

Auditor General's Triennial Report

2021-2023

State Owned Banks

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1. Executive Summary

By end 2023, the banking sector comprised 30 banks, i.e., 24 LCBs including 11 branches of foreign banks, and 6 LSBs. The banking sector, which dominates the financial sector, accounting for 61.5 per cent of total assets as at end 2023, managed to withstand challenges that emanated from the economic crisis and adverse global conditions, with the support of preserving capital and liquidity above the regulatory minimum.

Total assets of the banking sector increased by 989.4 billion during the year and reached over Rs.20.0 trillion by December 2023. Banking Sector assets recorded an annual growth of 5.1 percent at the end of 2023, compared to the annual growth of 15.4 per cent at the end of the year 2022. Conversion of loans and receivables and investments denominated in foreign currencies into Sri Lankan rupees along with an overvalued exchange rate was the main cause for this slowdown in growth. Loans and receivables contracted by 2.6 per cent annually at the end of the year 2023, compared to 5.5 percent annual growth at the end of 2022, driven by the tight monetary policy stance within the first half of the year 2023.

Deposits, which continued to be the main source of funding for the banking sector, had been 81.5 percent, of the total liabilities in the balance sheet by the end of the year 2023, and borrowings contributed to 6.8 percent.

Credit risk in the banking sector remained elevated at the end of 2023 as illustrated by the credit ratio under stage 3. The stage 3 loan ratio of the banking sector had increased to 12.8 per cent at the end of the year 2023 from 11.3 per cent at the end of 2022, mainly due to the increase in stage 3 loans and the contraction of loans and receivables. Thereby, credit quality in the sector had been problematic. However, provision for stage 3 loans (including unused credit limits) grew by 18.4 per cent annually. As a result, when compared to the credit impairment coverage ratio of 44.9 per cent under the stage 3 at the end of the year 2022, it had recorded an increase to 49.3 percent at the end of the year 2023.

Due to higher growth in liquid assets represented by government securities denominated in rupees, liquidity in the banking sector indicated by the Statutory Liquid Assets Ratio (SLAR) and Liquidity Coverage Ratio (LCRs) grew in the year 2023.

Profitability indicated an increase during the year mainly due to the decrease in new loan impairment charges. In the year 2023, interest income in the banking sector increased by 25.5 per cent. The increase in interest expenses by 42.7 percent had been the reason for the

decrease in net interest income by 4.9 per cent. As a result, the net interest margin, which was 4.0 percent at the end of the year, had decreased to 3.6 percent at the end of the year 2023.

As a whole, the banking sector was able to comply with the minimum capital requirements during the year 2023. Capital adequacy of the banking sector improved at the end of 2023 compared to the end of 2022, mainly due to a contraction in overall credit, increased investment in government securities and appreciation of Sri Lankan rupee and the decline in risk weighted assets by 2023

2. Opinion of the Auditor General on the Financial Statements

Independent Commissions prepare annual financial statements comprising the statement of financial position as at the end of the year and income statement, a cash flow statement, statement of changes in equity and a summary of significant accounting policies and other explanatory information for the year then ended. The Auditor General provides independent assurance that the financial statements give a true and fair view of the operations of the entities. This assurance is provided by expressing an opinion on the financial statements. The conclusion of the Auditor General as to whether the statement of financial position and the statement of financial performance of the Independent Commissions present a true and fair view and as to whether those financial statements comply with Sri Lanka Accounting Standards or Sri Lanka Public Sector Accounting Standards, which are currently compliant with International Public Sector Accounting Standards, and Financial Reporting Standards is expressed by the audit opinion.

Four types of opinions are expressed after considering material misstatements or discrepancies according to the financial statements, and limitations of scope and disagreements between management and the auditor. They are:

Unqualified Opinion

This opinion is expressed when material misstatements or non-compliances are not reported in the financial statements.

Qualified Opinion

This opinion is expressed when material / misstatements or inconsistencies have been reported in the financial statements, but, they have not been extended to the financial statements of entity.

Adverse Opinion

Adverse audit opinion is expressed when material / misstatements, reported in the financial statements have been extended to the financial statements.

Disclaimer of Opinion

This opinion is expressed when the auditor is unable to obtain sufficient and appropriate audit evidence for audit opinion owing to the limitation in the scope and when the auditor decides that there may be undisclosed misstatements in the financial statements.

Details of the opinion of State Owned Banks.

Information of the audit opinions issued in relation to the financial statements submitted in relation to 09 State Owned Banks for the years 2021, 2022 and 2023 is mentioned in the following table.

	2021	2022	2023
Unqualified	09	09	09
Qualified	-	-	-
Adverse	-	-	-
Disclaimer	-	-	-
Opinion has not decided yet	-	-	-
Financial Statements not received	-	-	-

	Name	2021	2022	2023
1.	Central Bank of Sri Lanka	Unqualified	Unqualified	Unqualified
2.	Bank of Ceylon	Unqualified	Unqualified	Unqualified
3.	People's Bank	Unqualified	Unqualified	Unqualified
4.	National Savings Bank	Unqualified	Unqualified	Unqualified
5.	Housing Development Finance Corporation Bank	Unqualified	Unqualified	Unqualified
6.	Pradeshiya Sanwardhana Bank	Unqualified	Unqualified	Unqualified
7.	State Mortgage and Investment Bank	Unqualified	Unqualified	Unqualified
8.	Merchant Bank of Sri Lanka & Finance PLC	Unqualified	Unqualified	Unqualified
9.	Sri Lanka Savings Bank Limited	Unqualified	Unqualified	Unqualified

3. Observations of State Owned Banks

3.1 Central Bank of Sri Lanka

	Total Assets Rs.	Total Liability Rs.	Equity Rs.	Opinion
2021	3,046,278,158,000	2,582,659,114,000	463,619,044,000	Unqualified
2022	4,510,347,102,000	4,428,094,250,000	82,252,852,000	Unqualified
2023	4,205,444,261,000	4,194,259,205,000	11,185,056,000	Unqualified

	Audit Observation	Year of the Report	Auditor General's Recommendation	Preventive action taken by Audited Institute	Implementation status of recommendation as on date of the Report
(a)	The Licensing, Regulation and Supervision of Companies carrying on Microfinance Business are carried out by the Monetary Board of the Bank under the Microfinance Act No. 06 of 2016 (Act) with effect from 15 July 2016. Companies which are accepting deposits and providing financial services mainly to low-income persons and micro enterprises (Micro Finance Business) should obtain a license under the Act. Companies which are not accepting deposits but providing financial services to low-income persons and	2021, 2022	Need to regulate Companies which are not accepting deposits but providing financial services to low-income persons and micro enterprises.	The Bill to establish Microfinance and Credit Regulatory Authority was presented to the Parliament on 09 January 2024.	Action is being taken.

micro enterprises in the country do not require obtaining a license under the Act. Therefore, those companies are not regulated and supervised by the Monetary Board of the Bank under the Act even till the end of November 2023.

(b)	<p>The Corporate Management Committee of the Bank at its meeting held on 09 November 2020, had recommended incorporating rules for pension benefits for a person appointed as the Governor of the Bank in to the rules of the new pension scheme and it had been approved by the Monetary Board at its meeting held on 23 December 2020. Accordingly, the person appointed as the Governor of the Bank had entitled to pension benefits. However, it was observed that minimum period of serving as the Governor of the Bank to entitle to the pension benefits had not been stipulated in the pension rules applicable for the Governor.</p>	2021, 2022	<p>The Governing Board agreed to review it and recommend expediting the review process.</p>	<p>The Governing Board at its Meeting No. 24/2024 held on 11 November 2024 has decided, the pension payments to Governors shall be discontinued with effect from 11 November 2024 and no claims for pension payments shall be entertained by the Central Bank after the said effective date.</p>	<p>Action had been taken.</p>
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3.2 Bank of Ceylon

	Total Assets	Total Liability	Equity	Opinion
	Rs.	Rs.	Rs.	
2021	3,803,283,843,000	3,602,524,011,000	200,759,832,000	Unqualified
2022	4,336,459,704,000	4,082,275,561,000	254,184,143,000	Unqualified
2023	4,411,748,315,000	4,160,033,595,000	251,714,720,000	Unqualified

	Audit Observation	Year of the Report	Auditor General's Recommendation	Preventive action taken by Audited Institute	Implementation status of recommendation as on date of the Report
(a)	A difference of Rs.397,565,454 was reported between the General Ledger balance and the outstanding balances of the Bank Trade Finance System due to some system failures. Full provision has been made in this regard during the financial year 2021.	2021	It is recommended to do necessary correction on due dates and reconcile the balances between the general ledger and the subsystems on frequent basis.	A reconciliation of interest outstanding being carried out. More than 90% of the reconciliation is completed as at 30.09.2024. Remaining reconciliation will be completed before 15.11.2024 and Management approval will be obtained to reverse the provision before 30.11.2024.	
	<u>Loans granted to Ceylon News Papers (Pvt) Ltd</u> The first facility to Ceylon Newspapers (Pvt) Ltd was granted in	2021	It is recommended to ensure that satisfactory customer evaluations have been performed by	1. Initially granted facilities were enhanced with the capitalization of the accrued Interest in year	

2011 and enhanced them in 2014. Facilities were rescheduled initially in 2015 and again in 2017 by increasing the tenor and reducing existing interest rates. The Company's total loan portfolio consists from 13 main loans and 11 sub loans as at 31 December 2021 and the total group exposure is Rs. 2,370 million. The following observations are made in this regard.

- Out of 13 main loans granted since December 2019, 11 numbers of loans have been granted either to reschedule the existing loans or to convert the outstanding under existing Letters of credit / Bill acceptance / series of loan (once and for all) facility.
- Out of 13 main loans, 9 loans have been granted with 24 months grace period and another one loan with 12 months grace period. Therefore these 10 loans are still lying in the performing category.
- The overall financial

the bank before granting loans to a particular customers.

2017 upon the reschedule of the facilities.

2. Despite all cash flow issues and unsound financial background of the company, bank has considered few credit facilities required to continue the business and moratorium has been granted in few occasions reckoning the country situation due to Covid -19 Outbreak.
3. Considering the slow realization of their revenue due to the Covid 19 pandemic, the company has requested to restructure the total portfolio to match the monthly repayment with their forecasted cash flows.
4. The exposure was enhanced up to Rs2.3Bn with the grant of fresh credit facilities in view of reviving the business

performance of the Company was unfavorable. As per the audited financial statements of the company, it had recorded a significant net loss since 2011/12 to 2019/20 and the loss has been increasing significantly over the past nine year's period. The Company's negative net worth has reached to Rs.3.7 billion in 2019/2020. The Bank has not considered the unfavorable financial position of the company prior to granting these loans.

- The Company was unable to meet the following conditions stipulated in the offer letter.
 - Enhancing the stated capital up to Rs.300 million on or before 31 March 2018.
 - Furnishing stocks and book debts statements certified by directors monthly.
 - Settling the total outstanding under the term

while enhancing the revenue with the importation of new semi-automated printing machine which is expected to result in reducing the wastage and improving the quality of the product. Further, company expects to diversify the products to magazine printing, exercise book printing and book cover printing by using the new printing machine.

5. Company has submitted a business plan with new business strategies to be implemented upon the arrival of the new semi automated printing machine. As explained by CNL, the new machine is expected to result in monthly cost saving of Rs. 10.0M through minimizing waste of paper,

loan facility amounting to Rs.365.4 million from the proceeds to be received from the sale of personal property of Company Chairman, situated at Horton Place, Colombo 07.

- As per the board minute No 2.12 dated 12 May 2020, the board had decided to not to entertain any more facilities to this company. However base on the company's request a fresh credit package of Rs.850 million has been approved on 06 May 2021.
- As per the Board Minute No: 2.6 dated 17 November 2021, it was resolved to consider the rate of advance up to 100 per cent base on the **Market Value placed by the Panel Valuer** for the mortgaged properties. However, as per the circular instructions for other facilities Rate of Advance is

ink, reduction in electricity consumption while improving the quality of the product.

6. Considering the time consume to import the machine, fixed in the factory and the slow moving nature of the economy, CNL requested for a grace period of 24 months with a enhancement in the tenour of the repayment period to match the monthly repayment with their forecasted cash flows.
7. The total exposure was covered by the existing and additional mortgage over 4 properties and machinery situated in factory premises considering the Rate of advance up to 100% market value placed by the panel valuer.
8. Enhancing the stated capital up

considered as 60 per cent based on the **Forced Sales value placed by the Bank's Valuers.** Therefore, it was observed that the Bank has offered more favorable treatments for the company by allowing them to entertain more credit facilities.

to Rs.300 million on or before 31 March 2018.

This condition has been notified to company in several instances as stated below;

- a) A letter signed by AGM (Corporate Relations) dated on 22.05.2020, has been forwarded to the Managing Director of CNP, on conveying the concerns of our Bank Management.
- b) Under the Special conditions stated in the offer letters issued to the customer time to time it was stated, "stated capital should be enhanced up to Rs 300.0M on or before 31.03.2022."
- c) Further we have obtained an undertaking from the company that

they will enhance the stated capital up to Rs 300.0M on or before 31.03.2022.

- d) Although Customer has not shown a positive response to or complied with the recommended actions with regards to the conditions expressed by the Bank, in the light of the prevailing circumstances of the post Covid -19 Consequences at that time, the need of getting back to normal operations despite all economic downturns and with the expectation that our Bank must back such effort, the Bank has approved further funding to company.

9. Furnishing stocks

and book debts
statements
certified by
directors
monthly.

Although company was not regularly sending the monthly reports earlier, since June 2021, we have obtained monthly reports in a special format developed by us under the signature of General manager of the company (One of an authorized signatory).

10. Settling the total outstanding under the term loan facility amounting to Rs.365.4 million from the proceeds to be received from the sale of personal property of Company Chairman, situated at Horton Place, Colombo 07.

Company had an intention to sell this property and settle the term loan. As informed by the

General manager of the company, it was not materializing, as they did not get a reasonable offer for the sale of the property situated at Horton Place owned by Mr Tiran Alles. Hence, requested to restructure the loan to be repayable in longer period.

11. As per the board minute No 2.12 dated 12 May 2020, the board had decided to not to entertain any more facilities to this company. However, based on the company's request a fresh credit package of Rs.850 million has been approved on 06 May 2021.

1.0 Although the Board of Directors has considered on the position of the company, lack of its credit worthiness, continues loss-

making situation of the company and comprehensive comments given by Chief Risk officer in this regard, the approval for the restructure package and the fresh credit facilities has been granted subject to all securities and conditions given in the memorandum and the conditions stipulated by CRO reckoning the below factors;

- i. The company has been customer for the last 10 years
- ii. New/fresh collaterals are brought in with this facility.
- iii. The new machine that is planned to be bought in will reduce the wastage improving the

performance
of the
company

- iv. On the need to help this company since it's a newspaper company having the second largest circulation in the country.

2.0 As explained by the company they are planning to diversify the business in to producing exercise books and magazines with the arrival of the new semi-automated printing machine. This approach will add a considerable additional revenue in to the business as per the forecasted cash flow reports submitted by the company.

3.0 The bank has approved fresh facilities to the

company with a view of reviving the business and to recover the existing debt granted to the company, using the forecasted additional revenue as per the business plan submitted by the company.

12. As per the Board Minute No: 2.6 dated 17 November 2021, it was resolved to consider the rate of advance up to 100 per cent base on the Market Value placed by the Panel Valuer for the mortgaged properties.

However, as per the circular instructions for other facilities Rate of Advance is considered as 60 per cent based on the Forced Sales value placed by the Bank's Valuers. Therefore, it was observed that the Bank has offered more favorable treatments for the company by allowing them to entertain more credit

facilities.

It is noted the fact that, As per Annexure II (e) of the OIC 13/2020 dated 29.01.2020, maximum granted amount should be restricted to 60% of the FSV of Bank's valuation of immovable properties.

Considering the factors mentioned below. We have proposed to securitize the existing/proposed facilities considering the 100% of the valuation placed by the panel valuer and the approval of the Board of Directors dated 06.05.2021 has also obtained for the same.

- i. Proposed facilities were for a restructure with a view of securitizing the existing unsecured facilities.
- ii. Considering the appreciation of land prices and majority of the proposed facilities were

term loans with monthly repayments, thus total exposure would keep reducing.

However, under section 4.2 of Deviation from the Credit Policy in the memorandum addressed to the Board of Directors dated 29.04.2021, it was mentioned that the proposal was deviating from the approved credit policy of the bank with regards to the Rate of advance considered against immovable property.

The credit file of the customer has been transferred to Business Revival and Rehabilitation Unit 31.08.2022.

Revival package has been granted with the approval of the relevant Delegated Authorities on 24.11.2022 to revive the business which is still under revival process.

Loans granted to W M Mendis & Company Limited

2021

It is recommended to ensure that satisfactory customer

Approval of the Board of Directors dated 31.03.2023 has been obtained to

W M Mendis & Company Limited is a private limited liability company and engaged in manufacturing and bottling wide range of coconut and blended arrack products. The Bank has granted a credit package to the company and following observations are made in this regard.

- The Bank has approved new facilities and several expansions to the existing facilities to W M Mendis & Company on 8 June 2016, 09 July 2018, 18 September 2019 and 12 May 2020 respectively.

The credit package approved to the Company on 12 May 2020, includes a rescheduled term loan of Rs.2,055 million, a term loan of Rs.240 million, another rescheduled loan of Rs.318 million and an overdraft facility of Rs.500 million. All the facilities have been transferred into non-performing category during the

evaluations have been performed by the bank before granting loans to a particular customers

reschedule the total credit portfolio against existing securities and to grant fresh Letter of Credit/ Bill Acceptance / Series of loan limit of Rs 110.0M on once and for all basis to import dryer tube bundle (a part of machinery) required to run the ethanol manufacturing operation on continues basis. (a part of machine required to convert liquid by product of ethanol extraction process (sludge) in to powder which is expected to sell as chicken/ animal feed for the poultry industry). This facility has been approved in view of business revival of the company and repayment has been structured on staggered capital payment method with a 4 months grace period until new machine part is imported and fixed in the Kalkuda Factory. Reschedule facilities were granted on June 2023. However,

- year 2020 and 2021.
- The Company's business has been suspended since October 2020 due to the non-renewal of production license. At present, the Excise Department has issued the Ethanol license to start the manufacturing in Kalkudha plant and blending license to restart the blending of ENA at Welisara factory and already commenced the blending production on 02 September 2022.
- As per the auditor's report in 2017/2018, the going concern of the company is doubtful due to incurring of continuous losses and negative net assets position of the Company. However, the Bank has continuously granted loans without considering the going concern problem of the Company.
- The total outstanding balance of the customer as at 31 December 2021 is

arrival of machine and fixing it in the factory premises got delayed unexpectedly due to adverse weather conditions and various other reasons explained by the customer. Dryer tube bundle is in operation since February 2024. Currently by product is selling to poultry industry. However, as expected the ethanol production is not running on continues basis. As explained by the company they are in the process of gradually enhancing the bottling operation with the forward integration process developed by sister companies Walt & Row Associates and Business Process Management Pvt Ltd as the distribution arms of WMMC. Although company had considered both main revenue lines of selling Chicken feed to poultry industry and selling Ethanol to outside parties to the forecasted financial

Rs.3,417 million.
Out of total
outstanding,
Rs.858.6 million or
25 per cent was only
secured against
mortgage property
situated at No. 309,
Colombo Road,
Welisara. The
balance outstanding
of Rs.2,558 million
or 75 per cent was
only secured against
the mortgage over
debtors and joint and
several guarantees of
two directors.

statements submitted
to the bank upon
restructuring
existing loans, it has
not been
materializing up to
now. Hence,
reschedule loans
have not been
serviced on regular
basis. However,
company is in the
process of improving
their revenues and
approximately more
than 80% cash flow
has been routed
through BOC at
present.

Company could
enhance their
monthly cash flow
from zero up to Rs
660.0M from
September 2022 to
date. Although a
monthly average
cash flow of Rs
660.0M is being
routed to our A/Cs
within last six
months, more than
55% of payments
have been utilized to
pay excise duty and
IRD payments in
view of securing the
liquor license to
continue the
business without
hindrance. Hence,
company requested
only to recovery

minimum portion for reschedule loans until their sale is picked up to considerable level as their working capital requirement is being currently funded through their business cash flows. Company has settled the once off series of loan facility of Rs 110.0M by February 2024 from the sales proceeds received through our A/Cs. Currently, we are recovering Rs 45.0 - 47.0M (Monthly requirement for loans – Rs 60.0M) per month and company agreed to enhance the recovery up to required level by December 2024.

Total outstanding balance of Loans & Advances belonging to Government of Sri Lanka and State Owned Enterprises (SOEs) has been increased significantly during last five years period from 2018 to 2022. Increasing trend of outstanding balance of SOEs, from total Loan and Advances balance	2022	It is recommended to closely monitor the recoveries of Government of Sri Lanka and State Owned Enterprises (SOEs) since both forms same risk category of “Government”.	Please refer Annex I for comments.
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indicated 36.53 percent to 45.67 percent during 2019 to 2022.

Off balance sheet values (Letter of Credits, Acceptance and Bank Guarantees) belonging to State Owned Enterprises (SOEs) as at 31 December 2022 was Rs.197,087 Mn and the total exposure of State-Owned Enterprises (SOEs) including the aforesaid off-balance sheet value was recorded as Rs.2,385,602 Mn and it represents 62.72 per cent of total assets of the bank.

<p>The aggregated total outstanding balances of top 10 State Owned Enterprises (including Government of Sri Lanka) as at 31 December 2022 has recorded as Rs.1, 026,995 Mn which include capital outstanding of Rs.1, 003,725 Mn and interest outstanding of Rs.23, 271 Mn. This represented 96.31 percent from total outstanding balance of loans & advances belonging to the State-Owned</p>	<p>2022</p>	<p>It is recommended to follow up and recoveries and maintain appropriate limits to reduce credit risk.</p>	<p>The exposure (direct and indirect) of top 10 SOEs as at 30.06.2024 is as follows:</p> <p style="text-align: right;">(in Rs. Mn)</p>
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Enterprises (including Government of Sri Lanka). Therefore, major dependency on top 10 customers was observed as follows;

Institute	O/S balance as at 31/12/2022	Security	Security Value
Ceylon Petroleum Corporation (CPC)	575,958	Treasury Indemnity 100% Dollar margin in BFCA Account	USD 700 Mn USD 200 Mn USD 750 Mn
Road Development Authority (RDA)	143,350	Treasury Guarantee	Rs. 149,164 Mn
Government of Sri Lanka	115,502	Loan Agreement	
Sri Lankan Airlines Limited	71,473	Letter of Comfort	Rs. 49,190 Mn

	Customer Name	Exposure as at 30.06.2024
1	Government of Sri Lanka	487,199.73
2	Road Development Authority	119,627.46
3	Sri Lankan Airlines Limited	69,326.36
4	Ceylon Petroleum Corporation	56,294.75
5	National Water Supply & Drainage Board	42,703.43
6	Sri Lanka Ports Authority	41,715.65
7	State Pharmaceuticals Corporation (SPC)	22,091.46
8	Department of Pension	19,231.30
9	Ceylon Electricity Board	14,739.24
10	Commander Sri Lanka Air Force	11,183.90

SLAL

SLAL continues to service the interest and substantial portion of facilities are secured over Treasury Guarantee/Treasury Comfort.

A Cabinet decision was taken on 04.03.2024 to transfer liabilities with BOC amounting to USD 105.0 M and LKR 12.9 Bn to the Government of Sri Lanka. However, the bank has not received any official communication

		Mortgage Over Shares of Sri Lankan Catering limited	Rs. 67,499 Mn
National Water Supply & Drainage Board (NWSDB)	51,363	Savings Accounts and Fixed Deposits	Rs. 166,822 Mn
Department Pensions	18,927	Letter of Comfort	Rs 24,000 Mn
Ceylon Electricity Board (CEB)	17,241	Treasury Guarantee	Rs 5,000 Mn
		Assignment over Leased Vehicles	
State Pharmaceuticals Corporation of Sri Lanka	12,284	Letter of Comfort with undertaking of budgetary provisions issued by General Treasury	Rs. 5,876 Mn
		Clean & BOE/Shipping Documents	
Sri Lanka Telecom	11,651		
Paddy Marketing Board	9,246	Treasury Undertaking	
		Treasury Guarantee	Rs. 500,000 Mn
	1,026,995		

regarding same.

Claims were lodged with the Government Treasury dated 14.02.2024, 15.04.2024, 03.06.2024 and 18.09.2024.

Repayment of all loans were suspended until 31.12.2024 or until finalization of the Restructuring process. Letters has been sent to General Treasury on 22.08.2024 and 10.09.2024

requesting to settle the claims already lodged or else make available the extended Letter of Comfort and Treasury Guarantee.

The bank will take every endeavour to reduce the exposure to GOSL and SOEs. The business SOEs such as CPC, CEB, Lanka Coal etc are being financed based on their business cash flow.

Further, the term loans granted to SOEs are gradually settled based on the agreed repayment plan at the time of granting the

facilities.

Government of Sri Lanka

As per the Budget 2023 Proposals No. 42.1, Secretary to the Treasury by his letter dated 14.02.2023 had informed the bank that GOSL has already taken over the guaranteed foreign exchange debt of CPC to BOC amounting to USD 1,341.19 Mn (Rs. 488.31 bn as at 31.03.2023) as at 31.12.2022.

After having array of discussions, meetings, negotiations with Lazard (Consultant to GOSL), officials of Ministry of Finance (MOF) and CBSL, bank received latest restructuring proposal by ST by the letters dated 04.06.2024 and 07.06.2024 and replied by our letter dated 06.06.2024 for clarifications and consented for the said proposal by Actg. GM's letter dated 29.07.2024. The Cabinet

Ministers at their meeting held on 27.08.2024 granted approval for the finalized restructuring proposal subject to submit a parliament resolution to provide Rs. 130 Bn for recurrent expenditure (for both BOC and PB). Further, the draft loan agreement was shared by the General Treasury on 11.09.2024 and the same was shared with GOSL with the comments/expected amendments etc of the bank.

Further, the approval of the Board of Directors at their meeting held on 18.09.2024 was obtained with the recommendation of the Credit Committee on 13.09.2024 for the restructuring credit facility shared by the ST by his letters dated 04.06.2024 and 07.06.2024.

Sri Lanka Telecom PLC

Sri Lanka Telecom PLC is a public

listed company, who is managing the business successfully towards the making profit. Therefore, the profitability and the financial position of the company is acceptable.

Dependence of this customer from the government is very low.

The aggregated outstanding balance of top 10 Non- Performing customers was Rs. 33,783.63 Mn as at 31 December 2022 including the capital of Rs.27,781.85 Mn and interest of Rs.6,001.7 Mn. It represents 28.50 percent of total non-performing loans and advances of the Bank as at 31 December 2022 while indicating an increase of 57.5 percent comparing to previous year.

Companies of K D Ebert & Sons Holdings (Pvt) Ltd, Anudan Holdings (Pvt) Ltd, Ruhunu Development Contractors & Engineering (Pvt) Ltd, Sintesi Limited, W M Mendis & Company Ltd, Srei Equipment Finance Ltd and Almar

2022 It is recommended to follow up recoveries and ensure satisfactory customer credit evaluations before granting loans in future.

Srei Equipment Finance Ltd

In the CoC meeting of SIFL and SEFL administrator requested to vote Proposed resolution plans. After evaluating the financial proposal received from above prospective three buyers and draft lenders wise distribution plan, BOC obtained approval from the Board of Directors to vote for draft Resolution plan received from National Asset Reconsideration Company Limited (NARCL) out of other three draft Resolution plans.

All lenders voted and selected

Trading Co. (Pvt) Ltd are continuously ranked in the top 10 NPA customers list of the Bank from years 2018,2019,2020,2021 and 2022 respectively. Moreover, the companies of Laugfs Gas PLC and Deshika Embroidery Solution (Pvt) Ltd were newly listed in the top 10 NPA customers of the Bank as at 31 December 2022.

No.	Name of the Customer	Total Loan Balance as at 31/12/2022 (Rs.)/m
01.	Sree Equipment Finance Ltd	6,079.78
02.	Smiles Limited	4,222.82
03.	K D Ebert & Sons Holdings (Pvt) Ltd	3,919.34
04.	Dholiya Investment (Pvt) Ltd	3,505.80
05.	W M Mendis & Company Ltd	3,406.34
06.	M S Laugfs Gas PLC	3,172.84
07.	Almar Trading Co. (Pvt) Ltd	2,667.30
08.	Amudan Holdings (Pvt) Ltd	2,614.04
09.	M S Deshika Embroidery Solution (Pvt) Ltd	2,338.63
10.	Ruhunu Development Contractors & Engineering (Pvt) Ltd	1,856.74
	Total	33,783.63

National Asset Reconsideration Company Limited (NARCL) as the approved Resolution plan.

As per the RBI approved distribution plan, Bank of Ceylon is under the category of Assent secured ECB (External Commercial Borrowings) lenders.

USD 2.35 M recovered as per the CIRP process.

Balance Resolution plan as follows.

Optional Convertible Debentures (OCD) issued- INR 349.7 M (USD 4.19 M)

Equity shares

INR 11.3 M (USD 0.13 M)

Total amount to be received USD 4.66 M

Directors to appoint Mr. S Ramanujam, Senior Vice President Credit (Chennai Branch) as an authorized representative to participate in the meetings at Reserve

Bank of India (RBI) / Committee of Creditors (COC) meeting and any other related matters by representing Bank of Ceylon – Offshore Banking Division on behalf of Bank of Ceylon.

Sintesi Limited:

Continue the legal actions already initiated. Following cases have been filed:

CHC 151/2022/MR -
Next Hearing Date -
07.03.2024 (Steps
and Moved)

CHC 153/2022/MR –
Next Hearing Date -
16.10.2024

CHC152/2022MR -
Next Hearing Date –
27.01.2025

The legal department is in the process of obtaining a sequestration order for the proceeds of the parate auction executed against mortgaged property.

K D Ebert & Sons Holdings (Pvt) Ltd

While entertaining revival customers appropriate credit evaluation is being

carried out based on forecasted feasible business performance in align with BRRU guide line.

Dholiyadhoo

Investment – Male

Bank has submitted the enforcement case to civil court to recover money from the guarantors. During the enforcement proceeding, BML and SBI requested to intervene. Now SBI has submitted a new valuation report for Dholhiyadhoo Island, the court will soon issue a foreclosure order to sell the Island.

State Bank of India (Assistant Vice President – Credit) update the present position by an email as follows.

As per court judgement, SBI published the auction notice in local newspaper” Mihaaru” and web site from 03.09.2024 to 15.10.2024 and notice published in SBI web site.

W M Mendis & Company Ltd

As explained in Para 3 above, Currently, we are recovering Rs 45.0 - 47.0M (Monthly requirement for loans – Rs 60.0M) per month. After the restructure of existing facilities, we have recovered Rs 75.06M as Capital and Rs 365.0M as Interest as at 13.10.2024 for the existing facilities as business cash flow has been routed through our A/Cs.

M/S Laugfs Gas PLC

1. Company's business cash flow was affected due to control of the LPG prices by the Government.
Hence from October 2021 onwards consumer prices of LPG are being determined only by market forces and free of regulatory controls by the authorities.
2. Bank was in the

process of recovery of NPA facilities from the business cash flow prior to consider the second-way out. The customer was also positively adhered to the settlement of NPA by routing required additional cash flow.

3. At the end of year 2022, company had a NPA outstanding of Rs. 3,480.36 Mn and company could gradually settle total NPA by May 2024.

Facility type	NPA Outstanding (Capital) as at 31.12.2022 (Rs. Mn)	NPA Outstanding (Capital) as at 15.05.2024 (Rs. Mn)
Import Loan/ BLR	832.89	Nil
Term Loan	2,634.07	Nil
Overdraft	13.38	Nil
Grand Total	3,480.36	Nil

4. As at date (15.10.2024) all the existing facilities of company are in regular section, no dues recorded and settlements are satisfactory.

5. Under favorable market conditions, the company has the opportunity to sell its products at a cost-effective price, which will strengthen its revenue generation and profitability. Ultimately it will assure the settlement of credit facilities in a satisfactory manner.
6. Relationship team is strictly monitoring the facilities granted to the company and the timely settlement of the same.

**Almar Trading Co.
(Pvt) Ltd**

Case filed for the facility amounting to USD 5.5Mn under Case Nos. CHC/21/2024/MR CHC/22/2024/MR and CHC/23/2024/MR

Pretrial calling for case nos. CHC/21/2024/MR and CHC/22/2024/MR on 06.12.2024.

Pretrial calling for

case no.
CHC/23/2024/MR
date fixed on
27.01.2025.

The Letters of demand have been sent for other facilities and Counsel has been appointed for filing cases under Debt recovery/money recovery action.

**Anudan Holdings
(Pvt) Ltd:**

Company has deposited Rs.8.0Mn for the month of June, July, August and September (Rs.2.0Mn for each month). TOD facility has been fully recovered with interest concession.

Had a discussion with the General Manager and now seeking the possibility of reviving the business. If reviving is not possible the bank will follow the exit strategy.

**Deshika
Embroidery
Solution (Pvt) Ltd**

Facility 1-5- Parate
Actions to be
reinitiate after

15.12.2024

Facility 6-8 – Case files on District Court Moratuwa no,4319/2024/DMR and 4320/2024/DMR

Facility 9- Vehicle seized.

Facility 10- Case filed on Commercial high court in Colombo (Pretrial stage)

Ruhunu Development Contractors & Engineering (Pvt) Ltd

While entertaining revival customers appropriate credit evaluation is being carried out based on forecasted feasible business performance in align with BRRU guide line.

The aggregated outstanding balance of top 10 Non- Performing customers to whom loans were granted during 2022 and transferred to the NPL category in the same year (Excluding rescheduled facilities) was Rs.1,555.66 Mn as at 31 December 2022.

2022

It is recommended to ensure that satisfactory customer evaluations have been performed by the bank before granting loans to particular customers.

The approval of the Corporate Management Committee (CMC) has been obtained at their meeting held on 25.05.2022 to implement a mechanism to report and evaluate facilities considered as NPCFs within

This represents 73.5 percent of total outstanding balance of loans granted during 2022 and transferred to NPL category (excluding rescheduled facilities).

Name of the Customers	As at 31 December 2022		
	No. of Loans	Total Amount Disbursed During the year 2022 (Rs.Mn)	Total Amount Outstanding as at 31.12.2022 (Rs.Mn)
Trend Setters (Pvt) Ltd	5	951.12	979.79
Navaloka Piling (Pvt) Ltd	10	131.50	138.58
MG Consultants (Pvt) Ltd	4	121.20	137.68
Ackzome Lanka (Pvt) Ltd	12	83.52	93.53
FIBC Lanka (Pvt) Ltd	6	59.71	63.46
Mr. P.K. Jayathilake	1	35.00	39.51
Wayamba Lanka Coco (Pvt) Ltd	1	27.77	30.84
AMSK Constructions (Pvt) Ltd	2	22.96	27.12
Mr. B.A. Jayasekera	1	20.50	21.93
Mr. M.F. Niroshan Fernando	1	19.78	21.22
Total		1,473.06	1,555.66

first six months from date granting, on a monthly basis.

Accordingly, memoranda are being submitted to the Credit Committee in monthly basis.

For retail customer's evaluations and Granting have been conducted by relevant Credit Divisions (Branch Credit Range 1, Range 11)

However, every possible recovery actions and procedures have been followed up for Customers who are in said Top 10 after transferring to NPA section.

Trend Setters (Pvt) Ltd

Trend Setters (Pvt) Ltd is engaged in manufacturing and exporting of ready-made garments. Company was able to manage business under financial distress situation before the COVID-19 pandemic. However, the company has not

been able to secure enough orders for their lean period from the regular buyers. Hence company ceased its operations since October 2022. Due to insufficient cash flows company was failed to service bank facilities promptly and said credit facilities were transferred to NPA section since 30.10.2022.

The bank had several negotiations with company officials for the settlement of outstanding liabilities of the company. In the meantime, the company already settled all LKR facilities totaling to Rs.80.0Mn on 16.07.2024. One loan totaling to Rs.14.65Mn which was transferred to NPA within the same year already settled by above mentioned settlement.

The bank has already sent Letters of Demand and Final Notices for

remaining other facilities.

**Nawaloka Piling
(Pvt) Ltd**

During the year 2022 the company has obtained 10 facilities under the approved Series of Loan facility of Rs.150.0M. The Bank has granted those facilities by assigning the proceeds of the project to the bank to meet the working capital requirement of the project performed by the company during that period. Due to stress situation of the country, the company was unable to perform the contract with budgeted estimate and unable to settle the bank Facilities. Subject facilities have been granted against the security of Mortgagee over Commercial property. The bank had several discussions with the company to find a solution for repayment of facilities and unable

to come for an acceptable solution for that. Therefore, all the facilities have been transferred to Corporate Recovery Department in September 2024 to initiate recovery action.

MG Consultants (Pvt) Ltd

These facilities have been granted to the company to meet working capital requirement under the approved Bills Discounting facility. Due to the delay in Payment of Road Development Authority, the company was unable to settle the same within agreed period. Out of 4 facilities, customer has settled 2 facilities using business income and has made part settlement for other two facilities. Remaining capital outstanding of Rs.49.3M and accrued interest of Rs.23M have been restructured on 26.06.2024 and

customer serviced 03 installments as at 15.10.2024 and there are no arrears of the installments.

Ackzorne Lanka (Pvt) Ltd

Revival package has been granted with the approval of the relevant Delegated Authorities on 27.12.2023 to revive the business which is still under revival process.

FIBC Lanka (Pvt) Ltd

Customer in regular Section.

P.K.Jayathilake

The facility has been settled.

Wayaba Lanka Coco (Pvt) Ltd

The facility has been rescheduled and customer is servicing the loan.

**AMSK
Constructions
(Pvt) Ltd**

This is an Invoice discounting loan granted to 100,000Km program road project conducted by RDA. Since

payment for the invoices has been delayed by RDA for more than 9 months. Loan has been transferred to NPA. However, funds have been received and captioned loans have been already settled.

Mr. B A Jayasekera

Loans transferred to NPA since customer's director fees has not been received to A/C within covid 19 pandemic period. However, customer has settled all the loans granted to him in full including the captioned loan.

M.F. Niroshan Fernando

Customer is servicing the loan installment.

Under the Financial Transaction Reporting Act No. 6 of 2006, Central Bank of Sri Lanka has imposed Rs.3 Mn penalty on 13 October 2022 for the reason of failure to identify a customer out of all business relationship as per the said regulation.

2022 Need to comply with relevant regulation.

- Upon receiving the notice on the new sanction list(s) or amendments to the sanction list from the Financial Intelligence Unit (FIU), the proper mechanism has

been implemented to freeze all funds other financial assets and economic resources.

- When onboarding new customers, real time screening against sanction list is performed by Clari5 system through Document Management System (DMS) of the bank using Dow Jones data feed.
- Facility to screen any customer at any time is available in the system and users of all branches/ business units have such facility.
- The bank conducts a manual and semi-automated screening of the existing customer database subsequent to every update of the sanction list, and all identified business

relationships are frozen immediately.

- At the same time mechanism is in place to avoid opening of new accounts for identified sanction parties through DMS.
- Access and changes of sanctioned accounts and their CIFs have been restricted through implementation of access code restrictions for all staff members except relevant compliance staff members who handle the sanction accounts.
- A post sanction screening mechanism is in place against the local sanction list to identify any new relationships if formed.
- Special transaction monitoring system has been established to capture any

transactions
conducted via an
account of
Sanction party
the following
day.

- All relevant local and international sanction lists have been uploaded to the bank's Intra-net in which access is available for all staff members.
- To fully address the requirement, comprehensive AML Solution with the integration of all Customer Service Systems is required and the Bank is in the procurement process.
- In addition to the above system measures, compliance department conducts physical and online training programs for staff members where targeted financial sanctions and sanction screening are

major modules. An internal and external audit will be conducted to ensure that the systems and procedures for targeted financial sanctions are in place.

An amount of Rs.78.5 Mn was recorded in the “Reserve on Forged Cheques and Frauds” account as at 31 December 2022.

The main contribution for this provision was Rs.65 Mn fraudulent cash withdrawal from savings account bearing number 88380782 belongs to dead customer on 11 November 2022. Relevant account has been inquired several times and majority of those inquiries were from personal branch. A cash hold of Rs.95 Mn has been placed on 12 September 2022 using cash officer's password and new passbook has been issued and updated using suspicious cash teller password. The lapses in passbook running stock controls have been contributed to

2022 Need to strictly adhere with internal control procedures and need mechanism to monitor their compliance.

Internal Investigation has been carried out to the stated incident and inquiries are conducting by Investigation department of the Internal Audit Department. Accordingly, the relevant disciplinary actions will be taken after the inquiries by the Disciplinary Authority Board of the Bank.

Further, Investigation department has recommended disciplinary actions for 26 employees and to take suitable decision on delegated authority limits for payments over 1.0 million through Investigation report.

this fraudulent act. A withdrawal of Rs.65 Mn has been taken placed at the personal branch by cash teller (PF No. 219338) and withdrawal slip has not been proceed either to A class or B class signature. Cash teller has used his password and “A” class officers’ password for overriding and failed to refer this withdrawal to parent branch as required by Circular No. 116/2006. Root cause of this incident was that not following the laid down proceeding including fundamental control like password control.

Awareness provided to provincial authorities regarding the common lapses identified in the CBSL Audit.

The following steps taken to strengthen the Internal Control process at province level.

- Introduced officers as Branch Regulatory Supervision Officers at Province Level to monitor the Cluster ICOs.
- Strengthen Cluster Internal Control officers according to the Grade of the Branch.

Non performing Staff loan 2022

The total outstanding balance of non-performing staff loans as at 30 April 2023 was Rs.248.6 Mn. As per the age analysis, the staff loan balances aggregating to Rs.28.7 Mn, Rs.54.9 Mn and Rs.165 Mn were remained outstanding since less than one year, one to two years and more than two years

Need to follow up recovery actions.

Recovery actions including legal actions have been initiated and Bank has recovered Rs. 42,983,376.84 from non-performing staff loans since 30 April 2023.

Recovered as follows:

Over 1 year

Rs. 23,495,989.16

respectively without recovering.

Over 2 Year

Rs. 6,047,711.19

Over 3 Year

13,439,676.49

**Total- Rs.
42,983,376.84**

Analysis of the amounts written off and recoveries out of write off balances over last five years from 2018 to 2022 are as follows;

Year	Amount written off (Rs. Mn)	Amount Recovered During the Year (Rs. Mn)	Percentage of Amount Recovered against Amount written off during the year (%)
2018	35.5	47.65	134
2019	710.3	36.5	5
2020	5.63	57.03	1012
2021	73.73	1.66	2
2022	13.61	0.65	5
Total	838.77	143.48	17

- Accumulated amount of write off for last five years of the bank was recorded as Rs.838.77 Mn and this included the highest write off balance of Rs.616.46 Mn belongs to the Tandont Lanka (Pvt) Ltd during the year 2019.
- Recoveries from write off balances of each year have been

2022 Need to follow up recoveries.

Recovery Units of the bank take every endeavour to recover the NPCFs through negotiations, litigation and property realization.

If all the steps get failed, the bank will write off the facilities as per the Write off policy with the approval of the Board of Directors subject to followings,

- Names of the borrower/guarantors have to be retained in Default Records and Credit Information Bureau
- Every effort to be taken by the Bank to recover these written off debts.
- The write off will not be divulged to the borrower or any

decreased gradually over the last five years except year 2020 and no recoveries from write off facilities was recorded in the year 2022 except credit card Center.

other party under any circumstances.

-
As per the Definition of the Procurement Manual of the Bank of Ceylon 2014, "Services means services other than consultancy services". However, there is no any internal guideline developed for the procurement of consultancy service for the Bank. Thereby, the separate guideline issued by the National Procurement Agency (NPA) in 2007 for selection & employment of consultants should be followed by the Bank. However the bank had not followed the said guidelines, though the absence of bank owned guidelines.

2022

Need to prepare a guideline for bank or apply NPA guideline

Presently apply National Procurement Agency (NPA) guideline to select the consultant and use the authority levels of procurement manual of Bank of Ceylon for the financial approval. Also this will be included to the procurement manual at the time of renewal for the year 2025.

The Deputy Secretary to The Treasury (After transfer CPC loan), Road Development Authority, Government of Sri Lanka, Sri Lanka Air Lines, Ceylon Petroleum Corporation, Government of Sri

2023

Ensure that loans to GOSL and SOEs are in an acceptable level in line with the bank's risk appetite.

Recommended to closely monitoring and follow ups to

The bank will take every endeavour to reduce the exposure to GOSL and SOEs. The business SOEs such as CPC, CEB, Lanka Coal etc. are being financed based on their business

Lanka (USD Facility), National Water Board, Department of Pension, Ceylon Electricity Board, Lanka Coal Company (Pvt) Ltd, State Pharmaceuticals Corporation recognized as the top 10 State Owned Enterprises (SOEs) as at 31 December 2023. The total outstanding balances of top 10 State Owned Enterprises (SOEs) as at 31 December 2023 have recorded as Rs.890,125.58 million which include capital outstanding of Rs.868,321.60 million and interest outstanding of Rs.21,803.98 million. This represented 94.81 percent from total outstanding balance of loans & advances belonging to the Government and State-Owned Enterprises (SOEs). Therefore, there is a major dependency on main ten SOE customers were observed.

carried out on SOE credit facilities to ensure that they are serviced in a timely manner to mitigate the credit risk and to maintain liquidity, earnings and capital at satisfactory levels above regulatory requirements.

cash flows.

Further, the term loans granted to SOEs are gradually settled based on the agreed repayment plan at the time of granting the facilities.

The exposure (direct and indirect) of top 10 SOEs as at 30.06.2024 is as follows:

(in Rs. Mn)

	Customer Name	Exposure as at 30.06.2024
1	Government of Sri Lanka	487,199.73
2	Road Development Authority	119,627.46
3	Sri Lankan Airlines Limited	69,326.36
4	Ceylon Petroleum Corporation	56,294.75
5	National Water Supply & Drainage Board	42,703.43
6	Sri Lanka Ports Authority	41,715.65
7	State Pharmaceuticals Corporation (SPC)	22,091.46
8	Department of Pension	19,231.30
9	Ceylon Electricity Board	14,739.24
10	Commander Sri Lanka Air Force	11,183.90

SLAL

SLAL continues to service the interest and substantial portion of facilities are secured over

Institute	Outstanding Balance as at 31 December 2023 Rs. Million	Security	Security Value
The Deputy Secretary To The Treasury (After transfer CFC loan)	625,060.95	Loan Agreement	-
Road Development Authority	126,282.12	Treasury Guarantee	Rs. 147,657.25 lds
		Fixed Deposits	Rs. 2,552.71 lds
Government Of Sri Lanka (USD Facility)	78,094.30	Clean	-
Sri Lankan Airlines	69,692.19	Treasury Guarantee	USD 4.01lds
			USD22.50lds
		Letter of Comfort	USD 42.50lds
			USD 24.01lds
		Mortgage over ordinary shares of Sri Lankan Catering Ltd	USD186.01lds
Ceylon Petroleum Corporation	59,562.52	Treasury Indemnity	Rs. 100,000lds
National Water Supply And Drainage Board	49,604.07	Treasury Guarantee	Rs.22,142.10lds
			USD 107.49lds
Department of Pension	19,058.88	Clean	-
Ceylon Electricity Board	15,969.27	Loan Agreement	-
Lanka Coal (Pvt) Ltd	15,689.56	Treasury Guarantee	Rs. 4,750lds
State Pharmaceutical Corporation	11,280.71	Treasury Guarantee	Rs.49,500lds
Total	898,125.58		

Treasury Guarantee/Treasury Comfort.

A Cabinet decision was taken on 04.03.2024 to transfer liabilities with BOC amounting to USD 105.0 M and LKR 12.9 Bn to the Government of Sri Lanka. However, the bank has not received any official communication regarding same.

Claims were lodged with the Government Treasury dated 14.02.2024,15.04.2024,03.06.2024 and 18.09.2024.

Repayment of all loans were suspended until 31.12.2024 or until finalization of the Restructuring process. Letters has been sent to General Treasury on 22.08.2024 and 10.09.2024 requesting to settle the claims already lodged or else make available the extended Letter of Comfort and Treasury Guarantee.

<p>There are some customers to whom loans were granted in a particular year and those loans are transferred to NPL category in the same year (Excluded rescheduled facilities). According to the analysis has been performed towards the top 10 customers who are falling into the above category, it was observed that Rs.514.92 million has been disbursed to these 10 customers during the year 2023 and out of that, 88.64 percent or Rs. 456.45 million has been transferred to the Non-Performing category with in the same year.</p>	2023	<p>Take necessary actions to grant loans and advances to eligible customers in accordance with approved guidelines and circulars and to recover effectively and efficiently.</p>	<p>The approval of the Corporate Management Committee (CMC) has been obtained at their meeting held on 25.05.2022 to implemented a mechanism to report and evaluate facilities considered as NPCFs within first six months from date granting, on a monthly basis.</p> <p>Accordingly, memoranda are being submitted to the Credit Committee in monthly basis.</p> <p>Further, letters are sent to the relevant branches querying the reasons for failing to keep these facilities in regular section and the actions taken to recover the same with a continuous follow up procedure.</p>
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Loan Granted by
Islamic Banking Unit

The non-performing loan exposure of the unit has been gradually increased over the periods of 2019 to 2023 and it indicates significant percentage of NPA in 2023 as follows;

2023

Take necessary actions to grant loans and advances to eligible customers in accordance with approved guidelines and circulars and to recover effectively

Actual total loan exposure and total NPA exposure is given below.

Year	Total Loan Exposure	Total NPA exposure	NPA % from total loan exposure
2019	2,278,623,393	346,710,320	15.22%
2020	1,581,289,830	820,038,950	51.86%
2021	982,212,331	688,244,587	70.07%
2022	1,160,511,860	669,241,707	57.67%
2023	861,845,847	661,569,558	76.76%

Out of total Non-performing loan exposure, amount of Rs.656.81 or 99.28 percent has covered by top 10 non-performing customers of the unit as at 31 December 2023. Further out of top 10 Non performing customers, one customer represents 49.53 percent from total non-performing loan exposure of the Islamic Banking Unit. Details are as follows.

and efficiently.

Year	Total Loan Exposure	Total NPA exposure	NPA % from total loan exposure
2019	2,280,525,238.00	346,704,320.00	15.20%
2020	1,673,824,312.00	629,469,748.00	37.61%
2021	1,169,716,452.00	699,071,917.00	59.76%
2022	1,494,493,683.00	677,957,256.00	45.36%
2023	1,451,447,860.00	669,621,847.00	46.13%

Furthermore, the NPA ratio reduced to 15.5% as at 30th Sep 2024. Details are given below.

Year	Total Loan Exposure	Total NPA exposure	NPA % from total loan exposure
2024 Sep	4,229,964,738.00	663,950,724.00	15.70%

Out of top 10 NPA customers, IBU has initiated recovery action to the following customers.

Name of the Customer	Total O/S as at 31.12.2023 (Rs.000)	% of customer O/S from total NPA loan portfolio
Oceanpick (Private) Limited	327,708.11	49.33
Harcourts (Pvt) Ltd	183,533.32	27.75
Farh Tech (Pvt) Ltd	44,692.58	6.76
Ampara Ekabadda Govi Samagam Limited	43,423.11	6.56
Seemasalutha (Janatha) Ekabadda Govi Sa	34,094.60	5.15
Bio Energy Solutions (Pvt) Ltd	13,543.87	2.05
Mr. A.A.M. Muzammil	4,692.23	0.71
Mr. M.N. Mohamed Shams	1,970.65	0.3
Niyas Amm	1,736.10	0.26
Mr. M.U.M. Naufar	1,396.87	0.21

Name of the Customer	Recovery action initiated by IBU
Oceanpick (Private) Limited	Approval obtained to reschedule.
Harcourts (Pvt) Ltd	Legal action is ongoing at Commercial High Court
Farh Tech (Pvt) Ltd	Legal action initiated
Seemasalutha (Janatha) Ekabadda Govi Sa	Legal action initiated
Bio Energy Solutions (Pvt) Ltd	Legal action initiated
Others	Negotiation

Loan Write- Off loans

Analysis of the amounts written off and recoveries out of them over last six years from 2018 to 2023 are as follows;

Year	Amount written off (Rs. Mn)	Amount Recovered During the Year (Rs. Mn)
2018	35.5	47.65
2019	710.3	36.5
2020	5.63	57.03
2021	73.73	1.66
2022	13.61	0.65
2023	17.17	25.54
Total	855.94	169.02

- Accumulated amount of write off for last six years of the bank

2023

Take necessary actions to grant loans and advances to eligible customers in accordance with approved guidelines and circulars and to recover effectively and efficiently.

Recovery Units of the bank take every endeavour to recover the NPCFs through negotiations, litigation and property realization.

If all the steps get failed, the bank will write off the facilities with the approval of the Board of Directors subject to followings,

- Names of the borrower/guarantors have to be retained in Default Records and Credit

was recorded as Rs.855.94 million which included highest write off balance of Rs.616.46 Million belongs to Tandont Lanka (Pvt) Ltd during the year 2019. In the year 2023 bank had written off loan balance of Rs.17.17 million and out of that Rs.5.71 million or 33.25% represents from overseas branch.

- Recoveries from write off balances of year 2023 have been increased compared to preceding year. However overall recoveries are not at expected level compared with overall write off.
- Rs.0.11 million difference were identified between write off amount in Financial statement and details extracted from business units due to difference exchange rate consideration (Finance

Information Bureau

- Every effort to be taken by the Bank to recover these written off debts.
- The write off will not be divulged to the borrower or any other party under any circumstances.

While, having strong and regular practices, the bank has recovered Rs.25.54Mn of write off recoveries in 2023.

department
considered 1USD
= Rs.317.41 and
overseas division
considered 1USD
= Rs.323.9233).

Staff loan

Non-performing long outstanding (more than 1 year) staff loan balance of Rs. 259,213,771 was identified as at 31 December 2023. The bank has not taken satisfactory level of action to recover those long outstanding balances from the staff and all these balances were not categorized under non-performing loan and advances since bank has not transferring loans into non performing category contrary to IFRS classification. Further interest outstanding has not been identified over the period while granting deferment for the months of February, March, April, May, June, July, August (to whom have not obtained Inflation Relieve Loan), September, October, November and December 2023.

(i) Staff loan facilities do not

2023

Recommended to recover the unsettled long outstanding balances of its staff.

All the loan facilities were transferred to Non performing category which were needed to transfer.

Relevant interest was received during the period of deferment allowed. Only capital was deferred.

(for the month of March, deferred interest was recovered from Bonuses)

(i) Since the staff loans deductions are directly presented to the employee's salary, it is not possible to maintain staff loans in ICBS system. Salary process is done once a month and the bank transferred the NPA to overdue section just after the salary processed.

Arrangements will be made to develop HCM system to generate automated reports regarding

- maintain through ICBS system and maintain in the HCM system. Hence reasonable delays were observed in the classification into overdue section from regular section in the HCM system. Since automated recognition is not happen, facilities are transferred from regular to overdue by manually in the HCM system by creating reasonable delays on loan classification.
- (ii) Interest rates on staff loans (other than staff housing loan facilities) remain unchanged for employees who have been dismissed or left service as a result of disciplinary action regarding various frauds and irregularities due to absence of such an internal policy/decision.
- (iii) As per the section 23.2(g) of Non Performing Advances. Using such reports, the entries should be passed manually in order to transfer loans among categories. Manual process will be applied since, GL A/C is maintained in ICBS and loans maintained in HCM and there is no link between two systems.
- (ii) The circulars will be updated with clear guidelines for the loans of dismissed employees.
- (iii) The Bank investigate the matter and thereby issue the investigation report with the recommendations when some incident was reported to the Investigation Unit. Thereafter, the draft charge sheet is issued by the investigation department to the relevant Authorized Officer after getting comments from the legal department. Thereafter, the

Disciplinary Code of Bank of Ceylon effective from 12 October 2021, “*within 21 days after the conclusion of the preliminary investigation, the Investigating Officer shall forward his report with the draft of charge sheet to the respective Assistant General Manager with notice to the Chief Internal Auditor*” and As per the section 25.2 of Disciplinary Code of Bank of Ceylon effective from 12 October 2021, “*the Authorized Officer to issue a charge sheet, within 14 days from the date of receipt of the preliminary investigation report,*” However reasonable delays were identified in the process taking

charge sheet is issued by the Authorized Officer based on the investigation report and the draft charge sheet. A formal disciplinary inquiry is conducted (if interdicted or based on any special request) and the inquiry report is placed before the Disciplinary Authority. If the final decision is to dismiss the accused employee, the approval of the Board of Directors (BOD) should be obtained.

The delay of the said process has been occurred during the period of 2020 - 2023 due to the COVID-19 pandemic, travel restrictions, fuel crisis, lack of support given by several accused employees and filing cases against the Bank by the accused employees.

The mentioned section 25.2 of the Disciplinary code - “*the Authorized*

disciplinary actions for frauds and irregularities done by the bank's employees relating to following sample of staff loans and this delay also caused to remain them long period without recovery.

- (iv) The staff service department of the bank has not taken satisfactory action to recover long outstanding loan balances of **dismissed deceased and resigned** employees. Accordingly bank should consider to obtain proper securities for staff loan schemes to recover when they fall default without keeping long outstanding unrecovered loan balances.

Officer to issue a charge sheet, within 14 days from the date of receipt of the preliminary investigation report is not mandatory as per the section 59 of the Disciplinary Code – Time periods which are not mandatory.

(iv)/(v)/(vi)

Out of the balance as at 31.12.2023, Rs. 42.9 Mn has been recovered (5 employees settled in full)

Other recovery actions initiated are as follows:

- Transfer to regular section for 15 members
- Other loans recovered except housing loan for 29 members
- Other loans except housing and UGL recovered for 10 members
- PF balances not released for 18 members to recover the loans
- Agreed to settle the loans before 31.12.2024 for 3 members

- Court cases pending and loans can be recovered from PF balances for 7 members
- Legal action imposed for 1 member
- Remind letters sent for 11 members.
- Disciplinary decision pending for 12 members.

Currently there is a suspension of Parate Execution in Sri Lanka, we are not in a position to recover the housing loans above 5 Mn.

3.3 People's Bank

	Total Assets	Total Liability	Equity	Opinion
	Rs.	Rs.	Rs.	
2021	2,647,640,536,000	2,511,563,440,000	136,077,096,000	Unqualified
2022	2,972,028,452,000	2,826,734,321,000	145,294,131,000	Unqualified
2023	3,038,195,018,000	2,878,136,439,000	160,058,579,000	Unqualified

	Audit Observation	Year of the Report	Auditor General's Recommendation	Preventive action taken by Audited Institute	Implementation status of recommendation as on date of the Report
(a)	(i) According to the Paragraph 2 of Public Enterprise Circular No PED 03/2016 dated 29 April 2016, board of directors and higher management of public enterprise shall be responsible to deduct the PAYE tax applied for employees and remit the same to the Inland revenue Department. However, the collective agreement signed between the state Banks and the respective Trade Unions directs to pay the income tax liability of the employees by the Bank without being deducted from the employees' salary. Based on that, the Bank has paid Rs.56.86	2021	Need to adhere with PED Circular.	Not available	As per the Public Enterprise Circular No. PED/01/2023 dated 12 January 2023, issued by the Ministry of Finance, Economic Stabilization and National Policies, the Bank commenced deducting APIT from tax liable employees with effect from 01 January 2023.

million as PAYE tax on behalf of employees from bank's funds without deducting from employees' earnings as at 31 December 2021 for the year of assessment 2021/22

<p>(ii) The Public Procurement Guidelines issued by the Cabinet of Ministers in the year 2006 are used to improve the transparency of the Government Procurement Process, to minimize delays and to obtain the highest financially advantageous and high quality work and supplies. However the bank had not followed said guidelines by stating bank is exempt from Finance Act and failure to develop bank's owned procedure to be followed by the Procurement Agency in carrying out the Bank's own work procurement activities. Accordingly during the period from 2017 to 2021, the estimated value of works amounted to Rs. 7,092 million regarding</p>	<p>2021 Although the management comment stated that bank had followed NPA guidelines several non-compliances were observed with NPA guidelines. Hence in future bank need to be adhered with owned Procurement Policy for works and consultancy services approved in June 2022.</p>	<p>As noted, we - have been practicing Procurement Manual for Works & Consultancy Services approved by Board of Directors in July 2022 for all the construction projects presently.</p>
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11 works were made without following specific procurement guideline.

(iii) Though the Bank had purchased Rs.257.9 million worth of land in the year 2013 for the construction of the proposed Regional Head Office and Branch of People's Bank at Jaffna and 04 years later proposed construction offered to Link Engineering Pvt Ltd at a cost of Rs.597.2 million with tenor of 550 days, the Bank had failed to achieve the desired objective even the 8 years have been passed. Accordingly, due to non-completion of this project on the expected date, bank has incurred Rs. 13.12 million as office rent and security expenses uneconomically

(iv) Selection and recruitment of consultants had not been done in accordance with the procurement guidelines and the procurement work had not been carried out in a transparent manner which evidenced the consulting firm (Design

The contract for the balance work of the proposed Regional Head Office and Branch of People's Bank at Jaffna has been awarded to qualified bidder in June 2022 and project is presently at final finishing stage.

-

Group Five International (Pvt) Ltd) had commenced work prior to the assignment of the consulting work. The cost of contract administration and supervision of this project was Rs.26.5 million or 4.5 per cent of estimated project cost. According to the terms of the contract, the contractor will have to employ 12 technical officers, including the project manager and engineers in full-time and part-time on the project. When considering the physical deficiencies in the completed part of the construction and the payments made for the contract administration, it is doubt about the 12 officers were deployed full time and part time and whether they were properly supervised.

Furthermore it was observed that the contract agreement had been terminated due to construction of this project is showing greater delays than planned, work site disruptions, low attendance of daily workers, non-availability of essential

materials and goods in the workplace, shortage of material samples and technical submissions, improper submission of progress reports and inability to submit bar charts properly. Accordingly, weaknesses in the work of selecting the consulting firm, preparing the bidding documents, evaluating the bidding, selecting the contractor, concluding the contracts, executing the contract work, overseeing them and fulfilling the responsibilities of the consulting firms are the main factors influencing the termination of this contract.

Bank had incurred cost of Rs.204.84 million or 27 percent of estimated cost and since the change of foreign currency value and increase of material prices the estimated cost of Rs. 659.08 million for non completed works had been initially revised to Rs. 634.62 million and again revised to Rs. 693.65 million.

Selection and

-

recruitment of consultants had not been done in accordance with the procurement guidelines and the procurement work had not been carried out in a transparent manner which evidenced the consulting firm (Design Group Five International (Pvt) Ltd) had commenced work prior to the assignment of the consulting work. The cost of contract administration and supervision of this project was Rs.26.5 million or 4.5 per cent of estimated project cost. According to the terms of the contract, the contractor will have to employ 12 technical officers, including the project manager and engineers in full-time and part-time on the project. When considering the physical deficiencies in the completed part of the construction and the payments made for the contract administration, it is doubt about the 12 officers were deployed full time and part time and whether they were properly supervised.

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prices the estimated cost of Rs. 659.08 million for non completed works had been initially revised to Rs. 634.62 million and again revised to Rs. 693.65 million.

(v) Even though the 2021 Rupee value is depreciating against USD, the bank has entered into many USD/LKR swap agreements to buy USD during the year 2021 and it was observed that the selling rate of USD was lower than buying rate of the USD in most of the instances. Hence the bank has incurred a loss of Rs. 4,063,085,606 (Without adjusting the actual rate at far leg/maturity) on that swap agreements during the year 2021. These USD Swap purchases mainly used for settled the LCs of Ceylon Petroleum Corporation and during the year 2021 the bank had opened LCs on behalf of CPC amounted to USD 1,054,265,967 and EUR 139,736. It was further observed that the bank had exceeded the ALCO approved net FX

Need more consideration on Foreign Exchange position when opening new LCs.

Treasury Front Office (TFO) continuously monitor LKR & Foreign currency forecasted cashflows from available information. Furthermore, TFO updates the Assets Liability Committee on the liquidity position of the bank on a periodic basis.

The bank is not facing a liquidity shortage at present.

As of 30 September 2024 the bank is placing a net excess USD 109 million in the interbank market.

The outstanding SWAP transactions are within the approved limits.

position limit (USD 25 million long or short) on several instances and net FX position was remained as short mostly on the second half of the year 2021.

(vi) <u>Randiya Distilleries Pvt Ltd</u> The company is engaged in the business of manufacturing and bottling of liquor. The Company was initially incorporated in 1982 in the name of “Rio Marketing Services Pvt Ltd” and later the name has been changed as “Randiya Distilleries Pvt Ltd”. This customer is new to the bank and their current account was opened on 06 May 2020. Bank has granted Rs.250 million facility. As per the section 6.2.4 of the Title 05 of Credit Procedure Manual (CPM) of the bank, Term Loans considered on the security of guarantors including corporate guarantees and/or other movables should be restricted to 3 years unless specifically mentioned. However, the aforesaid facility was considered for 05 years, eventhough the facility was granted against the security of two Directors based on	2021	Need continuous follow-ups on recoveries and adherence with stipulated directions.	Advised all credit line staff of the Bank to adhere to the prevailing circular guidelines of the Bank when considering credit facilities to the customers. Moreover, they are instructed to monitor the financial covenants of the approved proposals. Training programs are conducted to enhance the knowledge of the staff to minimize the credit risk.	The facility was rescheduled on or about 31 August 2021 and thereafter company has paid a sum of Rs.30.5 million irregularly in installments to recover the monthly installments. Consequent to continuous irregular repayments despite repeated reminders, the bank has decided to initiate litigation proceedings against the borrowing Company and the personal guarantee of the Directors. The case No:DMR/2686/2 against the company call on 24 January 2025.
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the approval of Board Executive Credit Committee (BECC). Furthermore, according to the section 9.6 of the Title 05 of the Credit Procedure Manual, a guarantee of an individual/Corporate entity is not acceptable, if he/she/it appears as a non-performing/past due borrower/guarantor in the Bank or any other financial institution. However it was revealed in the audit, the aforesaid guarantors had direct and indirect Non Performing records in the CRIB prior to granting the facility.

(vii) Susp. A/C Amount 2022 paid to pending deliveries (GL code – 393470)

Advances made to suppliers to obtain IT equipment are included in the above account and once the payment is completed, it will be capitalized depending on the nature of the service obtained. A balance of Rs.1,185,766,976 was shown in the aforesaid account as at 31 December 2022 and following observations are made in this regard.

It is recommended to take necessary actions to clear the long outstanding balances and to ensure the accurate recognition, classification and presentation of balances when preparing financial statements.

Further, since most of these items are related to the procurement of software, these may not be useful with the significant time delay taken for the completion of the

Suspense A/C Amount Paid to Pending Deliveries will be cleared at the completion of the projects.

We have now implemented a Project Management process under Senior Head of Project Management Officer (AGM grade) So all future and pending

Against the personal guarantee of the Directors the case No:CHC/248/22 MR calling on 04 October 2024.

Rewrite Project

This project is completed, and it is closed now.

Data Warehouse Project

Loss provision has been allocated for the full amount for this project and relevant approvals are being taken for write off process.

- (a) Certain balances amounting to Rs.813,556,548 had been outstanding for more than one year period without taking actions to clear the outstanding balances.
- (b) As aforesaid, advance payments made to suppliers are recorded in the above account. The outstanding balance of the above account includes an advance payment of Rs.184,220,563 made to two suppliers (Just In Time and Innova IT systems) for the purchase of IT equipment under Data warehouse Project and Data Rewrite Program. However, a provision had been made for the full amount due to non-existence of assets.
- (c) As per the schedule given by the supplies division, a balance of Rs. 84,631,716 had
- project.
- projects will follow the new project management processes monitored by the Project management office.
- New standard processes have been prepared and informed to all the stakeholders.
- Management is following up on long outstanding projects to complete and finish pending activities.
- Digital Banking Project (Rs.84,631,716.00)**
- Required Legal process for recovering the money is in progress.

been remained as long outstanding and the details had not been submitted to audit in this regard. However, as per the available evidences, it reveals that, the Bank has made a payment of Rs.84,631,716 to JIT Technologies in 2018 which is not supported by any documentary evidences. It was further revealed that, this is an additional payment which is not covered under the agreement entered towards the digital banking project of the Bank.

(viii) Bimpuh Finance PLC 2022

Bimpuh Finance is a micro finance company belongs to the Daya Group established in 2007 and engaged in micro financial services since 2012. Three term loans aggregating to Rs.700 million had been granted to the aforesaid company during the period from 2017-2019. Following observations were made in this regard.

(a) According to the

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.

Advised all staff of the Bank to adhere to the prevailing circular guidelines of the Bank when considering credit facilities to the customers. Moreover, they

Second line rescheduling was done on 31 May 2022 as per the request of borrowing company with the intention of rehabilitating the borrower and to uplift the current financial situation of the borrowing company. The rescheduling arrangement for these three

- special conditions No.1 of the offer letters dated 10 March 2017, 17 December 2018 and 25 April 2019, it is required to provide the list of loans receivables to the Bank on first week of each following quarter. However, actions had not been taken by the Bank to get such updated loan list according to the special condition of offer letters.
- (b) As per the special conditions No.2 and 3 of the aforesaid offer letters, borrower should replace any loan receivable contract which gets in to arrears for more than three months with a performing contract and to replace any contracts which are settled. However, such follow up had not been done by the Bank.
- (c) As per Section 6.2.8 of Chapter 5 of the Credit Manual of the
- instructed to facilities was monitor the done based on financial the existing covenants of securities the approved aligning the proposals. Circular Guidelines of G. I. Circular No. Training 734/2005 (17). programs are At that conducted to rescheduling enhance the stage, the bank knowledge of mainly focused the staff to the repayments minimize the of the customer credit risk. with considering the vulnerabilities
- Bank has that the company initiated legal has faced with action against COVID 19 the Corporate impact. During Guarantor. the continuous discussions, it was not revealed any immovable asset/ any other asset to securitize for the loan facilities which were going to be rescheduled. The bank had not any other alternative than depending on the existing securities.
- Generally, the rescheduling is arranged for a problematic

Bank, maximum repayment period for the loans granted against book debts is one year. However contrary to the said conditions, the repayment period of 3 to 5 years had been granted.

- (d) As per the recommendations made by the risk management division for the Board Executive Credit Committee (BECC) paper No.1133/2020 (at the time of rescheduling), it was mentioned that the security of these loans are weak and the risk of the security is high. However, disregarding above, the loans had been approved on the grounds of adverse situations and subsequently all three loans were become non performing. Those had been rescheduled and a capital moratorium had also been granted with the same security.

customer only for existing loans, expecting an acceptable repayments. It is not fair to depend on the credit rating of the customer. As per the Section 2.3.3 of GI Circular No. 734/2005(17), if the customer deposits a bulk payment of 3-6 installments, a rescheduling can be positively considered.

Accordingly, customer paid Rs. 12.0 million prior to the rescheduling.

This rescheduling arrangement was done subject to internal approval with intention of rehabilitating the borrower's financial condition.

Borrowing company had requested to reduce monthly installment of facilities.

Therefore, tenor

- (e) This customer's Credit Risk Rating figures deteriorated from 'BB' to 'C' since the period begins from 2019 to 2022 according to the risk rating figures mentioned in the loan file.
- (f) These loans were transferred to non performing category on 06 September 2022 due to non-payment of interest as agreed. According to the loan category, these loans can be granted for a one year period as per Credit Recovery Manual. However, the Bank had extended the tenor of loans up to 9 to 11 years from the initial granted date without having satisfactory recoveries. Not obtaining strong securities, unavailability of proper repayment plan and weak credit evaluation were observed as the main weaknesses

was extended up to 6 years again to submit concessional monthly installment. It was aligned with the guidelines of G.I. Circular No. 734/2005 (17). The bank received Rs. 51.93 million payments for both capital and interest after the rescheduling arrangement. The main purpose of the rescheduling was to get the payments from the borrowing company even though the loan facilities are in NP category.

The recoverability of the loan facilities is totally depending on the Corporate Guarantee of Daya Group (Pvt) Ltd. A legal case was filed against the borrower and the corporate guarantor. As it is not pragmatic

towards these loans. Total outstanding balance of Rs. 422.61 million had been recorded as at 06 September 2022 including capital balance of Rs.417.92 million.

- (g) Though there were no any loan balances available, 05 Customer Identification Numbers (CIF) were observed in the system for the same customer as follows.
450012095,1740003288,
2240046224,680023200

- (h) License of above company had been cancelled with effect from 01 September 2023 and accordingly, recoverability of above loans are doubtful.

to initiate legal action against the Mortgage Bond over the book debts of an insolvent company, the bank has not filed any Mortgage Bond action.

Throughout the said rescheduling, the bank could recover a considerable amount to both capital and interest. The balance will be recovered through both Money Recovery action and negotiation with the customer.

A legal case has been filed against the borrowing company and corporate guarantor under the case bearing No:204/2023/M R ex-party judgment will be on 11 November 2024.

Further we have informed to our

					legal department to submit the claim to winding-up case filed by HDFC under the case No:41/2024/CO.
(ix)	<u>Olympus Constructions</u>	2022	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.	Advised all staff of the Bank to adhere to the prevailing circular guidelines of the Bank when considering credit facilities to the customers. Moreover, they are instructed to monitor the financial covenants of the approved proposals.	The proposal to differ the said accrued interest of Olympus Construction was approved by the Board of Directors of the bank vide BP 962/2021. Basically, General Instruction Circular No 734/2005(17) issued to reschedule the NP advances, has also proposed to differ 30% of the accrued interest component on the exceptional circumstances.
				Training programs are conducted to enhance the knowledge of the staff to minimize the credit risk.	At the rescheduling the differed interest with the value of Rs.15.30 million was fully recovered on 30 August 2024. Accordingly, total waived-off
	(a) These loans had been granted with the approval of the Executive Credit Committee on exceptional conditions and the several waive offs				

also approved by the Executive Credit Committee after many reschedulements.

As per the details forwarded to the audit, the total waive-off of Rs.33.13 million had been granted to the client.

interest has been reduced up to Rs.17.83 million.

(x) Loans granted for 2022
W.M.Mendis &
Company

Total loan capital amounting to Rs.3,063 million had been granted by the Bank to the above customer as at 31 December 2020.

- (a) 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. However, contrary to the above, 3 loans aggregating to Rs.378 million had been granted by the Bank to the above customer.

- (b) As per the Board Executive Credit Committee

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.

General Instructions have been issued from time to time to avoid such instances of this nature in future.

Further, instructions given to CRO's to adhere to such instructions and strictly adherence to Credit Policy Manual.

The rescheduling has been performed to strengthen the loan agreement from the perspective of recovery initiatives.

As per BECC/708/2021 interest concession of Rs.400 million was granted out of the Rs.1,051 million accrued at 24% p.a for the OD facilities. This was incorporated in the offer letter dated 19 July 2021, this concession was allowed only if the repayments are made

(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.806.9 million rescheduled in to 4 loans at 9.75 percent interest up to 3 years.

- As per the para 9 of BECC paper No.708/2021 dated 28 June 2021, loans had been rescheduled by removing Rs.400 million interest on overdraft facilities as “Differ and later waive off”.
- Obtaining of personal guarantees of 2 board directors had been recommended as per the Section 11.4 of above BECC paper. Accordingly, personal

satisfactorily.

Personal guarantee and the promissory notes have been taken for all eight (08) reschedule loans in addition to the primary mortgage at Morogolla and secondary mortgage over the Kalkuda plant which is now in operation.

The total capital outstanding balance has been increased inclusive of the capitalized accrued interest loans proposed under rescheduling programme. The asset base of the guarantors was not clearly stated in the asset declaration forms of the personal guarantors. However, there is a probability of recovering the debts due to beginning of the

guarantees of directors and promissory notes had been obtained for only 7 loans amounting to Rs.1,632.2 million. However, guaranteed directors had submitted value of shares 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.4,376.86 million was recorded under above customer as at 31 December 2022 which includes capital outstanding of Rs.3,869.2 million and interest outstanding of Rs.507.6 million. 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

operations of the company and dispose the property at Morogolla after taking the vacant possession through the ejectment case.

43.7 percent of the loan value.

(xi) Data Warehouse & Business Intelligence System Project 2022

An amount Rs.402,026,172 (Before tax) had been incurred by the Bank as at 30 May 2022 for the above project and the project had not been completed. Out of the 11 modules proposed, only 4 modules [DW & DQ I Module, DW & DQ II Module (only 5 Reports), Operational Risk Module, Market Risk module] were Go live and expected results of those modules were not delivered to the users. Further, it was observed that the software license was expired in the year 2020 and at present completed modules were also not functioning.

Take necessary actions to ensure the effective and efficient use of bank funds and strengthen the internal controls. Further, proper investigation should be carried out regarding the DWH & BI system which was suspended after incurring significant cost without any benefit to the Bank and should take necessary legal actions to recover the cost or complete the project.

The bank conducted a comprehensive internal audit review as directed by COPE at the meeting held on 04 May 2022. The audit report was submitted to the Board Audit Committee (BAC) via BAC No. 07/2023 and was discussed at length. Accordingly, BAC instructed to implement the recommendations including a requirement of a Project Management Policy and recruitment of suitable officer/s as Project Manager, made by the Internal Auditors to avoid recurrence of

Head of Project Management and Junior project officer are already in place at Project Management Office. Additional Project management officers are being recruited as per the approved structure.

such
deficiencies in
future.

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The bank has
successfully
established a
formal Project
Management
Office (PMO),
including the
appointment
of a senior-
level Head of
Project
Management,
following
approval from
the Board of
Directors.

Before
initiating any
new IT
projects, the
PMO now
conducts a
thorough
feasibility
study in
collaboration
with relevant
stakeholders.

Additionally,
all necessary
process
documents
governing the
project
management
lifecycle have
been
developed and

(xii) Rs.67.24 million had 2023 been written off by the Bank for the year 2023 which comprise from 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.

Year	Written-off Balances			Written-off Recoveries
	Capital	Interest	Total	
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

(xiii) Total 2023 outstanding loans and advances belonging to 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 loans balances from SOE's had been reduced by Rs. 90,217 million or 10.35 percent as compared with the preceding year. The aggregated amount of investments and other receivables from

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.

are in place.

The bank has - strengthened the credit evaluation process by many aspects to ensure that a healthy credit portfolio is maintained.

Further, bank has established a strong recovery process to ensure timely recovery of loans and advances granted.

Take necessary Bank - 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. 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,

government was Rs.1,041,466 million as at 31 December 2023 and accordingly, total exposure to SOE's was Rs.1,822,868 million or 60 percent from total assets of the Bank.

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 at the end of each month is reported to the DGM(RM).
- No new facilities were considered to the SOEs during 2024 excluding cash margin facilities.

(xiv) 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, Rs. 959.49 million had been only	2023	Take necessary actions to recover the receivable amount without further delay.	Continuous follow up is carried out. As a result, thereto, LKR 4.2 billion was received on 18 April 2024. Follow up for remainder continues.	-
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received to the Bank from the General Treasury during the year 2023.

(xv) Disenro Resort (pvt) Ltd 2023

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 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.

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

- 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

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

Advised all - credit line staff of the Bank to adhere to the prevailing circular guidelines of the Bank when considering credit facilities to the customers.

Moreover, they are instructed to monitor the financial covenants of the approved proposals.

Training programs are conducted to enhance the knowledge of the staff to minimize the credit risk.

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.

- As per the valuation reports dated 13 February 2018 and 16 February 2018 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.

- 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.

- (b) 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.
- (c) 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.

- (d) 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.

Therefore, actions should be taken against the parties who ensured the utilization of loan proceeds of the Bank.

(xvi) Observations on loans granted to Idea Industries 2023

(a) 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

Take necessary actions to recover the outstanding balances and take actions against responsible parties for non compliances.

General Instructions have been issued from time to time to avoid such instances of this nature in future.

Further, instructions given to CRO's to adhere to such instructions and strictly adhere to Credit Policy Manual.

Ased on the latest meeting held with the customer on 15 May 2024, client and the bank mutually agreed to re-schedule the NP outstanding as per the proposal outlined below.

- i. To convert capital of NP STL outstanding of Rs. 262.32 million in to a Term Loan to be repaid in 5 years including 6 months capital grace period
- ii. To convert the accrued interest of such NP STL amounting to Rs. 105 million to an Interest Capitalized Loan (ICL) to

of the company.

- (b) 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.
- (c) As per the details in the Paper No.CP/CB/OBU/B ECC/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 31 March 2019 respectively.

be repaid in 5 years whilst waiving off the penal interest up to the date of re-schedulement.

The debt reschedulement proposal will be submitted to upcoming Board Executive Credit Committee.

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.

- (d) 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.

- (e) 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.

- (f) Accordingly, a credit package aggregating to Rs.600 million including LC/Acceptance/ST L had been approved to Idea Industries via Board Executive Credit Committee Paper No 239/2021 dated 12 March 2021 under the security of documents of title to goods shipped,

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personal guarantee of Director and cash build up margin of Rs.1 million per month.

- 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.

- 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 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.

- (g) 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.

(xvii) Settlement of 2023 USD 43 million swap agreement with CBSL against USD 29.6 million receivable from CBSL

As per the details in the Board Paper No. 624/2023, International Operations Department of CBSL had informed during April that USD 43 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

Take necessary actions to strengthen the controls of the Bank.

The Treasury Front Office (TFO) continuously monitors LKR & Foreign currency forecasted cashflows from available information.

Furthermore, TFO updates the ALCO on the liquidity position of the bank on a periodic basis.

The bank is not facing a liquidity shortage at present.

As of 30 September 2024 the bank is placing a net excess USD 109 million in the interbank market.

The outstanding SWAP transactions are within the approved limits.

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.

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

The bank took measures to incorporate the required changes in Treasury policy on set-off transactions which was approved by the Board of Directors.

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.

(xviii) Investment on 2023
Transit card project by
the People's Bank

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 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.

Take follow up action to recover the loss incurred to the Bank and further strengthen the evaluation process.

Since the project was unsuccessful, Bank took actions to utilize the remaining card stock to issue debit cards in our normal course of business. Accordingly, 12,964 no. of debit cards have been issued as of 30 April 2024.

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

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.

- (a) 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

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. People's Bank also can 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.

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 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.21/0125/312/00 5 dated 23 February 2021, the Bank had not considered the

said decision.

- (b) Any evidence of feasibility assessment by the Bank was not available regarding the technical proposal submitted by Lanka Clear (Pvt) Ltd.
- (c) 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 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.

- (d) 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/TR N/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.

(xix) Non-adherence to the Directions of COPE 2023

- (a) As per the direction of COPE meeting held on 17 July 2018, COPE had directed not to extend the service

Take necessary actions to adhere with the directions given by the COPE committee and ensure proper utilization of bank funds. The directions issued by the COPE meeting held on 5 September 2019 have already been addressed by

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.

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.

the bank. 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 Mr. Wasantha Kumara, former CEO/GM was taken up for discussion at the 13th meeting of the COPE held on 04 May 2022.

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.

Further the committee has

- (b) Disposal of Mercedes Benz Vehicle No.CAI – 4646

As per the decision to the BP 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

- 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.

At the COPE meeting held on 05 September 2019, committee had

directed the MOF 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.

To save any doubt, the minute with regard to the relevant section of the above meeting is quoted herewith.

Quoted.

“The committee also questioned over the handing over of the vehicle purchased for Rs 16.6 mn

directed to obtain the vehicle back to the Bank. However,

- 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

(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.

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

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 Rs.113,698 on 20 July 2021.

- 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.

vehicle issues in the state banks. The committee was of the view that these types of transactions should be done with a Cabinet approval, in future. “

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.

- (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
Administrati
on Circulars.

- (ii) Transport
Policy for
the
members
of the
Corporate
Manageme
nt- BP No.
723/2019.

3.4 National Savings Bank

Year	Total Assets (Rs.)	Total Liabilities (Rs.)	Total Equity (Rs.)	Profit/ Loss After Tax (Rs.)	Opinion
2021	1,579,097,748,000	1,503,084,991,000	76,012,757,000	22,119,624,000	Unqualified
2022	1,616,686,128,000	1,543,793,899,000	72,892,229,000	2,529,667,000	Unqualified
2023	1,686,964,592,000	1,605,590,339,000	81,374,253,000	7,216,483,000	Unqualified

	Audit Observation	Year of the Report	Auditor General's Recommendation	Preventive action taken by Audited Institute	Implementation status of recommendation as on date of the Report
(a)	There is a high risk of manual intervention in the preparation of financial statements. Two main trial balances are being prepared separately for Branches and Head office. Trial balances of all branches are abstracted from CBOS system and convert it to MS excel spread sheet format and create a single Trial Balance for branches. Trial balances of head office divisions are taken separately and amalgamated in to a single TB for Head office. Finally, by using both Trial Balances, financial statements are being prepared.	2021	Manual interventions in preparing financial statements should be minimized.	The Core Banking solution has already been implemented to overcome the manual intervention of the current system.	The bank has implemented the Core Banking solution as of 13 September 2024.

- | | | | | | |
|-----|---|----------------|---|--|---|
| (b) | Inter branch balance as per the financial statements as at 31 December 2021 was Rs.407,412,355. As per the schedule given by the Finance Division this balance was aggregating to Rs.408,813,260 with several unreconciled balances. Hence a difference of Rs.1,400,905 had been observed and no any procedure had been formulated by the bank to reconciled these inter branch accounts' balances. | 2021 | Strong procedure need to be implemented by the Bank to reconcile the inter branch balances. | The difference has reduced to Rs. 269,328,017 through subsequent reconciliations and made a provision of Rs. 269,328,017 against the above balance as at 31 December 2023. | The issue will be rectified due to automation of GL accounts with the implementation of Core Banking System as of September 13, 2024. |
| (c) | Although the Bank had obtained 4 storied building on rent basis for the use of Pettah branch, two floors of the building with an extent of 4,629 square feet have remained idle without use. The Bank had paid Rs.47.55 million as rent expenses up to December 2021. | 2021/2022/2023 | Bank should use its assets economically. | The bank accepted this building as it is, with the intention of allocating the rest of two floors for the Bank's circuit or for any other useful purpose. | Still two floors of the building have remained ideal. |
| (d) | Kottawa branch had obtained the 1 st floor of the existing building at a monthly rental of Rs.200,000 for the period from August 2020 to August 2025 (5 years) and at the beginning, the Branch | 2021/2022/2023 | Bank should use its assets economically. | It has been postponed of interior works, due to budgetary constraints and present economic conditions. | The Bank has not completed the refurbishment up to now. |

had paid Rs.3,600,000 as a rent advance (18 rentals). However, bank had not used that floor up to now due to delay in refurbishment.

However, the Branch utilizes that floor as their storage without proper interior arrangement.

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|--|----------------------------|--|--|--|
| <p>(e) The Bank had granted a joint property loan to two persons worth of Rs. 164,730,000. Following observations are made in this regard.</p> <p>(i) Bank had not done a proper evaluation to verify the income sources of loan holders with respect to recovering the said loan.</p> <p>(ii) At the initial stages, Board and credit committee had disagreed to granting the loan due to unfavorable status of the CRIB and the businesses. However, finally the Board had given approval to grant the above loan without considering CRIB arrears, without taking DTA policy from customers, extending the repayment period from 15 years to 20 years and by exceeding the loan to value ratio of 75 percent in a</p> | <p>2021/20
22/2023</p> | <p>Take necessary actions to grant loans and advances to eligible customers in accordance with approved guidelines and circulars and to recover the dues in an effective and efficient manner.</p> | <p>The property has been acquired by the Bank.</p> | <p>Total outstanding balance of the loan as at 06 February 2024 was Rs.222,381,178. This property has been vested with the Bank on 06 February 2024 after the auction conducted. However, according to the valuation report obtained for this land on 04 July 2024, this land had a market value of Rs. 197,400,000. Hence, the recoverability of the remaining outstanding balance of Rs. 24,981,178 is doubtful.</p> |
|--|----------------------------|--|--|--|

special board meeting held.

(iii) Two Board directors including treasury representative who had rejected to give the approval to said loan had not been invited to the above-mentioned special meeting which had with the attendance of a borrower. The transparency of board decisions is questionable.

(iv) The Borrower had paid only two installments. Total arrears of the loan as at 31 July 2022 was Rs.252,236,697 and it cannot be recovered from the total value of the property of Rs.210,000,000 as per last valuation.

(v) The Bank had decided to waive off the penalty and early settlement fees for the request made by the borrowers in April 2022. However, they had not paid the remaining balance up to now

- (f) The Bank had granted a syndicated loan with People's Bank (PB) to RPI Private Limited (Maldivian Company) on 14 June 2018. USD 09 million and USD 01 million was granted by the Bank and People's Bank respectively. The borrower had not paid any capital repayments and the arrears interest was USD 2.15 million as at the date of audit of 16 August 2022. Following observations are made in this regard.
- 2021/2022/2023
- Take necessary actions to grant loans and advances to eligible customers in accordance with approved guidelines and circulars and to recover the dues in an effective and efficient manner.
- The Board of Directors at its meeting held on 9 June 2023, had decided to refer the matter of "Current areas of syndicated loan facilities to RPI (Pvt) Ltd", to the Hon. Attorney General by expecting an advice. Thereon, the bank has sent a Letter No. (LD/2023/374) dated 19 June 2023 to the Hon. Attorney General by requesting an advice.
- The bank was unable to recover the loan and the total outstanding (Capital + Interest) as at 31 May 2024 was USD 13.18 million. As well the minimum balance in DSRA had not been maintained by the borrower and balance as at 31 May 2024 of that account was USD 27,533.53. The letter from the Attorney General is pending.
- i) Even though granting loans to foreign company for commercial purposes does not cover under the scope specified in the NSB Act, aforesaid loan was granted to a foreign company under tourism industry for the purpose of a construction.
- ii) No evidences were observed to prove whether the bank has done comprehensive credit evaluation or risks assessments prior to granting the loan.
- iii) As per the circular no.1641/2015 on

Post Loan Review Mechanism, the bank has not reviewed the credit facility within 3 months after granting the approval.

- iv) The bank has granted initial grace period of one year for capital repayment from the first drawn date on 21 June 2018. However, the initial grace period had been extended several times for capital and interest repayment from June 2018 to June 2022 due to several reasons.
- v) Although the board of directors had granted moratorium facilities to the above project, under the Circular No.5 of 2020 issued by the Central Bank of Sri Lanka, it has not come under the purview of aforesaid circular since the client company is a foreign company.
- vi) Insurance coverage had not been submitted to the

bank for the period after July 2021.

vii) According to the loan agreement, debt service reserve account should be opened and maintained with NSB with minimum value of USD 270,000. However, minimum balance in DSRA had not been maintained by the borrower (RPI) and current balance of that was USD 39,310 as at 21 October 2022.

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

(g)	Although the Bank had spent Rs.83.6 million to construction activities	2021/2022/2023	Immediate actions should be taken sign	1. Monaragala Divisional Lease – The	The bank was unable to obtain the leasehold
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on lands situated in Anuradhapura, Elpitiya, Galnewa, Katharagama, Kirindiwela, Moneragala, Ratnapura and Kekirawa, the legal ownership had not been taken of those lands even as at the end of the year 2021.

agreements related to those lands.

Secretariat of right of relevant Monaragala lands up to 30 sent documents September 2024. to the Commissioner General of Lands for necessary actions and paid taxes relating to this process.

2. Kirindiwela – After making the necessary amendments to the draft lease hold agreement, it was sent to the Commissioner General of Lands.

3. Kekirawa – Reminder sent on 22 October 2021

4. Anuradhapura – reminder sent on 23.11.2021

5. Elpitiya – reminder sent on 22.10.2021

6. Galnewa – Draft lease hold agreement received to the legal department on

07 June 2023.

7. Kataragama
– Bank signed the Long-Term Lease and Final Agreement yet to be received

8. Ratnapura –
Sent reminder on 21 October 2024.

(h)	Bank had taken a land with an extent of 38.8 perches from 2008 from Urban Development Authority for 50 years period. Although the management had decided to develop a new building in that land, any construction activities had not yet been started.	2021/2022/2023	Bank should use the land for a specific purpose without keeping as ideal.	Bank was instructed by the Urban Development Authority (UDA), not to engage in any permanent developments on this land since they wanted to switch the same with the Cooper's Lane Land which is adjoining to Bank's Head Office with intention of allocate land slots for the encroachers of the Cooper's Lane Land who demanded alternative land from the Kollupitiya area in lieu of	The bank has not started any construction activities up to 30 September 2024.
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existing
properties.

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|---|------------------|--|---|--|
| <p>(i) As per the confirmation received from branch managers, 425 numbers of loan files relating to granted loans of Rs.328,969,565 were misplaced as at 30 April 2023. The misplaced loan files include 134 personal loan files, 272 housing loan files, 10 legal files and 9 loan files granted against fixed deposits. Following observations are made in this regard.</p> | <p>2022/2023</p> | <p>Internal controls over file management should be strengthening in every branch.</p> | <p>All Regional Managers have been instructed to monitor the missing loan files monthly. The Credit Committee will be updated of the same on quarterly basis.</p> | <p>As at 30 April 2024, the numbers of misplaced files reduced to 330 with aggregated granted amount of Rs. 262,295,557. The misplaced loan files include 95 personal loan files, 229 housing loan files, 4 legal files and 2 loan files granted against fixed deposits.</p> |
|---|------------------|--|---|--|
- (i) Out of these 425 numbers of misplaced loan files, 30 percent or 126 numbers of loan files were related to loans under non-performing category. Out of those, 30 files are related to Housing Loans, 95 files are related to Personal Loans and one file was a Loan against deposit. Total outstanding

amount of those Non-Performing Loans as at 30 April 2023 was Rs.50,325,463 which represented 66 percent of the total granted amount.

- (ii) Out of 425 numbers of misplaced loan files, ten numbers of loan files with aggregated outstanding balance of Rs.2,766,086 were legal files. Due to misplacement of these files, the bank could not take legal actions against borrowers and deed of customers cannot be released after recovering the loans. This may impair the good image of the Bank in long run.

- (iii) Out of 425 numbers of misplaced loan files, 254 number of loan files or

59 percent were misplaced in Kaduwela branch due to flooding situation. Out of these, 35 numbers of loan files are relating to loans under non-performing category. The total outstanding balance of these loans were aggregated to Rs.16,266,596.

- (iv) The missing loan files in Head Office branch was 24 and out of that 20 loan files were under non-performing housing loan category from which 16 files were related to fraud done by a staff member of that branch. The possibility of taking legal actions against the staff member who committed frauds is questionable due to unavailability of loan files.

(j)	According to Section 5.6 of the General Direction No. 02 of	2022/2023	Automated backup procedure for key functions should be	The Centre implemented	Card has not	The card Centre maintained automated
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2022 dated 28 February 2022 under Payment and Settlement System Act No. 28 of 2005 regarding Operations of the Common ATM Switch (CAS), every CAS member shall be responsible for making regular backups of databases and all its information and data relating to the operations of CAS and establishing and maintaining recovery procedures in the event of system failure or data corruption or loss. However, card center has failed to maintain automated backup procedure for some key functions such as customer refunds, dispute handling, charge backs and reconciliations.

maintained by the Card Centre for smooth operation.

automated backup procedure for all of its key functions excluding reconciliations and card management system as at 31 May 2024. These backups are diligently handled by the IT division at both the Server and Database levels. However, daily manual tasks, including chargeback processing, dispute handling, refunds, and additional reconciliation reports, are stored on User PCs. Presently, backups for these tasks are taken manually and saved on external hard drives only. Discussions are currently underway with the IT Division to establish a more formal and secure

backup system specifically tailored to the Card Centre's PCs.

(k) Total outstanding balance of the corporate loans as at 31 December 2022 was Rs.90,191.55 million and out of that Rs.5,908.13 million was under non-performing category. This total outstanding balance had been increased to Rs.90,445 million at the end of May 2023 and out of that, Rs.5,730 million was categorized under non-performing category. Out of the above non-performing loan balance, 66 percent represents foreign loan and 29 percent represents loans granted to two government related companies which was secured by treasury guarantees.	2022/2023	The Bank should perform proper customer evaluations before granting loans and take every endeavor to recover the loan outstanding.	<p>The captioned foreign loan has been referred to the Attorney General Department to seek advice / concurrence in pursuing legal action to recover the loan.</p> <p><u>One Government Loan</u></p> <p>The arrears amount was subsequently settled.</p> <p><u>Other Government Loan</u></p> <p>The Bank kept informed the Secretary, Ministry of Finance of the NPL situation and requested assistance in resolving the matter.</p> <p>Director General,</p>	Total outstanding balance of the corporate loans as at 31 December 2023 was Rs.80,202.94 million and out of that Rs.5,955.57 million was under non-performing category. This total outstanding balance had been increased to Rs. 79,941 million at the end of May 2024 and out of that, Rs.5,933 million was categorized under non-performing category.
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Department of
Public
Enterprises by
letter dated 21
June 2023
informed the
Bank that the
matter has been
referred to
Director
General,
Department of
Project
Management
and Monitoring
and Secretary,
Ministry of
Investment
Promotions.

The Bank
contacted the
Secretary,
Ministry of
Investment
Promotion and
requested a
meeting to
discuss the
matter with the
respective
officials. A
meeting date is
yet to be
provided.

3.5 Housing Development Finance Corporation Bank

Year	Total Assets (Rs.)	Total Liabilities (Rs.)	Total Equity (Rs.)	Profit/ Loss After Tax (Rs.)	Opinion
2021	62,963,591,055	56,328,825,053	6,353,515,999	547,287,343	Unqualified
2022	62,882,057,803	55,884,400,728	6,716,407,077	326,325,400	Unqualified
2023	67,941,107,381	59,532,025,601	8,127,831,780	1,376,359,784	Unqualified

Audit Observation	Year of the Report	Auditor General's Recommendation	Preventive action taken by Audited Institute	Implementatio n status of recommendatio n as on date of the Report
<p>(a) 2.1 Unreconciled Control Accounts or Record</p> <p>An unidentified salary advance amount of Rs.1,032,542 was recorded under the GL NO.2500901001 which was lying under the same account for more than 05 years period. Though, the same issue was raised during the last year audit, satisfactory actions have not been taken by the relevant authority to rectify the issue.</p>	2023	Strong internal controls need to be introduced in order to prevent this kind of situations in the future.	These items are unidentified and investigation is going on by Internal Audit Division. This has been reported to the BAC too. Until the investigation will be completed, we have made a provision to the Income Statement.	Once these items have recognized as unidentified, we created a separate GL named as Salary Related Expenses and the amount of Rs.1,032,542 has transferred from Salary Advanced Account to Salary Related Expenses in order to separately define the unidentified items in the

Salary
Advanced
account. Further
we separately
accounted
Medical
Advanced and
Salary
Advanced in
order to avoid
such difficulties
and all ongoing
transactions
have reconciled
up to date.

2.2 Payables

(i) Over recovery on 2023 Auction sales 2022 (1310190028)

The amount of Rs. 902,213 represented an over recovered amount from an auction sale and laid in the same account over one-year period of time as at 31 December 2023.

It is required to clear the Over recovered amount without any delay. This will be cleared in 2024. This will be cleared in 2024.

(ii) Cash excess - 2023 1310190004

It was observed a delay in taking actions for an amount of Rs. 200,973 in the above ledger account which is aged more than one year as at 31 December 2023.

Actions need to be taken to clear the long outstanding payable balances. These are cashier Excess amounts which could not be identified. However, actions are being taken to identify the excess balances. Monthly reconciliation for CASH and ATM Excess are being prepared timely while continuously instruct branches to clear the excess.

2.3 Advances

(i) <u>Olympus Constructions (Pvt) Ltd</u>	2023 2021	Proper customer evaluation need to be carried out before granting loans and satisfactory actions need to be taken to recover those loans.	Agree with the observation. Legal actions continuing. The bank is also exploring the possibility of disposing of assets.	The bank approved a credit facility in 2019, a demand letter was issued in December 2021. A lawsuit followed in January 2022, with a hearing on 25 May 2022. In April 2024, the customer proposed a settlement, which the bank rejected, leading to ongoing legal actions and potential asset disposal.
<p>A credit facility of Rs.350 million requested by the Olympus Construction (Pvt) Limited for working capital requirement was approved at the Special Board Meeting held on 07 June 2019. Accordingly, the bank had granted Rs.100 million and Rs.150 million worth of credit facilities to the said company on 08 July 2019 and 28 October 2019 respectively.</p> <p>Further, the customer had failed to comply with the conditions mentioned in the special agreement entered with the bank at the time of loan granting.</p> <p>The Board approval granted to this loan on 07 June 2019 through board paper no. 01/SPL/06/2019 (DOC No.01) and mentioned there that "Internal valuation report is pending as the internal valuation officer reported that he cannot quantify the soil for the valuation.</p>				<p>Current Status</p> <p>Case No. CHC/14/2022.</p> <p>Next Step- Trial/ settlement- 07/10/2024 & 11/10/2024.</p>

Therefore, the loan had been granted by considering the valuation of Rs.1 billion given by the external valuation officer (Panel valuer of Bank of Ceylon) who had valued the land by considering both the land value and the soil income of the land.

However, it was observed that internal valuation officer had submitted his valuation report on 07 June 2019 for Rs. 72 million (FSV) which did not include the soil income of the land. As well, he has recommended for not to incorporate intangible asset value into the land value since beginning.

The loan had been transferred to non performing category on 07 January 2020 at the early stage of granting. The property was devolved to the Bank and the Bank had advertised twice (on 18 November 2022 and 22 June 2021) in newspapers to sell the land, only one offer has received for Rs.44 million.

However, the tender committee refuses to sell the property.

The total outstanding balance of the loan as at 31 December 2023 was Rs.303,805,400. The Bank has filed a legal case and it is ongoing.

(ii) **Bimpu**

Finance PLC

2023

2021

The bank had granted an amount of Rs.350 million to Bimpu Finance PLC on 18 July 2018 against security of Loan Portfolio and Corporate Guarantee of Daya Group. This loan was in the performing loan category as at 31 December 2021 and it was transferred to non-performing category on 29 June 2022. Further, it was observed that Fitch rating of Bimpu Finance PLC has downgraded from “BB (lka)” to “CC (lka)” after mainly considered factors such as weak capitalization, liquidity risk and severe deterioration in its assets quality. Subsequently, License

Proper customer evaluation needs to be carried out before granting loans and satisfactory actions need to be taken to recover those loans.

Agree with the observation. The Bank initiated legal actions against the client and winding up action filed with the approval of the Board of Directors.

Bimpu Finance PLC, initially a prime client of HDFC Bank with strong financials, faced declining loan recoveries and profitability due to government policy changes, COVID-19 impacts, and economic crises. After a period of managing repayments, they failed to remit after May 2022, leading to their license cancellation on September 1, 2023, and legal actions by the bank.

Current Status

of the company has been cancelled on 01 September 2023 by the Central bank of Sri Lanka.

The total outstanding balance of the loan as at 31 December 2023 was Rs.307,008,053 and winding up action has been filed by the Bank with the approval of the Board of Directors.

Case filed HC (Civil) No.41/24 Co to liquidate Bimputh - Paper Notice /support-24/9/2024.

(iii) Madampe Mills (Pvt) Limited

The bank had granted Rs.50 million to a customer at a concessionary rate of 9 per cent for a period of 5 years with a grace period of 2 years on 13 September 2016. Further the loan repayment period had been extended up to 7 ½ years inclusive of a grace period. The Company had failed to achieve their projected manufacturing targets as per their project proposal. After obtaining the loan, the company had recorded a loss of Rs.109.4 million and Rs.12.9 million in the years of 2020 and 2021 respectively. Following observations are made

**2023
2021**

Proper customer evaluation need to be carried out before granting loans and satisfactory actions need to be taken to recover those loans.

Agree with the observation.

Current Status

Case filed by customer, CHC 19/24/MR. Settlement entered on 16/02/2024. Consent decree filed on- 14/08/2024.

A customer paid Rs. 40Mn in February 2024 to halt an auction but failed to pay the remaining balance by March 2024, prompting the bank to resume auction proceedings. The Board approved an increased LTV ratio of 78.13%, exceeding the 60% limit. Legal clearance was obtained, and a mortgage bond was executed.

Current Status
Case filed by

in this regard,

- Contrary to the Section 4.2.11 in the Credit Operations Manual, the bank had granted 78.13 per cent of Forced Sale Value of the mortgage property as a loan and in addition to the land mortgage, two directors of the company had pledged as personal guarantors for the aforesaid credit facility.
- Contrary to Section 3.4.5 (a) of the Credit Operation Manual, the bank had obtained third party property as the security. The mortgage property was owned by the Managing Director's wife, who was not a director of the company. The bank had still failed to vest the mortgage land.
- The total outstanding balance of the loan as at 31 December 2023 was Rs.70,418,522 and legal actions have been initiated by the Bank against the customer.

customer, CHC 19/24/MR. Settlement entered on 16/02/2024. Consent decree filed on- 14/08/2024.

<p>(iv) <u>State Engineering Corporation (SEC) on account of National Equipment and Machinery Organization (NEMO)</u></p>	<p>2023 2021</p>	<p>Proper customer evaluation need to be carried out before granting loans and satisfactory actions need to be taken to recover those loans.</p>	<p>Agree with the observation. Legal Action had been taken by the bank.</p>	<p>The bank approved a Rs.150 Mn facility to State Engineering Corporation for working capital, disbursing Rs.71.93 Mn. Two payments were received from National Youth Corp, totaling Rs. 36,808,935. Legal action is ongoing as SEC has not submitted a repayment plan, with the next trial date set for October 4, 2024. Current Status Case No. CHC 8/21 MR-04/10/2024-Trial.</p>
<p>The Bank has granted a loan Facility to State Engineering Corporation (SEC) on behalf of National Equipment and Machinery Organization (NEMO) amounting to Rs.71.40 million against the mortgage of Promissory Note. This entity has not performed as expected at the time of granting the loan facility and currently the loan had been categorized under non-performing category. The bank had granted the aforesaid loan without proper evaluation of the credit worthiness of the customer. The total outstanding balance of the loan as at 31 December 2023 was Rs. 41,572,112 and the legal actions have been initiated by the Bank against the customer.</p>				

(v) **Nomic****International****2023**

A credit facility of Rs.50 million requested by NOMIC International Limited for Portfolio growth and redemption of existing loan (bearing loan number 114730000006) and it was approved at the Credit Committee Meeting held on 27 January 2022. Accordingly bank had granted Rs.25 million credit facility to the said company on 17 February 2022. The bank had granted this loan against their Loan Portfolio and had obtained personal guarantees from directors. Subsequently it had been transferred to non performing category on 09 March 2023. Following observations are made in this regards,

- After the field visit done on 20 June 2023, the bank was decided to send Letter of Demand.
- As per the Section (i) of the Special Condition mentioned in the

It is required to comply with the conditions stipulated in the Loan Agreement and the Offer Letter. Satisfactory actions need to be taken to recover this loan.

All required documents send to Attorney Generals Department on 14/08/2024. Case to be filed.

Nomic International Limited has defaulted on a Rs. 25 Mn corporate credit facility since November 2022, citing recovery issues. Despite requests for a repayment plan, they remain unresponsive. Nomic's CEO indicated organizational changes, and the company has ceased lending. They proposed a mortgage for another property but failed to provide necessary documents. HDFC Bank has engaged legal action, with a consultation scheduled for June 24, 2024.

Current Status
All required documents send to Attorney

Loan Agreement, Audited Financial Statements certified by two Directors of the company to be provide for bank review at the end of the each financial year,. However, the bank had fail to get Audited Financial Statements for the year ended 2022.

- As per the Section (ii) of the Special Condition mentioned in the Loan Agreement, List of performing loans to be updated & certified by the directors on half yearly basis and it should be submitted to bank. However, the bank had failed to obtain 2nd half year portfolio for the year 2022.
- As at 31 December 2023, total amount of

Generals
Department on
14/08/2024.Cas
e to be filed.

Rs.27.5 million was remaining without recovering and days past due was 388. A case to be filed by the Bank.

<p>(vi) Loan granted for Very Important Professionals</p> <p>As per the Circular No. GCL/2016/210 dated 28 September 2016, the bank had introduced housing loan facilities to Very Important Professionals (VIP) and 140 loans aggregating to Rs.282.985 million had been granted under this Scheme. Out of that, 27 loans aggregating to Rs. 47,198,171.41 or 16.68 per cent had been categorized as non-performing as at 31 December 2023. However, there is no secondary recovery option to the bank due to unavailability of securities.</p>	<p>2023</p> <p>2022</p> <p>2021</p>	<p>Proper actions need to be taken to recover those loans.</p>	<p>Recovery actions are being taken for the VIP loans. Many loans have already been recovered. Presently 23 loans are in NPL with Rs. 34.65 Mn being the NPL capital.</p>	<p>Recovery actions are being taken for the VIP loans. Many loans have already been recovered. Presently 26 loans are in NPL with Rs.42.8Mn being the NPL capital.</p> <p>Current Status</p> <p>As of 31st August 2024, there are 23 VIP loans classified under the Non-Performing Loans (NPL) category, with a total outstanding capital amounting to Rs. 34.65 million.</p>
<p>(vii) M.De Paul</p> <p>The Colombo branch of the Bank had granted EPF floating loan facility</p>	<p>2023</p>	<p>Take necessary steps to recover this loan.</p>	<p>Agree with the observation.</p>	<p>The customer took a Rs. 16 million loan from our</p>

amounting to Rs. 16 million to the above customer on 02 December 2021 and subsequently, it was transferred to non performing category on 3 April 2022. The outstanding balance as at 31 December 2023 was Rs. 20,784,782.07 and Days Past Due (DPD) was 701. Following observations are made in this regards.

- During the period of March 2021 to December 2023, the bank received only a single payment of Rs. 112,970 from this customer.
- The Central Bank had hold this customer's EPF fund for a suspicious reason. Therefore, arrears payment of Rs. 5,522,788 as at 31 December 2022 was rejected.
- Customer's salary had not been remitted to HDFC Bank as agreed by the employer.

Colombo branch in December 2021, secured against his EPF. He was the managing director of Shelly's Design Studio, and the loan agreement stipulated salary deductions for repayments. On November 22, 2022, he informed us of plans to withdraw his EPF, but the Central Bank indicated a suspension request from the Labour Office due to suspected fraudulent withdrawal attempts. An investigation is ongoing, and the company has consistently provided false assurances about EMI payments, later revealing it has closed.

(viii) 5,237 numbers of EPF loans aggregated to

2023

Take necessary steps to recover these loans.

Agree with the observation.

EPF loans are granted now with a BSO.

Rs.3,621 million were granted during the year 2023 and out of that, 2,114 numbers of EPF loans aggregated to Rs. 1,441 million (40 percent) had not been paid even a single installment during the year under review.

Further Bank is attempting to obtain salary remittance whenever possible for employed borrowers.

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

- (i) As per Section **2023** B.2.5. (b) of the Banking Act Direction No. 7 of 2011, the bank has Failed to evaluate rating-wise distribution of borrowers in various industries, businesses and personal segments, etc. As well, system update is still not aligning with risk management division requirements. It was observed that NPL ratio on business loans (corporate loan & business mortgage)

Adhere to the cited Banking Act Direction.

Agree with the observation.

The initiation has already been made for a manual workaround until Risk rating facilities are incorporated into the Core banking system.

is approximately 75 per cent on total business loan portfolio as at date of 31 December 2023 which emphasize the importance of industries, businesses and segments wise risk ratings.

- | | | | | |
|---|--------------------|---|------------------------------------|--|
| <p>(ii) As per the Section D.2.5 of the Banking Act Direction No. 7 of 2011, recommends using risk mitigation measures to reduce the severity of operational risk events. Investing in adequate information technology as part of a business continuity and disaster recovery plan is also vital for risk mitigation. Furthermore, as per Central Bank Direction No. 04 of 2014, banks should implement the Baseline Security standard for information security management beginning from July 1, 2015.</p> | <p>2023</p> | <p>Adhere to the cited Banking Act Direction.</p> | <p>Agree with the observation.</p> | <p>The baseline Security Standard for information security management controls will be covered under the implementation of ISMS (ISO standard of information security management).</p> |
|---|--------------------|---|------------------------------------|--|

However, the following security controls have not been fulfilled for 9 years. This situation may create high operational risk with in the bank.

Name of the Control	Number of Controls	Completed Controls
Information Security Incident Management	5	3
Acquisition, Development and Maintenance of Information Systems	13	5
Operation Security	16	10
Business Continuity Management	5	1

(iii) Contrary to the Section 5 of Manual of Operations, the bank had maintained 71,661 numbers of initial saving accounts in 36 branches without maintaining proper mandates and other relevant documents. The aggregated deposit balance as at 31 December 2023 was Rs.180,589,213.

2023

Management need to introduce robust internal controls to prevent this kind of situations in the future ..

Agree with the observation.

Some accounts with incomplete details were opened when HDFC operated as a society. Actions taken include transferring balances to Prathilabha Savings Accounts, inactivating accounts considered abandoned property, and adjusting CBS system parameters. The IT Division is retrieving necessary data from the old

system.

2.5 IT General

Controls

Inadequate IT staff

2023

Database

Administrators (DBAs) play a pivotal role in safeguarding a bank's sensitive information and preventing security breaches. There is a position for Database administrator in Bank's approved carder. It was observed that the bank's Database Administrator position is vacant from 21 June 2023.

Further, critical job designations such as Information Security Threat Analyst, Manager IS, Manager SOC, SOC Analyst, Executive GRC (Two positions) Manager DBA, Manager-Digital Banking, Tech Lead in Software Development, Tech Lead in Digital Banking, Software Engineer – IV, Executive Governance Risk & Compliance, Support Engineer positions are also vacant as at 31 December 2023 according to the approved carder.

Therefore, this may create a significant risk

Suitable persons for critical IT positions need to be recruited immediately.

Agree with the observation.

Skill migration has created a significant shortage of IT professionals. Private organizations can offer higher salaries and recruit more easily than HDFC, which must adhere to approved salary scales and standard recruitment procedures. Consequently, filling IT vacancies has become very challenging, despite ongoing management efforts to advertise these positions.

on IT operation of the Bank.

2.6 Operational Review

2.6.1 Identified Losses

<p>(i) Fraudulent Loans granted in Ampara Branch 2023 2022 2021</p> <p>Seven fraudulent loans amounting to Rs. 8,000,000 were granted to a private garment factory by the Ampara Branch during the year 2018 and subsequently it had been transferred to non performing category. The total outstanding balance of the loan as at 31 December 2023 was Rs. 14,957,108.</p>	<p>Management need to introduce robust and effective internal controls and preventive measures to prevent this kind of situations in the future.</p>	<p>Agree with the observation. Legal process on going.</p>	<p>Case No. 1329/M District court Mahiyanganaya - Matter is coming up for Summons by Grama Niladhari to 1st Defendant, 2nd & 3rd defendants- Exparte Trial, 4th defendant- Pre Trial on 04/10/2024. Case No. B 3228/23 & B2381/22- Both matters are coming up for further investigation regarding EQD report on 16/10/2024. Case No. 6296/M district court Ampara – Matter is coming up for steps of 1st defendant on 21/10/2024.</p>
<p>(ii) Non-availability of EPF funds/records 2023</p>	<p>Necessary measures should be taken to</p>	<p>The internal comprehensive</p>	<p>The Internal Audit Division</p>

**due to deleted from 2022
the loan system**

Central bank had refused to pay 70 EPF customers' for aggregated arrears of Rs.3.45 million for the period of 2022, due to non-availability of EPF funds/records due to deleted from the loan system. It may cause a loss of Rs.12.49 million to the Bank.

prevent or minimize the loss to the bank from the underlined transactions.

investigation (IAD) has process is conducted a completed by comprehensive the CIA and investigation now is in the and submitted process of its report to the obtaining Board Audit relevant Committee and information the Board of from CBSL. Directors. An Once it is external audit completed the firm is now report will be carrying out a submitted to separate the Board investigation, Audit and once Committee. completed, their The report will also management be presented to will initiate the Board Audit appropriate Committee. actions to recover the dues. Disciplinary action will be initiated against responsible officers.

**(iii)Nivi Dairy Farm
(Private) Limited****2023**

As per the Section 4.2.1.1 of Loan Operating Manual of the Bank, when mortgaging property for business purposes, 60 per cent of the Force Sale Value can be considered as the

Management need to comply with the instructions issued towards loan granting and also introduce robust and effective internal controls and preventive measures to prevent

Documents handed over to Mr.Shivan Cooray to file the case against customer.

The Bank will file action and due to the customer was missing and addresses were traced recently.

loan amount. Contrary to the above requirement, Kuliyaipitiya branch has granted 03 business loans (602725000177, 602730000001 and 602730000002) with aggregated value of Rs.49,603,274 to Nivi Dairy Farm which accounted for 124 per cent of the Force Sale Value of the mortgaged property. However, the bank had vested the property in 01 August 2019 and it had been sold at Rs.31 million in 08 October 2021 and settled above loans partially. Further, the unsettled loan amount was Rs.39,806,829 and had remained without any mortgage/security which will be a loss to the bank. The loan settlement details are given in the following table.

this kind of situations in the future.

Loan No.	Total Recoverable Amount Rs.	Actually Recovered (Rs.)	Not recovered (Rs.)	Remarks
602725000177	19,914,715	19,914,715	0	Settled
602730000001	31,114,145	11,828,411	19,285,734	Remainin
602730000002	20,521,095	0	20,521,095	g as NPL and filed a court case

2.6.2 Operational

Inefficiencies

The capital with **2023** interest outstanding balance of loans categorized under Vested Properties (VP) as of 31 December 2023 was Rs. 393,718,086. Out of that, 84 Vested Properties amounting to Rs. 29,584,465 remained over five years period without being auctioned.

Proper Action need to be taken to sell the properties and recover the outstanding balances.

Agree with the observation.

As of December 31, 2023, 84 vested properties remained unresolved: 51 due to boundary verification issues, 9 due to ongoing court cases, and 24 that failed to attract reasonable offers despite multiple tenders.

2.7 Procurement

The bank had awarded **2022** the project of Debt Recovery Management System to Avonet Technologies (PVT) Ltd. on 2018 for Rs.12 million and entered into an agreement on 21 May 2019 for a cost of Rs.9.9 million.

(a) As per the negotiations, the price reductions should be obtained

Need to maintain - proper documents for the procurement activities.

The Management has discussed with the vendors and as a result reduced the cost. We agree with your concern of weak documentation and process implemented to document future activities.

from the bidder in writing by the Bank. However, the bank was unable to submit such document to the audit.

<p>(b) Performance</p> <p>Bond had been expired on 05 March 2020 and a request has been made on 26 February 2020 by the secretary to the tender board for extend the said bond. However, extended</p> <p>Performance</p> <p>Bond had not been submitted to audit.</p>	<p>2022</p>	<p>-</p>	<p>Agree with the observation.</p> <p>Agreed to the concern and concerned officials have agreed to submit a fresh performance security in consultation with the supplier on or before the end of May 2023. To prevent such lapses, we will initiate disciplinary action against the officials concerned.</p>	<p>Agreed with the concern and respective officers have negotiated with the supplier and agreed to submit a fresh performance security on or before the end of May 2023. In order to avoid such lapses, we will initiate disciplinary actions for respective officers.</p>
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2.8 Human Resources Management

<p>It was observed that the below mentioned key management positions are vacant for long period of time. This situation will create negative impact on performance of the bank.</p>	<p>2023</p>	<p>Key management positions need to be recruited as soon as possible.</p>	<p>DGM –credit, AGM –credit & AGM (Recovery)</p> <p>-----</p> <p>Advertised on and the recruitment process is continuing.</p>	<p>Board has approved to recruit Head of Credit & Recovery – one position (refer attached Board minute). Re-advertised for the 4th time on 08/09/2024.</p>
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- DGM –credit
- AGM –credit

- (from 22
December 2022)
- AGM
(Recovery)
 - Chief
Information
officer
 - AGM – IT,
 - Chief Operating
Officer (from 04
March 2023)

Chief Information officer & AGM – IT

The head of IT functioned as CIO. This position was no more in the organization. However, the BHRC and the Board decided to appoint a consultant to restructure the IT department and new Core Banking implementation. The department will be restructured based on the expert proposal. The Board decided that this position is not required for the bank considering the number of branches and size. Decided to recruit DGM-Credit and Chief Managers and assigned certain tasks of COO to them and the CEO.

Chief Operating Officer

The Board decided that this position is not required for the bank considering the number of branches and size. Decided to recruit DGM-Credit

and Recoveries
and Chief
Managers and
assigned
certain tasks of
COO to them
and the CEO.

3.6 Pradeshiya Sanwardhana Bank

Year	Total Assets (Rs.)	Total Liabilities (Rs.)	Total Equity (Rs.)	Profit/ Loss After Tax (Rs.)	Opinion
2021	245,889,512,000	230,496,189,000	15,393,322,000	306,303,000	Unqualified
2022	285,395,150,000	269,169,023,000	16,226,127,000	1,349,395,000	Unqualified
2023	299,717,438,000	281,851,716,000	17,865,722,000	863,518,000	Unqualified

	Audit Observation	Year of the Report	Auditor General's Recommendation	Preventive action taken by Audited Institute	Implementation status of recommendation as on date of the Report
(a)	Additional calculations arise due to the adoption of SLFRSs. It was observed in the financial statement closure process that entries were directly adjusting to the financial statements without adjusting to the General Ledger.	2021, 2022, 2023	Take necessary actions to strengthen the internal controls relating to preparation of financial statements.	No preventive actions has been taken by the management	Action has not been taken by the management yet, in this regard.
(b)	Unavailability of review process for the Individually Significant customers may hinder the effectiveness of the individual impairment computation process and required further improvements.	2021, 2022, 2023	Establish a proper mechanism to monitor and ensure the accuracy of impairment computation process.	No preventive actions has been taken by the management	Action has not been taken by the management yet, in this regard.
(c)	Several general ledger accounts under the same description had been created by the	2021, 2022, 2023	Take necessary actions to strengthen the internal controls relating to	The Bank expects to take actions to solve the issues with	However, this issue has not been resolved yet.

	Bank which make confusion when entering balances to the relevant ledger accounts. Further, minus balances were observed in relation to some income accounts.		preparation of financial statements.	relevant ledger accounts by coordinating with the IT Division and the assistance with the CBS vendor.	
(d)	A difference of Rs.46,401,371 was observed in relation to closing balance of loans and interest receivable, in between balances as per the loan master file and the balances as per the Financial Statements under the Note No. 21 as at 31 December 2023.	2023	Take necessary actions to reconcile the unreconciled records without further delay and to ensure the accuracy of balance appeared in the General Ledger.	Actions are being taken to rectify this issue.	However, action has not been taken by the management yet.
(e)	A difference of Rs.47,047,552 was observed in between the outstanding balances of the Lease (manual) master file and the General Ledger Balance as at 31 December 2023.	2023	Take necessary actions to reconcile the un reconciled records without further delay and to ensure the accuracy of balance appeared in the General Ledger.	The Bank expects to take actions to clear the difference with coordinating respective officers in the leasing division of the bank & intend to reconcile the difference before 31 December 2024.	However, action has not been taken by the management yet.
(f)	A difference of Rs.42,429,586 was observed in between the balance as per	2023	Take necessary actions to reconcile the un reconciled records without further delay and to	The Bank expects to take actions to rectify the issue.	However, action has not been taken by the management yet.

General Ledger and the balance as per Trial Balance in relation to the GL account of "Interest in Suspense Due NPL" (GL No. 230110105) as at 31 December 2023. However, this difference has been maintained manually without entering to the system.

ensure the accuracy of balance appeared in the General Ledger.

- (g) According to the Section 7 of the Circular No: SEC/2022/E/03 issued on 23 December 2022 by Commissioner General of Inland Revenue relevant to the deduction of withholding tax (WHT), every withholding agent who has deducted the WHT is required to issue a certificate of WHT within 30 days after the end of the month that WHT was deducted. Therefore, bank shall collect the WHT certificates relevant to the WHT on interest deducted by other financial institutions. However, WHT certificate relevant to the WHT receivable balance of Rs.234,542,876
- 2023 Take necessary actions to collect the WHT certificates without further delay.
- The Bank expects to collect the WHT certificates from the relevant institution.
- However, action has not been taken by the management yet.

included under receivable (AC No: 140105155) of Note No:28 to the Financial Statements was not available.

- (h) As per the observation, following General Ledger (GL) account balances were carried forward as a liability over a period of time without any transaction. Details were given below.

Description	Amount (Rs.)	Last Transaction Date
Machined grant for B omion Stores	1,857,543	01.02.2018
Ranaviru Divinaguma Revolving Fund	213,772,526	27.03.2019
Compensati on Payable- LDB	30,781,727	25.02.2021

2023 Take necessary actions to settle long outstanding balances without further delay.

The Bank expects to take actions to rectify the issue before 31 December .2024.

However, action has not been taken by the management yet.

A new loan scheme will be commenced by utilizing the funds after discussing with the Ranaviru Seva Authority since they are the party who initiated this fund.

However, action has not been taken by the management yet.

However, action has not been taken by the management yet.

Balances in this GL will be used for paying any commitments raised pertaining to the merger of LDB with RDB.

- (i) It was observed that 5169 numbers of fixed deposits aggregating to Rs.5,563,554.97 were kept for several years (since 2007) by the bank without paying interest or renewing.

2023 Take necessary actions to rectify the balances without further delay.

The actions have been taken to rectify the remaining before 31 December 2024.

Several accounts have been withdrawn by the customers as at the reporting date.

<p>(j) Lack of proper strategic review in procurement decisions as evidenced by not conducting cost benefit analysis, feasibility studies, and risk assessments prior to implementing such decisions: e.g.,</p> <p>No evidence on comprehensive evaluations including the total cost benefit analysis, feasibility study and the risk assessment on the implementation of VISA debit card implementation project, even though the bank has initiated the project at present. In the meantime, the bank has purchased JCB Debit Cards while moving to VISA debit card without proper evaluation.</p>	2023	<p>Take necessary actions to do such analysis before implementing the projects in future.</p>	<p>No preventive action has been taken by the management</p>	<p>Action has not been taken by the management yet.</p>
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3.7 State Mortgage and Investment Bank

Year	Total Assets (Rs.)	Total Liabilities (Rs.)	Total Equity (Rs.)	Profit/ Loss After Tax (Rs.)	Opinion
2021	53,323,053,000	47,039,481,000	6,283,573,000	252,989,000	Unqualified
2022	56,964,945,000	50,490,460,000	6,474,485,000	201,798,000	Unqualified
2023	59,066,511,000	53,612,342,000	5,454,169,000	(1,003,131,000)	Unqualified

	Audit Observation	Year of the Report	Auditor General's Recommendation	Preventive action taken by Audited Institute	Implementation status of recommendation as on date of the Report
(a)	Instances observed where the installments were received for EPF loans even after the settlement of such loans. Such payments received were credited to the "Customer Refund Closed Loan Account" and the accumulated balance of that account was Rs.25,241,363 for the year ended 31 December 2023.	2021, 2022, 2023	Bank should take necessary actions to inform and repay long outstanding balances to customer within a reasonable time.	Transferring balances to customer's savings accounts, field visits and customer visits are in progress.	The corresponding balance in the preceding year amounted to Rs.48,931,177 and therefore a reduction of the balance by Rs.23,689,814 was observed when compared with the last year.
(b)	Payments made by customers to their loan accounts were credited to a ledger account named "Un Appropriated Loan Balance Account" due to multiple	2021, 2022, 2023	Old outstanding balances should be identified and cleared within a reasonable time period.	Bank has refunded considerable amount of long outstanding balances recognized during the year	The corresponding balance in the preceding year amounted to Rs.62,948,841 and therefore a reduction of the

reasons such as overpayments and part payments of the installments without being credited to the relevant loan account or a saving account of the customer. The accumulated balance of that account as at 31 December 2023 was Rs.38,935,963 relating to 16,587 numbers of loans. Details are given bellow.

Year	No. of Loans	Amount (Rs.)
Before 2020	689	3,133,424
2020	2,474	2,327,850
2021	270	851,451
2022	9,142	6,766,853
2023	4,012	25,856,385
Total	16,587	38,935,963

2023.

balance by Rs.24,012,878 was observed when compared with the last year.

- (c) The bank has granted credit facilities under different product categories. The following observations are made regarding the credit facilities distributed among different product categories and product category wise Non-Performing Loan

2023

Require improvements to the existing systems to diversify loan portfolio and decrease NPL ratio of EPF loans.

Recovery actions were strengthened.

Satisfactory actions were not taken by the Bank to diversify the loan portfolio. NPL ratio has increased in 2022 compared to the 2023.

ratios in past three year's period.

i) Personal, Personal Mortgage, and EPF Loan including Estate categories were the main product categories of the Bank during the past three years period which contributed 95 per cent of the total loan portfolio of the Bank.

ii) Contribution of the Bank by granting loans towards the other sectors of the economy including micro and SME sectors are insignificant.

iii) The Estate Loan category and the EPF Loan category record the highest NPL ratios of the Bank during the past three year's period.

(d) Non-performing loan (NPL) ratio has continually increased and NPL	2023	Satisfactory actions should be taken to minimize the non-	Recovery actions were strengthened.	NPL ratio has been further increased in
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	ratio excluding EPF loans was 12.32 per cent, which is well above the Licensed Specialized Banks' industry ratio of 10.6 per cent for the financial year ended 31 December 2023.		performing loan ratio of the Bank.		2023.
(e)	The Board of Directors is consisted with only four directors, though nine fit and proper persons should be appointed according to the State Mortgage and Investment Bank (Amendment) Act, No.29 of 1984.	2023	Bank should appoint sufficient number of directors required by banking act and SMIB act.	An action was not taken to appoint the stipulated number of directors to the board of directors.	Board of Directors is consisted with only four directors.
(f)	The bank has not fulfilled the minimum regulatory capital requirement of Rs.7.5Bn before 31 December 2023 stipulated by Banking Act Directions No.05 of 2017 and No. 04 of 2022.	2023	Minimum regulatory capital should be maintained by the Bank.	A request was made to Ministry of Finance to obtain their concurrence for issuing perpetual debts to raise capital.	Total equity of the bank was only Rs.6,474,484,706 for the year ended 31 December 2023.
(g)	The Debt Repayment Levy (DRL) and Nations Building Tax (NBT) amounting to Rs.3,603,588 and 15,591,023 respectively have	2022,2023	Actions should be taken recover or derecognize the long outstanding receivables.	Action was not taken to derecognize or recover DRL and NBT receivable balances.	Action was not taken to derecognize or recover DRL and NBT receivable balances.

been recognized as receivable balance in the Financial Statements as at 31 December 2023, even though the grace period of four years given to apply for the refund by section 150(3) of Inland Revenue Act No.24 of 2017 has already been elapsed.

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| (h) | Information System of the Bank is operating with an insufficient storage capacity and had made it impossible to maintain some important data in the system and retrieve data and system backup where necessary. | 2023 | Bank should maintain sufficient storage capacity to efficiently use the information system. | Actions were not taken to increase the storage capacity of information system. | Actions were not taken to increase the storage capacity of information system. |
| (i) | Total loan portfolio of the last month should be sent to the Credit Information Bureau (CRIB) within 5 working days. However, the Bank has significantly delayed to send details of newly introduced corporate loans and interest moratorium loans up to 30 months. | 2023 | Details should be sent to the CRIB within the stipulated time period. | Data cleansing activity is ongoing with the new core banking implementation to avoid relay in reporting to CRIB. | Details of corporate loans and moratorium loans were sent to CRIB. |

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|-----|---|------|--|--|---|
| (j) | The master procurement plan that should be prepared according to section 4.2 of the procurement guideline 2006 has not been prepared. | 2023 | Bank should prepare the Master Procurement Plan. | Master procurement plan has not prepared by the Bank. | Master procurement plan has not prepared by the Bank. |
| (k) | According to the PED Circular No.08/2019, dated 17 December 2019 for Implementation of the Electronic Government Procurement System in Sri Lanka, all government entities must register with the national e-GP system before 31 January 2020. However the bank has not registered with the e-GP system up to date of audit on 31 August 2024. | 2023 | Bank should get registered with E-Procurement system. | E-procurement system was not implemented by the bank. | E-procurement system was not implemented by the bank. |
| (l) | Even though the Board of directors should review the adequacy and the integrity of the Bank's internal control systems and management information systems, currently the Bank uses AS 400 as their MIS system which | 2022 | The Board should ensure the adequacy and integrity of the Management Information System of the Bank. | Core banking system is being implementing by the Bank. | Core banking system implementation is started and data migration phase of the project is being on progress. |

does not facilitate
the industry
requirements in
terms of generating
information and
reports.

3.8 Merchant Bank of Sri Lanka & Finance PLC

Year	Total Assets (Rs.)	Total Liabilities (Rs.)	Total Equity (Rs.)	Profit/ Loss After Tax (Rs.)	Opinion
2021	34,277,459,000	30,108,504,000	4,168,955,000	529,044,000	Unqualified
2022	31,231,781,000	27,536,237,000	3,695,544,000	(495,608,000)	Unqualified
2023	33,699,122,000	30,028,450,000	3,670,672,000	20,888,000	Unqualified

Audit Observation	Year of the Report	Auditor General's Recommendation	Preventive action taken by Audited Institute	Implementation status of recommendatio n as on date of the Report
(a) The Company has written off non-performing loans and advances aggregating to Rs.47, 777,741 during the year under review due to inability of recovering.	2021	It is recommended to take every possible effort to recover the loans before writing it off.	Writing-off proposals is submitted to the Board for approval after exploring all possible recovery actions and as the last option. For every individual write-off's a detailed paper is submitted to the Board providing justifications.	After every efforts were taken to recover, write off is taking place with board approval as per company policy.
(b) As per the details available for the disposing of yard vehicles during the year 2021, 296 numbers of yard vehicles had been disposed. Among these vehicles 274 numbers of vehicles were disposed	2021	It is recommended to take decisions in a prudent manner which minimize possible losses to the Company.	The disposal decision is taken by the disposal committee of the Company. The disposal committee when deciding always makes sure to	The disposal committee of the company takes decisions to minimize the possible losses.

less than the full outstanding value to be recovered from those vehicles. Full outstanding to be recovered for those vehicles was aggregating to Rs. 794,099,816 and disposed value was aggregating to Rs.352, 612,690. Therefore, a loss of Rs.441,487,125 was incurred from disposing the yard vehicles.

minimize the possible losses to the company. Also after the disposal of the vehicle and whenever a disposal loss is recorded in the books of the company legal action is initiated against the borrower and guarantors for the disposal loss.

- (c) Long outstanding 2022 balances aggregating to Rs.154, 783,481 were observed in relation to Unidentified Direct Deposit, Unpresented Payment, Customer Collection Account and Salary Control Account which are outstanding from 1 year to more than five years period. The age analysis of the long outstanding balances is given in the following table.

It is recommended to take necessary steps to clear long outstanding payable balances and follow the directions and policies of the Company.

Unidentified Direct Deposits

These are direct deposits made by customers without any identification in reference field. Necessary actions are being taken to clear the long outstanding balances as per the Board approved Policy of Clarence of Long Outstanding Balances.

In addition, the Policy is being amended to clear any long outstanding balance with

As per the current long outstanding balances policy, the balances are removed from books of accounts every five years, hence balances relevant to the year 2019, will be cleared in the year 2024.

Description	GL No.	Outstanding Period (Years)				
		0-1 (Rs.'000)	1-3 (Rs.'000)	3-5 (Rs.'000)	More than 05 Years (Rs.'000)	Total (Rs.'000)
Unidentified Direct Deposits	20113	2.83	4.35	5.15	6.38	18.69
Unpresented Payments	20114	0.54	1.37	0.49	1.67	4.07
Customer Collection Account	20111	5.40	1.30	0.53	100.03	107.34
Salary Control Account	10361	23.62	0.63	0.19	0.04	24.48
Total		32.48	7.83	6.36	108.12	154.78

shorter period with justification.

Unpresented Payments

Finance Division regularly follows up with respective divisions for clearance. Any balance remaining after 6 months are transferred to the GL given.

Long outstanding balances are cleared as per the Board approved Policy of Clearance of Long Outstanding Balances.

Customer Collection Account

Out of the balance, Rs.100mn relates to advance funds received from Navara Capital for an investment in MSB. Due to breach of terms, the agreed

investment did not materialize. Thereafter, Navara Capital has filled a legal action for the refund of the advance paid. The legal case is in final stage. The balance has to be maintained till the completion of the legal case. As the amount is not a customer collection, the balance will be transferred to a Sundry Creditors account.

Other balances relate to customer collection for settlements and being cleared with the settlement of contracts.

Any balances outstanding for a long period will be cleared as per the Company Policy.

Salary Control Account

2017 to 2020 balances are

already cleared.
Other long
outstanding
balances are
being cleared.

- | | | | | |
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| <p>(d) The Company has failed to maintain the Capital Adequacy Ratios (CARs) above the regulatory minimum levels specified in the section 1 of the Finance Business Act direction no.3 of 2018. The Total CAR of the Company was 12.01 per cent as at 31 December 2022, which is below the regulatory minimum requirement of 12.5 per cent.</p> | 2022 | <p>It is required to comply with the cited Direction</p> | <p>At present, the CAR requirement of the Company is complied.</p> | <p>At present, the requirement is complied.</p> |
| <p>(e) The company had repossessed and sold 96 numbers of vehicles during the year 2022. However, out of the above 96 vehicles, 67 numbers of vehicles were sold at a lower price than the forced sale value given in the valuation report. The aggregated loss from the aforesaid transactions to the Company was Rs.17, 818,600.</p> | 2022 | <p>It is recommended to take decisions in a prudent manner which minimize possible losses to the company.</p> | <p>The company disposed its repossessed vehicles within the parameters given in the vehicle yard operations procedure. Under these provisions, in a situation where the offers received less than the forced sales value of the vehicles the disposal committee arrives at a disposal</p> | <p>Vehicles are disposed bases on the disposal committee decision..</p> |

decision.

During the period under review, the prices of the vehicles deteriorated drastically especially subsequent to the political instability and economic crisis where disposal could not be effected at the forced sale value of the vehicles. However, company was able to dispose almost all the vehicles at transaction profits even though the vehicles were disposed at 20 per cent less than the forced sale value. As a policy, disposal committee decided to dispose vehicles above the 80 per cent of the force sale price.

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| (f) The company had 2022 granted short term loans, term loans and debt moratorium loan | It is recommended that satisfactory actions need to be taken by the | The captioned facility was restructured under the CBSL | Legal case is ongoing to recover the outstanding |
|--|---|--|--|

facilities at several times to a particular customer since 2018 to 2021. In 2021 as per the irregular payment pattern of the said customer and the moratorium relief program of CBSL, the company had restructured the facilities by converting all the loans into one loan amounting to Rs.38,644,244.

Following observations are made regarding the restructured facility.

- The company had not evaluated the repayment capacity of the borrower before entering into the restructured process as per Credit Procedure Manual.
- Unsatisfactory CRIB history of the borrower had not been considered. As per the Board paper no. CBU/2021/606/016, periodical reviews on the business performance had not been conducted and reported to the credit committee by the post credit monitoring unit.
- No reliable proof documents obtained to justify the monthly income of the guarantor.

Company to recommended balances..
recover the total relief packages.
due amount from The pandemic
the customer or situation and the
from the adverse
guarantor. economic

conditions badly
affected the
client. Since the
facility was
rescheduled
under
moratorium
relief package,
we had to forego
our normal
credit
evaluation . The
restructuring
was done with
the available
documents as
the other option
would be to
initiate legal
action to recover
the monies and
due to the
country's
situation taking
legal action was
temporarily
halted as
instructed by
CBSL Circular
no.05 of 2020
Section no. 4
(iii)

The captioned
restructured
facility was
granted in
December 2021

- As the company was unable to approach the guarantor, further action had not been taken against the guarantor.

with an initial grace period of 03 months to commence repayment.

However, from the first rental client did not service the due rentals as promised. The Bank had taken every possible effort to communicate the client since February 2022, but he did not response to them. Therefore, the Bank was of the view that there were no necessity of carrying out a further review than initiating recovery action to recover the monies lent, accordingly the facility was terminated on the 05 July 2022 & file was transferred to Legal department to initiate legal action.

As the no positive response to the

Letter of Demand sent by the Legal department, an Action bearing No HC/Civil /7/2023 has been filed in the Commercial High Court of Colombo on or around 16 January 2023 against the said client and the case is ongoing.

- (g) Properties mortgaged against loans had been acquired by the company due to the facility became Non Performing (NPA) and classified these under the investment properties in the financial statements. Five mortgaged properties acquired by the company which are shown under Investment Properties had been restricted to possess due to the prevailing legal situation with previous landlords. The Company had not considered the legal title of the properties at the time of mortgaging.
- 2022
- It is recommended to utilize the investment properties in an effective manner after getting the legal clearance and ensure the legal background of the properties mortgaged when granting the loans.
- At the time of recognizing these assets as Investment Properties, the Company had cleared title for the properties and had no legal cases. The legal cases initiated after the obtaining the legal title to those properties. Therefore, it's in line with the asset recognition criteria.
- 01 property had sold and legal cases are ongoing for other 04 properties.
- In addition, considering its current status, a provision of Rs. 6.05mn, has been made in the

financials.

01 property had
sold and legal
cases are
ongoing for
other 04
properties.

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| <p>(h) The Company has 2023 written off 127 numbers of non-performing loans and advances aggregating to Rs.64.09 million during the year under review under the approval of the Board of Directors due to inability of recovering.</p> | <p>It is recommended to take every possible effort to recover the loans and advances before writing off.</p> | <p>As per the guidelines stated in the Board approved write off policy, management decides to write off facilities where payments were not received for longer period/unsecured disposal balances etc.</p> <p>However, Prior to write-off, all possible recovery actions were taken to collect the outstanding dues and litigation process will be further continued until fully settle the facility.</p> | <p>Write off decisions are taken as per the company's policy after all recovery action was taken to recover the dues.</p> |
| <p>(i) The company had 2023 granted short term loan and moratorium loan facilities to Corporate Risk Management</p> | <p>It is recommended that credit policy instructions and accuracy of documents must</p> | <p>Legal action has been initiated to recover the due amount.</p> | <p>Legal case is ongoing.</p> |

Consultants (pvt) Limited since 2019 to 2021. In 2021 as per the irregular payment pattern of the said customer and on the request of the customer, without considering the payment history, the Company had restructured the facilities by converting all the existing loans into a one loan amounting to Rs.250.32 million. Following observations are made regarding the restructured facility.

be correctly evaluated when granting the loan facilities.

- Total loan amount had been granted by exceeding the Forced Sales Value (FSV) of the mortgaged property with the approval of the Board of Directors as opposed to the instructions mentioned in the Credit Procedure Manual.
- The Company had not obtained the audited financial statements to evaluate the financial position of the borrowing company.
- The Company had not informed to the personal guarantor and further action had not been taken against the guarantor.
- The Company had not implemented

following strategies recommended by the credit committee to reduce the overall risk of the restructuring process.

- I. Audited Financial Statements of the Company shall be obtained for the financial year 2020/2021.
- II. Future Business Plans, details of existing /proposed business projects of the company together with forecasted financial statements shall be obtained.
- III. Conduct periodical reviews on business performance, CRIB reports and cash flow position of the applicant company until the full settlement of the facilities. 1st review shall be performed within 6 months of the restructured loan and reported to credit committee by the post Credit Monitoring Unit/Central Business Unit.

- | | | | |
|---|---|---|---|
| <p>(j) The Company had 2023 granted a term loan facility of Rs.34.14 million to Sigiriya Viceroy Hotels (Pvt) Limited in May 2010. The facility was transferred to the Non Performing Category (NPA) in December 2014. Following observations are made.</p> <ul style="list-style-type: none"> • The granted loan amount was higher than the forced sale value of the property mortgaged. • The property mortgaged as security had some legal problems relating to the ownership. | <p>It is recommended that satisfactory actions need to be taken by the Company to recover the total due amount from the customer or from the guarantor.</p> | <p>Company has taken action to get the legal clearance of the mortgaged property.</p> | <p>Legal Judgment has received. The auction has been fixed and scheduled to be held on 24/10/2024</p> |
| <p>(k) The Company had 2023 granted term loan facilities amounting to Rs 52.34 million to Plantation Development & Management (Pvt) Ltd which is experts in the coconut industry in Sri Lanka. Two properties and a personal guarantee had been obtained as security. Due to non-payment of installments, the facility had transferred to NPA in December 2014. Following observations are made.</p> <ul style="list-style-type: none"> • Properties which were | <p>It is recommended that credit policy instructions and accuracy of documents must be correctly evaluated when granting the loan facilities.</p> | <p>Every efforts have been taken by the company to trace Director of the borrowing Company for recovering the dues.</p> | <p>Company is still in the process to trace the Director of the borrowing Company.</p> |

mortgaged for these facilities are leasehold properties of the Government.

- Director of the borrowing Company is untraceable.

- | | | | | |
|---|------|---|--|---|
| <p>(l) Two loan facilities of Rs. 20 million and Rs. 5 million each had been granted to M/S Anura Manpower Suppliers (Pvt) Limited in 2010, on a property mortgage. It had been transferred to NPA in 2010 due to non-payment of the installments. Further the borrower had voluntarily transferred the above mentioned property to the Company in 2012. Following observations are made.</p> <ul style="list-style-type: none"> • The Company could not sell the above property due to non-availability of legal access to the land and also it is situated in a flooded area. • As per the valuation report dated February 2022, it has a zero value. | 2023 | <p>It is recommended that credit policy instructions and accuracy of documents must be correctly evaluated when granting the loan facilities.</p> | <p>Company has taken every efforts to dispose this property.</p> | <p>Company is still unable to dispose this property.</p> |
| <p>(m) The Company had granted the revolving and term loan facilities to a reputed retail trader (Ranjanas (Pvt) Limited)</p> | 2023 | <p>It is recommended that credit policy instructions and accuracy of documents must</p> | <p>Letter Demand issued.</p> | <p>The borrowing Company again continues to make capital repayment of Rs.</p> |

in textile market from 2014 to 2017. As the repayments were not in prompt of existing facilities, the Company had restructured the outstanding balance of the existing term loans of Rs.25.22 million in August 2019. Following observations are made about the restructured facility.

be correctly evaluated when granting the loan facilities.

500,000per month since February 2024 and already Rs. 3.5 million was paid.

- As per Section 3.0 of the Procedure Manual, stringent control measures had not been applied and followed up and the monitoring and supervision part had not been done properly before the restructuring process.
- Proper guarantor evaluation had not been done.
- The Company had not obtained the audited financial statements of the borrowing company to evaluate the financial position.
- The borrowing company had paid only 3 installments after the restructuring, and after the letter of demand issued in December 2023, the

customer has continue
to make capital
repayment of
Rs.500,000 per month
since February 2024.

3.9 Sri Lanka Savings Bank Limited

Year	Total Assets (Rs.)	Total Liabilities (Rs.)	Total Equity (Rs.)	Profit/ Loss After Tax (Rs.)	Opinion
2021	8,704,836,000	1,897,832,000	6,807,004,000	255,144,000	Unqualified
2022	8,457,711,000	1,349,029,000	7,108,682,000	460,588,000	Unqualified
2023	9,511,536,000	1,287,671,000	8,223,865,000	758,720,000	Unqualified

Audit Observation	Year of the Report	Auditor General's Recommendation	Preventive action taken by Audited Institute	Implementatio n status of recommendatio n as on date of the Report
(a) The Director of the Bank Supervision of CBSL by the letter dated 05 January 2021 informed that, the Bank is going to liquidate or merge with National Savings Bank (NSB) by 30 September 2021. Since that date, the bank's operations had been suspended and no loan disbursements were made and no new deposits were obtained. However, Bank had not liquidated or merged with NSB until this reporting date.	2021	Immediate actions should be taken to finalize the process of merge.	It was informed by the NSB Management that an opinion has been sought from Attorney General's Department and Ministry of Finance for further proceedings with the merger. The AG's Department has informed by their letter dated 09 September 2022 that they could deliver legal advice only after Treasury gives its approval to the merger.	The absorption of assets and liabilities process to National Savings Bank in progress as at 30 September 2024.

Accordingly, NSB has referred the matter to the Secretary to the Treasury by their letter dated 21 September 2022 seeking a policy direction regarding the merger and their decision yet to be received.

- (b) Following assets vested 2022 from Pramuka Savings and Development Bank (PSDB) has been fully impaired and no evidences were found to verify those balances.

Item	Amount (Rs.)
Discount paid in advance	13,356,809
Deposit fund on behalf of PSDB L/T case	7,098,200

Evidence and break-ups should be maintained for every balance in the financial statements.

1. Discount paid in advance has been transferred at the vesting of PSDB and hence, no evidence available for verification. The bank has failed to find break-ups for discount paid in advance balances since it has been transferred at the vesting of PSDB.

There are two appeal cases pending before the Supreme Court regarding an issue on 30 September 2024.

Gratuity payments of PSDB employees of which total case value is Rs.7,098,200

- (c) The following balances 2022 were outstanding since several years without being recovered.

Prompt actions should be taken to recover the long outstanding.

Stamp duty receivable – The Bank was unable to get recovered the stamp duty up to 30 September. This amount is a payment made when acquiring

Item	Amount (Rs.)
Stamp duty receivable	1,999,000
Post-date cheque discounted A/C	349,200
Receivable- Senior Citizen FD - Subsidy	3,045,845

of a mortgaged property to the Bank on defaulted loan customer and could be recovered only when the property is disposed. 2024 and stand as it is. no action was taken to settle balances the bank recovered 50,000 as at 30 September 2024.

Post-date cheque discounted A/C
: legal action taken to recover the balance.

Receivable Senior Citizen FD Subsidy :
This is the amount Bank should receive from Treasury in respect of the interest paid to senior citizens for the period from 1st April 2021 to 30th June 2022. Discussions were made with treasury representatives.

- (d) An amount of 2022 Rs.32,249,689 of PSDB borrowing which was disclosed under “due to other borrowers” were prevailed more than 02 years.

Outstanding balances should be reconciled and cleared within reasonable period.

PSDB Borrowing- The balance remained same in the relevant general ledger account of the Bank as at 30 September 2024. This amount has been transferred at the vesting of PSDB and hence, no evidence

available for
reconciliation
and clearance.

- (e) There were several 2023 instances where the Bank had act irresponsibly, though its main priority was to implement the activities related to the merger as directed by Director of Bank Supervision of CBSL. Some instances are given below.
- (i) The requirement to implement the merger process by the Bank was re-emphasized since the operational difficulties of Bank due to lack of competent staff.
 - (ii) The Director of Bank Supervision of CBSL, by the letter dated 27 May 2022 has indicated that both NSB and SLSBL had been granted sufficient period of time to implement the Monitory Board approved resolution framework for the Bank. However, both banks had failed to ensure timely implementation of corrective measures
- Bank should speed up the merger process by negotiating with the parent.
- The parent Company has given an undertaking on 10 December 2020 that any deficit in the minimum Capital Requirement will be funded by the Parent. The Central Bank has requested assurance on the same from Parent and the bank also has requested the assurance by their latter dated 14 February 2023 and same was delivered by the Parent.
- The absorption of assets and liabilities process to the National Savings Bank is in progress as at 30 September 2024.

informed from time to time by CBSL pertaining to the resolution framework.

- (iii) The Director of Bank Supervision has informed by the letter dated 13 January 2022 that the Bank has submitted a Strategic Business Plan for the period 2022-2026 with unrealistic projections and non-consideration of key risk assessment factors.

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|---|-------------|--|---|--|
| <p>(f) The other liabilities balances in the Financial Statements included an unidentified suspense account balance of Rs.5,360,365 which consists from unidentified bank deposits.</p> | <p>2023</p> | <p>The Bank should be reconciled and cleared unidentified suspense account within reasonable period.</p> | <p>These deposits were made directly by the customers without remarks to identify the customer. As per the Bank, they have made every possible effort to identify them and there had not been any amount accumulated to this account in the year 2023 and up to August 2024</p> | <p>The balance remained same in the relevant general ledger account of the Bank as at 30 September 2024.</p> |
|---|-------------|--|---|--|