

## **National Savings Bank - 2024**

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### **1. Financial Statements**

#### **1.1 Opinion**

The audit of the financial statements of the National Savings Bank (the “Bank”) and the consolidated Financial Statements of the Bank and its subsidiaries (the “Group”) for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the Financial Statements, including material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

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

#### **1.2 Basis for Opinion**

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

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

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

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

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

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

#### **1.4 Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank and the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Bank and the Group's to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Bank and the Group, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Bank and the Group have complied with applicable written law, or other general or special directions issued by the governing body of the Bank.
- Whether the Bank and the Group has performed according to its powers, functions and duties; and
- Whether the resources of the Bank and the Group had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Audit Observations on the preparation of Financial Statements.**

### **1.5.1 Unreconciled Control Accounts or Record**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
The Bank's inter-branch balance stood at Rs. 143.231 million, during the year under review compared to Rs.269.328 million in the previous year. This balance is derived from the accumulation of multiple Branch Ledger and Head Office Ledger accounts. A portion of these balances has remained unchanged for several years. However, the Bank has not established a formal procedure to reconcile these inter-branch account balances. Instead, it has opted to allocate a full provision for the prior year's balance of Rs. 269.328 million.	<p>The outstanding balances of the legacy system have been brought forward for approximately two years, and the Finance &amp; Planning Division is closely monitoring them. After careful scrutiny, these balances will be written back to the Income Statement with the relevant approvals.</p> <p>The Inter-Branch Balances of the legacy system as at 30th September 2025 amount to Rs. 102,415,543 (Cr Balance). These balances are frozen, and will be transferred to Finance Division to restrict branch access.</p> <p>After the migration to new core banking system on 18th September 2024, inter-branch entries are updated automatically in real time; as such, there are no differences in these balances.</p>	Sufficient and adequate Procedures should be implemented to reconcile the inter branch balances.

## **1.6 Accounts Receivable and Payable**

### **1.6.1 Receivables**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
a) Total gross loans and advances granted by the bank as at 31	The Company requested approval from both Banks for the rescheduling proposal and to	The Bank should perform proper

December 2024 was Rs. 561,313 Million. Out of total loans and advances, Rs.3,518 Million (equivalents to USD 12.01 Million) represents the loan granted to a foreign company and accrued interest receivable thereon. The receivable balance of this foreign loan as at 31 May 2025 was Rs.4,298 million.

b) Total outstanding balance of the corporate loans as at 31 May 2025, was Rs.72,250 Million and out of that, Rs.5,777 Million or 8 per cent was categorized under non-performing loans category. Out of the above non-performing loan balance, 74 per cent represents the loan granted to above foreign company and 20 per cent represents a loan granted to a government related company which was secured by treasury guarantees.

move forward with the arrangement. The board has sought Secretary to the Treasury's advice on appropriate cause of action.

customer evaluations before granting loans and as well implement stricter monitoring and follow-up mechanisms to minimize future defaults. It was further recommended to take every endeavor to recover the loan outstanding.

The Bank should perform proper customer

evaluations before granting loans and as well implement stricter monitoring and follow-up mechanisms to minimize future defaults.

**Bimputh Finance PLC (BFC)** - The letters of demand for both loans were dispatched to the client. Plaintiff to file legal action on the client is currently being prepared by the state council.

**Techno Park Development Company (Pvt) Ltd.** –

A meeting was held on 28.07.2025 at the Ministry of Finance to discuss the Techno Park project. At the meeting it was informed that the ministry has decided to settle the loan facility in full and requested details of all outstanding amounts. It is informed that the loan facility will be fully settled on 01.12.2025.

**Mt. Lavinia Hotel (Pvt) Ltd (MTL)** - A consultation with the legal counsel appointed by the Banks was held on 3rd October 2025 with all the other Banks. After discussion and having considered the Banks' request to exert pressure on the customer. Legal counsel advised to initiate parate execution to recover the loan.

RPI (Pvt) Ltd (As given under point (a))

c) Outstanding balance of over Rs.5 million loans granted by the bank, as at 31 May 2025 was Rs.100,661.97 million. Out of that, Rs.88,457.13 million was

The breakdown of outstanding loan balances exceeding Rs. 5 million and their corresponding NPL balances as of 31.05.2025 is as follows.

The Bank should perform proper customer evaluations before granting loans and

granted by branches and remaining Rs. 12,204.84 was granted by the credit division. Out of the over Rs.5 million loans granted, Rs.8,099.49 million was categorized under non-performing loan category.

Segment of Analysis	Total Outstanding (Rs.)	NPL Outstanding (Rs.)	NPL % from Total
Branch sector	16,119,743,051	1,156,957,750	7.18
Corporate	72,337,389,050	5,865,278,943	8.11
Finance Division			
Credit Division	12,204,833,843	1,077,244,543	8.83
Bank as Whole	100,661,959,944	8,099,481,235	8.05

Accordingly, out of the loans over Rs. 5 million granted by branches, Rs. 1,156 million falls under the non-performing category. This represents 7.18% of the branch sector portfolio and 1.15% of the total loans over Rs. 5 million granted by the Bank.

However, as of 30.09.2025, the outstanding balance of loans over Rs. 5 million granted by the branch sector stands at Rs. 16,332.85 million, while the outstanding balance of non-performing loans in the same category has reduced to Rs. 937.537 million. This represents 5.74% of the branch sector portfolio and 0.97% of the total loans over Rs. 5 million granted by the Bank.

Moreover, in order to further reduce non-performing loan balances, the Bank has taken the following actions to strengthen its recovery process:

- The Bank has streamlined its recovery procedures as per the General Manager's Circular No. 1140/2025, dated 09.10.2025, to ensure that facilities granted by the Bank are properly serviced without becoming non-performing.
- As per the General Manager's Circular No. 94/2024, dated 23.12.2024, Marketing Officers attached to branches have been deployed to support recovery activities.
- The Bank has introduced a special loan restructuring program for habitual loan repayers through the General Manager's Circular No. 1106/2024, dated 27.09.2024.
- The Beliatta Recovery Centre was strengthened in 2025 through the allocation of additional staff, and its functions were streamlined by bringing its activities under the supervision of the AGM (Recoveries) to intensify efforts aimed at reducing non-

as well implement stricter monitoring and follow-up mechanisms to minimize future defaults. It was further recommended to take every endeavor to recover the loan outstanding and minimize the Non-Performing Loan Balance of the Bank.

performing loans (NPLs).

e) The Bank has commenced obtaining the services of four Debt Collection companies to expedite the recovery of non-performing loans classified under the “Loss” category.

The Bank’s overall NPL ratio as at 30th September 2025 stood at 5.65% which is lower than the industry average.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
a) Section 47 of National Savings Bank Act, No.30 of 1971	Payments made by the National Savings Bank to customers through the Unclaimed Deposits Reserves Account are to be reimbursed from the Consolidated Fund of the General Treasury. However, as of the audit date on 31 December 2024, a total of Rs. 193.452 million paid to customers up to the year 2024 had not yet been reimbursed.	The Bank requested the amount receivable by the letter dated 20th March 2025. Further details were requested by General treasury on 6th June 2025 and submitted on 30th July 2025. On their letter dated 30th September 2025, Treasury requested individual customer details for re-activated Dormant balances, and the Bank is in the process of compiling details.	Bank should comply with the requirement of NSB Act.
b) Schedule 1 of Direction No. 16 of 2021 of Central Bank of Sri Lanka on Regulatory Framework on Technology Risk Management and Resilience for Licensed Banks. (i) Section 4.3	A Board-approved list of Critical Information Systems (CIS) was not available within the Bank.	A paper has been submitted to the BIRMC incorporating the list of Critical Information Systems.	Bank should comply with the relevant Section of the CBSL Direction No.16 of 2021.

(ii) Section 4.3.3	<p>Although all Non-Critical Information Systems shall be reviewed at least once in every two years and documented in sufficient detail explaining the rationale behind the exclusion as Non-Critical Information Systems, no such review had been done recently.</p>	<p>Critical Information Systems were identified and submitted to the Board during the Q1 in 2025. The noncritical information systems will be reviewed during the Q1 of 2026.</p>	<p>Bank should comply with the relevant Section of the CBSL Direction No.16 of 2021.</p>
(iii) Section 4.6.6	<p>The Bank has not implemented adequate technology risk management and monitoring measures including Risk and Control Self-Assessment (RCSA) processes for third-party service providers and agents that commensurate with the criticality and sensitivity of services carried out by such third party service providers and agents as approved by BIRMC of the Bank.</p>	<p>BIRMC approval will be obtained along with risk assessments and due diligence for service providers that support critical information systems.</p>	<p>Bank should comply with the relevant Section of the CBSL Direction No.16 of 2021.</p>
(iv) Section 5.1.2	<p>Although the required persons including staff, agents and third-party service providers related to critical systems shall complete an internal certification test, based on the information security awareness training, at least annually, the Bank has not taken actions to fulfill this requirement.</p>	<p>With the new Learning Management System, a certification test will be developed for Information Security and will be conducted online. This shall be done as per a schedule aligning the awareness training commencing from Q1, 2026.</p>	<p>Bank should comply with the relevant Section of the CBSL Direction No.16 of 2021.</p>

## 1.8 IT General Controls

The Bank has upgraded its old system (Legacy) to Core Banking System with effect from 13 September 2024, and a private auditor has been appointed to perform the Data Migration Review, IT General Controls Review and Critical IT Application Control Review of the New Core Banking System (CBS). The following deficiencies were revealed during the cause of review.

Audit Issue	Management Comment	Recommendation
(a) <b>Customer Management</b>	<p>(i) PEP screening and Document Management System are not integrated into the CBS.</p> <p>(ii) Customer creation and account opening can proceed without AML verification, KYC review and approval for high risk customers.</p>	<p>The Document Management System (DMS) has not been integrated with CBS due to practical and technical limitations. There is no commonly accepted list for PEP. PEP screening and ongoing transaction monitoring are performed through the AML system (COMPASS). Daily transaction screening in COMPASS ensures that any blacklisted or high-risk accounts are promptly identified and blocked as per Compliance procedures.</p>
		<p>It is recommended that the Bank take necessary steps to establish an integration mechanism between the CBS, the Document Management System, and the PEP screening process to ensure a fully automated and streamlined control environment.</p>
	<p>(iii) <b>Company tax numbers and registration numbers for corporate clients and birth certificate numbers for minor accounts can be duplicated.</b></p>	<p>AML checks are required to be completed prior to customer record creation and Branches are instructed to ensure that all required customer due diligence, including KYC and AML verification, is completed before activating customer or account records.</p> <p>While recognizing the practical limitations regarding non-unique birth certificate and business registration numbers, the Bank should explore introducing additional validation layers or secondary identifiers to minimize the risk of duplicate or erroneous customer records.</p>

customer.

iv) Capturing signature cards and images is not mandatory.

Signature and image capture is mandatory as per the process for all new customers on boarding. CBS facilitates maintaining customer signatures and images and capturing customer photo and signature process was initiated with the rollout of CBS. However, due to some technical issues encountered, the process has been stopped temporarily and necessary developments in image and signature capture application have been carried out and undergoing necessary testing. It is expected to resume the customer image and signature capture in November.

Signature and image capture should be made a mandatory control within the CBS and the Bank should ensure that the process of capturing customer signatures and images is reinstated without further delay.

**(b) Savings**

i) System allows account creation without verifying mandatory documents such as mandates, NIC, address proof of customers and AGM dates of societies.

Verification of documents such as mandates, NIC, and address proof is performed manually by the responsible officer during account opening. The Authorized Officer is required to review and validate the supporting documents before authorizing account creation in CBS. NIC and address proof details are mandatory during customer onboarding in CBS.

If users do not input these details system doesn't allow proceeding further. For societies, fields related to the Annual General Meeting (AGM) date are available in the system; however, the validation and verification of such information remains part of the manual checking process, as these documents cannot be automatically validated by the system.

The Bank should strengthen system controls within the CBS to ensure that account creation cannot proceed without verification of all mandatory documents, including mandates, NIC, address proof, and AGM date for societies.

ii) Passbook and statement sections exist but are unused.

Passbooks and deposit certificates are maintained manually as per existing operational procedures. Although the related sections exist in the system, physical passbooks and manually printed deposit certificates continue to be the standard operational practice at branches.

The Bank should evaluate the feasibility of utilizing the passbook and statement functions available in the CBS to automate and streamline customer account information management.

**(c) Teller Operation**

i) Insufficient transaction controls on reverse

Reversal of transactions in CBS is a controlled two-step process that requires separate roles for the inputter and the authorizer. This enforces

The Bank should further strengthen transaction controls by implementing

	<p>transactions, separate reversal approvals and withdrawals for minor accounts.</p>	<p>segregation of duties and ensures that reversals — including those of lower value — are subject to independent review and approval. Withdrawals from minor accounts are permitted under the NSB Act and therefore are processed within the Bank's overall cash withdrawal limits and controls. When a teller initiates a withdrawal for a minor account the system displays contextual details (account type, guardian name, etc.) in a popup to assist identification, and the physical passbook used for minors is different from adult passbooks. These controls reduce the risk of unauthorized or inappropriate withdrawals.</p>	<p>additional automated validation and approval mechanisms for reversal transactions and withdrawals from minor accounts.</p>
ii)	<p>There is no automated system functionality for posting internal charges (e.g., balance confirmation fee) to the designated GL account.</p>	<p>Balance confirmation and certain internal charges are performed outside CBS as part of operational procedures; therefore, charge postings are created manually in the system by authorized officers. This is currently an accepted operating method and is supported by segregation of duties and a manual authorization review. If there is charge type which needs to be automated; where appropriate, the Bank will evaluate automation options</p>	<p>The Bank should assess the feasibility of automating the process of posting internal charges, such as balance confirmation fees, within the CBS.</p>
<b>(d) Cheque Operations</b>			
	<p>Multiple cheque numbers are allowed to add one transaction of the suspense account in the system</p>	<p>System does not allow multiple cheque numbers for single transaction. However, system permits multiple cheque numbers to be linked to a single suspense account transaction only under specific operational scenarios where multiple cheques relate to a single posting (e.g., batch collections or consolidated entries). These transactions remain subject to verification and authorization controls, ensuring there is no compromise in accountability or traceability.</p>	<p>The Bank should review the system configuration and related operational scenarios that allow linking multiple cheque numbers to a single suspense account transaction to ensure such functionality is appropriately controlled and justified.</p>
<b>(e) Bank Guarantee</b>			
i)	<p>The system allows the limit amount to be set as zero</p>	<p>The system allows the limit amount to be set as zero to accommodate certain operational scenarios. However, if a Bank Guarantee is created that exceeds the available limit; the system displays an override message alerting the user to this condition. Additionally, all limit creations and amendments are subject to officer verification and authorization,</p>	<p>The Bank should review the system configuration that permits setting the limit amount as zero and assess whether additional validation or restriction controls are required to</p>

		ensuring that no Bank Guarantee is issued without proper approval or limit validation.	prevent potential misuse or data entry errors.
ii)	The system does not generate notifications to users for Bank Guarantees approaching expiry.	The system provides functionality to monitor Bank Guarantees approaching expiry through a dedicated report that can be generated 15 days prior to expiry. In addition, the system offers a separate enquiry facility to view guarantees with the status CLOSED (LIQ), which reflects already expired or liquidated items. These features collectively support proactive monitoring of guarantee expiries.	It is recommended that the Bank consider enhancing the system functionality to automatically generate alerts or notifications for Bank Guarantees approaching expiry.
<b>(f)</b>	<b>NOSTRO Reconciliation</b>		
	The NOSTRO reconciliation process is carried out entirely manually. Although the CBS includes a dedicated module to support the NOSTRO reconciliation process, it is not operating correctly due to identified bugs.	The Bank acknowledges that the NOSTRO reconciliation process is currently being carried out manually. Although the CBS includes a dedicated NOSTRO Reconciliation module, certain functional defects were identified during implementation. These defects have already been reported to the vendor and remain under pending resolution status. Once the issue is resolved and the module is stabilized, the NOSTRO reconciliation process will be fully automated through the CBS system. In the interim, manual reconciliation continues to be performed under established internal control procedures and supervisory review to ensure the accuracy and completeness of all NOSTRO account reconciliations.	It is recommended that the Bank expedite the resolution of the functional issues identified in the NOSTRO Reconciliation module of CBS.
<b>(g)</b>	<b>Standing Order</b>		
i)	The system does not provide enough characters when entering the Cheque beneficiary name in the system. Further, the system allows the users to edit the beneficiary name before printing.	The system allows up to 50 characters for entering the cheque beneficiary name, which is generally sufficient for the normal course of business. This is a system design parameter that does not impact regular operations. In rare instances where the beneficiary name exceeds this limit, branch users may manually write the full name on the cheque. The ability to edit the beneficiary name before printing exists to allow correction of typographical or formatting errors, and such edits are performed under the responsibility of the authorizing officer.	The Bank should review the system configuration to ensure adequate character limits for capturing cheque beneficiary names, without requiring manual intervention. Additionally, the functionality that allows editing of beneficiary names before cheque printing should be

		restricted or subject to enhanced control measures.
ii) The system does not notify the user on the pending STO authorizations.	Currently, a dedicated report for unauthorized Standing Orders is not available. However, branches follow a manual control process, as per the operational instructions issued, to review pending STO authorizations as part of daily branch-end checks. This ensures that no standing order is executed without proper authorization.	It is recommended that the Bank enhance the system functionality to generate automated notifications or exception reports for pending STO authorizations.
iii) The STO cheque printing charges are charged manually through the system.	Cheque printing charges related to Standing Orders are manually deducted at the time of cheque issuance. This process aligns with the current business requirement and ensures that charges are applied accurately at the point of transaction. Operational guidelines have been issued to branches to ensure consistency and accuracy in the manual charge application process.	It is recommended that the Bank explore the feasibility of automating the charging process for STO cheque printing within the system.
<b>(h) Safety Deposit Box</b>		
i) Major control gaps are identified in approvals, authorizations and validation.	All financial and key operational activities related to SDBs (e.g., opening, rental collection) require a one-level authorization within the system. The activity of closing an SDB is a non-financial, administrative function. Reviewing this process to assess if an additional authorization layer is warranted to strengthen controls and will implement any necessary changes based on that review.	It is recommended that the Bank strengthen the system controls by implementing adequate authorization and validation mechanisms for all financial and key operational activities, including those currently categorized as administrative (such as the closure of SDBs).
ii) The system allows opening safe deposit boxes without checking whether the required collateral exists.	<ul style="list-style-type: none"> <li>• System Limitation and Manual Control: We acknowledge a system limitation where it does not automatically block or validate the collateral funds. To mitigate this risk, robust manual control is in place.</li> <li>• Control Procedure: The operating instructions, circulated to all branches via internal circulars, explicitly mandate that the officer must manually calculate and place a "funds lock" on the savings account for the full collateral amount at the time of SDB opening. The system will not prevent the transaction, but the failure to perform this manual lock is a violation of established procedure.</li> </ul>	The Bank should consider automating the system control to validate and lock collateral funds before opening safe deposit boxes.
iii) Locking funds of		

collateral is not required to open a safe deposit box in the system.

- Collateral for Other Types: For fixed deposits or other certificates used as collateral, the physical securities are required to be pledged and held by the bank, providing tangible control.

## **2. Financial Review**

### **2.1 Financial Result**

The financial result of the year under review amounted to a profit of Rs. 16,285.24 million and the corresponding profit in the preceding year amounted to Rs. 7,216.48 million. Therefore, an increase amounting to Rs. 9,068.761 million of the financial result was observed. The main reason for the increase was the increase of net interest income by Rs.43,216.860 million.

During the year 2024, total interest income of the Bank had decreased by Rs.23,218.95 million or 10.23 per cent due to decrease of interest received from government securities and loans and advances. The total interest expenses for the year under review had also been decreased by Rs.66,435.82 million or 33.66 per cent due to decrease of interest paid for depositors.

### **2.2 Trend Analysis of Major Income and Expenditure Items**

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

<b>Description</b>	<b>Variance Amount</b>	<b>Variance</b>	<b>Reason for the Variance</b>
	<b>Increase/(Decrease)</b>	<b>%</b>	
	<b>(Rs. Mn)</b>		
Net Interest Income	43,216.86	146	In comparison to the previous financial year, interest expense has decreased by 33.65 per cent, which is significantly higher than the decrease of interest income by 10.23 per cent. This reduction in interest expenses is primarily due to lower deposit interest rates prevailed during the reporting period.
Net Fee and Commission Income	474.19	37	This increase was primarily driven by earnings from loan-related fees as well as trade and remittance services.
Net Other Operating Income	198.67	77	Revaluation gains on foreign exchange increased by Rs. 114.08 million, while dividend income rose by Rs. 57.76 million during the reporting period.

Impairment Charges	6,947.23	163	Impairment charges on Stage 3 loans and advances increased by Rs. 3,120.50 million, while an impairment provision amounting to Rs. 4,602.67 million was recognized in respect of a treasury receivable.
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### 2.3 Ratio Analysis

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

<b>Description</b>	<b>Sector Ratio*</b>	<b>Bank</b>	
		<b>2024 (%)</b>	<b>2023 (%)</b>
<b>Profitability Ratio</b>			
Return on Equity (ROE)	14.3	18.07	9.36
Return on Assets (ROA)	1.6	1.54	0.26
Net Interest Margin	4.6	4.23	1.79
<b>Assets Quality Ratio</b>			
Stage 03 Loans to Total Loans and Advance Ratio	12.9	5.18	2.41
<b>Capital Adequacy Ratios</b>			
CAR-Tier I ratio (Minimum 8.5%)	16.8	23.42	16.91
Total CAR ratio (Minimum 12.5%)	19.9	25.88	19.26

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

- (i) The Bank's Return on Equity (ROE) and Return on Assets (ROA) were increased by 8.71 per cent and 1.28 per cent, respectively, in the year 2024 compared to the previous year.
- (ii) Total Capital Adequacy Ratio increased by 6.62 per cent as at 31 December 2024, by exceeding the minimum statutory requirement of 12.5 per cent.
- (iii) The Bank's Net Interest Margin has increased by 2.44 per cent in 2024 compared to the previous year

### 3. Operational Review

#### 3.1 Identified Losses

##### Audit Issue

As of 30 June 2025, the Bank had incurred a total loss of Rs. 118.366 million due to 104 instances of fraudulent activities, with an unrecovered balance of Rs. 74.490 million remaining as at that date.

- i) A total of 14 fraudulent cases, resulting in a loss of Rs. 84.84 million to the Bank,

##### Management Comment

Following steps have been taken by the Bank to reduce losses related to Frauds which were committed by staff members.

- Disciplinary actions have been taken and police complains have been lodged against the staff members who have committed frauds.
- Court cases have been filed by the Bank to

##### Recommendation

The Bank should implement sufficient internal controls over branch operations to avoid fraudulent activities and

were committed by staff members. As of 30 June 2025, the unrecovered balance stood at Rs. 46.68 million, remaining as at that date, representing 55 per cent of the total loss.

recover the relevant losses

monitor them continuously.

- Insurance claims have been lodged to recover losses incurred due to frauds which were covered by indemnity insurance policy of the bank

ii) A total of 49 cases were related to ATM card frauds that occurred between the period of 2021 and 2024. Out of these, 39 cases with an aggregated loss amounting to Rs. 3.22 million were committed by third parties through online shopping using card information obtained via hacking of a Payment App. As of the audit date, 30 June 2025, no insurance claims had been received in relation to these 39 hacking-related fraud cases

Insurance claims have been intimate. The relevant items were confiscated by the bank, and the negotiations are in progress with the insurance provider for a settlement.

iii) Furthermore, these fraudulent activities include losses from 30 incidents that occurred before five years period, with Rs. 40.48 million remaining unrecovered as of 30 June 2025.

Please refer 3.1.i for the response

### 3.2 Management Inefficiencies

	<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
a)	Following observations are made regarding the Risk Management Function of the Bank.		
i)	The Treasury function, which is a critical business operation of the Bank, continues to operate without automation. The management has not prioritized or expedited the implementation of a Treasury Management System.	The Bank has procured “Finacle Treasury”, Treasury Management Solution in August 2024. After core team training and Gap Analysis, the implementation was commenced in April 2025. The expected timeline for completion of the project is 31/03/2026.	The Bank should prioritize the implementation of a comprehensive Treasury Management System to automate and streamline treasury operations.
ii)	The quarterly ‘Key Operational Risk Indicators	The following table summarizes the quarter-wise figures presented in the Audit Issue Management	The management should take action to

Monitoring' Reports, which are intended to provide early-warning signals of financial, operational, reputational, compliance, or strategic risks, consistently recorded 'Audit Issue Management and Compliance' indices exceeding 40 per cent, indicating a high level of operational risk exposure over multiple quarters in previous years. However, it was observed that neither the Board of Directors nor senior management had adequately addressed these high-risk areas, despite the potential for prolonged exposure to adversely impact the Bank's operational efficiency and financial stability.

related to the coverage of branches through audits.

	1Q	2Q	3Q	4Q
Number of branches not subjected to a detailed audit (not comprehensive audit) in the preceding three years as of the last date of the quarter.	202	202	20	20
Number of branches not subjected to any type of audit in the preceding two years as of the last date of the quarter.	4	4	24	24
	<b>71</b>	<b>66</b>	<b>57</b>	<b>50</b>

address persistently high "Audit Issue Management and Compliance" indices reflected in the "Key Operational Risk Indicators Monitoring Reports".

The number of branches not subjected to a detailed audit in the preceding three years decreased to 50 in 4Q 2024, compared to 71 in 1Q 2024, indicating wider coverage of the branch network through audits. Moreover, 21 of those branches were covered through a detailed audit during 2025.

The number of branches not subjected to any type of audit in the preceding two years decreased to 28 in 4Q 2024, compared to 62 in 1Q 2024. Moreover, 08 of those branches were covered during 2025.

At the BAC meeting held on 04.03.2025 approved the Audit Plan 2025 covering a total of 127 branch related audits (detailed, surprise, process, thematic, T24 system based and Regional Office audits). In addition to the audits already done so far till 19.05.2025, many of the branches are included in the Audit Plan 2025.

Some of the staff members were deployed for the core banking project and high staff turnover were the reasons for non-coverage of branches during the previous year. However, the Audit & Vigilance Division has started T24 system-based branch audits and increased the number of detailed audits in the Audit Plan 2025.

Furthermore, the Audit & Vigilance Division is in the process of recruiting the audit staff and it is in the final stage. BAC meeting held on 04.03.2025 decided branch audit coverage to be once in three years by way of a detailed audit. Internal Audit Division is planning to accomplish such audit coverage going forward.

iii) As stipulated in Section 2.4 of Guideline A of the Banking Act Direction No. 07 of 2011 on the Integrated Risk Management Framework for Licensed Banks, risk management in operational areas should be confined to the operational procedures and guidelines set forth by the Board of Directors and senior management. However, the Bank has not taken steps to develop Operational Manuals for Card Centre Operations, despite the presence of unreconciled suspense accounts and reliance on manual processes, which undermines the effectiveness and consistency of operations.

iv) As the Corporate Finance function is one of the significant functions of the Bank, the audit of this function should be done at least annually. However, the last completed audit had been done in year 2020 and an audit done for the 2022/23 had been submitted to the BAC on August 2024.

A comprehensive operational manual for Card Centre activities has been in place since October 2024. However, following the recent core banking system migration, certain Card Center operations are still undergoing changes and refinements. Once these operational changes are finalized, the manual will be fully updated to align with the revised procedures. Operational Manual is under review now.

The Bank should review and update the Operational Manuals by incorporating all the changes for the Card Centre to ensure standardized, efficient, and well-controlled operations.

<b>Audit</b>	<b>Audit Period</b>	<b>Final Audit Report Date</b>	<b>BAC Page</b>
Follow Up Audit	2021	24.11.2021	24.11.2021

Given the significance of the Corporate Finance function to the Bank's overall operations and risk profile, it is recommended to audit this function at least once annually.

Detailed 2022/2023 31.05.2024 01.07.2024  
Audit

The audit for the year 2025 is under process at the moment.

v) The Risk Management Division has not conducted Risk Control Self-Assessments for the key business areas of Treasury, International Banking Unit operations and Card Centre operations for the year 2024.

In September 2024, the Bank switched to a new Core Banking solution which required re-engineering existing processes. Further, staff attached to both Front and Back Offices of Treasury Division were engaged in Treasury Management System implementation process. Since the processes were not finalized and the process owners i.e. staff attached to said Divisions, were occupied with system related engagements, it was not rational and practical to conduct RCSAs at the juncture. This was informed to the BIRMC. Therefore, within the RCSA process, RMD only reviewed the compliance level to the recommendations from RCSAs conducted in previous year. RMD has commenced the RCSA with the processowners of the stated functions for the year 2025, and the reports to the BIRMC will be submitted within the year.

vi) Risk Management Division has highlighted the significant risks involved with business disruptions with ATM failures and it was reported ATM/CRM failures of 179 in Q4 -2023 and 249 cases in Q4- 2024. However, the responsible authorities including ATM Support team has not taken instructed actions in Operational and Risk Management Committee (ORMC) meeting held on both 2023 and 2024 years.

IT Division is in the process of developing a standard agreement with a service matrix. On receiving legal clearance this agreement will be used to ensure executing of preventive and corrective maintenance timely to minimize business disruptions from ATM failures.

vii) According to the Loan Review Mechanism Reports over the last three years, many similar discrepancies

Independent LRM Officers review the loan files and submit the report to Chief Risk Officer (CRO)/Operational Risk Management Committee (ORMC). Accordingly, based on the findings of

The Risk Control Self-Assessments (RCSAs) for all key business areas, including Treasury, International Banking Unit operations, and Card Centre operations should be done to ensure comprehensive identification and evaluation of operational risks

The management should take corrective action to address the repeated ATM/CRM failures and ensure that the instructions and decisions made at the ORMC meetings are implemented.

The management should take immediate and decisive measures to

<p>related to the loan origination and administration have been notified and such deficiencies have been informed even by the Internal Auditors and external auditor's reports from time to time. However, this shows the unsatisfactory level of the management actions in minimizing the risk of occurring similar deficiencies in respect of credit.</p>	<p>those independent LRM Officers, the CRO issues a summary report to the respective Assistant General Manager (Operations). Upon receiving the summary report, the Assistant General Managers address the identified findings during their monthly meetings with the Regional Managers and Branch Managers. Additionally, the Risk Division conducts training sessions for branch staff based on LRM findings to prevent the recurrence of similar deficiencies related to credit operations.</p> <p>5 training programs were conducted by the Risk Division for the Branch staff during the year 2024.</p>	<p>address the recurring deficiencies in loan origination and administration processes highlighted in the Loan Review Mechanism Reports, Internal Audit findings, and External Audit reports.</p>
<p>viii) Generally banking sector is highly vulnerable to the technology related risks and due to the lack of adequate number of staff with required skills are allocated to the technology risk management unit of the Risk Management Division of the bank, there is a high possibility of ineffective detection, assessment and response to the technology risks of the bank.</p>	<p>The bank is in the process of meeting the said Requirements.</p>	<p>The Bank should strengthen its Technology Risk Management Unit within the Risk Management Division to ensure effective identification, assessment, and mitigation of technology-related risks.</p>
<p>ix) Although many changes have been done to the existing operations of the bank over the period of time including establishment of new core banking system, the Bank's Branch Operational Manual has not been updated since the year 2000 including new advancements to the main operations.</p>	<p>Although the Bank's Operational Manual issued on 01.01.2000 outlines the processes and procedures related to fundamental banking principles, the Bank has subsequently issued circulars, instruction letters and several policy and procedure manuals covering various subject areas as the banking business has evolved and expanded over time. Accordingly, with the implementation of the Core Banking System, the Bank has introduced Standard Operating Procedures (SOPs) and made them available on the Bank's intranet for staff reference.</p> <p>Moreover, upon the finalization of the re-engineering of the Bank's processes and procedures in line with the 46 capabilities of the new CBS, additional instruction letters/circulars and procedure manuals</p>	<p>The Bank should review and update the Branch Operational Manuals by incorporating all the changes made to the existing operations.</p>

will be issued.

b) During the migration of account ledgers from the old systems to the new core banking system in year 2024, it was noted that there was a difference of Rs.3,978 Mn due to issues in data migration, mapping of accounts, and incomplete/erroneous adjustments between the old and new systems. Subsequently, after adjustments, the difference has been reduced to Rs.1.431 million by 31 July 2025. However, despite the lapse of nearly one year since system migration, the remaining difference has not been adjusted or fully reconciled though it should be solved at the prompt as there may be possible misstatement of customer loan and deposit balances, directly impacting on financial statements.

Reasons for these differences have been identified, and the necessary correction entries were recorded. The management should take immediate action to complete the full reconciliation and adjustment process related to the account ledger migration differences arising from the system transition in 2024.

c) The Marketing Division currently lacks a formal Marketing Policy or a guideline/manual to govern the Bank's marketing activities. Furthermore, the Bank does not have a brand strategy document that outlines clear strategies and guidelines for managing all aspects of its brand.

The NSB's Marketing Activities are overseen by the Marketing Committee, which itself is governed by the Marketing Charter. The Marketing Charter is a policy document which is revised regularly once in every 3 years and upon receiving the Corporate Management Committee (CMC) recommendation, it is duly submitted to the Board of Directors for final approval. However, given that the Internal & External Audit has sighted this matter as a concern, a separate Marketing Policy has been drafted and has now received the clearance from Legal, Risk and Compliance.

The said policy will be submitted to the BIRMC and subsequently to the Board of Directors for final

The Bank should formulate and implement a comprehensive Marketing Policy and Brand Strategy to provide clear direction, consistency, and governance over all marketing and branding activities.

approval.

It is scheduled to be implemented before 31st December 2025.

d) Although the Bank had spent Rs.83.6 million for the construction activities on lands situated at Anuradhapura, Elpitiya, Galnewa, Katharagama, Kirindiwela, Moneragala, Ratnapura and Kekirawa branches during the period from 1973 to 1996, the legal ownership of those lands had not been received even as at 30 June 2025 except Monaragala and Katharagama branches.

Completion of the Anuradhapura and Kekirawa long-term leases is in progress, while all other leases have been completed.

The management should take action to regularize the legal ownership of the lands where construction activities have been carried out but ownership has not yet been transferred to the Bank.

e) As per the confirmation received from regional managers, 297 numbers of loan files relating to granted loans of Rs.244.647 million were misplaced as at 30 June 2025. Following observations are made in this regard.

i) Out of these 297 misplaced loan files, 110 numbers of loan files were under non-performing loan categories. Outstanding amount of these non-performing loans as at 30 June 2025 was Rs.53.847 Mn.

The management should take urgent corrective and preventive actions to locate, secure, and properly manage all loan files that have been reported as misplaced.

i) As concerns were raised, housing loan files and personal loan files have been destroyed or misplaced due to various reasons, including flooding, fraudulent activity, operational lapses and etc. Out of the total missing files, 282 remain on the missing file list as per the report dated 17.10.2025. However, in order to ensure the 100% security of loan files to address the causes of file misplacement, the Bank has implemented the following measures:

\* The Senior Deputy General Manager's Instruction Letter No. 735/2025, dated 04.07.2025, has strengthened the mechanism established for verifying all physical loan files every six months, as initially

introduced by the Senior Deputy General Manager's Instruction Letter No. 535/2019, dated 05.03.2019.

\* The Bank has introduced a uniform procedure for maintaining security documents, credit papers, and correspondence documents separately, as per the General Manager's Circular No. 1138/2025, dated 24.09.2025. This process ensures the safekeeping of all security documents strictly under dual control, along with the periodic verification of loan files.

\* Furthermore, the Bank has reiterated the requirement to adhere to established protocols regarding the safekeeping of loan files by issuing the Senior Deputy General Manager's Instruction Letter No. 734/2025, dated 03.07.2025, as a refresher to the previous instructions issued on the same matter.

- ii) & iii) The loan application details, disbursement information, and repayment records of these loans are available in the computer system. As a result, the bank has sufficient information to prove the outstanding liabilities of the borrowers, providing a basis for initiating legal action against them if necessary.
- ii) Out of 297 numbers of total misplaced loan files, 01 file was related to loans granted against fixed deposits.
- iii) Out of 297 numbers of total misplaced loan files, six numbers of loan files with aggregated outstanding balance of Rs.1.462 Mn were under legal proceedings. Due to misplacement of these files, the bank could not take legal actions against borrowers and deed of customers cannot be released after recovering the loans. This may impair the good image of the Bank in long term.
- iv) The primary reason for the destruction or misplacement of files at the Kaduwela Branch was

loan files were misplaced in Kaduwela branch due to flooding situation. Out of them 41 numbers of loan files were under non-performing category. The total outstanding balance of these loans was aggregated to Rs.18.622 Mn as at 30 June 2025.

the severe flooding incident took place in 2016, which was one of the worst the bank has ever experienced. The bank has taken appropriate actions to recover these loans by addressing the root causes that led them to become non-performing. If necessary, the bank will proceed with legal action to recover the loans, using the information available in the computer system and the remaining documents that were not destroyed in the disaster.

- v) The missing loan files in Head Office branch was 21 and out of that 20 loan files were under non-performing personal loan category from which 16 files were related to fraud done by a staff member of that branch.
- v) Legal actions are underway against the staff member who committed fraud at the Head Office Branch involving 16 personal loan files. However, 85% of the loss resulting from the said fraudulent activities has already been recovered through an insurance claim. Of the remaining five files reported as lost, one belongs to the performing category, while the other four are classified as non-performing. However, regular recovery actions are being carried out to recover the outstanding balances of the non-performing loans in the misplaced category.

### **3.3 Operational Inefficiencies**

#### **3.3.1 Loan Disbursement and Administration**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
a) The Bank granted a joint property loan of Rs. 164.73 million to two individuals, secured by a mortgage on a land located in Katugasthota on 23 December 2020. As the loan had been in default since 2021, the Bank has decided to proceed with an auction of the mortgaged property.		
(i) The Board of Directors, through Board Paper No. 243/2023, appointed the Assistant General Manager (AGM) – Recovery to handle the auction process. However, the AGM – Recovery delegated this responsibility to the Chief Manager – Recovery via	At the Board meeting held on 24.07.2023 the Board has granted approval to sell the property mortgaged against this loan in a public auction pursuant to the provisions of the Recovery of Banks (Special Provisions)	The Bank should ensure strict adherence to Board decisions and prevent any unauthorized

a letter dated 05 February 2024, thereby overriding the Board's decision.

Act No. 4 of 1990 to carry out this task has been delegated to the AGM – Recoveries who in turn has delegated the responsibilities to Chief

Manager – Recoveries, to represent the Bank at the Auction and to attend to all the requisite formalities. This has been a customary practice of the Bank thus far.

(ii) As at 21 July 2025, the total outstanding balance of the loan amounted to Rs. 220.755 million. According to the valuation report dated 04 July 2024, the market value of the mortgaged land was assessed at Rs. 197.4 million. The Bank made two attempts to sell the property during the year 2024. However, no prospective buyer was identified.

The upset price was determined considering the market value of the property before the auction. The Board of Directors at its meeting held on 22.01.2024, has granted their approval to fix the upset price at Rs.198mn to sell the property by an auction although the total settlement amount is higher than the upset price. The Bank has done Public Auction of the property on 06.02.2024. However, no prospective buyers were present, hence the property was vested to the Bank. The Bank initiated a tender to re-sell the property and Tender Notices published on 02.08.2024, and accepting the tenders were closed at 2.30pm on 23.08.2024. Only one bid was received. However, bidder did not honour it. Therefore, the property is still in the name of the Bank. In the meantime, the said borrowers have filed two cases challenging the conduct of the auction pertaining to the said properties. The Hon. Attorney General appears for NSB in this case.

b) A syndicated loan facility of USD 10 million was granted on 14 June 2018 to a Maldivian company, by two banks— National Savings Bank (NSB) and People's Bank. The Bank contributed USD 9 million, representing 90 per cent of the total loan amount. The borrower had failed to make any capital repayments, and arrears interest amounting to USD 5.35 million remained outstanding as of 31 May

delegation or deviation from Board-approved directives.

The Bank should take appropriate and proactive measures to recover the outstanding loan balance and minimize further financial loss.

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2025. Following observations are made in this regard.

i) In contravention of Circular No. 1641/2015 on the Post Loan Review Mechanism, the Bank failed to conduct a review of the credit facility within three months of granting approval.

Comprehensive information required for the LRM was not available within the stipulated period to perform the LRM. However, RMD has conducted several post disbursement risk assessments on this facility.

The Bank should ensure strict compliance with Circular No. 1641/2015 on the Post Loan Review Mechanism to strengthen post-disbursement monitoring and credit risk management.

ii) The Bank initially granted a one-year grace period for capital repayment, commencing from the first loan drawdown date of 21 June 2018. However, this grace period was subsequently extended multiple times for both capital and interest repayments, covering the period from June 2018 to June 2022, citing various reasons.

Grace period extensions were granted with the approval of the Board of Directors citing business disruptions faced by the client due to covid 19 pandemic faced with globally. Given below are the relevant board paper numbers and approval dates for moratorium.

Board Paper No	Approval Date
142/2022	12.05.2022
381/2021	23.11.2021
277/2021	09/09/2021
093/2021	30.03.2021
406/2020	08.10.2020
276/2020	09.07.2020
229/2020	29.06.2020
10/303/2019	29.07.2019

The Bank should ensure that extensions of grace periods for loan repayments are granted only under well-justified, transparent, and policy-compliant circumstances.

iii) The Insurance coverage had not been submitted to the Bank for the period after July 2021.

The Bank has requested renewal of insurance coverage in many instances but has not yet been received. Request sent by e mail on

17.01.2023
11.11.2022
21.09.2022
23.07.2020

The Bank should take immediate action to obtain a valid insurance coverage with regard to the facility.

iv) As per the loan agreement, a Debt Service Reserve Account (DSRA)

The Bank has requested the client to uplift the DSRA account balance but

The Bank should ensure strict

			the same has not yet been materialized. The reason for the reduction in DSRA balance is that the Bank initially recovered overdue interest and commitment fee from the account.	enforcement of loan agreement covenants, particularly those related to the maintenance of the Debt Service Reserve Account (DSRA), to safeguard its repayment assurance mechanisms.
			21.05.2019 – USD 72,647.42	
			21.05.2019 – USD 78,974.62	
			22.05.2019 – USD 76,558.68	
			21.07.2022 – USD 13,902.02	
v)	Site inspections were carried out by the Deputy General Manager (Credit) and a Senior Manager from the Corporate Finance Division on 1 June 2018, and subsequently by two Senior Managers from the same division on 13 November 2018. The inspections indicated a progress level ranging from 50 to 100 per cent across different segments. However, a Bank engineer with the requisite technical expertise was not included in the inspection team, which would have been essential to accurately assess the progress of the construction activities.	As per the industry practice, the DGM – Credit and senior credit officers who handle the project visited the site for site inspection. Inspection reports dated 01.06.2018 and 13.11.2018 are available.	The inspection team should comprise with a member who is having the required technical skills and competencies to accurately access the level of progress.	
vi)	Later, on 12 October 2022, the Bank entered into an agreement with a global accounting firm in Sri Lanka to conduct a high-level review of the facility and to advise the Board on the most prudent, cost-effective, and efficient actions to recover all outstanding amounts from the borrower.	The Company requested approval from both Banks for the rescheduling proposal and to move forward with the arrangement. The board has sought Secretary to the Treasury's advice on appropriate cause of action.	The Bank should strengthen its project monitoring framework by ensuring that:	
	• According to the information obtained from the financial and tax report prepared by the aforementioned accounting firm, an independent valuer conducted a site		i) Independent progress verifications are conducted at regular intervals.	
			ii) Any project modifications are supported by formal	

inspection on 2 and 3 January 2023. Significant discrepancies had been identified between the progress reported by the independent valuer and the overall construction progress reported as of 31 December 2018 by the chartered quantity surveyor of the Company. The details are as follows:

Percentage of completion		
	As per the independ ent inspectio n carried out on 2 and 3 January 2023	As per BOQs by Chartered Surveyor of the Company (31 Dec 2018)
Garden	90%	99%
Villas		
Semi	30%	78%
Water		
Villas		
Beach	10%	78%
Villas		
Water	0%	72%
Villas		
Front	0%	- 23% - 93%
of	60%	
House		
Back	0%	- 79% - 100%
of	90%	
House		

- Moreover, the report stated that the project was currently in an incomplete state and the overall completion level of the development is as 46 per cent although the Company has utilized the initial budget of USD 34 Mn.

correspondence and prior approval.

- Adequate controls are in place to ensure that disbursements are strictly linked to verified progress and compliance with contractual terms.

- Furthermore, a difference relating to the number of villas in the Project Proposal and the BOQ was observed. The report of the independent firm stated that based on the agreement signed between NSB and the Company, any modifications to the original plan should be duly notified. However, no correspondence had been provided for the review to confirm that Company's communications with regard to such changes, and hence, they reported that as a breach of agreement covenants. Comparison of the planned number of villas mentioned in the initial Project Proposal and BOQ. Detail is as follows.

Villa Type	Number of villas as per project proposal (December 2017)	Number of villas as per BOQ provided by Chartered Surveyor (December 2018)
Garden Villas	102	111
Semi Water Villas	20	20
Beach Villas	2	20
Water Villas	50	70
<b>Total</b>	<b>174</b>	<b>221</b>

c) The Bank granted a loan amounting to Rs. 12.6 million to a particular borrower on 23 September 2019, for the purpose of purchasing a house and property. As at 31 May 2025, the outstanding loan balance stood at Rs. 22.081 million, with total arrears amounting to Rs. 8.890 million (67

This was observed on customer evaluation and there's a minute in the CRIB report by DGM (Credit), instructing to closely monitor the repayments of the loan, since the CRIB history is irregular.

The Bank should implement proper customer evaluation before granting a loan. and ensure the compliance with delegation authority

months). Following observations are made in this regard.

i) The AGM (Credit) approved this loan without taking into account the irregular repayment history of 10 credit facilities reflected in the borrower's CRIB status report.

ii) When granting a loan, the Bank is required to assess the financial capability of the borrower to ensure the repayment ability. However, instead of evaluating the borrower's individual financial capacity, the Bank has assessed the financial position of the company in which the borrower holds a 40 percent ownership stake. As per the loan file, it was observed that the Bank had not obtained the borrower's personal bank statements or verified his monthly income.

iii) As of 31 May 2025, the borrower had paid only one (01) installment. A final notice regarding the auction of the mortgaged property was issued to the borrower by the AGM (Recoveries) on 19 July 2022. When the Bank proceeded to execute Parate rights, the borrower obtained an interim injunction on 19 January 2023 to halt the auction process. However, by an order dated 9 January 2024, the court vacated the interim injunction that had been granted against the Bank. Subsequently, the borrower entered into settlement negotiations with the Bank in relation to the district court case. The case was taken up on 19 May 2025 for the filing of settlement terms.

However, the borrower failed to make the agreed payments to the Bank.

limits imposed by the Bank.

ii) 40% of the average profits of the company have been considered as an income of the borrower as he holds a 40% ownership of the Company. Company bank statements and audited company financial statements and prior approval for income calculation of the borrower from DGM (Credit) were obtained to assess the financial capability.

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

Auction was scheduled for 19/01/2023, customer has taken a Stay Order. Objections were filed on 21/06/2023. The court case was continued, and next court date is scheduled to 13/11/2025 for final Settlement. The power of attorney holder paid Rs.1.0mn on 30.07.2025 and another Rs.1.0mn on 01.08.2025.

All possible actions should be taken by the Bank to recover this loan.

d) As at 31 May 2025, the total loan amount granted for the 25 largest non-performing customers amounted to Rs. 517.95 million. The total outstanding balance and total arrears for these loans were Rs. 531.60 million and Rs. 124.10 million, respectively. Out of these 25 loans, 15 loans were classified under the 'Loss' category, with a combined outstanding balance of Rs. 335.86 million. The following observations were made based on the sample audit examination conducted on these top non-performing loans.

(i) 3000239 (a) Total arrears as at 31 May 76777- Rs.20 million (b) Credit Committee had approved to grant the loan of Rs.20 million at a fixed rate of 8.5 per cent for first 2 years and a floating rate thereafter. Although it has lapsed 02 years as at 15 June 2023 from the granted date of 16 June 2021, the loan interest rate had not been converted into current floating rate of 15 per cent.

The Board has given approval for Parate Execution on 27/03/2024. The Auction process is temporary on hold due to government suspension on "Parate Action" until 31/12/2025. The Bank will continue the Parate action. The customer paid Rs.100,000/- on 31/07/2025 & Rs.25,000/- on 16/09/2025.

The Bank should ensure strict compliance with the terms and conditions stipulated in the loan agreement and take all necessary measures to safeguard the Bank from potential financial losses.

(ii) 3000239 (a)Total outstanding amount 51936– Rs.16.94 million (b)According to the loan agreement dated 02 July 2020, the loan was to be granted at a fixed interest rate of 12.5 per cent for the first 24 months, followed

The Board has given approval for Parate Execution on 27/03/2024. The Auction process is temporary on hold due to government suspension on "Parate Action" until 31/12/2025. The bank will continue the Parate action.

The Bank should ensure strict compliance with the terms and conditions stipulated in the loan agreement and take all necessary measures to safeguard the Bank from potential financial losses.

by a floating rate thereafter. However, the loan position report in the credit system indicates that the Bank applied an interest rate of 8.5 per cent. The audit found no evidence of any approval for this reduction in the interest rate. As a result, the Bank incurred an interest loss of Rs.1,090,848 during the initial 24 months period.

(iii) 3000239 (a) Total arrears of the loan as 94104– Rs.26.6 Mn at 31 May 2025 was Rs.12.984 Mn or 38 per cent from the total outstanding amount of Rs.34.13 million with 33 months in arrears.

b) The borrower of this loan is one of two directors of a private limited company and the income evaluation of the said borrower had been done by the bank based on the business profit of the company. However, as per the audited financial statements of the company, the profit for the year was capitalized under retained earnings and thereby; it is controversial to the audit that how the bank had taken the entire business profit as the income of the said director to grant a loan.

The revaluation was carried out on 18/07/2025, prior to submitting the board paper for parate execution. The file was sent to the Audit Division on 25/07/2025. An investigation has been conducted by the CID, and a court case has been initiated due to the submission of Fraudulent documents to obtain the loan.

The Bank should properly evaluate the business income/profit before granting the loan and take all necessary measures to safeguard the Bank from potential financial losses.

### 3.4 Idle or Underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
<p>a) The Bank acquired a 38.8 perch plot of land from the Urban Development Authority on a 50-year lease basis on 08 May 2008. Although the management had decided to construct a new building on this land, no construction work had been commenced yet.</p> <p>b) Although the Bank had rented out 4 storied building for the use of Pettah Branch in June 2019, two floors of the building with an extent of 4,629 square feet have remained idle without being used. The Bank had paid Rs.115.2 Mn as rent expenses up to May 2025.</p>	<p>This land was leased in 2008 for a period of 50 years. In November 2009, the Bank had a discussion with UDA at which it was transpired the said land with a land of which 106.69 perches adjoining to the Bank's head office building to re-settle the encroaches of that land at the Bank's leased land. Due to this reason the Bank has not engaged in any development project on the leased land since then. However, the encroaches of the said land were provided house elsewhere in 2020 and UDA clearances are not yet given to the constructions.</p> <p>The Management has decided to construct a building and written to the UDA for any hindrance to it from their part.</p> <p>The Bank has entered into a long-term lease with previous building owner (the Bishop's Hose, Borella) to relocate the Pettah branch to most appropriate location, at Malwattha Road, Colombo 11 by end of December 2025. Therefore, bank branch will not be operated in the said premises any more in future.</p>	<p>Idle assets should be utilized for effective purposes.</p> <p>Idle assets should be utilized for effective purposes.</p>

### 3.5 Procurement Management

Audit Issue	Management Comment	Recommendation
<p>a) Although the "Procurement Guideline – 2006" has been replaced and superseded by the "Procurement Guidelines of Sri Lanka – 2024", effective from 1 January 2025 as declared in the Extraordinary Gazette Notification</p>	<p>The Bank has obtained the necessary approval from the BOD for the new circular as of now and procurement is carried out as per the new policy.</p>	<p>The Bank should take action to review and update its existing Procurement Policy to ensure full alignment with the "Procurement Guidelines of Sri Lanka – 2024".</p>

dated 25 November 2024, the Bank has not yet taken necessary action to revise its existing Procurement Policy in line with the new guidelines.

b) Although the government has been promoting use of e-Government Procurement practices and the other public banks also practicing them at their procurements, the Bank has not initiated e-procurement using PROMISE.lk portal under Ministry of Finance, Planning and Economic Development.

c) At the examination of procurement file in relation to the “Installation & Implementation of Fusion Procure to Pay”, the following observations were made;

i) Although the agreement for providing respective services had with KPMG has been expired on 5 May 2025, the Bank has not taken any timely action to renew or replace the agreement by creating operational and business continuity risk for the bank. With that, key activities such as inventory management and procurement functions have been delayed and manually done.

ii) It was observed that the procured system does not provide all required functionalities and only limited options were available which hinder the smooth execution of operations due to the inadequate

As the Bank is currently using the Oracle Procurement Management System, the Promis.lk portal has not been utilized. However, the Bank intends to accelerate the adoption of e-government procurement practices via Promis.lk with further modifications expected to be implemented with Oracle Procurement Management System.

The agreement could not be renewed due to the incompleteness of certain reports that still need to be developed. Further negotiations are ongoing to complete the required work and renew the agreement with the same vendor.

The Bank retained 20% of the contract value until the completion of the Bank’s requirement. Discussions are in progress with KPMG to resolve the remaining issues.

The Bank should take prompt action to implement e-Government Procurement (e-GP) practices by registering and utilizing the PROMISE.lk portal.

The Bank should take immediate action to renew the agreement to ensure uninterrupted continuation of the related services. Further, appropriate measures should be established to monitor contract timelines and initiate renewal or replacement processes well in advance of expiry dates.

The Bank should conduct a comprehensive review of the procured system to identify specific functional gaps against the original operational requirements. Corrective measures should

identification of user requirement at the procurement process. For an instance, the system does not have options for reorder level and transfer in-out in inventory management. This has led to operational inefficiency, user dissatisfaction and wasted investment to the Bank.

be taken to upgrade the existing system.

### 3.6 Human Resources Management

Audit Issue	Management Comment	Recommendation
<p>a) As at 31 May 2025, the Board-approved cadre of the Bank stood at 4,095, while the actual staff strength was 4,221 with contract staff amounting to 26. The following observations are made in this regard.</p> <p>i) Out of the 850 cadre positions in Executive level, 267 vacant positions were as at 31 May 2025.</p> <p>ii) The Board at its meeting held on 22 March 2024 has approved the cadre only for Grade I to Grade VI without taking 595 minor staff and 149 Steno/Confidential Secretary/Typist in to the approved cadre in year 2024 as an interim measure until some stream changes, promotion completion</p>	<p>As at 31.05.2025, the approved cadre amounts to 4095 and the actual permanent cadre including the Sri Lanka Savings Bank staff amounts to 4221 and the contract staff amounts to 26.</p> <p>i. Out of the 850 cadre positions in Grade III-II and above cadre, 267 vacant positions were identified as at 31.05.2025. The said positions were filled as follows.</p> <p>- Grade III-II (Assistant Manager) promotions granted to 220 Banking and Non-Banking Staff - Grade I (Chief Manager) promotions granted to 21 staff in Banking and Non-Banking Stream - Interviews completed for Grade II (Senior Manager) promotions. - Applications invited for Grade III-I promotions.</p> <p>Further, as per the approved structure 2024, applications were invited for the DGM (Operations &amp; Branch Banking) position. Promotion has been already granted subject to receiving Fitness and propriety approval from the Central Bank. The affidavits and declarations have already been submitted.</p>	<p>The Bank should ensure that the approved cadre structure is formally reviewed and updated to reflect the actual staffing requirements across all grades and categories. Furthermore, necessary action should be taken to fill the existing vacancies.</p>

and Core Banking implementation.

However, these 02 categories were included in the approved cadre in year 2022.

b) Following a preliminary disciplinary inquiry and a formal disciplinary inquiry conducted in September 2011 and April 2016 respectively by the Human Resources Division, an officer (Grade III-III) attached to the Badulla Branch was dismissed from service with effect from 21 March 2013. The dismissal was due to the commission of four serious frauds under subsection "a" and five frauds under subsection "b" of the Bank's Disciplinary Code. These frauds involved the unauthorized disclosure of customer information to external parties and the collection of fixed deposits from those customers. However, following an appeal submitted by the officer, a subsequent formal disciplinary inquiry was conducted, and the officer was exonerated from all nine fraud charges with effect from 19 October 2017. Subsequently, on 8 October 2020, the Board of Directors approved the

Mr S N Piyadasa has been dismissed from the Bank's service w.e.f. 21.03.2013 based on four charges which were proved following a formal disciplinary inquiry pertaining to persuading customers for personal business purposes while he was serving at Badulla Branch. Subsequent to an appeal made by Mr Piyadasa, Board as the appellate authority as per the Disciplinary Code of the Bank has decided to re-inquire the case. Thereafter Mr Piyadasa was exonerated from all the charges at the second disciplinary inquiry and therefore, after obtaining

Legal advice, Board at its meeting held on 08.10.2020 decided to reinstate him in the Bank's service. In the meantime, regarding a pawning fraud committed by Mr S Subanandan, another charge sheet has been issued to Mr Piyadasa on his negligence while serving at Badulla Branch (Mr Piyadasa is not the main accused in this case).

The disciplinary inquiry with regard to the said pawning fraud has been held from 28.08.2017 to 06.02.2019 and subsequently, a punishment of deferment of increment has been imposed on Mr Piyadasa. The insurance company has rejected the claim in this case. However, Rs. 2.5 Mn has been approved out of the ex-gratia payment and the recovery of same is on hold until the court case on the main accused is over.

The Management has agreed upon a settlement of the cases bearing Nos. 37/2021 and 62/2022 at the High Court, Badulla with

The Bank should initiate immediate legal and administrative action to recover the losses incurred due to the fraudulent activities committed by the officer.

reinstatement of the officer into service, taking into consideration the economic difficulties faced by the individual. However, at the time this reinstatement decision was made, the officer had already committed another act of fraud while serving as the Pawning Officer at the Badulla Branch, by acting in an irresponsible and negligent manner. The Bank incurred a loss of Rs. 6.835 million as a result of serious fraudulent activities committed by the officer. Although the officer retired from the Bank on 31 October 2023, no action had been taken to recover the said losses as of 30 June 2025. Furthermore, the related insurance claim was also rejected.

regard to the main accused Mr Subanadan on recovering the losses to the Bank as follows.

- To accept Rs. 1.5 Mn. once in two months in settlement of Rs. 6,473,750.00 of the Case No. 62/2022
- To accept Rs. 1.5 Mn. once in two months in settlement of Rs. 6,834,500.00 of the Case No. 37/2021 .Accordingly, Mr Subanadan has agreed for the said settlement, and he has already paid 3 installments of Rs. 1.5 Mn. in May, July and September months of 2025 to the credit of Suspense Account Creditors in the Bank.

#### **4. Accountability & Good Governance**

##### **4.1 Internal Audit**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
The approved cadre of the Internal Audit Division as at 31 May 2025 was 64 employees and the actual cadre was only 40 employees. Accordingly, 25 vacant posts including 23 positions in executive grade and one excess position were observed.	5 new recruitments were made to the posts of Executive – Audit, 4 new recruitments were made to the post of Assistant Manager – Audit and one recruitment made to the post of Assistant Manager – Information Systems Audit to fill the vacancies in the Internal Audit Division.	The Bank should ensure that the required number of staff and required positions are occupied for smooth running of the internal audit functions.

## 4.2 Budgetary Control

### Audit Issue

A comparison between the Bank's actual performance and the budgeted figures in relation to key operational areas is presented below.

<b>Description</b>	<b>Actual</b> <b>(Rs'000)</b>	<b>Budgeted</b> <b>(Rs'000)</b>	<b>Favorable/ Unfavorable)</b>		<b>Percentage</b>	<b>Management Comment</b>	<b>Recommendation</b>
			<b>(Rs'000)</b>	<b>Unfavorable)</b>			
Fee and commission income	2,078,830	1,652,316	426,514		25.81 %	Noted. Fee and commission income Collection of services charges has been regularized though the Core Banking system Impairment charges As per the instructions of CBSL the Bank made an additional impairment provision for receivable from General treasury of Rs.4,602 Mn in 2024.	The Budget should prepare on rational basis by incorporating achievable target base on futuristic information.
Impairment charges	11,206,056	5,010,951	6,195,105		123.63%		
Other assets	50,002,248	70,392,919	(20,390,671)		(28.96%)		
<b>Liabilities</b>							
Due to banks	487,521	73,880	413,641		559.88%	Other assets The reduction was mainly due to the receipt of amounts receivables on senior citizens deposits and dormant	
Due to other borrowers	48,190,057	162,716,712		(114,526,655)	(70.38%)	Receivables from General treasury which is not considered in the budget. Due to Banks Short-term borrowings from Banks increased in actual scenario.	
Other liabilities	9,002,109	27,059,195	(18,057,086)		(66.73%)	Due to other borrowers. The budget figure includes repo borrowings from Banks which the actuals don't have any balance from Repo borrowings from Banks. Other Liabilities Budget figure of other liabilities includes retirement benefit obligations which is not included in actual figure. Other Reserves	
Other reserves	52,285,433	72,630,661	(20,345,228)		(28.01%)	The Budget figure	

arrived with a summation of OCI reserve/ Retained Earning and Other reserves. Actual figure includes only other reserve.