

People's Bank and its subsidiaries - 2023

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the People's 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 flows 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.

The Bank has been exempted from the provisions of Part II of the Finance Act, No. 38 of 1971 by an Order of then Minister of Finance published in the Government Gazette No. 715 of 14 May 1992 by virtue of powers vested in him by Section 5(1) of the said Finance Act. My comments and observations which I consider should be reported to Parliament appear in this report. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

In my opinion, the accompanying financial statements of the Bank and the Group give a true and fair view of the financial position of the Bank and the Group as at 31 December 2023 and of their financial performance and their 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 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 intends to liquidate 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's and the Group's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Group is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the 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 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 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 Group 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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 whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Bank has complied with applicable written law, or other general or special directions issued by the governing body of the Bank;
- Whether the Bank has performed according to its powers, functions and duties; and
- Whether the resources of the Bank had been procured and utilized economically, efficiently and effectively with in the time frames and in compliance with the applicable laws.

1.5 Accounts Receivable and Payable

1.5.1 Advances

Audit Issue

Management Comment

Recommendation

1.5.1.1. 103,147 loans amounting to Rs.586,421 million had been granted by the Bank during the year 2023 and out of those 2,757 number of loans amounting to Rs.2,537.11 million had been remained in the non-performing category as at 31 December 2023. Further, out of the above loans transferred to NPL category, the Bank was unable to recover even a single installment from 484 number of loans amounting to Rs.650.67 million during the year under review.

Total loans granted during the year 2023 was Rs. 586,420.94 million and accordingly, the percentage of transferring to Non Performing category is 0.4 percent which is acceptable given the macro-economic conditions in the country.

Take necessary actions to grant loans and advances to eligible customers in accordance with approved guidelines and circulars and to recover effectively and efficiently. Further, take necessary actions against responsible parties for non compliances and strengthen the internal controls of the bank.

Further, the bank have been able to reduce the loan facilities in which a single installment has not been recovered as at 30 June 2024, up to 234 facilities from 484 facilities as at 31 December 2023 and amount by Rs.12.60 million amounting to Rs.638.07 million from the balance of Rs.650.67 million as at 31 December 2023.

1.5.1.2. Rs.67.24 million had been written off by the Bank for the year 2023 which comprise the capital of Rs.40.31 million and interest of Rs.26.93 million. Rs.190.57 million had been recovered during the year 2023 from the written off balances. Details of written off balances and written off recoveries during last five years are as follows.

The Bank adopted the write off policy for unrecoverable Non Performing debts in every year as applicable, for the purpose of proper reflection of books of accounts. Nevertheless, all possible recovery measures have been continued to recover such write-off advances.

Year	Rs. Million			Writt en-off Recov eries
	Written-off Balances			
	Capit al	Interest	Total	
2019	329.29	74.00	403.29	71.53
2020	363.20	1,321.12	1,684.32	13.57
2021	108.86	761.26	870.12	15.29
2022	276.67	365.45	642.12	15.35
2023	40.31	26.93	67.24	190.57

Further, the recovery of write-off debts has been set as a key performance indicator of the Recoveries Department and is closely monitored on a monthly basis, to ensure the effectiveness of the recovery process. Further, during the year 2023, written-off recoveries were 04 times than the written-off value.

This was mainly due to Ceylon Electricity Board (CEB) being classified as stage 2 as at 31 December 2023.

1.5.1.3. Loans categorized under stage 2 category had been increased by Rs.37,283 million or 13.5 percent as at 31 December 2023 as compared with previous year.

Bank was able to recover Rs.93.6 million up to 31 July 2024 from

1.5.1.4. Total Non - Performing Overdraft (OD) balance over Rs.5 million of the Bank as at 31 December 2023 was Rs.10,536.23 million including the capital of Rs.2,631.39 million and interest in suspense of Rs.7,904.84 million.

1.5.1.5. Total Non - Performing Advances over Rs.10 million amounted to Rs. 122,923.8 million as at 31 December 2023 with Rs. 61,577.3 million of capital outstanding and Rs. 61,346.5 million of interest outstanding balance. Out of the above total capital outstanding, Rs. 22,961 million or 37.29 percent had been remained without sufficient securities. Details are as follows.

Security Description	Capital Outstanding (Non-Performing Advances over Rs. 10 million) as at 31.12.2023 Rs. million	% from Total Non-Performing Capital Outstanding over Rs.10 million
Inadequate property		
Security	4,352.13	7.07
Corporate		
Guarantee	5,915.95	9.61
Personal		
Guarantee	9,398.58	15.26
Clean Basis	3,294.93	5.35
Total	22,961.59	37.29

1.5.1.6. Total outstanding of top 10 non-performing loans (NPLs) as at 31 December 2023 based on the capital outstanding balance was Rs.73,158.94

the Capital outstanding which was Rs.2,631.39 million as at 31 December 2023. Anyhow, the total non-performing overdraft (OD) balance over Rs.5 million of the Bank as at 31 July 2024 is Rs.2,735.19 million. Recovery process continues.

Corporate Credit Facilities are granted with the assessment of several key criteria where the security is one such criteria. At the time of granting the facilities considered, the financials, cash flows and business/economic assessments along with industry assessments (then industry and economic context) etc. have been carried out with proper approvals being obtained through the correct channels. However, a sizeable proportion of the loans of the top NPL customers have been transferred to that category due to the worsening economic conditions or factors that have directly affected because of the turbulences of the external/business environment. Despite the fact that the facilities are being categorized as NPL, the bank constantly takes every possible measure to recover the due amounts

The capital position of Non

million including the capital of Rs.35,774.39 million and interest of Rs.37,384.55 million. Details are given below.

Performing debts has decreased due to all possible causes of actions that have been taken to recover the debts.

Capital outstanding as at 31.12.2023 – Rs.35,774.39 million

Capital outstanding as at 31.07.2024 – Rs.28,378.12 million

Accordingly, 21 percent (Rs.7,396.27 million) reduction has been achieved.

	Name of the Customer	No of Loans	Capital Balance Rs. Million	Interest Balance Rs. Million	Total Balance Rs. Million
01	Lanka Hotels & Residencies (Pvt) Limited	04	5,945.53	2,202.62	8,148.15
			5,945.53	2,202.62	8,148.15
02	SREI Equipment Finance Limited (SEFL)	01	4,524.15	622.24	5,146.39
			4,524.15	622.24	5,146.39
03	W M Mendis & Company Limited	09	3,876.20	874.76	4,750.96
			3,876.20	874.76	4,750.96
04	CML MTD Construction Ltd	33	2,670.51	2,856.97	5,527.48
	Walkers Piling (Pvt) Ltd	15	343.45	346.42	689.86
	Walkers Equipment Limited	12	293.16	299.15	592.31
	Walkers Sons and Co Engineers Pvt Ltd	01	25.55	79.85	105.40
	MTD Walkers plc	01	2.12	4.33	6.47
			3,334.79	3,586.73	6,921.52
05	The Grand Mountain Hotel (Pvt) ltd	06	1,464.23	1,048.77	2,512.99
	Lak Steel Engineering Private Limited	07	1,617.24	715.79	2,333.03
	Lak Gypsum private Limited	11	151.49	32.15	183.63
	Lak Brand Furniture Private Limited	03	57.59	19.56	77.16
			3,290.56	1,816.27	5,106.83
06	Mihin Lanka (Private) Ltd	03	3,171.42	529.49	3,700.91
			3,171.42	529.49	3,700.91
07	Huravee International Pvt Ltd	01	3,078.95	1,753.96	4,832.91
			3,078.95	1,753.96	4,832.91
08	Nawaloka steel Industries (Pvt) Ltd	03	516.73	295.28	812.00
	Nawaloka Const Company Private Limited	31	2,231.14	1,285.83	3,516.97
	East West Marketing (Private) Limited	01	138.50	53.7	192.21
	New Ashford International Pvt Ltd	02	33.18	14.58	47.76
	Nawaloka Petroleum Pvt Ltd	01	115.00	45.21	160.21
			3,034.55	1,694.61	4,729.16
09	Yashoda Holdings (Pvt) Ltd	36	2,424.32	18,647.46	21,071.78
	Yashoda Marketing Services (Pvt) Ltd	01	0.73	5.51	6.24
	Yoshi Advertising (Pvt)	01	0.47	3.56	4.03

	Ltd				
	Yuni Agencies Transport (Pvt) Ltd	01	0.84	6.39	7.24
	Yuni Printers (Pvt) Ltd	03	11.02	95.08	106.10
	Ruhunu Agro Fertilizer Co. Ltd	09	498.50	3,900.49	4,398.99
	Ruhunu Plywood Products (Pvt) Ltd	02	90.25	606.42	696.68
	Murni Bakery Equipment (Pvt) Ltd	01	4.30	27.99	32.29
			3,030.44	23,292.91	26,323.35
10	RPI Private Limited	03	2,487.79	1,010.96	3,498.76
			2,487.79	1,010.96	3,498.75
	Total		35,774.39	37,384.55	73,158.94

1.5.1.7. Exposure to State Owned Enterprises (SOEs)

- (i) Total outstanding loans and advances belonging to Central Government and SOEs have been recorded as Rs. 781,402 million or 42.32 percent from total loans and advances portfolio of the Bank as at 31 December 2023. However, outstanding loan balances from SOE's had been reduced by Rs. 90,217 million or 10.35 percent as compared with the preceding year.
- (ii) The aggregated amount of investments and other receivables from government was Rs.1,041,466 million as at 31 December 2023 and accordingly, total exposure to the Central Government & SOE's was Rs.1,822,868 million and it represents 60 percent from total assets of the Bank.
- (iii) Total outstanding balance of loans and advances belonging to the Central Government and State Owned Enterprises (SOEs) and investments and other receivables from government during the last 5 years period are as follows.
- Bank Continuously review and revise internal risk tolerance limits and established targets on a staggered basis to gradually reduce exposures to GOSL and SOEs to an acceptable level in the short to medium term, in line with the bank's risk appetite. Further, close monitoring and follow up carried out to ensure credit facilities obtained by SOEs based on the collateral offered by the General Treasury are serviced in a timely manner to mitigate the credit risk and to maintain liquidity, earnings and capital at satisfactory levels above regulatory requirements considering the size and complexity of the bank. To save any doubt, following to be highlighted in this regard.
- Facilities are considered to the SOEs only under the given SOE Exposure limits excluding cash margin facilities.
 - In order to ensure the limits, SOE exposure as at the end of each month is reported to the DGM(Risk Management).
 - No new facilities were

considered to the SOEs during 2024 excluding cash margin facilities.

Loans & Advances	2019	2020	2021	2022	2023
Loans & advances belongs to the Central Government & SOEs (Rs.million)	601,297	844,821	937,386	871,619	781,402
Increase of Central Government & SOEs balance compared to the previous year (Rs.million)	50,197	243,525	92,564	(65,767)	(90,217)
Increase of Central Government & SOEs balance compared to the previous year (%)	9.11	40.55	10.96	(7.02)	(10.35)
Total Loans & Advances (Rs.million)	1,386,481	1,723,466	1,936,974	1,915,788	1,846,389
% of Central Government & SOEs balance out of Bank's Total Loans & Advances	43.37	49.02	48.39	45.50	42.32
Total Assets of the Bank (Rs.million)	1,873,406	2,230,119	2,647,641	2,972,028	3,038,195
% of Loans & Advances of Central Government & SOEs out of Total Assets of the Bank	32.10	37.88	35.40	29.33	25.72
Investments made & other receivables from Central Government (Rs.million)	419,217	435,343	672,155	1,024,096	1,041,466
Total Asset Exposure of Central Government & SOEs	1,020,514	1,280,164	1,609,540	1,895,715	1,822,868
% of Central Government & SOEs exposure out of Total Assets of the Bank	54.47	57.40	60.79	63.79	60.00

Total payable to SOEs (Borrowings & Deposits)	217,791	222,257	226,722	418,932	480,710
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(iv) Interest receivable balance on Senior Citizen Fixed Deposit

Outstanding interest receivable balance from Government of Sri Lanka on Senior Citizen fixed deposits had been recorded as Rs. 22,594.87 million as at 31 December 2023. However, only Rs. 959.49 million had been received to the Bank from the General Treasury during the year 2023.

(v) Outstanding loan balances of Deputy Secretary to Treasury, Road Development Authority, National Water Supply & Drainage Board and Department of Samurdhi Development amounting to Rs. 37,079.25 million had been set off by issuing treasury bonds during the year 2023 instead of paying cash. Details are given below.

Description	Set off value Rs. million	Bond maturity date
Deputy Secretary to Treasury	27,709.21	15.07.2025
		15.07.2027
		15.07.2029
		15.07.2031
		15.07.2033
Road Development Authority	7,423.08	
National Water Supply & Drainage Board	1,458.37	01.07.2025

Continuous follow up(s) are carried out. As a result thereto, Rs. 4.2 billion was received on 18 April 2024. Follow up for remainder continues.

The Bank has agreed for the settlement of the below stated outstanding under each customer by exchanging through Treasury Bonds during the Year 2023 instead of settling by cash due to cash flow stress prevailed in Government Treasury.

DST – POD facility of Rs. 30,000.0 million exist in the Current Account of Deputy Secretary to the Treasury Account maintained at the Union Place Branch. Utilization of the said POD limit is zero as at 31 July 2024.

RDA – interest paid by issuing Treasury Bonds in 2022, however in June 2023 all the dues were settled upon receipt of funds from General Treasury. Bi-annual repayments are taken place in December & June. Re-payments up to date.

NWSDB – Treasury Bonds issued in August 2022 and February 2023 to recover part of the due installments. The repayments are made bi-annually and repayments up to date.

Department of Samurdhi Development - Facilities settled in

Department of Samurdhi Development	488.59	15.09.2027	full on 28 February 2024.
Total	37,079.25		

(vi) Top 10 SOE loans and advances

Loan outstanding balances of top 10 SOEs including Central Government as at 31 December 2023 had been recorded as Rs. 734,261 million with capital of Rs. 722,415 million and interest of Rs. 11,846 million which represents 93.97 percent of total outstanding balance of loans and advances belonging to the Central Government & SOEs. Details are as follows.

The SOE exposure of Corporate Banking Division is closely monitored and accordingly, outstanding balance of Rs.613,133 million recorded on large SOEs as at 31 August 2024.

Institute	Outstanding as at 31 December 2023 Rs. million	Security	Security Value
Deputy Secretary to Treasury	428,659	Loan Agreement	-
Total	428,659		-
Ceylon Electricity Board	3,039	Clean	-
	44,340	Mortgage over Receivable	Rs. 43,738 Mn
	5,496	Treasury Guarantee	Rs. 5,445 Mn
	9,184	Treasury Guarantee	Rs. 8,833 Mn
	25,813	Clean	Rs. 18,013 Mn
		Book Debts	Rs. 3,800 Mn
	Fixed Deposit	Rs. 4,000 Mn	
Total	87,872		
Road Development Authority	23,594	Treasury Indemnity	Rs. 21,273 Mn
	38,822	Treasury Guarantee	Rs. 35,000 Mn
	5,274	Treasury Guarantee	USD 44.72 Mn
	995	Assignment over toll collection	-
Total	68,685		

Sri Lankan Air Lines	13,356	Letter of Comfort	Rs. 13,350 Mn
	33,212	Letter of Comfort	USD 100 Mn
	5,380	Treasury Guarantee	Rs. 8,289 Mn
	1,767	Treasury Guarantee	USD 5.38 Mn
Total	53,715		
Director Pensions	19,837	MOU with Pension Department	-
Total	19,837		
Ceylon Fertilizer Company Limited	6	Clean	-
	17,977	Letter of Comfort	Rs. 29,316 Mn
	19	Cash Back	Rs. 20 Mn
Total	18,002		
Ceylon Shipping Corporation	17,304	Treasury Guarantee	USD 71.91 Mn
Total	17,304		
National Water Supplies & Drainage Board	3,480	Treasury Guarantee	Rs. 5,121 Mn
	9,313	Treasury Undertaking Letter	Rs. 9,613 Mn
	1,814	Treasury Guarantee	Rs. 561 Mn
		Treasury Undertaking Letter	Rs. 1,683 Mn
	154	Treasury Guarantee	Rs. 128 Mn
		Treasury Undertaking Letter	Rs. 385 Mn
Total	14,761		
State Pharmaceuticals Corporation of Sri Lanka	9,925	Clean	-
	3,986	Treasury Comfort Letter	Rs. 6,000 Mn
Total	13,911		
Colombo Commercial Fertilizer Ltd	11,513	Treasury Comfort Letter	Rs. 15,282 Mn
Total	11,513		
Grand Total	734,261		

1.5.1.8. Special Report on the Top 25 Non-Performing Customers of the State Banks

Take necessary actions to recover the outstanding balances without further delay.

A special report under the above caption submitted to the Parliament commented about the first ranked 25 Non - Performing customers of State Banks on group basis (the Group of Customers were identified based on the information provided by the Banks). The subsidiary companies within the group which are having Non – Performing Loan exposures were considered when deriving the Non – Performing Loan exposure of the relevant group. The non-Performing customers were ranked based on total outstanding balance as at 30 September 2023 including capital and interest outstanding. Out of selected Top 25 Non-Performing customers, 14 customers were selected from People’s Bank based on ranking and observations of related customers are as follows.

Further, take necessary actions against responsible parties for non compliances and strengthen the internal controls of the bank.

(i) Yashodha

(a) Yashoda Holding (Pvt) Ltd

Thirty four (34) numbers of loan facilities and two (2) numbers of overdraft facilities granted to Yashoda Holding (Pvt) Ltd during the period of 1992 – 1996 were lying under the non performing category as at 30 September 2023. All the facilities granted were defaulted during the period of 1996 – 1997 and were classified as Non Performing by the Bank on 26 October 1998. Loan facilities had been granted by the Bank to Yashodha Holdings (Pvt) Ltd exceeding the approved single borrower limit of the Bank prevailed at that time period. Further, credit evaluations of the customer had not been available for the audit and the Bank has not taken customer acceptance through offer letters when granting the loans.

The total outstanding balance of the customer as at 30 September 2023 was

Rs.20,914.09 million with total capital and interest outstanding of Rs.2,424.32 million and Rs.18,489.77 million respectively.

As per the Board Paper No.1324/95, overdraft facilities with total outstanding balance of Rs.1,392.19 million as at 30 September 2023 (6.66% of total outstanding) were initially secured against 03 freehold immovable properties situated at Wattala, Nuwaraeliya, Bataleeya and 99 years lease hold property situated at Kollupitiya.

However, the freehold property located at Balagalla Road, Wattala which has a forced sale value of Rs.4.3 million had been fraudulently transferred to another party by the property owner and Bank was failed to realize the property and no any legal actions were taken in this regard.

When passing board resolution on 10 July 1997 to auction the properties mortgaged to the Bank to recover the overdraft outstanding, the Bank has not included the Bataleeya Property which is one of the mortgaged properties. Hence, the Bank was unable to execute the auction process and had to take hypothecary actions in respect of Bataleeya property. However, hypothecary actions had been filed in 2007, which is 10 years after the resolution passed and the case is still not concluded.

The consent to parate execution on Kollupitiya Property has been sought from the UDA as it was a leasehold property. However, their consent had not been received to the Bank.

The only available security for the overdraft facilities is the Nuwara Eliya property situated at Badulla Road, Nuwaraeliya, which has a forced sale value of Rs.300 million. The forced sales

The chain of title at Balagalla Road, Wattala property had not been properly reflected in the Land Registry. Therefore, the mortgagor was able to alienate the property. In the sense, Bank has not initiated any action against the transfer of this asset.

Consequence to Supreme Court decision, the Bank was able to parate execute the mortgage asset at Nuwaraeliya and acquired. Eviction action was also decided by

value of the mortgaged property represents 21.55 % of the respective outstanding balance.

93.33% or Rs.19,519.30 million of total outstanding was secured against the primary documents and the balance of 0.01% or Rs.2.60 million was granted on clean basis. Therefore, recoverability of loan outstanding amounting to Rs.20,614.09 million is doubtful due to the lack of strength of the available securities.

Based on the primary loan documents, the Bank has filed 18 Court cases towards the recovery of loan facilities with total outstanding balance of Rs.19,519.30 million (outstanding balance as at 30 September 2023) and out of which almost 15 cases were decided in favor of the Bank. However, Bank was unable to ascertain any assets belonging to the company. In addition to the above, the Bank has filed a case to claim Rs.2,000 million under the personal guarantee bond executed against 03 Directors of the company and hearing is under progress. Even if the judgment of the case against the personal guarantors delivered in favorable to the Bank, it is questionable whether the Bank can ascertain assets belonging to the guarantors.

(b) Yashoda Marketing Services Ltd, Yoshi Advertising Ltd and Yuni Agencies Transport Ltd

The Bank had granted credit facilities to aforesaid companies during the 1996 and due to irregular payments, loans were classified as Non Performing by the Bank on 26 October 1998.

The total outstanding balance of the customer as at 30 September 2023 was Rs.17.39 million with capital and interest

the Supreme Court in favor of the Bank and accordingly the vacant possession of the asset has been obtained by way of writ execution.

Thereafter, mortgagor registered a lispendency at the land registry in pursuant to the land matter initiated by them in 2012 in the District Court of Nuwaraeliya. This creates encumbrance to dispose the asset. The Bank objected to issue lispendency and the decision is pending.

Recovery depends on successful execution of Writ against the assets of Directors after judgment in favor of the Bank in personal guarantee case.

The Companies were no longer in existence after transferring to Non Performing.

balance of Rs.2.05 million and Rs.15.34 million respectively.

Loans were granted on clean basis and actions had not been taken against the companies as there were no security documents obtained. Therefore, recoverability of total outstanding of loan amounting to Rs.17.39 million is doubtful due to non-availability of securities.

(c) Yuni Printers (Pvt) Ltd

Three (03) numbers of loan facilities granted to Yuni Printers (Pvt) Ltd during the period of 1996 – 1997 were lying under the non performing category as at 30 September 2023. All the facilities granted were defaulted during the period of 1996 – 1997 and were classified as Non Performing by the Bank on 26 October 1998.

The total outstanding balance of the customer as at 30 September 2023 was Rs.105.26 million with total capital and interest balance of Rs.11.02 million and Rs.94.24 million respectively.

The facilities were granted against the primary security documents such as Application, Promissory Notes and no any tangible securities had been obtained. Based on the primary loan documents, the Bank has filed 02 Court cases towards the recovery of loan outstanding and writs were allowed but no assets were found to execute writs. Therefore, recoverability of total outstanding of Rs.105.26 million is doubtful due to lack of strength of the available securities.

The Company was no longer in existence after transferring to Non Performing and no assets.

(d) Ruhunu Agro Fertilizer Company Ltd

Nine (9) numbers of loan facilities granted to Ruhunu Agro Fertilizer Company Ltd during the period of 1995 – 1997 were lying under the non

The Company was no longer in existence after transferring to Non Performing and no assets.

performing category as at 30 September 2023. All the facilities granted were defaulted during the period of 1996 – 1997 and were classified as Non Performing by the Bank on 26 October 1998.

The total outstanding balance of the customer as at 30 September 2023 was Rs.4,366.03 million with total capital and interest balance of Rs.498.50 million and Rs.3,867.53 million respectively.

The facilities were granted against the primary security documents such as Application, Promissory Notes and no any tangible securities had been obtained. Based on the primary loan documents, the Bank has filed 08 Court cases towards the recovery of loan outstanding and writs were allowed but no assets were found to execute writs. Therefore, recoverability of total outstanding of Rs.4,366.03 million is doubtful due to lack of strength of the available securities.

(e) Ruhunu Plywood Products (Pvt) Ltd

Two (02) numbers of loan facilities granted to Plywood Products (Pvt) Ltd during the period of 1994 – 1995 were lying under the non performing category as at 30 September 2023. All the facilities granted were defaulted during the period of 1996 – 1997 and were classified as Non Performing by the Bank on 26 October 1998.

The total outstanding balance of the customer as at 30 September 2023 was Rs. 691.71 million with total capital and interest balance of Rs. 90.25 million and Rs. 601.46 million respectively.

The facilities were granted against the primary security documents such as Application, Promissory Notes and no any tangible securities had been obtained. Based on the primary loan documents, the Bank has filed a Court

The Company was no longer in existence after transferring to Non Performing and no assets.

case towards the recovery of loan outstanding and writs were allowed but no assets were found to execute writs. Therefore, recoverability of total outstanding of Rs. 691.71 million is doubtful due to lack of strength of the available security.

(f) Murni Bakery Equipment (Pvt) Ltd

The Bank had granted a credit facility of Rs. 15 million to Murni Bakery Equipment (Pvt) Ltd on 03 July 1995 and due to irregular payments, the loan was classified as Non Performing by the Bank on 26 October 1998.

The total outstanding balance of the customer as at 30 September 2023 was Rs. 32.05 million with total capital and interest balance of Rs. 4.30 million and Rs. 27.75 million respectively.

The loan was granted against the primary security documents such as Application, Promissory Notes and no any tangible securities had been obtained. Based on the primary loan documents, the Bank has filed a Court case towards the recovery of loan outstanding and writ was allowed but no assets were found to execute writ. Therefore, recoverability of total outstanding of Rs. 32.05 million is doubtful due to lack of strength of the available securities.

The Company was no longer in existence after transferring to Non Performing and no assets.

(ii) Laugfs

(a) Laugfs Terminals Ltd

Two (2) numbers of loan facilities granted to Laugfs Terminals Ltd during the years of 2017 and 2023 were lying under the non performing category as at 30 September 2023. The main facility of Rs. 7,133.5 million has been granted on 23 March 2017 and transferred to non performing category on 02 March 2022. Legal actions were initiated for the recovery of loan facilities.

The term loan facility was rescheduled on 27 September 2023 with the approval of Board Executive Credit Committee No. 291/2023. The facility was transferred to performing on 29 December 2023. Payments are regular.

Borrowing company had deposited money to settle two loan facilities with the capital outstanding of USD 1.79 million (Rs.587.03 million) during February and April 2023. Accordingly, facilities had been rescheduled via the Board Executive Credit Committee No.291/2023 on 04 July 2023.

The loans granted were secured against the collateral of Corporate Guarantee over Laugfs Gas PLC for USD 22.6 million and concurrent mortgage over project assets with Standard Chartered Bank. The valuation of the property was USD 57.3 million as at 15 September 2023 and out of that Plant & Machinery constitutes USD 52.9 million. The total outstanding balance of the customer as at 30 September 2023 was Rs.7, 809.51 million with total capital and interest balance of Rs 7,801.63 million and Rs 7.88 million respectively.

However, though the concurrent mortgage is executed over the leasehold right of the terminal at Hambantota Port, there may be practical issues in initiating legal action over the mortgage rights assigned to the Bank.

(b) Laugfs Gas Plc

Five (05) numbers of loan facilities have been granted to Laugfs Gas PLC during the period of 2020 – 2022 and all facilities were transferred to non performing category during the period of 2021 - 2023 and legal actions were initiated. The total outstanding balance of the customer as at 30 September 2023 was Rs.1,031.21 million with total capital and interest balance of Rs. 773.69 million and Rs. 257.52 million respectively.

Short Term Loans in non-performing category were settled with the approval of Board Executive Credit Committee No 311/2023, 02 block loans are performing and payments are regular.

Outstanding balance as at 02 September 2024 is Rs 1,369.58 million along with the newly granted Letter of Credit/Short Term Loans.

Recoveries were made as per the settlement plan agreed in the court. As at the date of audit on 20 March 2024, three (03) loans out of five (05) loans amounting to Rs. 569.22 million have been paid and the total outstanding amount of the remaining 02 loans was Rs.461.99 million as at 30 September 2023.

However, above 05 numbers of short term loan (STL) facilities amounting to Rs. 807.87 million had been granted without taking proper securities as LC granted against the primary documents (Application, Receipt). Further, waiver of interest amounting to Rs.211.3 million was approved by the Board Executive Credit Committee No.311/2023 dated 10 July 2023.

(c) Laugfs Engineering (Pvt) Ltd

Six (6) numbers of loan facilities granted to Laugfs Engineering (Pvt) Ltd during the period of 2018 – 2021 were categorized under non performing category as at 30 September 2023. The main facility of Rs. 170 million has been granted on 25 April 2018 and transferred to non performing category on 27 April 2022. The other facilities were transferred to Non-Performing Category in 2022.

Total outstanding balance of the customer as at 30 September 2023 was Rs. 155.65 million with capital and interest balance of Rs.123.15 million and Rs. 32.50 million respectively. Facilities were granted against Corporate Guarantee over Laugfs Holdings Ltd and primary documents. Therefore, recoverability of outstanding of loans are doubtful due to lack of strength of the available securities. However, 6 court cases had been filed by the Bank and all facilities had been rescheduled through Board Executive Credit Committee

The term loan facility of Rs 170 million was rescheduled on 27 November 2023 with the approval of Board Executive Credit Committee No. 237/2023 and the same repayment plan was entered as a court settlement CHC/273/22/MR. Payments are regular.

The other 5 term loans are rescheduled on 28 May 2024 with approval by Board Executive Credit Committee No. 135/2024 and same repayment plan was entered as a court settlement for the legal cases of MR/2974/2022/Mr/2975/2023/MR/3019/2022, MR/3069/2022 and MR/3020/2022. Payments are regular.

No.237/2023 dated 10 July 2023 and Board Executive Credit Committee No.135/2024 dated 19 February 2024.

(iii) Lanka Hotels & Residencies (Pvt) Ltd

The company has obtained USD 30 million loan from Hatton National Bank (HNB) to finance the project in 2012. With the decision to expand the project by adding two more buildings, the customer had requested to enhance the limit from HNB. Subsequently the request was rejected by the HNB as they have extended the loan repayment since 2014 due to non-completion of the project.

The Customer had requested USD 45 million as syndication against the concurrent mortgage with Paripassu Right over Project Assets to refinance HNB loan amounting to USD 15 million and to fulfill balance finance requirement of USD 7.5 million. Accordingly, the Bank has granted USD 22.5 million which is the half of the total requirement of USD 45 million during the period of 2017 - 2019, as a syndicate loan with the National Development Bank (NDB) against the Concurrent Mortgage with Paripassu Right over the Project Assets. The loan facility should be recovered within 9 years including 2 years grace period with the fully completion of proposed investment in June 2018. However, considering the non-completion of the construction on time and the effect of unfavorable circumstances of Covid -19 pandemic, the Bank has extended the loan repayment period. Though the repayment period had been extended, the investor was unable to settle the loan facility as per the agreement and transferred to NPL on 28 June 2023. Bank had recovered capital of Rs. 259.6 million and interest

- A meeting was arranged by the syndicate lenders with Lanka Hotels & Residencies (LHR) main shareholder on 27 June 2024.
- Both banks re-stressed the borrower on the fact that the facilities should be rescheduled and made current immediately.
- Despite Banks' resistances, customer continuously requested to release a part of the mortgage asset to accept any re-scheduling arrangement. However, Banks, especially PB stated that being a state Bank, we are unable to give any commitment on releasing a part of the property. Customer continuously requested to give a commitment of releasing property with even conditions.
- Based on this last meeting, both banks informed that Banks will only proceed with the proposed rescheduling arrangement and customer's request will be informed to the two Boards of the banks with this rescheduling arrangement, once the client makes the agreed payment of USD 4 million to Inward Investment Account (IIA).
- Upon failure of client to deposit committed funds in Inward Investment Account (IIA) within the stipulated timeline, Banks to proceed with legal action and seek legal advice of the external counsel simultaneously.
- Simultaneously, based on NDB

of Rs.1,126.3 million as at the date of NPL from the main facility of Rs.4,867.5 million.

Total outstanding of Rs. 7,966.73 million had been recorded as at 30 September 2023 with capital and interest balance of Rs. 5,951.45 million and Rs. 2,015.28 million respectively. The Bank has granted the loan facility based on the future business cash flows and it has not started to generate cash flows over the investment as at the date of audit on November 2023, which has almost completed the seven years out of total period.

The security of the above loan was first ranking concurrent mortgage in favor of NDB and PB over all assets of the project including land and buildings located at No.265, Galle Road, Colombo 03, which has a Forced Sale Value of Rs.13 billion as at 20 March 2023. Since the collateral is secured for both PB and NDB, both Banks are jointly and continuously negotiated with the customer to restructure the facilities and sent the letter dated 06 December 2023 to the customer by stating the Banks agreement to proceed with the proposed re-schedule of facilities excluding property release. The company officially declared soft opening of the hotel operation on 30 December 2023 and the Grand Opening was scheduled in March 2024. Last meeting for negotiation on re-scheduling the facilities was held on 27 February 2024 between the customer and CEOs of both Banks.

(iv) Walkers

(a) CML MTD Construction Ltd

Thirty Four (34) numbers of loan facilities granted to CML MTD Construction Ltd during the period of

legal counsel's advised, both bank jointly sent a letter dated 29 July 2024 to the client formalizing the terms of concessions and facilities granted in the moratorium period with current outstanding before sending the Letter Of Demand incase, banks proceed with legal actions.

Further, a virtual meeting was held on 06 August 2024 with the participation of both the banks' legal team to discuss on Letter Of Demand Procedure and way forward in the litigation and it was discussed to agree on appointing a legal counsel acceptable to both banks, in case the banks proceed with legal actions which to be concluded in coming period.

A claim has been lodged in the winding up case, bearing No. HC Civil 32/19/CO filed by a third

2005 – 2018 were lying under the non performing category as at 30 September 2023. An overdraft facility with total outstanding balance of Rs.1,605 million as at 30 September 2023 has been granted on 21 April 2005 and transferred to non performing category on 22 August 2018. Capital balance of Rs.22,551.4 million and interest of Rs.294.9 million had been recovered from this facility up to first non-performing date since the granted date.

The total outstanding balance of the customer as at 30 September 2023 was Rs.5,303.85 million with total capital and interest balance of Rs 2,670.51 million and Rs 2,633.34 million respectively. Out of total outstanding, Rs.472.1 million was secured against vehicles and machinery, which has a forced sale value of Rs. 85.7 million. Further balance of Rs 1,712.1 million was secured against the Joint and Several Guarantee of the Directors of the Company and Corporate Guarantee of MTD Walkers PLC. Another Rs. 1,864.5 million and Rs. 1,255.15 million were granted on primary documents and on clean basis respectively.

Parate procedure had been executed by the Bank for total outstanding balance of Rs.472.1 million. Rs.88.47 million from the sales proceeds of 11 vehicles/machines were appropriated towards the capital with the approval of Board Executive Credit Committee. Total margin balance as at 30 April 2024 was Rs.14.4 million being the sales proceeds of another 4 vehicles.

3 court cases had been filed for Permanent Over Drafts (POD) of Rs. 150 million (004100140210842) & 1 court case for a loan of Rs. 1.0 billion (0048001000008769). Though legal actions have been executed by the Bank against the Company, recoverability is

party. Winding up order has been given and a new liquidator appointed. In the meantime, bank obtained an enjoining order against the company preventing disposal of machinery. The said company is currently in liquidation and the court appointed liquidator has already initiated the liquidation proceedings. The bank has lodged the claim with the liquidator.

For the term loan facilities of Rs. 481.72 million granted against mortgage over vehicles, machines and other equipment, bank has initially identified 22 vehicles and machines. Thereafter, another 3 vehicles and machines identified. All together we have disposed 15 vehicles and machines out of identified 25 vehicles and machines. CID complaint has been lodged for the machines/vehicles which were unable to locate.

The total outstanding of the customer as at 31 July 2024 is Rs. 5,907.33 million with total capital and interest of Rs. 2,582.03 million and Rs. 3,325.30 million respectively.

doubtful due to granting loans based on Joint and Several Guarantee of the Directors, Primary Documents, Corporate Guarantees, etc.

(b) Walkers Piling (Pvt) Ltd

Nineteen (19) numbers of loan facilities had been granted to Walkers Piling (Pvt) Limited during the period of 2005 – 2019 and categorized under the non performing category as at 30 September 2023. The main facility of Rs. 80 million has been granted on 11 July 2018 with a tenor of 90 days and transferred to non performing category on 30 November 2018. The other facilities were transferred to Non Performing Category during the period of 2018- 2019.

The total outstanding balance of the customer as at 30 September 2023 was Rs. 674.72 million with total capital and interest balance of Rs 343.45 million and Rs 331.27 million respectively. A balance of Rs.222.5 million was secured against property situated at No 18, St. Michaels Road, Colombo 3 and this property belongs to the Walkers Sons & Company Engineers (Pvt) Ltd which has a forced sale value of Rs 375 million. Rs. 7 million was secured against mortgage over machinery and the remaining balance of Rs. 445.22 million was granted on primary documents.

3 court cases had been filed by the Bank and Judgment has been delivered in favor of the Bank for 1 case filed on overdraft facility amounting to Rs.25 million. Though decision received in favor of the Bank, assets to be found to execute the Decree. Other two cases were filed on short term loans amounting to Rs.75 million and Rs.33 million. Available machineries had been valued at Rs.7.65 million.

Term loan facilities of Rs. 254.82 million was granted against mortgage over machinery. Bank has parate executed and acquired the same on 17 August 2021. All the machinery except one machine (Sany Crawler Crane) were disposed for Rs. 185 million and appropriated towards the total capital outstanding and part of the interest of the term loan facilities. Thereafter, the remaining machine was disposed for a sum of Rs. 9.1 million on March 2024 and recovered the balance interest and part of the penal interest.

After negotiations, customer agreed to pay Rs. 200.0 million to get the mortgaged property situated at St. Michael's Road which was owned by Walkers Sons & Company Ltd released.

The total outstanding of the customer as at 31 July 2024 is Rs. 745.64 million with total capital and interest of Rs. 343.44 million and Rs. 402.19 million respectively.

(c) Walkers Equipment Ltd

Twelve (12) numbers of loan facilities granted to Walkers Equipment (Pvt) Ltd during the period of 2015 – 2019 were lying under the non performing category as at 30 September 2023. The main facility of Rs.95.2 million has been granted on 25 September 2017 and transferred to non performing category on 18 December 2018. The bank was able to recover capital balance of Rs.1.03 million and interest balance of Rs.15.07 million from the main facility up to the first transferring date into the non-performing category since the granted date. The other facilities were transferred to Non Performing Category during the period of 2018-2020.

The total outstanding balance of the customer as at 30 September 2023 was Rs. 572.10 million with total capital and interest balance of Rs 293.16 million and Rs 278.94 million respectively. Those loans were secured against the Corporate Guarantee of the MTD walkers PLC. Though legal actions have been executed by the Bank against the Company, recoverability of total outstanding of Rs. 572.10 million is doubtful due to lack of strength of the available securities.

Judgment received in favor of the bank for the legal cases filed against the company and the corporate guarantor. However, unable to ascertain any assets of the borrowing company and corporate guarantor.

(d) Walkers Sons & Company Engineers (Pvt) Ltd

The company is a subsidiary of MTD Walkers PLC and Bank has approved a credit package under Corporate Banking unit 2 from year 2011. An overdraft facility had been granted against mortgage over property situated at Kekunagahawatta, Siyambalape (As per the valuation report the value was Rs.80 million) by the Bank on 02 June 2011. The total outstanding balance of the customer as at 30 September 2023 was

Mortgaged property was acquired by the bank. Ejectment case no is DRE 4/2022. Ni Si Decree Absolute and order to be delivered. In the meantime, bank is in the process of finding buyers to dispose the property. Further directors of the borrowing company requested to release the property upon payment of Rs. 70.0 million. Further negotiations are ongoing.

Rs.97.33 million with total capital and interest balance of Rs 25.55 million and Rs 71.78 million respectively. The Bank was able to recover capital balance of Rs.797.78 million and interest balance of Rs.13.07 million from the main facility up to first non-performing transferring date since the granted date.

Mortgaged property was acquired by the Bank and Ejectment Case had been filed (Case No. DRE 4/2022) and objections called on 15 November 2023.

(e) MTD Walkers Plc

An overdraft facility had been granted on clean basis by the Bank on 29 August 2011. The total outstanding balance of the customer as at 30 September 2023 was Rs. 5.97 million with total capital and interest payable balance of Rs 2.13 million and Rs 3.84 million respectively. The Bank was able to recover capital balance of Rs.230.5 million and interest balance of Rs.8.7 million from the facility up to first non-performing transferring date since the granted date. Though a legal case had been filed by the Bank, recoverability of total outstanding of Rs. 5.97 million is doubtful due to unavailability of securities.

Bank had invested in unsubordinated unsecured redeemable and listed debentures of MTD walkers PLC amounted to Rs. 500 million on 30 September 2015. The company has repurchased debentures worth of Rs. 245.2 million on 30 September 2018. Present investment balance is Rs. 254.8 million and the company serviced interest up to 30 September 2018 and the last interest due amount of Rs.29.9 million on 30 September 2019 has still not been settled.

The total outstanding balance of the customer as at 31 July 2024 was Rs. 13.13 million with total capital and interest payable balance of Rs 7.10 million and Rs 6.02 million respectively.

Company is under liquidation and the bank has lodged the claim.

(v) SREI Equipment Finance Limited

During 2018, People's Bank has participated with other 6 syndicate Banks to finance loans of Srei Equipment with a global limit of USD 110 million. The People's Bank contribution was USD 15 million based on the debtors of the client company. The repayment had been structured to settle interest Bi- annually and capital by 3 installments after 4.5 years from the date of disbursement on 30 January 2018.

The total of USD 2.19 million had been recovered as interest and USD 262,500 as processing fee when the loan was transferred to Non Performing category on 30 September 2021. Accordingly, Bank was not able to recover any capital installment and the total outstanding amount of Rs.5, 445.38 million had been recorded as NPL as at 30 September 2023.

The Reserve Bank of India (RBI) declared Bankruptcy of the Company and the liquidation process has been started with effect from 04 October 2021 and all lenders have lodged their claims under Corporate Insolvency Resolution Process. If the liquidation process succeeded, the recoverability of the loan facility is approximately USD 6.37 million (Rs. 2,066.7 million) as per the proposed structure of repayment and balance of USD 8.63 million (Rs. 3,378.6 million) would be a loss to the Bank. The recoverable amount of the loan represents 42.46 percent of the total capital outstanding as at 30 September 2023.

1st tranche of cash proceeds from liquidation process amounting to USD 1.04 million had been received to the Bank on 21 December 2023 and utilized

As per the Corporate Insolvency Resolution Process in India, the total claim assigned to the People's Bank is approximately USD 7.28 million. Out of that amount, only USD 2.34 million has been received as upfront cash and discounted amount of Non-Convertible Debentures. As per the legal opinion, there is no any other legal action which can be initiated even after the Corporate Insolvency Resolution Process.

towards capital recovery of the Non - performing loan. The 2nd tranche of cash proceeds received on 01 February 2024 from liquidation process amounting to USD 1.29 Million and utilized towards capital recovery of the term loan on 14 March 2024.

As per the Board Paper No.880/2022, the Board had decided to refer this to the attention of Attorney General's Department for initiate legal actions against the persons who are responsible. However, any evidences of follow up actions were not available to the audit.

(vi) Grayline Express (Pvt) Ltd and Grayline International (Pvt) Ltd

(a) Grayline Express (Pvt) Ltd

Three (3) numbers of loan facilities have been granted to Grayline Express (Pvt) Ltd in 1994 and all the facilities were transferred to non performing category on 19 February 1996. As per the clarifications made from the Bank, it was observed that the aforesaid company does not exist.

The total outstanding balance of the customer as at 30 September 2023 was Rs. 2,716.19 million with total capital and interest balance of Rs. 209.93 million and Rs 2,506.26 million respectively. The total outstanding balance had been secured against immovable property situated at Meethotamulla, Wellampitiya, which has a forced sale value of Rs. 1,463 million as per the valuation report dated 23 November 2022. Accordingly, forced sales value of the above property covers only 53.86 percent of the total outstanding balance.

Though the resolution had been passed to sale the mortgaged asset, implementation of the sale of asset was withheld due to owner of the mortgaged property agreed

The Mortgagor pays Rs.2.8 million per month out of the lease rental of the mortgage asset consequent to the recent discussion had with the parties. Further, he agreed to increase the Rs.2.8 million up to Rs.3.0 million from January 2025 onwards. The Bank appropriated the money so paid towards the capital and interest on Rs.40%-60% basis.

on February 2021 to pay Rs.2.6 million per month. However, this payment amount is not adequate to settle the outstanding balance (both capital and interest) and it was difficult to predict the completion of repayment of the outstanding balance (It will take 87 years to settle the loan as per the current outstanding balance as at 30 September 2023).

(b) Grayline International (Pvt) Ltd

The Bank had granted a credit facility of Rs.351 million to Grayline International (Pvt) Ltd on 11 August 1994 and due to irregular payments, loan had been transferred to non-performing category from 08 April 1996. The facility was granted based on indemnity of Rs. 400 million provided by General Treasury. The total outstanding balance of the customer as at 30 September 2023 was Rs. 2,463.76 million with total capital and interest balance of Rs 351.03 million and Rs 2,112.73 million respectively. Though the claim had been lodged against the Treasury Indemnity and follow up made in 2023, treasury had refused to make the payment. Therefore, recoverability is doubtful.

Due to depreciation of the Russian Currency in 1994, export proceeds had not been received and accordingly the Company was no longer in existence.

The claim lodged with the Treasury on unconditional indemnity has not been reimbursed. The Bank follows-up the matter with the Treasury.

(vii) Hingurana

(a) The Grand Mountain Hotel (Pvt) Ltd

Six (6) numbers of loan facilities granted to Grand Mountain Hotel (Pvt) Ltd during the period of 2015 – 2021 were lying under the non performing category as at 30 September 2023. The main facility of Rs.500 million has been granted on 09 September 2015 and transferred to non performing category on 25 June 2019. Capital balance of Rs.16.6 million and interest of Rs.230.4 million had been recovered from the above facility up to first non-performing

The repayment arrangement for the loan facilities was approved by Board Paper No. 660/2024. The legal case No. 229/2023 was settled on the repayment plan of approved repayment arrangement on 27 August 2024. Subsequent to the court settlement, Rs. 17.72 million was recovered to Capital, Interest and Charges as Rs. 4.23 million, Rs. 11.57 million and Rs. 1.92 million respectively.

transferring date since the granted date. The other facilities were transferred to Non Performing Category during the period of 2018-2021.

Total outstanding balance of the customer as at 30 September 2023 was Rs. 2,450.28 million with capital and interest balance of Rs 1,464.23 million and Rs 986.05 million respectively. Total outstanding amount of Rs 2,450.28 million was secured against immovable property (Owned by Hingurana Distilleries) situated at Mathale (Hotel), which has a forced sale value of Rs. 2,500 million. A case had been filed under the case No. 229/2023 towards the recovery of loan facilities with total outstanding balance of Rs. 2,450.28 million and hearing is under progress.

(b) Lak Steel Engineering Private Limited

Eight (8) numbers of loan facilities granted to Lak Steel Engineering (Pvt) Ltd during the period of 2016-2022 were lying under the non performing category as at 30 September 2023. The main facility of Rs.785 million granted on 30 December 2020 had been transferred to non performing category on 30 December 2021. Any capital balance had not been recovered from the above main facility and only an interest of Rs.8.6 million was recovered up to first non-performing transferring date since the granted date. The other facilities were transferred to Non Performing Category in the year 2022.

Total outstanding balance of the customer as at 30 September 2023 was Rs. 2,317.50 million with capital and interest balance of Rs 1,623.88 million and Rs 693.62 million respectively. Total outstanding balance of Rs 1,544.6 million relating to 3 facilities were

Subsequent to the publishing of the auction, the customer paid Rs. 51.92 million to the capital, interest and charges as Rs. 10.82 million, Rs. 39.46 million and Rs. 1.64 million. Auction was postponed up to 15 December 2024 as per the Debt Recovery (Special Provision) Act No. 26 of 2024. Legal Action was initiated against the borrowing company and corporate guarantor and personal guarantors for the recovery of other term loans.

secured against the secondary mortgage over immovable property situated at Mathale (Hotel), which has a forced sale value of Rs. 2,500 million. Further, outstanding balance of Rs 683.1 million relating to 3 facilities were secured against immovable property situated at Indolamulla, Dompe (Land) which has a forced sales value of Rs.685 million. Outstanding balance of Rs.89.8 million relating to 1 facility had been secured against mortgage over machinery with a forced sales value of Rs.215 million and personal and corporate guarantee.

As per the information provided by the Bank, three loan facilities which has a total outstanding balance of Rs. 683.1 million to be recovered through the auction of the Indolamulla property and date for the auction has been scheduled on 29 November 2023. However, auction had not been held and discussions are going on for the recovery of outstanding balances.

(c) Lak Gypsum Private Limited

Eleven (11) numbers of loan facilities granted to Lak Gypsum Private Limited during the period of 2016 – 2022 were lying under the non performing category as at 30 September 2023. The main facility of Rs. 100 million had been granted on 29 January 2021 and transferred to non performing category on 28 August 2023. Capital balance of Rs.12.8 million and interest of Rs.42.1 million have been recovered from the main facility up to first non-performing transferring date since the granted date. The other facilities were transferred to Non Performing Category during the period of 2022 – 2023.

The total outstanding balance of the customer as at 30 September 2023 was Rs.177.60 million with total capital and interest balance of Rs 151.49 million and Rs 26.11 million respectively. Out of

Following to be noted in this regard.

- Failure of customers to make the payments as agreed.
- Postponement of Parate Execution via Debt Recovery (Special Provision) Act No. 26 of 2024.

Considering the above facts, the Bank initiated Mediation Board Actions by sending Letter Of Demand and plaint is drafted. It is expected to file the Mediation Board action within a short period of time.

total outstanding amount, Rs 151.2 million was secured against immovable property situated at Gatakanda, Dompe, which has a forced sale value of Rs. 565 million. The balance of Rs 26.4 million was granted on Personal Guarantee of the Group Chairman. Therefore recoverability of loan amounting to Rs. 26.4 million is doubtful due to lack of strength of the available security.

As per the response of the Bank, legal actions had not been taken by the Bank since the customer had agreed for a monthly payment of Rs.3 million.

(d) Lak Brand Furniture Private Limited

Three (3) numbers of loan facilities granted to Lak Brand Furniture Private Limited during the period of 2016 – 2020 were lying under the non performing category as at 30 September 2023. The main facility of Rs. 31.5 million had been granted on 24 December 2020 and transferred to non performing category on 24 July 2022. Capital balance of Rs. 6.5 million and interest of Rs. 4.8 million had been recovered from the main facility up to first non-performing transferring date since the granted date. The other facilities were transferred to Non Performing Category during the period of 2021.

Reschedule proposal was approved via BP No. 89/2024 and settled the Court Case No. 185/MR on the repayment plan of said rescheduling proposal. Payments are regular.

The total outstanding balance of the customer as at 30 September 2023 was Rs. 74.86 million with capital and interest balance of Rs 57.60 million and Rs 17.26 million respectively. Total outstanding balance of Rs.42 million relating to 2 loan facilities were secured only on personal guarantee and corporate guarantee. Outstanding balance of Rs.32.86 million had been secured against movable property which has a forced sales value of Rs.25 million.

Two cases (185/MR & 203/MR) had been filed relating to 2 loan facilities with a total outstanding balance of Rs.42 million as at 30 September 2023 and hearing is under progress. According to the information provided by the Bank, the sum of total outstanding amounting to Rs.32.86 million to be recovered through the auction procedure and board resolution has been passed.

(viii) Huravee International (Pvt) Ltd

Huravee International (Pvt) Ltd is a Maldivian company incorporated in 2002 and engaged in fish and dried fish exporting. In 2013, the company moved into the tourism industry and the Bank had granted a term loan of USD 9.5 million (Rs.3,082.75 million) to develop 5 Star 108 room resort on Kalhudhiyafushi Island in 06 March 2018. Due to irregular payments, the facility has transferred to non-performing category on 18 March 2019. The Ministry of Tourism of the Maldives has given their no objection on 1 November 2017 to creation of a first priority mortgage agreement over the head lease right of the proposed resort project subjected to the written consent of any existing registered mortgages. Further, as per the due diligence report dated 18 December 2017 issued by Ministry of Tourism Maldives stated that a mortgage has been registered on 17 May 2016 in favor of the Bank of Maldives PLC. However, Bank has not obtained the written consent from the Bank of Maldives prior to the creation of the said mortgage agreement and the Bank has only signed a first priority share security agreement with the Bank of Maldives subsequently.

The total outstanding balance of the above customer as at 30 September 2023 was Rs. 4,725.18 million with total capital and interest balance of Rs.

Actions have been taken to consult a Maldivian Lawyer to submit a separate claim to the existing case under the Case No.4915/Cv-C/2018 in Maldives.

3,082.75 million and Rs. 1,642.43 million respectively. However, any capital installment had not been recovered from the granted amount and only interest of Rs. 208.7 million had been recovered from the interest up to first non-performing transferring date from the granted date.

Loan had been granted against the securities of First Priority Pari Passu mortgage over the head lease right of Kalhudiyaafushi Island in Thaa Atoll, Maldives including buildings and all other project assets of the proposed resort project, Personal Guarantee of the company directors / shareholders, documents of title to goods shipped, Shipping Documents, indemnity of the Huravee International Pvt Ltd, Bill of exchange accepted by the Company and Charge over shares at the initial granting stage. Further forced sale value of the property situated at Kalhudiyaafushi Island was USD 14.758 million as at 30 October 2023.

Bank has initiated the recovery process by serving the Letter of Demand on 09 April 2019 to the Borrower and Guarantors. Bank of Maldives with the People's Bank consent has initiated the legal action against the client where verdict was given in favour of BML to possess the project assets and go for liquidation. Based on latest case proceedings, the extension to dispose the property with the intervention of the borrower was expired on 16 May 2023. Hence civil court has granted extension to sell the property by lenders. The negotiations are ongoing with a prospective buyer to sell the property.

(ix) W M Mendis & Company Limited

Series of loan facilities aggregating to 09 were granted during the period from 2015 to 2019. The main facility of Rs.250 million has been granted on 20

Loan No.0048001000009394 of Rs.250 million Approval was obtained from Board Executive credit Committee of the

June 2019 and transferred to non performing category on 20 June 2020. The other facilities were transferred to Non Performing Category during the period of 2019 – 2020. The credit worthiness of the customer has not been properly evaluated by the Bank at the time of initial loan granting.

As per the Title 5, Para 12 of the Credit Procedure Manual of the Bank, Bank's obligation records should be checked to ensure the unavailability of NPL loans before granting any loan to a customer. However, contrary to the above, 3 loans aggregating to Rs.378 million had been granted by the Bank to the above customer.

As per the Board Executive Credit Committee (BECC) paper No.708/2021 dated 28 June 2021, capital outstanding of Rs.3,062.7 million had been rescheduled in to 4 loans at 9.75 percent interest up to 7 years (with 18 months grace period for capital repayment) and arrears interest and penal interest amounting to Rs.806.5 million rescheduled in to 4 loans at 9.75 percent

Bank (vide BECC paper No.324/2019 dated 27.05.2019) to disburse loan of Rs.250 million when the Company was categorized as non-performing customer.

The facilities were considered when the Company was categorized as non-performing customer considering following factors,

- To strengthen the securities of the Company by executing secondary mortgage of ENA plant which was already commenced the construction with the SCB funds and considering its market value, probable value enhancement along with the time.
- To revolve the existing short term facilities according to the credit procedure manual section 02 (delegated credit authority) schedule 04 – Empowerment to CBD/OBU officers with regard to Trade Finance transactions to consider on 120% recovery basis to improve future recovery of the facilities.
- With intension to reduce Non-performing portfolio by revolving the short term facilities on higher percentages of recovery.

To support the Company to continue the operations which is required for the Bank to go for a workable recovery plan.

Facilities have been rescheduled as per the Board Executive Credit Committee (BECC) Paper No. 708/2021, dated 14 July 2021. Accordingly, in addition to the existing securities Bank was able to obtain security documents inclusive of personal guarantee of two directors of the company, for the entire outstanding balance up to the

interest up to 3 years. As per the para 9 of the above paper, loans had been rescheduled by removing Rs.400 million interest on overdraft facilities as “Differ and later waive off”.

Obtaining of personal guarantees from 2 board directors had been recommended as per the Section 11.4 of the above BECC paper. Accordingly, personal guarantees of directors and promissory notes had been obtained only for 7 loans amounting to Rs.1,632.2 million. However, guaranteed directors had submitted shares with value of Rs.100 million each only through the form No.149 and even proof evidences had not been obtained by the Bank.

The total outstanding balance of Rs.4,613.95 million was recorded under above customer as at 30 September 2023 which includes capital outstanding of Rs. 3,840.38 million and interest outstanding of Rs. 773.58 million respectively. However, it was observed that the value of the available securities was Rs.1,912.8 million (as at 04 October 2022) which is only enough to recover 41 percent of the total outstanding balance of the customer.

The following legal actions have been executed by the Bank against the Company.

- i) Property auction of Moragalla property had been held on 19 April 2022 and vested to the Bank. Quit notices have been sent in order to vacate the acquired property and Certificate of Sale was received after registration and it was

facility reschedulement date of 15 June 2021. Accordingly, capital of Rs.3,063.00 million and interest Rs.1,207.49 million was rescheduled. Only the recovery of accrued penal interest of Rs.400.0 million has been differed under the rescheduling proposal referred in the report.

The entire outstanding balances (08 loans) were secured with the personal guarantees under the rescheduling program. However, the proof of evidence to shares of Rs.100.0 million has not been submitted by the Directors.

Though the debt was rescheduled, repayments has not been performed due to termination of the liquor license and non delivering the production of spirit license as anticipated. However, immediate after commissioning the plant the Company negotiated with the Bank and made Rs.40.0 million in installments.

This attempt was also not successful now the Company is negotiating with the Bank to adopt the mutually agreed terms of settlement. In the meantime bank has initiated 03 cases against the personal guarantee and the Company.

Ejectment case already been filed, and next date is fixed for 09 September 2024. In the meantime, Company negotiates with the Bank to remove the spirits stored in the Moragolla property itself. In this

submitted to legal department on 06 October 2022 in order to initiate the ejectment case. Ejectment case filing is in progress and approved affidavit has been sent on 16 August 2023 to continue the process. However, borrowing company requested to rearrange rescheduled facilities and to operate production in acquired property. The proposal was approved by the Board Executive Credit Committee and rearrangement proposal to be implemented after receiving Rs.40.0 million as initial deposit prior to rearrangement. Though borrowing company has been informed regarding this in several times, company failed to do as agreed.

regard Bank wish to adopt a methodology to release the spirits upon proportionate payment towards a settlement of debt.

- ii) Further, B 3977 case was filed regarding the removal of air condition machines of Moragalla property and Rs. 10.0 million was deposited by the customer consequent to the discussion held on 11 October 2022 to release workers who tried to remove air condition machines from the acquired premises. Accordingly, instructions were given to withdraw the case since borrowing company deposited money as agreed. This case was settled upon payment of Rs.10.0 million and relocating the AC machines. However, matter has been referred to the Attorney General Department by the Magistrate of Kalutara as it is under Public Property Act.
- iii) Standard Chartered Bank has filed a case against the property at Kalkuda under Case no. CHC/187/2021/MR and People's Bank entered to the case on 15 May 2023 as secondary mortgagor. Next calling date is on 23 July 2024. People's Bank is a party to this case and the Bank filed answer. Inquiries in progress. Case is fixed for 18 November 2024.
- iv) The criminal case against the company and the directors on returned cheques of Rs. 3.0 million has been filed under Case bearing no 23747/2022 in Fort Magistrate's Court. Customer has deposited Rs.3.0 million equal to amount of return cheques on 10 January 2023. Case was withdrawn by the Bank. Noted the comments.

(x) Nawaloka Holding

(a) Nawaloka Steel Industries (Pvt) Ltd Noted the comments.

Four (4) numbers of loan facilities granted to Nawaloka Steel Industries (Pvt) Ltd during the period of 2014 – 2021 were lying under the non performing category as at 30 September 2023. The main facility of Rs.400 million granted on 08 September 2020 had been transferred to non performing category on 28 December 2021 and Rs. 9.2 million of interest had been recovered up to first non-performing transferring date since the granted date. The other facilities were transferred to Non-Performing Category during the period of 2021– 2022.

The total outstanding balance of the above customer as at 30 September 2023 was Rs. 795.83 million with total capital and interest balance of Rs 524.75 million and Rs 271.08 million respectively.

Out of total outstanding, an amount of Rs.11.4 million was secured against immovable property of Horakelewatta alias dankele, Dankotuwa, which has a forced sale value of Rs. 45 million. However, the balance outstanding of Rs. 784.43 million was secured against the joint and several guarantees of the Directors of the Company and Corporate Guarantee of Nawaloka Constructions (Pvt) Ltd and hence the recoverability is doubtful.

Four legal cases had been filed against personal guarantors and corporate guarantors and hearing is under progress. Further, above secured facility with property had been settled as at 30 November 2023.

(b) Nawaloka Construction Company (Pvt) Limited

Thirty One (31) numbers of loan facilities granted to Nawaloka Construction Company Private Limited

The Company submitted a proposal to dispose a part of the mortgage asset for a sum of Rs.1.1 billion

during the period of 2008 – 2023 were lying under the non performing category as at 30 September 2023. An overdraft facility granted on 17 September 2008 had transferred to non performing category on 08 July 2021. Capital balance of Rs.6,970.5 million and interest of Rs. 302 million had been recovered from the above facility up to the first non-performing transferring date since the granted date. The other facilities were transferred to Non-Performing Category during the period of 2021 – 2023.

As per the Title 02 of Section 6.5.1 (and title 05 of Section 12) of the Credit Procedure Manual, facilities should not be granted to existing past-due/non-performing borrowers unless the facility is paid in full and facilities should not be considered to willful defaulters. However, contradictory to the above conditions, new loans amounting to Rs. 62.2 million had been granted to the above customer while lying under the Non performing category.

The total outstanding balance of above customer as at 30 September 2023 was Rs. 3,355.83 million with total capital and interest balance of Rs 2,231.13 million and Rs1,124.70 million respectively.

An outstanding balance of Rs. 1,582.4 million relating to 2 loans were secured against immovable property situated at Awissawella Road, Wellampitiya, Kolonnawa, which has a forced sale value of Rs. 1,600 million as at 04 October 2023. Two (2) loans with an outstanding balance of Rs 693.6 million was secured against movable property which has a forced sale value of Rs 233.3 million. The remaining outstanding balance of Rs 1,079.83 million relating to 27 loans was secured against the Joint and several guarantee of the Directors of the Company. Accordingly, sufficient securities were

which is under consideration.

Loans amounting Rs. 62.2 million (Rs. 50.0 million facility and Rs. 12.2 million facility) are relevant to the claims paid for the Letter of Guarantees which has to be granted on no option basis.

not available to recover the above dues.

As per the information provided by the Bank, auction has been scheduled on 16 June 2023 for the immovable property situated at Awissawella Road, Wellampitiya, Kolonnawa to recover the outstanding balance of Rs 1,582.4 million. However, it has been suspended by the court order. Though Letter of Demand has been sent to recover balance amount of Rs.1,773.43 million on 17 June 2022, further actions taken were not available to the audit.

(c) Nawaloka Petroleum (Pvt) Ltd

A credit facility of Rs. 115.3 million granted to Nawaloka Petroleum (Pvt) Ltd on 01 July 2021 had been transferred to non-performing category since 25 August 2022 due to irregular payments. Capital balance of Rs. 354,589.76 and interest of Rs. 24.4 million had been recovered from the above customer up to first non-performing transferring date since the granted date.

The total outstanding balance of the customer as at 30 September 2023 was Rs. 153.77 million with capital and interest balance of Rs.115.00 million and Rs.38.77 million respectively. Total outstanding balance was secured against the Joint and several guarantee of the Directors of the Company and Corporate Guarantee of Nawaloka Constructions (Pvt) Ltd. Therefore, recoverability of total outstanding is doubtful since the lack of strength of the available securities.

East West Marketing (Pvt) Limited & New Ashford International (Pvt) Ltd (The same directors of Nawaloka Holdings hold the directorships in these Companies)

(d) East West Marketing (Pvt) Limited

Credit facility of Rs. 142 million granted to East West Marketing (Pvt) Limited on 28 July 2021 had been transferred to non-performing category since 28 May

The case No. is CHC/42/2024 MR. Next date is fixed for 24 September 2024.

The case No. is CHC/63/24. Next date is fixed for 11 September 2024.

2022. Capital balance of Rs. 2 million and interest of Rs. 8.3 million had been recovered from the above customer up to first non-performing transferring date since the granted date.

The total outstanding balance as at 30 September 2023 was Rs. 186.49 million with total capital and interest balance of Rs. 138.50 million and Rs. 47.99 million respectively. Total outstanding was only secured against the joint and several guarantee of the Directors of the Company. Therefore, recoverability of total outstanding is doubtful due to lack of strength of the available security.

(e) New Ashford International (Pvt) Ltd

Two (2) numbers of credit facilities granted to New Ashford International (Pvt) Ltd during the period 2020-2021 were lying under the non performing category as at 30 September 2023. The main loan facility amounting to Rs. 31 million granted on 29 April 2021 and had been transferred to non-performing category since 31 March 2022. Capital balance of Rs. 1.15 million and interest of Rs. 1.99 million have been recovered up to first non-performing transferring date since the granted date.

The total outstanding balance of the customer as at 30 September 2023 was Rs. 46.32 million with total capital and interest balance of Rs 33.18 million and Rs 13.14 million respectively.

The total outstanding was secured against the Joint and several guarantee of the Directors of the Company and Corporate Guarantee of Nawaloka Hospital PLC. Therefore, recoverability of total outstanding is doubtful due to lack of strength of the available securities.

(xi) Rican Lanka (Pvt) Ltd

Three (3) numbers of loan facilities granted to Rican Lanka (Pvt) Ltd during the period of 1997 – 2007 were lying

The two cases bearing No. DMR/405/24 & DMR/404/24 are due for summons returnable on 17 January 2025.

The BOI asset has been acquired by the Secretary to the Treasury on behalf of the Government of Sri

under the non performing category as at 30 September 2023. The main facility of Rs. 1,362.9 million had been granted on 01 October 1997 and transferred to non performing category on 01 June 1999. The other facilities were transferred to Non-Performing Category during the period of 1999 – 2008.

The total outstanding balance of above company as at 30 September 2023 was Rs 3,915.42 million with total capital and interest balance of Rs 1,290.38 million and Rs 2,625.04 million respectively.

The Bank had initiated litigation proceedings under case bearing No. HC Civil 227/2002 against personal guarantee of the Directors and judgment has been delivered in favor of the Bank. However, Indian Directors of the company had left the country and one of Sri Lankan Director resigned from the directorate from the company and other Director was not taken to secure the lending. The Bank has not ascertained any assets belonging to either company or the Directors.

Further, recoverability of above outstanding balances is doubtful since the security available is the mortgaged over BOI leasehold property.

(xii) Mihin Lanka (Pvt) Ltd

The Bank had granted 3 term loans during the period of 2015-2016 based on Letter of Comfort issued by General Treasury and transferred to non-performing category in 17 December 2018.

The main facility of Rs.1,650 million had been granted on 04 August 2015 and transferred to non performing category

Lanka in term of the Underperforming and Unutilized Assets Acquisition Act No.43 of 2011. The compensation tribunal appointed in terms of the said Act determined the amount of compensation as Rs.18.3 million.

The collective recovery action with the Board Of Investment is in progress to recover the said Rs.18.3 million.

As per an ALCO minute classified as Non Performing, Claim has been lodged with the liquidator. A letter sent on 12 February 2019 to the Liquidator requesting the present position on liquidation procedure. Continuously follow up with the General Treasury on repayment of loans. Letters sent to Secretary to the Treasury on 28 April 2020

on 17 December 2018. Total outstanding balance of the customer as at 30 September 2023 was Rs.3,591.39 million with capital and interest balance of Rs. 3,173.42 million and Rs. 417.97 million respectively.

Total outstanding amount of Rs 3,591.39 million was secured against Letter of Comfort issued by General Treasury. Since general treasury had given their consent to make the 2022 interest settlement from the levy payable by the Bank, total interest settlement to 31 December 2022 of Rs.441.4 million have been made. However, above balances had remained outstanding as at 30 September 2023, though 4 years had left since the date of transferring to non - performing category.

(xiii) Good Fellows (Pvt) Ltd

Sixty Nine (69) numbers of loan facilities had been granted to Good Fellows (Pvt) Ltd during the period of 1995 – 2007 which were lying under the non performing category as at 30 September 2023. The main facility of Rs. 678.6 million has been granted on 24 July 1998 based on the application, pro-note and personnel guarantee of directors as securities. However, duly completed assets declaration form and board resolution had not been obtained at the time of granting the loan. Due to default of the payment, loan had been transferred to non-performing category from 24 September 2001.

The total outstanding balance of the customer as at 30 September 2023 was Rs. 3,532.09 million with total capital and interest balance of Rs.1,783.12 million and Rs. 1,748.97 million respectively. The mortgage property was released against the settlement of a sum of Rs.65.42 million due to the Bank in

requesting to settle the dues by giving due consideration to the Letters of Comfort.

General Treasury has given their consent to make the 2022 interest settlements from the levy payable.

Accordingly, settlements were done totaling to Rs. 441.4 million towards capital and interest dues. Interest up to 31 December 2022 were fully settled and balance recovered towards capital repayment.

A letter sent to General Treasury reminding the interest payments to be done for the year 2023 on 08 January 2024.

Only the overdraft was secured with the mortgaged asset, and it was fully recovered prior to release the property. Thereafter, the bank filed Polian Action against the prospective buyer of the asset which is still pending. Next calling date is on 19 November 2024.

The foreign directors left the country, and it is difficult to file ascertain assets owned by them.

terms of the mortgage bonds.

Three cases have been filed by the Bank and 2 cases were finalized as favorable to the Bank and another case is still processing. Though the judgment received in favor of the Bank, any assets of the company were not available to recover the above dues. Therefore, recoverability of total outstanding of loan amounting to Rs. 3,532.09 million is doubtful due to non-existence of the company and non-existence of securities.

(xiv) RPI (Pvt) Limited

The Bank has granted 3 term loans (2 club loans together with BOC amounting to USD 7.0 million and USD 1.5 million in 2016 and 2017 respectively and 1 Syndicate loan with NSB amounting to USD 1 million in 2018 which are fully disbursed) aggregated to USD 9.5 million against the first priority Pari Passu mortgage over Head lease rights of Hudhufushi Island and its project assets with two personal guarantees of Directors. However valuation of the above property was not available and Security was shared between Bank of Ceylon, People's Bank and National Savings Bank.

The main facility of Rs. 2,271.5 million has been granted on 21 October 2016 and transferred to non - performing category on 21 August 2023. The Bank was able to recover Rs. 307.7 million from capital and Rs.667.7 million from interest as at the date of NPL.

Though the project initially planned to have the soft opening on February 2018, the constructions had not completed as planned and subsequently the Bank has granted continuous debt moratoriums (interest and capital). Thus, it had not been recovered the outstanding as per the agreement and the facilities were

A paper has been submitted to Board Executive Credit Committee (BECC No 503/2024 & BECC 579/2024) seeking in-principle approval to proceed with either of following 2 options to recover/reschedule the Non Performing facilities of above customer based on their latest agreement with prospective investor.

Option 01

To re-schedule the 3 Term loans for 1.5 years to recover the Capital outstanding in full (USD 7.7 million) by end of 2025 as bullet payment by waiving off 50 percent accrued interest and total penalty up to the date of re-re-schedulement. (Thereafter interest to be serviced monthly at 9%)

Option 02

To re-schedule the 3 Term loans for 7 years with 01 year Capital grace period by waiving off 50 percent accrued interest and total penalty up to the date of re-schedulement. (Interest to be serviced monthly at 9%)

To give consent for intended change of the ownership structure of the borrower (i.e. for 60:40

transferred to non -performing category on 21 August 2023.

Further, the total outstanding balance was of Rs. 3,422.81 million as at 30 September 2023 and a discussion had been held with the Bank on 13 November 2023 for a reschedule proposal to repay the loan within 02 years. However, the recoverability is doubtful as they had not been generated cash flows out of the investment as at the date of audit on November 2023.

ownership with new investor & borrower)

Accordingly, at the BECC 579/2024 has advised to come up with the best option to be offered to customer with proper justifications after discussing with DGM – Risk Management

Based on subsequent discussions had with the customer a paper submitted for approval based on the option 02 above without any waiving-off of accrued interest.

1.5.1.9. Staff Loans

- (i) As per the Asset Liability Committee (ALCO) paper No. 12/2024, capital installments of staff loans have not been deducted since 2023 from the salary with the approval of Assets & Liabilities Committee in order to provide a relief to the employees for the impact arises due to imposing PAYE tax on the earnings. Though total amount of capital installments amounting to Rs.3,181 million to be recovered during the year 2023, capital of Rs.903 million had only been recovered. Further, as per the ALCO Paper No.162/2024, though total amount of capital installments amounting to Rs.1,033 million to be recovered from January 2024 to April 2024, capital of Rs.663 million had only been recovered. Accordingly, capital amount of Rs. 2,648 million out of Rs.4,214 (62.8%) had not been recovered from the employees from January 2023 to April 2024.
- Non recovery of capital portion of staff loans did not create a day-1 loss to the Bank, since the Bank already had taken action to recover respective interest part of the respective staff loan as per the loan agreements. This issue is mainly impacted to the liquidity position of the Bank and since the Bank has excess liquidity, there is no substantial impact to liquidity position.
- Take necessary actions to recover loan installments as per the loan agreements and reassess the granting of loans at concessionary rates for non staff.
- (ii) As per the ALCO meeting No 20/2024 on 02 May 2024 and ALCO Paper No 162/2024, the committee has granted approval to extend “no deduction period of Staff loans” until the collective agreement process is over in 2024 as a relief to the employees and also it allows employees to make payments who wanted to pay entire loan installment. Though, ALCO took aforesaid decision regarding the staff loan repayments it was contrary to the Terms of Reference of ALCO, since ALCO has the authority to policy formulation aimed at optimizing the assets and liabilities structure of the Bank, in order to maximize profits at an acceptable level of risk. However, ALCO had not taken any step to take board approval regarding the above decision.

(iii) Though several facilities had been granted for the staff members at extremely low interest rates on the purpose of maximizing staff welfare it had been similarly applied for retired employees as well. It was observed that some employees had obtained facilities at staff loan interest rates within 3-4 months prior to their retirement date. However, loan facilities obtained by retired members had not been converted to market rates at the time of retirement as they are not employees further of the Bank.

(iv) Only two non-performing loans amounting to Rs. 855,420 had been recovered out of non-performing loans of Rs. 19.6 million of dismissed employees. Further, Bank had applied same low interest rates for dismissed employees which is same as active employees. As per the observations, the interest rates for dismissed employees should be adjusted to market rates as they are not employees of the Bank after their dismissal. However, the Bank did not have any proper policy regarding applying of market rates to dismissed employees.

1.5.1.10. Observations on Loans granted to Disenro Resort (Pvt) Ltd

Four (4) numbers of loan facilities and 1 Overdraft facility aggregating to Rs.36.5 million had been granted to Disenro Resort (Pvt) Ltd during the period of 10 months commencing from 17 October 2017 to 31 August 2018. Those facilities had been

As per Employee Circular 449/2018, which is guided in granting employee loans, the opportunity is given to calculate the repayment period up to the age of 70, in granting staff housing loans, vehicle loans and consumption loans. Accordingly, since the loan amount obtained is given on the basis of continuous monthly recovery from the pension, the interest rates will not change to the customer interest rates during retirement.

The housing loans of the dismissed employees will be transferred at the customer interest rate prevailing at time of their dismissal and arrangements have been made to collect a penalty rate of interest when the other loans obtained by them are transferred to non-performing category. Further, following measures have been taken to recover the loans of the dismissed employees.

- Two cases have been filed at Valchchenei District court and Balangoda Court.
- Letter of demand have been sent to the 20 dismissed employees.
- In the process of preparing letter of demand to be sent to the customers through legal department.

Take necessary actions to recover loan installments and take actions against responsible parties for non compliances.

transferred to non performing category during the period of 2018– 2019. Total outstanding balance of Rs.84.48 million had been recorded as at 31 December 2023. The details of granted facilities are given below.

Loan No	Granted Date	Amount Rs.million	Rate of Interest (%)	NPL Date	Outstanding balance as at 31/12/2023 Rs.million			
					Capital	Interest	Other	Total
0138001000012254	17.10.2017	18	16.63	17.01.2019	16.11	14.57	1.21	31.90
0138001000012414	30.11.2017	5	16.63	17.10.2018	4.87	4.59	0.4	9.84
0013100110037570 OD	14.03.2018	8.5	32.00	17.01.2019	8.59	24.46	0	33.06
00138001000012753	31.08.2018	3.5	16.63	17.01.2019	3.41	3.08	0.3	6.73
00138001000012762	31.08.2018	1.5	16.63	17.10.2018	1.49	1.37	0.1	2.97
Total Balance					34.48	48.08	1.92	84.48

(i) Permanent Overdraft Facility (POD) amounting to Rs.8.5 million

(a) As per the memorandum dated 08 March 2018 to the Chief Executive Officer (CEO) by Assistant General Manager (AGM) (Credit) regarding the granting of POD facility amounting to Rs.8.5 million stated that though the facility requested for working capital of the business, proper assessment had not been carried out. Further, forecasted annual revenue based on existing income cannot be forecasted with further funding for the business through borrowings due to additional burden over the revenue, which would affect over the repayment facilities as well. As per the minute of the AGM (Credit Control), it was stated that the repayment capacity is low due to the facts mentioned in the minute.

Even though, these issues are raised by the AGM (Credit) and AGM (Credit Control), approving authority has solely taken decision based on the Forced Sales Value on external valuation of the property.

(b) As per the valuation reports dated 13 February 2018 and 16 February 2018

DGM Evaluation Committee comprised with Consultant valuer

done by the panel Valeur and Regional Manager (Galle), FSV of the mortgaged property was Rs.40 million. However, as per the report of the Deputy General Manager (DGM) of the Evaluation Committee , the FSV of the aforesaid mortgage property was Rs.28.5 million which was based on the valuation done by a consultant valuer.

and two DGMs and provide their independent valuation decision based on the external valuers decision and internal ratification report. As per the Credit Procedure Manual of the bank, Forced Sales Value of the property is derived based on the evaluation committee decision.

(c) Two managerial persons of AGM (Credit) and AGM (Credit Control) who are having higher authority level than Regional Manager, had emphasized the risk of granting the POD facility in their minute and the DGM committee also has mentioned the FSV of the property as Rs.28.5 million. However, above POD facility had been recommended by Senior Deputy General Manager (SDGM) (Business Banking) based on the Regional Manager's (RM) certification on the Forced Sales Value (FSV) of the property in excess of Rs.40 million and approved by the CEO. With the approved POD facility of Rs.8.5 million, the total value of the loans granted to the customer against the property mortgage as at 14 March 2018 had been increased to Rs.31.5 million and accordingly, Rs.3 million had been granted beyond the FSV of the mortgaged property.

POD Facility of Rs. 8.5 million has been recommended by the Regional Credit Authorities based on the value of the property, expected smooth business operations of the business and social status of the first Director of the Company. Even though, AGM (Credit) and AGM (Credit Control) has raised the issues, CEO/GM has approved the facility based on the recommendation of Senior Deputy General Manager (Business Banking).

(ii) Further, another 2 facilities amounting to Rs.3.5 million and Rs.1.5 million had been granted based on the above property with the recommendations of RM-Galle, Senior Manager Credit, AGM (Commercial Credit), DGM(Commercial Banking and Digitalization) and approval of CEO.

Noted the comments. Position of recommending /forwarding by the highlighted officials is given below.

Designation	Forwarded/ Recommended
AGM (Commercial Credit)	Submitted

DGM(Commercial Banking & Digitalization)	Forwarded
DGM (Risk Management)	Forwarded
SDGM (Business Banking)	Recommended

Following also to be noted in this regard.

- DGM(RM) has forwarded the proposal considering the high risk involved.
- However, SDGM(BB) has recommended the proposal with the expectation of improving the cash flows.
- Based on the recommendation of the SDGM(BB), CEO/GM has approved the proposal.

(iii) The total outstanding balance of the customer as at 31 December 2023 was Rs. 84.48 million with total capital, interest and other balances of Rs.34.48 million, Rs. 48.08 million and Rs.1.92 million respectively. As per the latest valuation report dated 01 February 2023 submitted by panel valuer, Forced Sale Value of the subject property was Rs. 44 million. The auction of this property has been suspended 5 times and the property was auctioned on 19 July 2023 and had been acquired by the Bank due to absence of any buyer to bid in the auction. As per the clarification given by the Bank, Bank was unable to clear the said property up to date of audit on 14 March 2024.

In terms of the General Instructions Circular 1726/2023, the Bank has an ability to postpone the property auction upon payment of a considerable amount in settlement of a debt. Accordingly, all the five times stated in the report, the property auctions were postponed upon payment to facilitate the borrower to effect payments.

However, this was not successful, and the Bank acquired the asset on 19 July 2023. Ejectment case is in progress and the Case No.SPL 4061. Next calling date is 07 November 2024.

(iv) Further, as per the audit report dated 04 December 2023 submitted by Internal Audit Division, it was stated that renovations made to the above property was not observed with the appearance.

Noted the comments.

Bank is the process of taking necessary actions based on the internal guidelines.

1.5.1.11. Observations on loans granted to Idea Industries

- (i) A request from Idea Industries Limited had been received on 25 September 2020 for takeover of existing term loans of NDB with an outstanding balance of Rs.890 million. As per the preliminary assessment, it has been identified the unsatisfactory CRIB records and high gearing of the customer and also completed only 3 years period since its operation in 2017. However, as per the business inspection report dated 27 January 2021, it had been recommended to grant the loan to meet the working capital requirement of the company.
- The stated initial request has not been processed for approval by the bank since it was a refinancing facility to take over other bank debt. However, the Business Inspection has been done followed by a subsequent request of Rs. 300 million non funded Letter of Credit facility for business operations. By the said inspection report, it has been recommended to grant the requested working capital facility, but not the requested refinancing loan. Accordingly, the Working Capital facility has been approved on 12 March 2021 and no CRIB irregularities have been stated in Para 06 of the approved limit paper.
- Take necessary actions to recover the outstanding balances and take actions against responsible parties for non compliances.
- (ii) A certificate of solvency had not been obtained as required by the section 2.3 (check list) of the chapter 5 of the CPM 581/2004(66) dated 07 October 2015.
- The Solvency Test Certificate has been waived off from the approved checklist considering the customer's satisfactory levels of Net profits and positive Net worth. Nevertheless, the relevant officers were advised to strictly adhere to the guidelines stipulated by the Banks Credit Procedure Manual.
- (iii) As per the details in the Paper No.CP/CB/OBU/BECC/016/2021 dated 18 February 2021 submitted to Board Executive Credit Committee (BECC) by a Manager and the AGM of Off Shore and Corporate Banking 01, out of the granted amount of Rs.1,236 million to Idea Industries, the outstanding loan balance was recorded as Rs.1,115 million as at 31 January 2021. However, stated capital was only Rs.2.5 million and leverage ratio of 7.68 and 13.80 had been recorded as at 31 March 2020 and
- As per the CPM (581/2004 (66)) leverage is calculated based on net assets where net assets have been recorded as Rs. 173 million and Rs.65 million as at 31.03.2020 and 31.03.2019 respectively and such high leverage position has been duly stated in financial analysis and risk assessment of the approved paper. Based on these assessments and justifiable grounds along with terms & conditions stipulated in the paper

31 March 2019 respectively. Further, as per the Risk Acceptance Criteria Checklist in the Annexure of Title 26 of Credit & Procedure Manual, leverage ratio of last 3 years should be less than 3.

(iv) As per the details of the limit paper of Board Executive Credit Committee No.239/2021, financial highlights of the borrower had been evaluated based on the consolidated figures of Idea Industries and Idea Metal considering the proposed amalgamation in the financial year 2021/2022. However, no any documentary evidence was available in the loan file to prove the amalgamation of Idea Metal company and Idea Industries. Further, evaluation performed based on consolidated figures was not accurate since the loan was granted only for the Idea Industries.

(v) Further, the outstanding loan balance of Idea Industries payable to other banks amounting to Rs.1,115 million is highly excessive when compared with the stated capital of Rs.2.5 million of Idea Industries and this fact had not been included in the limit paper of BECC No.239/2021. Further, risk division also highlighted the marginal Interest Service Cover Ratio and leverage above 3 only.

(vi) Accordingly, a credit package aggregating to Rs.600 million including LC/Acceptance/STL had been approved to Idea Industries via Board Executive

and risk management conditions, working capital facility to operate the business has been approved by Board Executive Credit Committee.

Noted the comments.

Since customer informed that they are in the process of amalgamating both the companies and continue both companies under Idea Industries limited, as stated in the paper and financial projections were given by the customer based on such amalgamation process, after proper disclosure of same in our proposal, evaluation has been done based on both standalone and consolidated figures.

However, despite bank requested the customer to duly inform the intended process of amalgamating both the companies under Idea Industries Limited together with supporting documents after completing the process, customer did not submit the documents for the same.

Noted the comments.

Nevertheless, Credit unit has properly disclosed in the paper that Company's leverage and gearing are below the acceptable norms due to greater dependence on external liabilities compared to marginal net worth which has continued to increase as they have invested to build the factory and machinery and return on same was to be realized in future.

The given approved credit package has been structured mainly to accommodate their Letter of Credit based importation requirement on

Credit Committee Paper No 239/2021 dated 12 March 2021 under the security of documents of title to goods shipped, personal guarantee of Director and cash build up margin of Rs.1 million per month.

a) A list of assets owned by each guarantor to ensure their capability to repay the loan and obtain their written agreement to not to dispose those assets without prior consent of the Bank needs to be obtained as per the Chapter 8.13 of Title 5 of the Credit Procedure Manual and as per the Chapter 9.4.1 of the Title 5 of the Credit Procedure Manual of the Bank No. 581/2004(66) dated 07 October 2015. However, details of evaluation of financial viability of the guarantors and such an agreement with the guarantor were not available. Though the asset details of the guarantor has been obtained by the Bank, the clear ownership of the assets had not been assigned to the Bank through mortgage. Therefore, the aforesaid agreement would not become a valid document accordingly.

usage term subject to special condition to build up the 100 percent cash margin within usage period as 1st way out and securities mentioned have been taken as 2nd way out.

The sated clause 8.13 in Title 5 refers that 2 guarantors are acceptable to the bank depending on viability of the project/ financial position of the guarantor, etc where bank has taken the PG of the promoter as an additional comfort only due the reasons stated under the proposed security in the approved limit paper.

Following justifications for the offered securities are stated in the approved paper under securities,

- Being the package was mainly for a non funded LC line with 90 to 120 days supplier credit period, Documents of title to Goods Shipped and Company Indemnity was taking as the securities to safeguard the bank's interest since bank is undertaking and guaranteeing the payment to supplier.
- However since client is building the cash margin from sale of such goods during given supplier credit period, we have proposed STL line only in any case of delay or shortfall of cash build up during given supplier credit period where Personal Guarantee of the Promoter is obtained as additional comfort for such funded facility if utilized.

Additionally, Cash build-up margin of Rs. 1,000,000/- per month was proposed and agreed by the client to strengthen the second way-out.

- b) According to the paper submitted to the Executive Credit Committee by Corporate Banking Division (CBD-1) on 18 February 2021, it was mentioned that the Chief Executive Officer was supposed to migrate to Australia on business PR and as per the inspection report of AGM (Off Shore & Corporate Banking – Credit) dated 31 January 2023, it was mentioned that the above person was residing in Australia. Thus, it was observed that the Bank had accepted the personal guarantee of CEO though he was supposed to migrate to Australia on permanent resident basis.
- As stated in the paper, he is overlooking the business virtually and Bank too still continuously communicating & negotiating with him via virtual meetings and physical meetings when he is in Sri Lanka for all operational and restructuring matters of the company and group.
- c) As per the offer letter dated 15 March 2021, the Bank had informed the borrower to transfer Rs.2 million per month to build up margin account though as per the decision to the BECC Paper No. 239/2021 dated 12 March 2021 recommend to obtain only Rs.1 million per month. However, as per the BECC Paper No.1119/2021 dated 27 October 2021, (only 6 months from the granted date) requirement for the buildup of margin account to the value of Rs.2,000,000 per month was relaxed for overseas LC facilities. Above had been justified by the Bank stating that though there is a limit of Rs.1 million, customer had deposited Rs.2 million monthly due to discipline of the company and not mention the condition in the offer letter.
- Despite bank limit condition was to transfer Rs. 1 million to monthly build up margin account, we duly informed customer via offer letter to transfer Rs. 2 million per month and customer was accepted and complied such condition. However, the requirement for the build up margin account to the value of Rs.2,000,000 per month for the aforesaid credit package was relaxed for overseas LC facilities since bank was unable to accommodate their USD LC requirement as agreed due to the prevailed USD liquidity of the bank at that time. As the customer tended to purchase raw materials locally and considering the faced difficulties from our side such relaxation was given as detailed in the said Board Executive Credit Committee paper.
- (vii) The credit package of the Idea industries had been subsequently transferred to non-performing category due to the default of loans. Accordingly, capital balance of Rs.257.2 million and interest balance of Rs.58.9 million had been recorded as at 31 December 2023.
- Now the total STL O/s under Idea industries are in NP category where final STL was transferred to NP on 10 May 2024 whilst bank had series of discussions & negotiations to restructure / re-schedule the facilities over past period.

Thereby, based on the last meeting had with customer on 15 May 2024, they agreed to reschedule the facilities where bank has requested the details needed to prepare the re-schedulement proposal which they have partially submitted to the Bank and the bank is in the process of preparing the credit proposal to reschedule the facilities.

1.5.1.12. Wijeya Lak Apparels (Pvt) Ltd - Settlement of Facilities

The Bank has granted USD and LKR loan facilities aggregating to Rs. 79 million during and before 2005. As per the Board Executive Credit Committee paper No 18/2023, the company was totally collapsed and no longer in operation after 2005. However, a sum of Rs. 44 million has been settled up to 20 January 2023 against the company liability after cease of the business operations.

Though a court case had been filed at the Commercial High Court against the company and directors, original documents pertaining to the above case were not available with the Bank. As per the BECC No 18/2023, the original security documents have been misplaced by Credit Administration Department of Corporate Banking Division during 2017 and employees who have handled the security documents have already been retired from the service. Therefore, as per the decision to the board paper No 107/2023, the board has ratified the approval granted by BECC for allowing to settle the debt for Rs.12 million for Wijeya Lak Apparels (Pvt) Ltd subject to terms and conditions. Accordingly, Rs.100.7 million had been written off including capital balance of Rs.36.7 million and interest balance of Rs.64 million.

The only alternative available to the bank is to enforce the recovery action bearing No. HC Civil 14/2013 MR against remaining three directors. It is evident that the original security documents of the case have been misplaced by credit administration department of Corporate Banking Division as far back as 2017.

In this regard, Investigation & Inquiry department was informed to hold an inquiry. Finding of inquiry revealed that the employees who have handled the security documents have already been retired from their service. It's important to note that the Corporate Banking Division has been re-located during 2019-2020.

It is evident that the bank cannot continue the litigation procedure without original security documents. If so, bank has to lay by the case indefinitely. In such an event, the bank has to incur the entire loss.

In said circumstances, bank decided to conclude the matter for Rs.12.0 million.

Take necessary actions to strengthen the controls.

Further, though investigation had been carried out to identify the responsible parties for the misplacement of loan security documents, any responsible party has not been identified.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit before tax of Rs.15,345.4 million and the corresponding profit in the preceding year amounted to Rs.21,338.4 million. Therefore, a deterioration amounting to Rs.5,993 million by 28.1 percent of the financial result was observed. The main reason for the deterioration is the increase of interest expenses by 38.3 percent as compared with previous year.

2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the year under review as 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
Interest Income	72,858,915	22.6	Interest on Loans and receivables grew by Rs. 55.9 billion and Government security by Rs. 14.8 billion.
Interest Expense	94,295,534	38.3	Mainly from the interest on customer deposits grew by Rs. 109.1 billion.
Impairment Charge	(25,908,879)	(77.7)	Stage 3 ratio was decreased to 8.8 percent from 12.8 percent in 2022.

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 with the comparison to the Sector Ratios published by the Central Bank of Sri Lanka.

Description	Sector Ratio	Bank	
		2023	2022
Performance Ratios			
Return on Equity (ROE)	10.6	6.6	12.2
Return on Assets (ROA)	1.5	0.5	0.8
Interest Margin	3.6	1.8	2.7
Assets Quality Ratio			

Impaired Loans (Stage 3) Ratio	12.7	8.8	12.8
Capital Adequacy Ratios			
Tier 1 Capital (Minimum 9.5%)	13.8	12.4	11.9
Total Capital (Minimum 13.5%)	16.9	17.4	16.3
Statutory Ratio			
Liquid Assets Ratio (Minimum Requirement 20%)	39.5	37.4	21.3
Liquidity Coverage Ratio (Minimum Requirement 100%)	Rupee-340.9 All currency- 288.4	Rupee – 256.7 All currency – 207.9	Rupee – 213.1 All currency – 119.5

3. Operational Review

3.1 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
<p>3.1.1. Disposal of Vehicle No CBH 9159 and purchase of Vehicle No CBG 6262</p> <p>The vehicle bearing No CBH-9159 attached to the Chairman’s office had been disposed on 13 December 2023 for Rs. 70 million through an agent by incurring a commission of Rs.1 million and vehicle bearing the No CBG 6262 had been purchased on 26 February 2024 at a price of Rs.71.5 million. Following observations are made.</p> <p>(i) Vehicle No. CBH 9159 had been purchased by the Bank on 19 August 2019 at a cost of Rs. 44.5 million from Access Motors (Pvt) Ltd with a warranty period of 3 years. As per the details provided through the Executive Operations Committee paper No. 714/2023, transport department had to repair the above vehicle on numerous occasions even during the warranty period and that situation has caused much difficulty and embarrassment to</p>	<p>The Executive Operations Committee granted approval to dispose vehicle bearing No CBH-9159 Via EOC No 714/2023 and “Also Committee granted approval to obtain services of Access Motor Ltd to sell the vehicle No WP-CBH-9159 on behalf of Bank and bear Rs.1 Mn as a cost of Commission. Also, approval has been granted for call for quotations for the purchase of pre-owned vehicles via EOC No 64/2024. Approval has been granted to obtain the service of Access Motors Ltd. to sell the vehicle no CBH-9159 at the cost of Rs. 1.0 Mn as sales commission via EOC 966/2023. Subsequently, EOC approval has been granted to purchase the vehicle CBG 6262 (Toyota Prado Land Cruiser) at the cost of Rs. 71.5 Mn via EOC No. 186/2024.</p>	<p>Take necessary actions to handle supporting activities of the bank economic and efficient way with proper approvals.</p>

<p>the Chairman.</p> <p>However, according to the EOC No.714/2023 and documentary evidence available in the repairing file of CBH-9159,</p> <p>(a) Total number of repairs had been made during the entire four years period was ten including three free services, though it has been mentioned in the EOC paper No. 714/2023 “as the Bank had to repair the vehicle in numerous times”.</p> <p>(b) As per the section 2.1 of EOC paper No. 714/2023 dated 17 July 2023, it was mentioned that a cost of Rs.589,170.92 had been borne by the Bank for the vehicle No. CBH 9159 as 60 percent for the cost of the replacement of tail door completely. However, as per the e mail confirmation sent by the Deputy Manager Transport on 27 August 2024, it was observed that the above vehicle door had not been fully replaced and the</p>	<p>This vehicle had been sent to agent numerous times during the warranty period and post warranty period for services and repairs. In the meantime, they had taken more time to complete the job. we had faced difficulties in providing the vehicle to the Chairman -PB. The aggregate number of days which the vehicle was not available for use, due to the above reasons was 115 days during the period of warranty and post warranty. In addition to 115 days, vehicle had been used for 81 days without the ability of opening the rear door. However, the bank had not experienced such similar circumstance in the high-end vehicle pool. This situation caused inconvenience to the Chairman frequently and bank had to provide a backup vehicle each time. Considering the above facts highlighted, EOC approved to dispose the vehicle vide EOC No: 714/2023.</p> <p>The tail gate was not functioning properly due to a crack in the mounting area as revealed during inspection at Access Motor Company at the time of lubrication service. It was notified that the door could not be opened and closed automatically and does not fix properly to the rear door frame. Once closed manually the door</p>	
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<p>tail door panel had only been replaced and other existing parts had installed to the new panel.</p> <p>Further, as per the e mail sent by the General Manager- After Sales dated 13 January 2023, it has mentioned that cracks in the door were not visible to the human eye and is covered by a rubber beading. Therefore, mentioning as replacement of the door completely is questionable.</p> <p>(c) As per the para 15 of Transport Policy (BHRRC No. 89/2016- Amendment to Transport Policy on disposal of vehicles), a motor car could be considered for disposal only on completion of 10 years period. Further, approval to dispose a vehicle should be obtained from EOC based on the technical report indicating that the vehicle is beyond economic repairs or if a vehicle is required to be disposed before the expiry of the stipulated period, approval of the Board of Directors should be obtained. However, aforesaid</p>	<p>could not be opened until repaired. The said crack in the panel could only be seen after dismantling all related parts.</p> <p>The bank has refused to take responsibility for the damage taken place at the Motor company premises and have requested to hand over the vehicle after repairing the damages at their cost. However, as the damage was visible only after dismantling the vehicle and due to the fact that the damage was not visible to human eye when inventory is recorded, after a series of negotiations, it was agreed to repair the damage with 40% contribution from the Motor Company and 60% by the bank.</p> <p>Accordingly, the door panel was completely replaced at the cost of Rs 589,170.92 to the bank (which is 60% total cost incurred). However, in the highlighted EOC paper, the repair done has been mentioned as “replacing the door completely” instead of “replacing the door panel” by an oversight.</p> <p>Noted the comments.</p> <p>Actions will be taken to seek ratification from the Board of Directors for the deviation at the up coming meeting of the BOD. However, it should be noted that the EOC has decided to dispose the vehicle based on the technical justification submitted to EOC regarding the frequent and sequential break downs that occurred during the warranty and post warranty period. Further, this has caused to</p>	
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<p>vehicle had been purchased on 19 August 2019 and therefore, only 4 years had been used by the Bank. Further, technical report or relevant board approval was not available and any major repairs within one year period had not been mentioned in all three valuation reports.</p> <p>(ii) As per the EOC No.761/2023, offers had been received for the purchase of a vehicle (Land Cruiser Prado) ranging from Rs.35.8 million to Rs.49.5 million by replacing the CBH -9159. Further, Rs.30 million had been mentioned as the price for reconditioned vehicles in good condition as per the details mentioned in the EOC paper No.714/2023 dated 17 July 2023 for justifying the disposal of vehicle.</p>	<p>inconveniences to the chairman. Thus, it was decided to replace the existing vehicle with a new one. Also-valuation report has been issued by the valuation company based on the current running condition at the time of vehicle inspection followed by a series of repairs and the future repairs would not be predicted at the time of inspection.</p> <p>Following to be noted in this regard.</p> <ul style="list-style-type: none"> • The EOC vide EOC No. 714/2023, advised to check the possibility of purchasing a suitable pre-owned SUV subjected to the guidelines imposed by the MOF and CBSL. According, the bank has obtained 4 quotations from Toyota Lanka Pvt Ltd for Toyota Prado 150 vehicles ranging from Rs 35 Mn to Rs 49.5 Mn on 18.07.2024. • However, the purchase decision has been delayed until the disposal of CBH-9159. • Subsequently, approval was obtained to dispose CBH-9159 vide EOC No. 1270/2023 on 30.11.2023. • Thereafter, EOC has granted approval to call tender to purchase a Land Cruiser Prado 150 jeep with specifications vide EOC No. 64/2024. <p>The quoted price for a BMW E 350e series (i.e. Rs 30.0 Mn) in EOC No. 714/2023 is mentioned only for the information of EOC.</p> <p>Noted the comments. Nevertheless, the net sales</p>	
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<p>(a) Approval had been obtained to purchase Land Cruiser Prado 150 Jeep for Chairman's office and 04 units of Honda CRV Jeeps for Regional Managers through the EOC No. 64/2024 dated 16 January 2024. However, Rs.75 million had only been allocated to purchase vehicles during the year 2024. Accordingly, Bank has purchased Land Cruiser Prado 150 Jeep bearing the vehicle No CBG 6262 for Chairman's office at a cost of Rs. 71.5 million which is 95 percent from total capital budget allocated for vehicle purchases during the year 2024.</p> <p>(b) The Technical Evaluation Committee had recommended to buy the vehicle CBG-6262 subject to the physical verification by the transport manager. However, though the Chief Engineer of Automobile Association also included in the Technical Evaluation Committee, Bank had not obtained the technical competence of engineer for assessing the condition of the vehicle. Further, transport manager had comment only on the condition of vehicle interior and exterior based on his knowledge.</p>	<p>proceeds of Rs 69 million of the disposed vehicle have been recognized to the P& L for the year 2023 on 22.12.2023. However, the same has not been mentioned in the highlighted EOC paper.</p> <p>The required 3 SUVs were purchased by the bank with the allocated budget for the year 2024 with the approval vide EOC vide EOC No. 389/2024. Actions will be taken to seek ratification from the Board of Directors for exceeding the budget allocations at the upcoming meeting of the BOD.</p> <p>The vehicle was at Nittambuwa and the seller didn't agree to send this vehicle to carrier to any location for inspection. Therefore, bank officials had to go there and visit the vehicle. The Technical Evaluation Committee technically recommended inspecting all the documents such as service records obtained by Toyota Lanka (who is the Agent). The Mileage also verified by the service records and Emission test reports. The provided service records have been confirmed by Toyota Lanka over the phone. Also, Tech - Committee checked the photos of the vehicle. The external consultant also satisfied with the vehicle condition. The Tech committee has given authority to the Transport Manager to inspect the vehicle in Nittambuwa and submit the report on vehicle condition. The Transport Manager visited and test drive the vehicle to check Road worthy condition, the</p>	
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<p>(c) As per the point “d” of Section 06 of Chapter 02 of Procurement Manual of People’s Bank, the members of the TEC are jointly and severally responsible to evaluate the technical aspect of the bids received and make recommendation to the procurement committee. However, TEC has transferred their responsibility to deputy transport manager by mentioning that “TEC recommends the offer of option 1 of the M/S Auto Leasing subject to the physical verification by Transport Manager”, which is contrary to the procurement manual.</p>	<p>interior and exterior condition. Technical Evaluation committee recommended the purchase of the respective vehicle subjected to the physical verification done by the Transport Manager. Also, the external consultant of the Auto Mobile Association who is a member of the TEC was satisfied and has recommended the purchase.</p> <p>The Technical Evaluation Committee consists of Banking staff and external consultant. The best specialized person to inspect this vehicle was the Transport Manager. Transport Manager is recruited from outside the bank with the skills and technical knowledge required to manage the Bank vehicle fleet. The Tech-Committee has given the authority to Transport Manager to do the Inspection with justification.</p> <p>TEC committee was satisfied with the Toyota Company maintained records and accepted the comments made by the Transport Manager. Also, the external consultant of the Auto Mobile Association was satisfied with the same at the meeting.</p>	
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3.2 Identified Losses

Audit Issue	Management Comment	Recommendation
<p>3.2.1.Settlement of USD 43 million swap agreement with CBSL against USD 29.6 million receivable from CBSL</p> <p>As per the details in the Board Paper No. 624/2023, International Operations Department of CBSL had informed during April that USD 43</p>	<p>Due to the net LKR settlement done by CBSL, Bank incurred a loss and we informed this and requested CBSL to accede to Bank’s request which was for gross settlement for LKR payments. Since the Bank did not receive any positive response from CBSL regarding this issue, the</p>	<p>Take necessary actions to strengthen the controls of the Bank.</p>

<p>million SWAP is maturing on 02 May 2023 should be settled and cannot be continually rolled-over. Accordingly, Bank requested to set off the balance amount of CBSL committed bills paid by the Bank amounting to USD 29.6 million from the swap amounting to USD 43 million which is maturing on 02 May 2023 and the balance amount of USD 13.4 million to be settled by the Bank on 02 May 2023. Further Bank has requested to settle the Rupee amount on gross basis while settling USD transaction on net basis. However, both USD & LKR transactions settled on net basis using far leg rate of SWAP and as a result Bank had recorded a loss of Rs. 1,613.36 million in the Bank's accounts due to the settlement of swap of USD 43 million with CBSL against USD 29.6 million receivable from CBSL.</p> <p>However, approved Treasury Policy of the Bank or Procedure of Operations – Treasury Front Office had not covered the set off transaction like this swap set off and therefore, no clear guidelines were available in this regard. Further, prior approval for the above transaction was not available and Bank has not reached to a proper agreement with CBSL prior to set off the respective swap against USD payments for LC bills committed by CBSL.</p>	<p>bank took measures to escalate the matter to the Secretary to the Treasury (ST) via memorandum dated 27 October 2023. Furthermore, since we didn't receive any response from ST on the same, the bank sent a follow-up memorandum on 16 November 2023, requesting a meeting to discuss the issue.</p> <p>The bank took measures to incorporate the required changes in Treasury policy which was approved by the Board of Directors.</p> <p>During the USD crisis period, there were daily meetings chaired by CEO/GM with business units and Head of Treasury regarding settlement of outstanding USD payments and as discussed at these sessions, possibility of set-off was discussed with CBSL, and after such discussions (and agreements) only, the requests were sent to CBSL. Furthermore, we had two previous set-off transactions with CBSL that were done in a similar manner and Bank did not encounter any issues.</p>	
<p>3.2.2. Investment on Transit card project by the People's Bank</p> <p>Initial approval for implementing the Transit Card Framework has been granted through the Cabinet Decision No.18/1960/808/051 dated 17 October 2018. Subsequently, approval of the Cabinet had been</p>	<p>People's Bank took initiation of this national initiative project by adhering the CBSL Road map as to gain benefit to Sri Lankan economy adhering,</p> <ol style="list-style-type: none"> 1. By saving valuable foreign exchange by issuing and acquiring payment cards under the National Card Scheme (NCS). 	<p>Take follow up action to recover the loss incurred to the Bank and further strengthen the evaluation process.</p>

<p>granted by the decision No.21/0125/312/005 dated 23 February 2021 to provide transit cards free of charge based on the technical proposal submitted by Lanka Clear (Pvt) Ltd which was approved by the Central Bank of Sri Lanka (CBSL). Board of Directors of the Bank had granted approval for issue 2 in 1 (Debit + Stored Value) Japan Credit Buro (JCB) cards for the use of transit card project via BP No. 272/2021 at their meeting held on 26 March 2021. Accordingly, four party agreement with Sri Lanka Transport Board, National Transport Commission, Lanka Clear and People's Bank had been signed on 22 April 2021 to implement the Sri Lanka Transit Card. People's Bank has made an investment over Rs. 93 million (excluding all annual license fee, card license fee and monthly fee relevant to Lanka pay), by responding to an open invitation made by CBSL to all Licensed Banks and License Finance Companies at the initial stage of the said project.</p> <p>(i) As per Executive Operations Committee Paper No 1312/2020 dated 30 December 2020, cost per card around Rs. 250.00 and the committee was of the view that prudent to charge Rs. 200.00 from the customer or charge 1/3 basis from the Bank, National Transport Commission & Lanka Pay. This also approved by the Board of Directors on 29 January 2021 via BP No. 41/2021. As per the Board Paper No 166/2021, Lanka Pay responded by declining to share 1/3 of the cost of the project as suggested & National Transport Commission not responded to it. Having considered the total cost of the project, the</p>	<p>2. Grant financial gain to customers by using, NCS Card 50% reduction in the applicable charges for interbank ATM cash withdrawal (LKR 15/-)</p> <p>3. Domestic usage of these cards will bring down the current merchant commission (MDR) of around 3% to a much lower 1%, which will make card transactions more acceptable to the merchants.</p> <p>\</p> <p>From the beginning of the project initiation, People's bank was in a view to charge the card cost from the commuters. Therefore, the bank performed the Break-Even Analysis by considering the card cost. Accordingly, the cost benefit analysis was done on 30 November 2020. Board approval was granted on the same on 29 January 2021, via BP No.41/2021. The Cabinet had granted approval to provide transit cards free of charge by the decision dated 23 February 2021. Finally, cards have been given to the commuters free of charge, as per the said cabinet decision and as per the</p>	
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<p>Board emphasized that either People's Bank should have the exclusivity right or the option of sharing the cost. However, it was not succeeded and at the meeting held on 26 March 2021, the Board of Directors decided to issue JCB card by charging Rs. 300.00 for the debit card and Rs. 250.00 for transit card. Though approval of the Cabinet had been granted to provide transit cards free of charge by the decision No.21/0125/312/005 dated 23 February 2021, the Bank had not considered the said decision.</p>	<p>business decision of the bank to promote the transit card project.</p>	
<p>(ii) Any evidence of feasibility assessment by the Bank was not available regarding the technical proposal submitted by Lanka Clear (Pvt) Ltd.</p>	<p>Noted the comments. Conducting the technical proposal for the project which has been approved by the CBSL and the project was approved by the cabinet of Ministers. Further, the solution was based on the existing National Payment Network Operated by the Lanka Pay (Pvt) Ltd. The feasibility of the technical aspects has been tested by the Lanka(Pay) Pvt Ltd before CBSL has invited the banks Since Bank is already in the Card issuing and Acquiring business, Feasibility of Management has been already covered. Feasibility of Financial has been covered in the cost benefit analysis done on 30 November 2020.</p>	
<p>(iii) Cabinet paper No 23/0909/608/060 was submitted by highlighting the difficulties of the proposed project (such as existing ticket machines are not compatible to make use the introduced JCB cards, JCB cards are not popular among the commuters, topping up options are not convenient), and has taken a decision to appoint a committee</p>	<p>Bank has sent a request by questioning the process of publishing a new Request For Proposal from the Chairman – NTC. Further, as a member of the cabinet approved committee, the People's Bank signed the committee report subject to comments. But the cabinet decision was taken disregarding the People's bank's comments.</p>	

<p>chaired by Secretary to Treasury or a Deputy Secretary to Treasury to further study the content in the Cabinet paper and to submit a comprehensive report with recommendations within two weeks. The said committee comprised of 9 members and had submitted their report to the Cabinet through Cabinet paper No 23/0909/608/060-I dated 25 August 2023. Those were considered by the cabinet sub-committee along with the observation of the Minister of Finance, Economic Stabilization and National Policies.. Accordingly, it was decided to cancel all steps already initiated regarding the implementation of Sri Lanka Transport Commission project and call new Request for Proposal (RFP) for the implementation of this project by the Ministry of Transport and Highways and recommend to the Cabinet to grant approval for the same. Subsequently Cabinet had granted the approval for aforesaid decision at the Cabinet meeting held on 11 September 2023.</p> <p>(iv) The Ministry of Transport and Highways is permitted to call for Request for Proposal (RFP) to select a suitable service provider (apart from People's Bank) as recommended by the committee and the Cabinet decision wide paper number NP/CM/COM/TRN/2023/11 dated 06 September 2023. Therefore, the cost incurred by People's Bank for the above project will be a total loss to the Bank.</p>	<p>Quote from Cabinet Memorandum “Due to the proposals of the People’s bank and Lanka Clear company attached together with the committee report could hinder the implementation of the new solution proposed by the committee, I do not agree with the said proposal. To disregard the said reports.”</p> <p>Based on no other option basis, the Bank has written to the Secretary to Treasury, regarding the cost incurred by the Bank for the project. Although the total cost of the project was Rs. 93.7 million, the actual loss on the transit card project to the bank is only Rs. 16.6 million. Cost Rs. 55.4 million incurred for card issuing which can be used still as issuer of NCS/JCB debit card for savings and current account customers. Cost of Rs. 21.7 million was for NCS/JCB acquiring project, which was mandatory as per CBSL roadmap. With the issue of NCS/JCB cards by Peoples Bank and other banks the outcome of this investment is in use.</p>	
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	<p>Further, the breakup details have been submitted to the Cabinet approved committee as well.</p> <p>Peoples Bank also expects to participate in the new RFP process and in a position to offer Pre-Paid Card , Credit and Debit Card and Lanka QR options. Thus, the investment is still in a usable state.</p>	
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3.3 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
3.3.1.Observations on IT projects		
<p>(i) An approved comprehensive IT project management policy was not available in the Bank to apply in the project management process and Bank has not distinguished the major and minor IT projects and there is no proper approved mechanism to identify major and minor projects. Further, no approved documented mechanism for identifying the need of a feasibility study and the type of feasibility study in respect of IT projects.</p> <p>(ii) The availability of feasibility studies regarding the projects completed during the 2022,2023 & 2024 and ongoing projects as at 26 April 2024 was requested and out of 61 externally developed projects, the Bank has mentioned that the TEC report has considered as the feasibility study for 20 projects and not clearly mentioned the availability of the feasibility studies for remaining 38 projects. Further among 73 internally developed projects, Bank has mentioned the</p>	<p>The bank is in the process of finalizing a comprehensive Project Management Policy. This policy, which is expected to be approved in near future, will apply to all projects, regardless of their size, complexity, or scope, including enterprise-wide endeavors.</p> <p>Conducting a feasibility study has been identified as a mandatory requirement of this policy and will be performed during the Project Initiation phase. This aims to ensure that all projects undertaken by the bank are thoroughly evaluated for their viability before proceeding.</p> <p>Noted the comment, As detailed in Section 3.3.1(i) above, the bank has recognized the need for a feasibility study through the draft Project Management Policy to ensure standardized project management practices throughout the organization. Further, in future a separate feasibility study will be included as an attachment to Project Approval Request.</p>	<p>Take necessary actions to ensure the effective and efficient use of bank funds and strengthen the evaluation process and controls.</p>

<p>business department requirement as the feasibility study for most of projects. Therefore, it is questionable for the audit whether the Bank has recognized the need of feasibility study before implementing and carried out as per the necessity.</p>		
<p>(iii) There was no any approved documented mechanism to perform a cost benefit analysis in respect of IT projects.</p>	<p>Following to be noted in this regard, Reference is made to the point (v) of sub section 2.3.1 of sub section 2.3 of chapter 2 of approved Procedure Manual for Procurement, Supplies , Stores and Inventory Control of the Bank. The said point number (v) has stated the requirement of a Project Authorization Request (PAR) as follows.</p> <p>Quoted- “If the value of purchase/ project proposed is more than Rs. 5.0 Mn, the requisition along with the PAR (Project Authorization Request), approved by the Executive Operation Committee, with their minute, and the approved specifications should be submitted to supplies Dept”</p> <p>Unquoted</p> <p>Further reference is made to Appendix – D {Project Authorization Request (PAR) Form} of the said procedure manual.</p> <p>In para 11(A) of the said PAR, it has clearly mentioned that the requirement of Financial Cost/ Benefit analysis. It should be noted that the requirement of PAR is applicable to projects for which the value is more than Rs. 5.0 million.</p> <p>Accordingly, the bank has established a documented mechanism for conducting financial cost/ benefit analysis for the projects for which value is more than Rs. 5.0 million.</p>	

<p>(a) As per the details given by IT department regarding the projects completed during the year 2022,2023 & 2024 and ongoing projects as at 26 April 2024, out of 61 externally developed projects, TEC committee Report has considered as cost benefit analysis for 21 projects and Project Authorization Request and other documents considered as cost benefit analysis for 11 projects. Cost benefit analysis had not been available for 5 projects as per the submitted details and Bank had not commented whether cost benefit analysis are available/not available or not required for 6 projects. Hence it is questionable to audit whether the Bank has done proper cost benefit analysis regarding the IT projects.</p> <p>(b) Even though the projects are executed as internal development, it may include hardware and other expenses. However, Bank commented that the cost benefit analysis is not applicable for the internally developed projects. Hence it is questionable for the audit whether the bank has identified the requirement of cost benefit analysis for internally developed projects.</p> <p>(iv) As per project details submitted by the Bank, proper project charter was not available for projects completed</p>	<p>Noted the comment, In addressing the issue, the bank has taken the necessary steps to conduct cost-benefit analysis and obtain the required approval for projects initiated by the bank. Please refer to section 3.3.1(iii) above. Further, the respective officers of the bank were advised to ensure the strictly adherence to the approved procurement manual of the bank in future projects.</p> <p>Noted the comment, As detailed in Section 3.3.1(iii) above, the bank has recognized the requirement to conduct cost benefit analysis for all projects (i.e., either internal or external) that come under the set criteria. As mentioned in section 3.3.1.(i) above the draft Project Management policy which has identified the requirement of Cost benefit analysis will be applicable to all projects undertaken by the bank. Further, the respective officers of the bank are advised to be strictly in adherence with the approved procurement manual of the bank in future projects.</p> <p>Noted the comment, The preparation of a project charter has been introduced by the draft</p>	
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<p>during the 2022,2023 & 2024 and project charter was available for only two projects which are ongoing as at 26 April 2024.</p> <p>(v) Among 137 projects which were completed during the 2022,2023 & 2024 and ongoing as at 26 April 2024, time lines were not available for 108 projects and regarding 28 projects, Bank has not clearly mentioned that the availability of proper time line. Further, one project is under discussion and time lines are yet to be prepared according to the bank.</p> <p>(vi) As per project details provided by the Bank, 8 projects were hold and one project was cancelled as at 26 April 2024. According to information provided, it was observed that there was no proper feasibility study, project charter or time lines for those projects. Even though the E-Remittance System Revamp project and Backup Solution (BTS & Pawning) projects were hold due to high cost, cost benefit analysis were not available for all projects which were cancelled or hold as at 26 April 2024.</p> <p>(vii) DMS-IMAGO Inward Clearing Version Upgrade project was cancelled due to project is to be replaced with the Consolidated Clearing System's Inward Clearing and Outward Return legs and it was observed that the Bank has already paid Rs. 2,921,000 for it.</p> <p>(viii) Bank has not provided reasons for hold for the two projects and hold reason provided for Stationary</p>	<p>Project Management Policy as part of the project initiation phase of the project lifecycle.</p> <p>Noted the comment, Activities such as activity sequencing, time estimation, and scheduling are considered as requirements of the project plan introduced in the draft Project Management Policy.</p> <p>Noted the comment, As detailed above, conducting a feasibility study, preparing a project charter, and establishing project timelines are identified as mandatory for all projects across all departments of the bank in the draft Project Management Policy.</p> <p>This payment write-off decision was taken by Executive Operations Committee considering benefits of the comprehensive Consolidated Clearing System's Inward Clearing and Outward Return solution which provides new technology and subsequent compliance requirements as well.</p> <p>Noted the comment Categorizing the Stationary Management System project under</p>	
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<p>Management System project & Central Back Office Interface Development project were not reasonable. Further, hold date, decision by whom to hold the project and availability of approval for the hold had not been provided for all the projects.</p>	<p>HOLD category as an error and it has now been corrected.</p> <p>Further, the Bank has recruited an Assistant General Manager (Project Management) with the focus of streamlining the project management process, while addressing highlighted concerns as well as many other areas of Project Management.</p>	
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3.4 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
<p>3.4.1.Non-adherence to the Directions of COPE</p> <p>(i) As per the direction of COPE meeting held on 17 July 2018, COPE had directed not to extend the service of the officers over 60 years of age so that it would create precedence to other State Banks. Above decision had been informed to the Bank on 10 August 2018. However, approval of the Ministry of Finance had been obtained for the extension of former General Manager (GM) for a period of 6 months based on the board approval obtained on 29 June 2018 which was obtained prior to the above COPE meeting.</p> <p>At the COPE meeting held on 05 September 2019 had voiced their strong disapproval regarding not acting as per a directive given by the Committee and had instructed to take disciplinary action and to recover the loss due to granting of six month service extension from responsible parties. However, actions had not been taken by the Bank in this regard.</p> <p>(ii) Disposal of Mercedes Benz Vehicle No.CAI – 4646</p> <p>As per the decision to the BP</p>	<p>Noted the comments.</p> <p>The matter has been taken up for discussion at the 13th meeting of the COPE Committee held on 04 May 2022 and subsequently no further direction has been provided regarding the same. To save any doubt, the extracted minute of the above meeting with regard to the highlighted matter is as follows.</p> <p>(a) Service extension of the former General Manager</p> <p>The committee inquired on the request of service extension for former GM/CEO and its current situation. The GM stated that the said officer had terminated his service after six months of service and problem solved accordingly.</p> <p>Please note that the directions issued by the COPE meeting held on 5 September 2019 have already been addressed by the bank.</p>	<p>Take necessary actions to adhere with the directions given by the COPE committee and ensure proper utilization of bank funds.</p>

<p>No.487/2019 dated 19 July 2019, approval of the board had been granted to release the above vehicle to former GM considering the prevailed practice of the industry subject to</p> <ol style="list-style-type: none"> Return the possession of vehicle No.KM-9238 Settle the overpayments made to him as highlighted by the CBSL Release the vehicle at book value Undertaking from former GM that he has no any other claim from the Bank. <p>At the COPE meeting held on 05 September 2019, committee had directed to obtain the vehicle back to the Bank. However,</p> <ol style="list-style-type: none"> As per the BP No.470/2020 dated 11 June 2020, board had granted approval to release the above vehicle in line with the decision to the BP No.487/2019, which is contrary to direction given by the COPE. Even though corporate management member who has completed 7 years confirmed service allowed to take the vehicle he used as per the para 15-A of the 89/2016 of transport policy of the Bank, the former GM who worked on contract basis was not eligible to obtain the vehicle. Further, such condition was not included in the contract agreement as well. As per the details available, aforesaid vehicle had been purchased on 27 April 2015 at a cost of Rs.16.6 million and had been given to the former CEO/GM for the book value of 	<p>Subsequently, the bank has reported the progress of addressing the same to COPE and the remained matters with regard to the vehicles handed over to former CEO/GM was taken up for discussion at the 13 meeting of the COPE held on 04 May 2022.</p> <p>Accordingly, at the said meeting the committee has questioned over the handing over the vehicle CAI -4646 and noted that a special approval of the Board of Directors have been obtained in this regard.</p> <p>Further the committee has directed the Ministry Of Finance to issue a common guideline from the General Treasury and the Public Enterprises Department with regard to vehicle issues in the state banks and was in a view that these types of transactions should be done with a Cabinet approval in future.</p> <p>To save any doubt, the minute with regard to the relevant section of the above meeting is quoted herewith.</p> <p>Quoted.</p> <p>“The committee also questioned over the handing over of the vehicle purchased for Rs 16.6 mn (CAI-4646) Mercedes benz which had been given to him for Rs. 113,698.63 and whether there was a special approval of the Board of Directors in that regard.</p> <p>The AO stated that the vehicle had been given as per the decision of the Board of Directors, since the retiring General Manager (GM) could take his official vehicle with him. The committee directed the CAO to look in to the matter and issue a common guideline from the General Treasury and the Public Enterprises Department with regard to vehicle issues in the state banks. The committee was of the view that these types of transactions should be done</p>	
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<p>Rs.113,698 on 20 July 2021.</p> <p>(b) Approval of the board had been granted to release the above vehicle to former GM subject to settle the overpayments amounting to Rs.3.3 million made to him as highlighted by the CBSL. However, actions had not been taken by the Bank to recover the above.</p>	<p>with a Cabinet approval, in future. “ Unquoted.</p> <p>In response to the above direction, the bank submitted following documents submitted to the Secretary to the Treasury -Ministry of Finance on 10 June 2022 for perusal and consideration, in formulating a common guideline on vehicle issues in State Banks.</p> <p>(i) The government decision on restructuring of the Bank of Ceylon & the People’s Bank by which both Banks were exempted from the provisions of Part II of Finance Act No.38 of 1971 & from all Treasury & Public Administration Circulars.</p> <p>(ii) Transport Policy for the members of the Corporate Management- BP No. 723/2019.</p>	
<p>3.4.2.Discontinuation of Investigation process due to misplacing of investigation file</p> <p>(i) As per the initial investigation dated 17 November 2022 revealed that 25 numbers of overdraft facilities amounting to Rs. 3,287,495 had been granted without obtaining proper securities which is contrary to operating instructions issued by the Bank. Further, 91 loans amounting to Rs.12,080,094 were remained in the non performing category as at 31 October 2021 which were granted with the Hatton Branch manager’s approval during his working period. . However, actions taken to recover the above facilities were not available with the discontinuation of investigation process as the investigation file was misplaced.</p>	<p>Noted the comments.</p> <p>As per the prevailing information, relevant investigation documents file pertaining to related employee has been misplaced. Regarding this incident, an investigation has been carried out against the responsible officer (former Regional Manager of Nuwara Eliya RHO) according to Staff Circular No: 326/2002 (Disciplinary Code).</p> <p>Nevertheless, recovery process is in progress. Accordingly, at present 35 loan accounts out of 91 loan accounts have been fully settled & outstanding balance remaining of 56 loans is Rs. 7,886,026.49 as at 06 September 2024. 8 overdraft accounts out of 25 have been fully settled & outstanding balance of remaining 17 overdrafts is Rs. 2,041,081.54 as at 06 September 2024.</p> <p>Appeal committee has revealed that related employee who was then acting branch manager of Maskeliya</p>	

<p>(ii) Former Hatton Branch manager had been punished in several occasions and as per the disciplinary decision imposed regarding the granting of temporary overdrafts in Maskeliya branch, Rs.508,065 (30% of Rs.1,693,550.74) imposed on him had been reduced to Rs.254,032.60 (15% of Rs.1,693,550.74) by the appeal committee after considering the appeal made by the Branch Manager. However, temporary overdrafts amounting to Rs.1,202,000 further to be recovered out of the total balance of Rs.1,693,550.74 as at 30 April 2024.</p>	<p>branch had granted temporary overdrafts with the intention of retaining customers further with the bank and there were no proof that he had granted above TODs with any personal motive or benefits. Considering this, percentage of recovery has been reduced to 15% from 30%.</p> <p>Further the outstanding balances of said TODs remains the same as at 30 April 2024 (i.e. Rs.1, 202,000.00). Further, Legal actions have been taken against the TOD customers.</p>	
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3.5 Human Resources Management

Audit Issue	Management Comment	Recommendation
<p>3.5.1. Analysis of Staff Cost</p> <p>(i) It was observed that, though the Bank had incurred a cost of Rs.3.20 million per employee, the profit generated per employee was only Rs.1.32 million for the year 2023. However, other Banks had reported a profit per employee ranging from Rs.3.11 million to Rs.4.21 million during the year 2023.</p>	<p>Total salary cost of year 2023 was decreased by Rs. 2.1 billion compared to the year 2022 and cost per employee has decreased to Rs. 3.2 million from Rs. 3.6 million in the year 2022.</p> <p>Since the low profitability level reported in the year 2023 compared to the year 2022, profit per employee has decreased to Rs 1.3 million from Rs 2.3 million in the year 2022. The decline in the profitability level was primarily attributed to several reasons. (i.e. delays in repricing of</p>	<p>Take necessary actions to effectively use the Bank funds.</p>

<p>(ii) Personal Expenses as a percentage of net operating income of the Bank was 33.39 percent for the year 2023 which representing a highest value when comparing to other Banks in the same industry. The ratios of other Banks are ranging from 20.12 percent to 28.33 percent during the year under review.</p>	<p>retail loans, cessation of interest payments from CPC, incremental costs associated with section 83 funding and losses incurred from CBSL SWAPs)</p> <p>The Bank's Net Operating Income reported for the year 2023 was significantly lower than previous year and other peers. This is mainly from the decline of net interest income by 28.3% compared to previous year. This is mainly due to delays in repricing of retail loans, cessation of interest payments from CPC and incremental costs associated with section 83 funding.</p>	
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