taken for settlement</u>	<u>Note 01 Over Five Years (Rs)</u>	<u>Note 02 Court Case Pending (Rs)</u>	<u>Note 03 ATM Card Fraud (Rs)</u>	<u>Note 04 Miscellaneous (Rs)</u>
1	2-Feb-95	Kegalle	186,345.67	186,345.67	This loss has occurred due to fraudulent withdrawal from a Savings Account by an Employee (Mr. D.M.L. Thilakarathne). Suspect has been dismissed. Court case is going on. Fixed deposit amounting to Rs. 289,975.07 of the accused have been retained at the branch until finalization of the court case. The balance outstanding can be recovered upon the finalization of the court case.	186,345.67	186,345.67		
2	Year 2006	Negombo	52,000.00	52,000.00	Fraudulent withdrawal from savings Account. Insurance claim was rejected. At the time of closing a FD	52,000.00			
3	3-Apr-07	Ja-Ela	116,378.85	116,378.85	(200360112283) the settlement had been made to an incorrect party. This represents misappropriation of pawned articles by an employee (Mr. Carmil- EPF 3339). Amount of fraud Rs.1,462,355.87 Less: Insurance claim received (Rs.930,000.00)	116,378.85			
4	Year 2008	Nawala	1,462,355.87	532,355.87	Rs.532,355.87 The court case is going on. After finalization of the court case this amount can be set off from the amount recovered and deposited by the accused in courts. Amount Deposited at courts – Rs.2,000,000/- Jewellery recovered – Rs.307,382.21	532,355.87	532,355.87		

5	29-Oct-08	Bandarawela	6,230,000.00	3,730,000.00	Rs. 6,230,000/= was fraudulently taken by an employee (R.M.A Sathyapala-EPF 3029) during the ATM cash loading. High court case is going on. Amount of the fraud - Rs.6,230,000.00 Less-Insurance claim receive (Rs.2,500,000.00) Balance Rs.3,730,000.00 EPF Balance payment was suspended. District court case to be filed by Legal Division to recover the remaining balance. (EPF Balance as at 31.12.2021 -Rs 1,554,698.00 ,EPF Loan balance as at 426,650.00)	3,730,000.00	3,730,000.00
6	15-Mar-13	Badulla	8,979,210.63	8,976,666.55	Badulla Branch FD fraud. Court case going on. (Employee- Mr subanandan)The insurance claim rejected by SLIC & appeal has been made to SLIC. Amounting to Rs 2,544.08 has been recovered from relevant staff member (E M N K Thilakarathna)	8,976,666.55	8,976,666.55
7	22/May/2009 & 22/Sep/2009	Embilipitiya	535,000.00	535,000.00	Fraud of loan against FD by an outsourced employee. Insurance claim was rejected on 17.01.2012 due to fact that the outsourced employees are not covered under the bank indemnity policy.	535,000.00	

8	21-Dec-09	Galle	6,797,550.00	4,797,550.00	<p>Stealing of pawned articles amounting to Rs. 6,797,550/= by an employee (Mr. Chandrasiri). Police has recovered 40 items of pawned articles and Rs. 200,000/= in cash from the suspect. Court case is going on.</p> <p>Amount of the fraud Rs.6,797,550.00</p> <p>Less: Insurance claim received - (Rs.2,000,000.00) Rs.4,797,550.00</p> <p>Insurance claim received was Rs. 2,000,000/= . District court case has been filed by Legal Division to recover the remaining balance. The o/s should be reduced by Rs. 928,960.42 considering the real gold karat age value.</p> <p>EPF balance as at 31/12/2019 – Rs.3,679,206.51</p> <p>EPF Loan – Rs. 239,660.00</p> <p>4,797,550.00 4,797,550.00</p>
9	23-Feb-10	Mahiyangana	833,760.00	68,760.00	<p>Fraud by inflating gold values by Mr. Upul Priyantha This is the balance remained after setting off the insurance claim.</p> <p>Amount of the fraud Rs.833,760.00</p> <p>Less: Insurance claim received (Rs.765,000.00) Rs.68,760.00</p> <p>Staff member has been dismissed and LT Case is going on. There are no dues to hold.</p> <p>68,760.00 68,760.00</p>
10	10-Jan-12	Ja-Ela	27,389.02	27,389.02	<p>Fraudulent withdrawal from savings account by Mr.Rangana Peiris. Staff member has been dismissed and LT Case is going on. There are no dues to hold.</p> <p>27,389.02 27,389.02</p>

11	23-May-2012 & 24-Aug-2012	Badulla	8,632,666.10	8,632,666.10	Stealing of pawned articles by an employee (Mr. Subanandan -EPF No 3711). There were 69 pawning transactions including 142 items by using forged ID cards. Court case is going on. Insurance claim was rejected so appeal has been made to SLIC. Staff member has been dismissed. EPF balance as at 31/12/2021 – Rs.2,420,627.00 EPF Loan as at 31/12/2021 – Rs. 810,900.00	8,632,666.10	8,632,666.10
12	June – 2012	Nawala	775,000.00	275,000.00	Total fraud amount was Rs. 775,000/=. Fraud was committed by an employee (Mr. Carmil- EPF 3339) by using claim vouchers. Insurance claim received was Rs. 500,000/=. The investigation of the Police is not finalized yet. Amount of the fraud - Rs.775,000.00 Less: Insurance claim received (Rs.500,000.00)	275,000.00	275,000.00
13	5-Feb-13	Battaramulla	653,166.71	653,166.71	Closing of joint FD without the consent of both parties. The insurance claim was rejected by SLIC.	653,166.71	
14	25-Jul-13	Rathnapura	34,000.00	34,000.00	Fraudulent cash withdrawal from savings Account.	34,000.00	
15	Sep-13	Rathnapura	4,944,495.31	99,495.31	Fraudulent cash withdrawal made by a permanent employee & outsourced employee. Total amount of the fraud was Rs. 4,944,495.31. Court case is going on. Insurance claim received was Rs. 4,340,000/= and the accused employee has deposited Rs. 505,000/=to customer's account. Amount of the fraud - Rs.4,944,495.31 Less: Insurance claim received - (Rs.4,340,000.00) Deposited Amount - (Rs.505,000.00)	99,495.31	99,495.31

					Rs.99,495.31		
					Stealing of pawned articles by an employee (W.D.A.P.K Weliwita-EPF 3749).. Court case is going on.		
					Amount of the fraud (capital)		
					Rs9,340,215.97		
					Intrest Amount		
					Rs5,721,374.97		
					Srevice Charges	Rs	
					42,600.00		
16	Nov – 2014	Kekirawa	15,104,190.94	7,199,336.78	Sub Total		
					15,104,190.94		
					Less: Insurance claim received - (Rs7,904,854.16)		
					Rs.7,199,336.78		
					EPF Balance as at 31.12.2021 -	Rs	
					2,730,989.25		
					EPF Loan balance 31.12.2021 -	Rs	
					1,260,960.00		
					7,199,336.78	7,199,336.78	
					Withdrawal of Rs.5 000,000/= from saving A/C by forwarding a fake ID card by external parties. Insurance claim receive		
					Rs. 4,500,000.00		
17	17-Oct-2014 & 19-May-2015	Mt.Lavinia	5,000,000.00	339,615.90	Amount of the fraud -	Rs.	
					5,000,000.00Less: Insurance claim received - (Rs.4,500,000.00)		
					Recovered from staff - (Rs.160,384.10)		
					Balance		
					Rs.339,615.90	339,615.90	
18	13-May-15	Rathnapura	50,000.00	50,000.00	Fraudulent cash withdrawal from savings Account.	50,000.00	
19	23-May-15	Rathnapura	53,000.00	53,000.00	Fraudulent cash withdrawal from savings Account.	53,000.00	
20	22-Jul-17	Kegalle	37,000.00	37,000.00	Fraudulent withdrawal carried out by third party using skimmed debit card. Insurance claim was rejected.	37,000.00	37,000.00

21	22-Jul-17	Galnewa	13,200.00	13,200.00	Fraudulent withdrawal carried out by third party using skimmed debit card. Insurance claim was rejected due to non-availability of insurance cover for Debit cards.	13,200.00		13,200.00
22	22-Jul-17	Gampola	120,000.00	120,000.00	Fraudulent withdrawal carried out by third party using skimmed debit card. Insurance claim was rejected due to non-availability of insurance cover for Debit cards.	120,000.00		120,000.00
23	22-Jul-17	Mahabage	45,000.00	45,000.00	Fraudulent withdrawal carried out by third party using skimmed debit card. Insurance claim was rejected due to non-availability of insurance cover for Debit cards.	45,000.00		45,000.00
24	29-Jul-17	Monaragala	194,000.00	194,000.00	Fraudulent withdrawal carried out by third party using skimmed debit card. Insurance claim was rejected due to non-availability of insurance cover for Debit cards.	194,000.00		194,000.00
25	22-Jul-17	Katunayake	Rs.20,000.00	20,000.00	Fraudulent withdrawal carried out by third party using skimmed debit card. Insurance claim was rejected due to non-availability of insurance cover for Debit cards.	20,000.00		20,000.00
26	6-Aug-17	Aluthgama	64,600.00	64,600.00	Fraudulent withdrawal carried out by third party using skimmed debit card. Insurance claim was rejected due to non-availability of insurance cover for Debit cards.	64,600.00		64,600.00
27	6-Aug-17	Beruwala	170,600.00	170,600.00	Fraudulent withdrawal carried out by third party. Insurance claim was lodged.	170,600.00		170,600.00
28	2016 - 2018	Head Office Branch	25,029,243.60	4,165,573.96	Fraud through Personal loans by an employee. Insurance claim received Rs.21,477,450.04. Court case is going on. Suspect deposited Rs.800, 000/- to head office branch.	4,165,573.96	4,165,573.96	4,165,573.96
29		Head Office Branch	89,214.07	89,214.07	FD withdrawal payment made to incorrect party . Rejected due to no source documents on 13.02.2023	89,214.07		89,214.07
30	3-May-19	Battaramulla	2,798,000.00	2,798,000.00	Withdrawal of Rs.2,798, 000/- by depositing a cheque. Then the relevant cheque was returned. Insurance claim rejected & As per court order Rs 2.1 Mn has been accumulated at court A/C as at	2,798,000.00	2,798,000.00	2,798,000.00

31.12.2023

31	13-Dec-19	Nelliyady	36,170.03	3,617.00	Fraudulent withdrawal carried out by third party using skimmed debit card. Insurance claim has been lodged. Claim amount - Rs 36,170.03 Insurance received Rs 32,553.03 Balance Rs 3,617.00	3,617.00
32	13-Dec-19	Raddolugama	11,014.86	1,101.49	Fraudulent withdrawal carried out by third party using skimmed debit card. Amount of Fraud Rs 11,014.86 Less- Insurance Claim Received – Rs 9,913.37 Balance Amount - Rs 1,101.49	1,101.49
33	30.07.2016	Beruwala	194,339.16	154,042.18	Irregularities in granting pawning advance . Recovered from Employee Rs 40,296.98	154,042.18
34	13.12.2019	Kandy	48,829.54	4,882.95	Fraudulent withdrawal carried out by third party using skimmed debit card. Insurance claim received Rs.43,946.59	4,882.95
35	21-Jul-20	Yakkala	75,000.00	75,000.00	CRM Withdrawal by third party Acc .Branch Mahabage .Insurance Claim rejected.	75,000.00
36	09.09.2021	Rathnapura	429,442.70	429,442.70	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodge .	429,442.70
37	9-Sep-21	Kandy	307,283.00	307,283.00	Fraudulent ATM cash withdrawal carried out by third party using WEB Application.insurance claim lodged. insurance claim lodged. (Card E-Commerce transaction)	307,283.00
38		kandy	59,990.00	59,990.00	Fraudulent ATM cash withdrawal carried out by third party using WEB Application.Insurance Claim Lodge (Card E-Commerce transaction)	59,990.00
39	10.09.2021	Matara	3,101.00	3,101.00	Fraudulent ATM cash withdrawal carried out by third party using Helapay & payhere Insurance claim lodged . (Card E-Commerce transaction)	3,101.00

40	2021-sep	Anuradhapura	16,003.00	16,003.00	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodged .(Card E-Commerce transaction	16,003.00
41	2021-sep	Killinochchi	8,987.00	8,987.00	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodged .(Card E-Commerce transaction	8,987.00
42	2021 sep	Moratuwa	6,001.00	6,001.00	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodged .(Card E-Commerce transaction	6,001.00
43	2021 sep	Nugegoda	20,000.00	20,000.00	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodged .(Card E-Commerce transaction	20,000.00
44	2021 sep	Homagama	99.00	99.00	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodged .(Card E-Commerce transaction	99.00
45	2021 sep	Akuressa	4,391.00	4,391.00	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodged .(Card E-Commerce transaction	4,391.00
46	2021	Kiribathgoda	20,966.00	20,966.00	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodged .(Card E-Commerce transaction	20,966.00
47	2021sep	Borella	40,000.00	40,000.00	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodged .(Card E-Commerce transaction	40,000.00
48	2021 sep	Wattala	5,000.00	5,000.00	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodged .(Card E-Commerce transaction	5,000.00
49	2021sep	Kottawa	100,000.00	100,000.00	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodged .(Card E-Commerce transaction	100,000.00

50	2021 sep	Dambulla	66,405.00	66,405.00	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodged .(Card E-Commerce transaction	66,405.00
51	2021 sep	Aluthgama	337	337.00	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodged .(Card E-Commerce transaction	337.00
52	2021 sep	Manipay	159,679.00	159,679.00	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodged .(Card E-Commerce transaction	159,679.00
53	2021 oct	Ragama	98,001.00	98,001.00	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodged .(Card E-Commerce transaction	98,001.00
54	2021	Athurugiriya	350,923.62	350,923.62	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodged .(Card E-Commerce transaction	350,923.62
55	2021	Rikillagaskada	31,001.00	31,001.00	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodged .(Card E-Commerce transaction	31,001.00
56	2021	Kegalle 2nd	106,105.00	106,105.00	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodged .(Card E-Commerce transaction	106,105.00
57	2021	Jaffna 2nd	55,001.00	55,001.00	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodged .(Card E-Commerce transaction	55,001.00
58	2021 sep	MT Lavinia	14,976.00	14,976.00	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodged .(Card E-Commerce transaction	14,976.00
59	2021 sep	Hingurakgoda	30,001.00	30,001.00	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodged .(Card E-Commerce transaction	30,001.00

60	2021 sep	Kollupitiya 2nd	14,301.00	14,301.00	Fraudulent withdrawal Ecommerce transaction. Insurance claim lodged .	14,301.00
61	2021	Pussellawa	127,702.00	127,702.00	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodged .(Card E-Commerce transaction	127,702.00
62	2021	Katunayake	300	300.00	Fraudulent withdrawal Ecommerce transaction. Insurance claim lodged .	300.00
63	2021	Head office Br	31,104.75	31,104.75	Fraudulent ATM Cash withdrawal carried out by third party using HELAPAY & AYHERE .app.. Insurance claim lodged .(Card E-Commerce transaction	31,104.75
64	2021	Jaffna 2nd Br	3,935,557.74	3,935,557.74	Fraudulent cash withdrawal & loan against fd by employer .	3,935,557.74
65A75 A68:A 74C12 7A68: A76	2021	Rathnapura	192,699.00	192,699.00	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodged .(Card E-Commerce transaction	192,699.00
66	2021	Kekirawa	9,001.00	9,001.00	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodged .(Card E-Commerce transaction	9,001.00
67	2021	Borella	44,910.00	44,910.00	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodged .(Card E-Commerce transaction	44,910.00
68	2021	Narahenpita	101	101.00	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodged .(Card E-Commerce transaction	101.00
69	2021	Maligawatta	27,001.00	27,001.00	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodged .(Card E-Commerce transaction	27,001.00
70	2021	Kotahena	664,734.50	664,734.50	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodged .(Card E-Commerce transaction	664,734.50

71	2021	Dambulla	22,905.00	22,905.00	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodged .(Card E-Commerce transaction	22,905.00
72	2021	Hettipola	151,872.00	151,872.00	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodged .(Card E-Commerce transaction	151,872.00
73	2021	Athurugiriya	1,600.00	1,600.00	Fraudulent ATM cash withdrawal carried out by third party using WEB Application. Insurance claim lodged .(Card E-Commerce transaction	1,600.00
74	2021	Card Center	4,100,914.50	3,600,914.50	Fraudulent transaction originated in japan through automated fuel dispenser category. Insurance claim received Rs 500,000/=	3,600,914.50
75	2021	Raddolugama	7,000.00	7,000.00	Fraudulent ATM cash withdrawal carried out by third party using web application. Insurance claim lodge.(Card E-Commerce transaction)	7,000.00
76	2022.01.20	Athurugiriya	34,990.00	34,990.00	Fraudulent card Ecommerce transaction..Insurance claim lodged.	34,990.00
77	2022.01.20	Hambanthota	5,972.50	5,972.50	Fraudulent card Ecommerce transaction..Insurance claim lodged	5,972.50
78	2022.01.20	Kandy	600	600.00	Fraudulent Card Ecommerce transaction..Insuranceclaim lodged .	600.00
79	2022.04.30	HOB	201,689.56	30,922.27	ATM Card Fraud .Insurance Claim received	30,922.27
80	2022.04.30	Homagama	9,154.16	1,403.48	ATM Card Fraud . Insurance Claim received .	1,403.48
81	200.04.30	Kalubowila	17,220.00	2,640.10	ATM Card Fraud .Insurance Claim received .	2,640.10
82	2022.05.31	Mathale	67,205.88	10,303.75	ATM Card Fraud .Insurance claim received .	10,303.75
83	2022.09.22	panadura	285,484.53	105,484.53	Debit card counterfeited fraud. Insurance Claim lodged. (Total Amount Of Fraud -Rs 285,484.53 , Claim Received from SLIC Rs 180,000.00)	105,484.53
84	2022.11	Kilinochchiya	119,850.00	119,850.00	Fraudulent Pawning Advance made on Period of 2003-2004. insurance claim	119,850.00

					lodged.		
85	2022.11	Weligama	20,911.66	20,911.66	Fraudulent Pawning Advance made on 2004. Insurance Claim Lodged .		20,911.66
86	2022.11	Gampola	21,229.18	21,229.18	Fraudulent Pawning Advance made on 2006. Insurance Claim Lodged .		21,229.18
87	2022.11	Nawala	13,500.00	13,500.00	Fraudulent Pawning Advance made on 2007. (Mr Camil) Insurance Claim Lodged .		13,500.00
88	2022.11	Moratumulla	143.55	143.55	Lost from Cyberattack in 2015 .		143.55
89	31.01.2023	Card Centre	99,000.00	99,000.00	ATM card fraud related to Pick Me Account top up transaction.Claim rejected due to claim is outside the provide cover	99,000.00	
90	10.02.2023	Nugegoda	4,114,063.93	4,114,063.93	Fraud of loan against FDs (pending investigation)		4,114,063.93
91	2023.02.	WTC	100.00	100.00	Fraudulent withdrawal Ecommerce transaction. Insurance claim lodgg on 2021	100.00	
92	2023.03.10	Kaluthara	112,000.00	112,000.00	Fraudulent cash withdrawal carried out by third party.		112,000.00
93	2023.May	Kandy 3rd Head office	2,900.00	2,900.00	Atm Card Fraud By third party using lost card . (system issue)	2,900.00	
94	2023 July	postal (Kirulapone)	128,395.23	128,395.23	Fraudulent transaction from FD .insurance claim lodge on 30.03.2023		128,395.23
95	2023 sep	Nawala		561,050.74	Adjustment of the auction clearance pawning -Case MM Kamil		561,050.74
96	2023 Dec	Card Centre	75,414.09	75,414.09	ATM Card skimming Fraud. Insurance Rejected due to skimming card frauds not covered under BI policy 2020.	75,414.09	
97	2023 Dec	Card Centre	1,062.04	1,062.04	Atm Card Skimming Fraud . Insurance Rejected . due to	1,062.04	
98	2024 January	Badulla	50,000.00	50,000.00	Fraudulent transaction from S/A No 1-0022-88-48505 done by Employee Mr S Suganandan		50,000.00
99	2024 February	Kandy	18,397,548.47	18,397,548.47	Actual Amount of fraudulent transactions done from four savings A/Cs		18,397,548.47
100	2024 February	kottawa	68,942.67	6,894.27	ATM Card Fraud from S/A no 1-0102-80-80569 & insurance received as Rs 62,048.40 on 2024 March	6,894.27	

101	2024 February	Galle 2nd	497,678.06	497,678.06	Fraudulent transaction Done From FD No 209031182501 (Disease case of Mr G Pemadasa) FD Amount -Rs 998,452.04 (Deduct the interest as disease Case) Recovered Amount - Rs 499,226.02 Interest deduction - Rs 1,547.06 Balance Amount - Rs 497,678.06					497,678.06	
102	2024 March	Pitigala	15,000.00	15,000.00	Fraudulent transaction done through standing Order from S/A No 1-0139-01- 20596 (Uragasmanhandiya) .Insurance claim lodged & rejected due to claim amount is less than the policy excess of Rs 50,000.00					15,000.00	
103	2024 March	Kiribathgoda	34,381.54	34,381.54	Fraud through ATM card When negative Balances at A/C .Insurance claim lodged .				34,381.54		
104	2024	Middeniya	39,260.07	39,260.07	ATM card Fraud (Propossed to write off) .Insurance Claim lodged .				39,260.07		
105	2024 April	Rajagiriya	78,861.20	78,861.20	Fraudulent transaction ATM card fraud by third party on 2020				78,861.20		
106	2024 April	Rajagiriya	4,295.14	4,295.14	Fraudulent transaction ATM card fraud by third party & insurance Claim Rejected as amount less than the compulsory deductible on 16.10.2020				4,295.14		
107	2024 May	Nugegoda	2,050,000.00	2,050,000.00	ATM cash fraud done by Employee - D.S.G.T Wijesinghe					2,050,000.00	
Total				81,715,811.02				44,075,914.79	41,489,139.26	8,096,767.67	37,260,316.59

Total outstanding as at 31.05.2024 Rs. 81,715,811.02

Total ATM Card Frauds as at 31.05.2024 8,096,767.67

Multiple E commerce ATM frauds as at 31.05.2024 2,799,481.87

(Item No 37-63 ,65-73,75 -Investgation Pending)

ATM Frauds already recovered from Insurance

<u>Item No</u>	<u>Branch</u>	
83)	Panadura	180,000.00
74)	Card Centre	500,000.00
79)	HOB	170,767.29
80)	Homagama	7,750.68
81)	Kalubowila	14,579.90
82)	Matale	56,902.13