

## **Bank of Ceylon and its subsidiaries - 2024**

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### **1. Financial Statements**

#### **1.1 Opinion**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to

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

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

### **1.5.1 Internal Control over the preparation of Financial Statements.**

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
<b>(i) Improvement areas related to Financial Statements.</b>		
a The Bank has a complex, fragmented GL system, with four separate (DBU, FCBU, Maldives and other foreign branches) GLs being manually consolidated by Excel and a large number of manual adjustments being made to the ledger balances in order to create the final figures.	Comment is noted for further improvements. The bank is in the process of streamlining the existing procedure.	Action should be taken to minimize the manual adjustments.
b The Bank does not have a documented policy for balance sheet reconciliation and substantiation process for all balances. Even though there is a reconciliation process for some balances, the process focuses more on the reconciliation of numerical balances, rather than substantiating whether they have been categorized under the correct financial statement line item (FSLI).	Comment is noted. This will be incorporated to the Financial Statement Closure Process or GL Ownership Document as necessary by 31 December 2025.	Need to have a documented policy for balance sheet reconciliation and substantiation process for all balances.
c Non availability of documentation of GL accounts ownership.  The bank does not have a documented list of owners in relation to GL accounts and financial statement notes and disclosures. It is vital that the management identifies the custodians of respective notes (both preparer and approver).	Comment is noted.  GL Ownership documentation is in process. The FSCP procedure manual will also be updated in this regard by 31 March 2026.	GL ownership policy need to be in place.
d Unavailability of central monitoring processes for the manual entries entered	The Mechanism will be developed to obtain a	Action should be taken to introduce

	<p>in the GL.</p> <p>Large volume of manual entries involving high rupee values being entered into GL accounts at the branch level and there was no central monitoring process for these manual entries.</p>	<p>confirmation from the central monitoring process for manual entries.</p>
e	<p>Absence of proper restrictions on passing manual entries to GL account across branches. One branch has the ability to enter manual entries to the General Ledger (GL) for another branch, potentially without obtaining the necessary approvals.</p>	<p>The existing privilege cannot be discontinued due to a business reason.</p> <p>Mechanism will be developed to obtain a confirmation from the respective branch manager for the manual entries entered by the branch at the end of each month. In addition, branch ICOs were instructed to check manual entries as a part of their routine workings.</p>
f	<p>Non-Disclosure of group level disclosures for risk management</p> <p>The bank has only provided risk management and fair value disclosures relating to the bank, and such disclosures relating to Group Level has not been provided.</p>	<p>The disclosure policy will be developed accordingly. Material disclosures relating to risk management are expected to be disclosed at the group level by 31.12.2025.</p>
(ii)	<p><b>Improvement areas in relation to loans and advances including impairment</b></p>	<p>Noted.</p>
a	<p>Identification of Restructured Credit Facilities</p> <p>When the Bank restructured a credit facility with arrears, the Bank did not carry forward the days past due for the new facility. As per the best practice the bank should carry forward the days past due for the restructured facilities.</p>	<p>Relevant Stage of facility is defined based on the DPD. When facilities are restructured, the restructure facility will be placed in relevant stage for a certain period (cooling off period), considering the arrears position of the original facility, prior to restructuring. After the cooling off period, based on the repayment of facility as per the agreed terms, the facility could be reclassified.</p>
b	<p>Unavailability of independent validation process for loan modification.</p> <p>The bank lacks an adequate mechanism</p>	<p>The bank will explore the possibility of developing a mechanism to obtain an independent</p>

for the independence validation process for loan modification. Some exposures, exhibiting signs of credit deterioration, have been classified as Stage 1 (performing) facilities, based on business reasons.

**(iii) Improvement areas relating to stage Upgrading of credit facilities.**

a Paragraph 11.1.2 of the Banking Act Direction No. 13 of 2021 issued by CBSL allows only the Risk Management Department of the bank to carry out the upgrading of re-scheduled and restructured facilities. During audit, it was observed that, Bank does not get approval from Risk Management Department for the stage upgrading of restructured and Rescheduled credit facilities covered under the collective impairment model.

independent validation process for loan modification with the help of Branch ICOs for this purpose.

validation process for loan modification.

Comment is noted. The model/mechanism used in the IFRS reporting system is available for the purpose of upgrading restructure and Reschedule Credit facilities under collective impairment. Arrangements will be made to independently verify whether it is in line with the objective criteria set out in the respective (Official Instruction Circular-OIC 60/2021).

Action should be taken to comply with the direction issued by CBSL.

**(iv) Absence of data warehouse.**

Bank has to obtain data for the financial statement preparation purpose from several departments and no single data point is available to obtain data.

The management of the bank has approved the establishment of a centralized Enterprise Data Warehouse, and the preparatory work is currently underway. This is expected to be completed by 31.12.2025.

Action should be taken to establish centralized data warehouse.

**(v) Absence of automated process for reconciliation of inter branch balances**

The Bank is currently reconciling inter-branch balances manually using hard copy documents, with separate working papers maintained for each branch. As a result, the Bank was unable to provide a consolidated reconciliation of inter-branch balances for the entire Bank at the time of audit. Furthermore, it was observed that there is no formal review process in place for the inter-branch balance reconciliations performed. The absence of an

The possibility of discontinuing the “Central Office Our Account/Interbranch Account” is currently under consideration, and discussions on this matter are ongoing. In the event that discontinuation is not feasible, the process to automate the “Central Office Our Account/ Interbranch Account” will be initiated within the year 2025.

Action should be taken to provide relevant details to audit and implement formal review process in place for the inter-branch balance reconciliations performed.

automated and centralized reconciliation process, coupled with the lack of independent review, increases the risk of errors, delays, and potential misstatements in the financial records.

(vi) Lapses identified in the System used to calculate impairment provisions  
283 loan contracts amounting to Rs. 271 million were not considered for both individual and collective impairment calculation for the year ended 31 December 2024 due to issues in the system. The Bank has automated these computations through a separate system. However, due to the issues mentioned above and the observations from the previous year, the Bank has manually performed these computations, which are associated with high complexity.

Comment is noted.  
Until the process is fully automated this has to be handled manually. However, manual verification has been established to ensure that, all loan contracts are captured.

Action should be taken to rectify the issue.

Improvements will be made along with the automation process by 31.12.2025.

**(vii) Inter branch GL accounts**

It was observed that, branches are required to reconcile the differences between their interbank accounts and the "Central Office – Our Account" under their respective cost centers. However, Following observations are made:

- Some branches did not perform reconciliation for certain months.
- Delays in reconciliation resulted in unreconciled balances persisting over multiple periods.

Lack of timely reconciliation increases the risk of errors, misstatements, and unadjusted differences in financial reporting.

Comment is noted.  
To minimize the risk of errors, the possibility of discontinuing the "Central Office Our Account" is currently under consideration, with discussions on this matter ongoing. In the meantime, all branches are advised to submit their Reconciliation Statements promptly, supported by monthly reminder letters and regular follow-up calls from the Accounts Department.

Action should be taken to properly reconcile the Inter Branch GL accounts.

**(viii) Credit Card Operations.**

a Travel Card

Bank has not maintained adequate reconciliation for the General Ledger (GL) account numbered 22312015, which pertains to the travel card. This lack of proper reconciliation raises

Travel Card management system is a cloud based one which is not linked with bank's internal accounting system and General Ledgers. Therefore, we are following a manual process to reconcile the Travel Card

Action should be taken to reconcile of relevant GL account.

concerns regarding the accuracy and reliability of the financial records associated with this account.

loading GL Account 22312015. The schedule presented here is only used to tally the figures available in Travel Card management system and GL Account.

With the approval of the Corporate Management Committee, the automation of the reconciliation process is already initiated and the project is expected to be completed before 30<sup>th</sup> April 2026.

**b** Significant lapse identified in the reconciliation process of CEFT and ATM

There is no proper reconciliation process for CEFT and ATM transactions made through Lanka Pay. Accordingly, as of 31 December 2024, a difference of Rs. 597 million was identified between 04 general ledger accounts and reconciliation documents related to CEFT transactions, and a difference of Rs. 52.7 million was identified between 04 general ledger accounts and reconciliation documents related to ATM transactions. The lack of a proper daily reconciliation process creates a significant risk for internal fraud and errors, which can damage the bank's reputation.

With the implementation of New CEFT switch, an automated reconciliation module will be implemented.

Action should be taken to proper implementation of reconciliation process of CEFT and ATM.

Transaction acquirer reconciliation is being completed and business team is able to find the settlement entry.

Identifying exception items and entry automation is under development.

Issuer reconciliation is under development and planned to go live in line with CEFT issuer implementation.

**c** Credit Card

The Credit Card Daily Balance Movement Report has been reflecting an incorrect opening balance of zero since April 2021, resulting in a persistent discrepancy in the reported balances. This issue has not been rectified to date, and the estimated financial impact is approximately Rs. 5 billion. As a workaround, daily portfolio reconciliations are being conducted manually by adjusting the report balance to account for the

Comment is noted.

Solution has been received from the application vendor TSYS Card Tec Ltd. Patch release has been deployed in UAT.

Action should be taken to proper implementation of reconciliation process.

Continuous discussion going with the Application vendor as further gaps has been noticed.

discrepancy.

d Returned credit cards are not suspended or cancelled in the credit card management system before the destruction of the physical card. This can lead to internal frauds and at the renewal date, the same will be renewed unnecessarily.

Noted and rectified as at 31.05.2025.

Returned credit cards should be suspended or cancelled in the credit card management system before the destruction of the physical card.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivable

#### Audit Observation

Following long outstanding balances in Interest Subsidiary Claiming accounts were observed as at 31 December 2024 without taking satisfactory actions to clear the long outstanding balances.

Product Type	GL Code	Interest Outstanding as at 31.12.2024 (Rs '000)	Age Analysis of Interest Receivables (Rs. '000)				More than 02 years
			Below 03 months	Between 03 - 06 months	Between 06 - 12 months	Between 01 - 02 years	
<b>Deposit</b>							
Incentive Interest Receivable for Special Deposit Accounts	11310600	268,664	59,535	31,020	64,770	113,339	
Incentive Reimbursement Receivable Senior Citizen	11310566	13,108,450				2,278,823	10,829,627
<b>Loans</b>							
Enterprises Sri Lanka	51801021	501,539,30	64,041,67	71,871,61	26,334,03	222,308,40	116,983,59
Diyawara Diriya	51801018	14,953,78	1,746,38	1,952,72	4,574,02	6,680,65	
STaRR Project	51801018	2,525,07	746,11	888,90	1,039,06		
NCRS	51801006	439,250,29	240,418,11		66,207,43	132,624,74	

#### Management Comment

##### Deposit

The Bank continuously communicates with the Ministry of Finance on the receivable amounts mentioned in the comment and the payments are made time to time by the Ministry.

During the year 2025 also Rs. 2.3 bn has been paid on account of interest reimbursement receivable for senior citizen deposits.

##### Loans

- The long overdue pending interest subsidy claims under “Enterprise Sri Lanka” will be forwarded to the Ministry of Finance to be paid after audit clearance on or before 31/10/2025.
- For the “Diyawara Diriya Loan Scheme”, The AGM Development Banking Division had several discussions with the Director General of the Ministry of Fisheries and Aquatic Resources

#### Recommendation

Need to take necessary actions to clear long outstanding interest subsidiary calming balances.

regarding the long overdue payment of interest subsidy, but for no avail. At present Ministry is not paying the subsidy from December 2022, due to the fact that they have to pay subsidy for the non-performing loans as well. On 25/02/2025, The Deputy General Manager (Development Banking & Branch Credit Operations - Range 2) has requested a meeting with the Secretary to the Ministry of Fisheries and Aquatic Resources to discuss this issue, but still the Ministry has not responded to the letter up to date.

- Since there were no response from the said Ministry, The Deputy General Manager (Development Banking & Branch Credit Operations - Range 2) by the letter dated 24/10/2025 has requested to pay the overdue subsidy payment immediately.
- Interest Subsidy for the Interest Free Education loan has received up to July 2025.
- NCRCIS interest subsidy for the year 2024 season II IS II is pending to be paid by the Central Bank.

## 1.6.2 Payables

### Audit Observation

The following Payable balances were remained outstanding since long period of time without taking satisfactory actions to clear such balances. The details are given below.

GL A/C Name	GL No.	Amount (Rs.)	Remarks		
			Age analysis of the Balance.	Balance (Rs.)	Balance (Rs.)
			Balances	As at 31.12.2023	As at 31.12.2024
Proceeds of Charge Vouchers sent on Collection	22310082	108,082,023			
			More than 5 years	95,863,998	96,483,499
			From 5- 2 years	1,571,649	3,958,352
			From 2 – 1 year	339,034	1,092,287
			Less than 1 year	10,307,342	25,401,803
			<b>Total</b>	<b>108,082,023</b>	<b>126,935,941</b>
Even though the total outstanding balance has been decreased, long outstanding balances remain unsettled during the year under review.					
Reserve on Forged Cheque and Frauds	22310122	1,755,943,419	Age analysis of the Balance.		
			Balances	Balance (Rs.) As at 31.12.2024	Balance (Rs.) As at 31.12.2024
			More than 5 years	1,097,998,002.97	1,001,922,556.30
			From 5- 2 years	416,207,518.65	62,306,800.18
			From 2 – 1 year	65,729,903.20	476,301,676.14
			Less than 1 year	98,258,992.23	69,207,851.63
			<b>Total</b>	<b>1,755,943,418.55</b>	<b>1,609,738,884.25</b>
Even though the total outstanding balance has been decreased, the long outstanding balance has been increased at the end of the year 2024.					
<b>Total</b>		<b>1,864,025,442</b>			

### Management

#### Comment

#### Proceeds of Charge Vouchers sent on Collection

Need to take necessary actions to clear long outstanding payable balances.

No requests were received from any of the merchant demanding the funds withheld over 1-5 years. Further, there are proceeds that retained due to ongoing legal proceedings.

As per the discussions with management, proceeds other than legal concerns were agreed to absorb into contingency account.

Further, the Bank has drafted an Internal Policy to reduce long outstanding balances of Card Centre and it has been shared with the relevant departments for their comments and clearance. Accordingly, finalized policy will be submitted to the approval of the Board of Directors.

### Recommendatio

#### n

**Reserve on  
Forged Cheque  
and Frauds**

This also consists of provisions made for dud/fake articles by respective branches and once the recovery process has been completed (insurance claim received/ write-off), actions will be taken to reverse the relevant provision made.

The Bank has taken necessary steps to avoid future incidents time to time and long outstanding clearance is facilitated.

### **1.6.3 Advances**

#### **Audit Observation**

(i) Total outstanding balance of loans and advances belonging to Government of Sri Lanka and State-Owned Enterprises (SOEs) as at 31 December 2024 was Rs. 966,071.52 million which represented 39.66 percent from total loans and advances and 19.37 percent from total assets value of the Bank. This government exposure as a percentage of total loans and advances has slightly increased by 1.46 percent compared with the previous year.

#### **Management Comment**

Exposure on Government and State-Owned Enterprises (SOEs) as at 31.08.2025 was 31.99% from the total loan value of the Bank. This shows 7.67% decline compared to 31.12.2024, which indicates proper management of the portfolio.

Top 10 SOEs comprises of essential service providers of the Government which Bank compel to facilitate to run the Economy smoothly.

Need to closely monitor the recoveries of Government of Sri Lanka and State-Owned Enterprises credit facilities.

(ii) Government of Sri Lanka, Road Development Authority, Sri Lanka Air Lines Limited, Ceylon Petroleum Corporation, National Water Supply & Drainage Board, Sri Lanka Ports Authority, Lanka Coal Company (Pvt) Ltd, State Pharmaceuticals Corporation, Department of Pension, Ceylon Electricity Board recognized as the top 10 State Owned Enterprises (SOEs) as at 31 December 2024. The aggregated Capital outstanding balance of top 10 State Owned Enterprises (SOEs) were recorded as Rs.855,639.30 million as at 31 December 2024. This represented 92.14 percent from total outstanding balance of loans & advances belonging to the Government and State-Owned Enterprises (SOEs). Therefore, a major dependency on main ten SOE customers were observed.

All 10 major SOEs does not include in direct funding it is only a mode of payment (LC) and facility settlements are guaranteed by the Treasury.

Need to follow up recoveries and maintain appropriate limits to reduce credit risk.

Total exposure of the GOSL and SOEs represent 32.06% of total loan value of the bank as at 30.06.2025.

Bank is funding to financially viable SOEs by evaluating cash flow and repayment capacity.

Institute	Capital		
	Balance as at 31 December 2024	Security	Security Value
	Rs. Million		
Government Of Sri Lanka (USD Facility)	463,844.91	Clean	
Road Development Authority	115,567.80	Treasury Guarantee	Rs.148,759.33 Mn
Sri Lankan Airlines Limited	66,581.24	Treasury Guarantee Letter of Comforts Mortgage Over Shares of Sri Lankan Catering Ltd Bill of Exchange & Shipping documents	USD 5 Mn Rs.12,900 Mn USD 100 Mn USD 186 Mn
Ceylon Petroleum Corporation	56,391.52	Treasury Indemnity	Rs.100,000 Mn
National Water Supply & Drainage Board	41,300.55	Treasury Guarantee Bill of Exchange & Shipping Documents FD/Savings /Cash	Rs.33,186.52 Mn USD 73.07Mn

Margin				
Sri Lanka Ports Authority	29,357.42	Fixed Deposits Bill of Exchange & Shipping Documents	Rs.29.52 Mn	
Lanka Coal Company (Pvt) Ltd	25,692.05	Treasury Guarantees	Rs.50,000 Mn	
State Pharmaceuticals Corporation	21,215.92	Bill of Exchange & Shipping Documents Clean		
		Letter of comfort with Budgetary allocation	100%	
Department of Pension	19,445.14	Clean		
Ceylon Electricity Board	16,242.75	Treasury Guarantees & Clean	Rs.4,540 Mn	
<b>Total</b>	<b>855,639.30</b>			

(iii) The top 10 Non-Performing Customers (NPA) of the Bank were analyzed during the past 5 year's period and it was revealed that the following customers are standing as the highest non performing customers of the Bank during the past 5 years period. The details are given below.a.

Name of the Customer	Total Non-Performing Loan Balance (Rs. Mn) (31/12/2024)
Naratha Agro Industries Lanka (Pvt) Ltd	6,923.22
South Asian Institute of Technology	5,039.62
Srei Equipment Finance LTD	4,894.57
Dholiya Investment (PVT) LTD	4,864.64
Mihin Lanka (PVT) LTD	4,815.93
K D Ebert & Sons Holdings (PVT) LTD	4,654.23

Fresh transfers to Stage 03 have been increased since 2019 with the impact of COVID 19 outbreak, adverse changes in macroeconomic conditions and tax revisions. Therefore, most of the sectors could not perform with their maximum capacity.

Simultaneously, the licensed banks are instructed to suspend the parate execution for the Non Performing advances up to 31.03.2025 as per the cabinet decision, which affects adversely to the process of recovering dues through the property realization.

W M Mendis & Company LTD	4,644,.16	However, Recovery
Malkabana Eco Resorts Ltd	4,351.14	Corporate Division
Kaduwela Holdings	3,057.07	continuously carries out
Hingurana Agro Pvt Ltd	3,005.84	the following activities in
<b>Total</b>	<b>46,250.42</b>	order to bring down the
Increase of top 10 NPL balance	8,857.02	Stage III figure while
compared to previous year (Rs.Mn)		strengthening the asset
% Increase of top 10 NPL balance	23.69%	quality of the bank.
compared to previous year (%)		

- The aggregated balance of top 10 Non- Performing customers was Rs. 46,250.42 million as at 31 December 2024 and it shows an increase of Rs. 8,857 million or 23.69 percent compared with the preceding year. The aggregated balance represents a 12.41 percent from Stage III gross loans and advances of the Bank as at 31 December 2024.
- The aggregated top 10 non-performing customer balance has been increased by 136.09 percent or Rs.26,660.04 million as at 31 December 2024 over last five years.

However, Recovery Corporate Division continuously carries out the following activities in order to bring down the Stage III figure while strengthening the asset quality of the bank.

1. Conduct monthly One to One meetings by the DGM (Recovery Corporate) and recovery team with each Relationship teams of the Business Units, regarding the Watch List/ potential Customers and follow up for agreed remedial strategies.
2. Report monthly to the Credit Committee on,
  - The details of the facilities transferred to NPCF within 6 months as of granted date.
  - The remedial actions to be taken to reduce the credit risk of the watchlist Companies of Corporate Segment.
3. Conduct NPA review meetings chaired by the Chief Risk Officer weekly, covering top NPCF and watch list facilities of each Business Unit.
4. Offering a specific/ customize recovery plan for each Top Non performing customers of each Business unit as categorized below has been formulated to

ensure continuous monitoring and follow up,

- On-going Legal cases
- Possible customers for Revival/ Recovery through restructuring/ rescheduling

(iv) During the year under review, twenty numbers of corporate customers have been transferred to corporate recovery division as non-performing customers due to the default of payments. The aggregated capital outstanding balance was recorded as Rs.15,195.37 million as at 31 December 2024. Sample audit carried out on such customers, revealed following observations.

**a) Voice of Asia Network (Pvt) Ltd**

Voice of Asia Network (Pvt) Ltd, established in 2006, operates a range of media channels, including radio stations like Real Radio and Siyatha FM, and TV channels such as Siyatha TV and Varnam TV. The Company was granted a loan of Rs. 298.5 million in November 2019 to settle an overdraft of Rs. 200 million, a short-term loan of Rs. 70 million, and Rs. 28.5 million in capital outstanding on a term loan. However, the loan was classified as non-performing in November 2023 due to consistent defaults in repayments. Following observations are made.

1. The loan was secured by a primary mortgage over immovable property valued at Rs. 275 million based on a valuation report dated 22 February 2018. However, the outstanding loan balance had grown to Rs. 431.14 million by January 2025, indicating that the collateral's forced sale value (FSV) is insufficient to fully cover the loan, interest, and other dues. This discrepancy pointed out the failure of adequately assessing the security at the time of the loan's approval.

1. The approval of the Credit Committee at its meeting held on 17.10.2019 was obtained to grant a restructured loan A of Rs.298.5Mn and a reschedule loan B of Rs.1.5Mn to Voice of Asia Network (Pvt) Ltd and to consider 100% of the market value of the property given by the panel valuer when deciding the rate of advance for the restructured/rescheduled loans. The 100% of the market value of the property given by the panel valuer was considered in view of the value appreciation of the property. The value of the property as appreciated from Rs.490 million in 2018 to Rs.575 million in 2022. After 2019, due to the economic downturn, the Take necessary actions to grant loans and advances to eligible customers in accordance with established circulars and guidelines of the Bank by enhancing customer due diligence and creditworthiness assessments during the loan approval process and as well implement stricter monitoring and follow-up mechanisms to minimize future defaults. It was further recommended to accelerate the recovery efforts of the Bank.

2. The bank failed to conduct the necessary annual reviews of the loan to verify compliance with terms and conditions, as required by its credit policy. Furthermore, the bank did not implement effective credit monitoring practices, which are essential for early identification of problems. Finally, the bank did not enforce the condition that 30 per cent (later revised to 50%) of the Company's business income be routed through its corporate branch, as specified in the loan agreement. The transactions routed through the corporate branch fell short of these stipulated amounts, further indicating non-compliance with terms in the loan agreement.

Significant lapses were observed in the loan granting process such as lapses in adhering to internal policies, legal requirements, and risk management practices, which are leading to a situation where the loan is unlikely to be fully recovered. These deficiencies highlight the need for stricter enforcement of credit policies, better monitoring, and more thorough due diligence in securing loans.

Company did not service the credit facilities as agreed and which resulted to accrue the interest for the reschedule term loans.

2. The facilities granted to the company were reviewed when facilities granted to the company were restructured and proposing moratorium facilities.

Continuous reminder letters, emails and meeting were sent/ held with the customer towards settling the facilities granted to the company.

Continuous requests/ reminders were sent to the customer requesting to route sufficient cash flow through BOC. However, the company only routed the cash flow of the marketing activities of BOC through our account.

Recovery actions taken:  
The approval of the Credit Committee was obtained on 02.05.2025 to reschedule the facilities granted to the Voice of Asia Network (Private) Limited and the documentation is in progress.

#### **b) Malkabana Eco Resorts Limited**

Malkabana Eco Resorts Limited, a family-run business constructing a 5-star luxury resort in Koggala, has experienced significant financial difficulties. The Company has several non-performing loans (NPLs) obtained during 2015-2017, with an aggregated outstanding balance of Rs. 4,413.63 million as of May 2025, including loans, overdrafts, and a letter of guarantee. The Company has

repeatedly requested extensions of grace periods, loan restructuring, and rescheduling due to its inability to generate cash flow from the project, which has been delayed for over 10 years, primarily due to challenges in meeting the equity contribution and poor financial performance.

Following observations are made.

1. The bank failed to ensure that insurance coverage against fire risks on mortgaged properties was renewed, as stipulated in the credit facility agreement.
2. The bank neglected to obtain regular auditor reports and financial statements from the Company, and failed to ensure that the Company routed all business activities through the designated corporate account, as per the loan conditions.
3. An international corporate credit card was issued to one of the directors, despite the Company's and directors' poor credit standing. These lapses in adherence to the bank's own policies, coupled with the Company's ongoing financial instability, raise significant concerns regarding the management and oversight of the credit facilities granted to Malkabana Eco Resorts Limited.

1. Fire Insurance policy for Rs.1,665,110,012 was obtained over the property mortgaged to bank and was in force up to 12.12.2019.

2. Audited Financial statement of the Company (MERL) is available up to 31.03.2019 and Management Accounts available for F/Y 2019/20. Commercial operations of the resort not yet commenced. Therefore, no business cash flows. However, all transactions during the constructions period of the resort were routed through BOC current account.

3. The Corporate Credit Card was recommended to the Director of Southern Group based on the strength of the sister companies namely, Southern Group Tea Industries (Pvt) Ltd, Southern Group CTC Teas (Pvt) Ltd and Southern Group Civil Constructions (Pvt) Ltd. Credit Card issued on 13.07.2023.

Take necessary actions to grant loans and advances to eligible customers in accordance with established circulars and guidelines of the Bank by enhancing customer due diligence and creditworthiness assessments during the loan approval process and as well implement stricter monitoring and follow-up mechanisms to minimize future defaults. It was further recommended to accelerate the recovery efforts of the Bank.

**c) Koggala Garments (Pvt) Ltd.**

Koggala Garments (Pvt) Ltd, incorporated in 1991 and engaged in the manufacture of export-oriented garments, was granted a Reschedule Term Loan of USD 1.58 million in December 2021 to convert the outstanding balance of a hypothecation loan. The facility carried an interest rate of 3M USD LIBOR + 4.75 per cent (floor 6 per cent p.a.) and was secured only by a corporate guarantee of Osprey Clothing (Pvt) Ltd. However, due to repayment defaults, the loan was classified as non-performing at inception on 31 December 2021.

Following observations are made

1. Significant lapses in compliance with the Corporate Credit Policy Manual was observed. Mandatory annual reviews and inspections (Sec. 4.7.2), full credit analyses with projected cash flows (Sec. 4.7.5), guarantors' audited financial statements (Sec. 6.1.11), and annual credit appraisal memorandums (Sec. 5.3) were not prepared or obtained.

1. The facility was granted on 31.12.2021 to reschedule outstanding under Hypothecation Loan limit. The Bank has carried out inspections in factory on 2020.01.16 and 2022.03.31 to ascertain operational status of the factory. Due to Covid-19 pandemic and subsequent economic crisis prevailed in the country, the bank was not unable to carry out site inspections during that period. In March 2023, the company has shut down its operations due to bankruptcy of their buyer, David Bridal resulted in severe financial constraints on company's business. This facility was granted to reschedule existing outstanding of the company. Full credit analysis has been carried out under memo dated 14.06.2021 and projected cash flows for 5 years were attached to the memorandum. Take necessary actions to grant loans and advances to eligible customers in accordance with established circulars and guidelines of the Bank by enhancing customer due diligence and creditworthiness assessments during the loan approval process and as well implement stricter monitoring and follow-up mechanisms to minimize future defaults. It was further recommended to accelerate the recovery efforts of the Bank.

Financial analysis of the guarantor has been carried out at the time of approving the facility as per the memorandum dated 14.06.2021 based on the audited financial statements. However due to closure of the business in 2023 financial position of the guarantors were not reviewed subsequently.

Five pillar analysis has been done at the time of approving the reschedule facility. Facility was granted on 31.12.2021 and business operations were shut down on March 2023. During the period further analysis has not been carried out.

2. The facility lacked a strong “second way out,” as no tangible collateral was taken despite the policy requirements (Sec. 4.7.6).
  2. Facility was granted to reschedule outstanding under working capital limits due to financial constraints of the company. Existing Hypothecation Loan facilities were secured by corporate guarantee of Ospray Clothing and same security was obtained for the rescheduled facility.
3. Following the rescheduling, the Company failed to comply with key conditions stipulated in the loan agreement= such as not obtaining an valid insurance coverage, monthly stock and receivable statements certified by the Finance Manager , and not routing the 40 per cent of production cash flow through the bank’s designated account. Analysis of the Financial Statements revealed unstable collections during 2022, but from early 2023 collections sharply declined, with
  3. The Bank has not granted facilities against tangible securities. Hence, an insurance cover has not been assigned in favor of the Bank.  
Reschedule facility was considered against

only USD 28 received in May 2023 and nil thereafter. No inflows were recorded from June 2023 to July 2025. Meanwhile, CRIB reports and financial statements indicated that the Company was highly leveraged, with excessive borrowings against equity, exposing the Company to insolvency risk. The Company is now under winding-up proceedings, and the loan is categorized under unsecured creditors, since recovery of the outstanding capital of USD 1.47 million and accrued interest of USD 0.32 million as at 30 May 2025 remains highly doubtful.

corporate guarantee of Ospray Clothing. Stock/Debtors position were monitored during inspection carried out periodically.

The company has made exports to the buyer David's Bridal and due to business collapse of the buyer during Covid-19 pandemic period the company has lost orders which resulted in close down of the business in 2003.

Recovery Actions taken:

- Letter of demand served on 07.12.2023 to the company, directors and Corporate guarantor.

Liquidation order granted on 11.10.2024 and claim already lodged by the bank with the liquidator.

Next hearing 03.11.2025 for liquidator's report.

**d) Jayasiri Holdings (Pvt) Ltd**

Jayasiri Holdings (Pvt) Ltd, incorporated in 2014, and functions as one of the main buyers and distributors for W.M. Mendis & Co. Ltd, holding distribution rights for the southern region, while its sister companies operate 50 wine shops. The Company initially requested overdraft facility of Rs. 200 million against postdated cheques and Rs. 100 million against property to meet urgent working capital requirements. The bank approved an overdraft of Rs. 100 million against postdated cheques on an interim basis, pending finalization of the property-backed facility. Additionally, a temporary overdraft of Rs. 25 million was granted against joint and several guarantees of the directors during the festive season.

Following observations are made

1. Four land titles were submitted, but clearance has not been obtained due to encumbrances.
2. Required credit monitoring under Section 8 of the Credit

1. Noted

2. The company faced business losses due to long outstanding debtors Take necessary

Policy Manual was not carried out, with no reports available to evidence follow-up or early problem recognition.

and the situation deteriorated faster than expected, making it difficult to prepare structured monitoring reports. However, the Relationship unit has sent reminder letters to the company to route sufficient cash flows to the current account. Moreover, the relationship manager/credit officer carried out regular formal discussions, branch-level reviews, and follow-ups with directors on settlement plans. Continuous engagement with the customer was carried out in practice

actions to grant loans and advances to eligible customers in accordance with established circulars and guidelines of the Bank by enhancing customer due diligence and creditworthiness assessments during the loan approval process and as well implement stricter monitoring and follow-up mechanisms to minimize future defaults. It was further recommended to accelerate the recovery efforts of the Bank.

3. Although the company claimed to hold land, buildings, vehicles, and insurance cover, no supporting documents were submitted to verify these assets. Even though, as per the Conditions of the facility, required at least 75 per cent of collections to be routed through A/C No. 83169689 with the Bank of Ceylon, this has not been consistently adhered to.
3. Bank has obtained a list of lands, buildings, cars and insurance coverage owned by the Directors and said document has been filed with the Loan file. The customer group operates through multiple sister companies owning 50 wine shops. In practice, operational demands led them to bank with multiple institutions to ensure smooth cash flows and supplier settlements. Seasonal demand fluctuations (especially

festive periods) required flexibility in depositing cheques into different accounts, sometimes to meet urgent supplier payments or settle excise-related dues.

The customer maintained substantial transactions in the sanctioned account showing a genuine banking relationship.

Given the urgency and competitive banking environment, strict enforcement of the 75% clause could have strained the relationship and risked losing the customer to another bank. Regular discussions were held with the client to encourage higher routing of cheques through the account.

(v) **Facilities granted for Waters Edge Limited**

The Bank has approved term loan facilities amounting to Rs. 1,405.7 million and Rs. 240 million for the construction of a 48-room boutique hotel at Battaramulla. However, the project has been only partially completed, with the ground floor and 20 rooms operational, while the upper floors and banquet facilities remain unfinished. A revised Bill of Quantities (BOQ) and updated project plan have not been submitted, limiting the Bank's ability to assess the revised costs, timelines, and feasibility. This has adversely impacted the project's revenue generation capacity, thereby weakening the borrower's repayment ability.

Following observations are made

1. The Bank deviated from agreed terms by financing project cost overruns, which were originally to be borne entirely by the Company. The absence of proper progress reporting and lack of close monitoring further highlights weaknesses in project supervision and risk management.

1. Applicant has submitted progress reports for 1<sup>st</sup> twelve months. Thereafter the progress was ascertained by Interim Payment certificates (IPC)s and inspections carried out by the Branch. However, now the

Take necessary actions to grant loans and advances to eligible customers in accordance with established circulars and guidelines of the Bank by

2. It was observed that several security-related conditions remain unfulfilled such as, legally enforceable undertaking should be submitted by the Urban Development Authority and Waters Edge Limited stating that they will mortgage the leasehold rights over the leasehold property to the bank once the title of the property is cleared for the proposed facilities and title related issue need to be resorted within a period of three months.

customer has fully enhancing completed construction as per revised BOQ and commercial operations has also been commenced in May 2025. Therefore, it is confirmed that progress of construction work and end use of funds have not been jeopardized.

2 Title clearance process was continuously followed up by the bank and several discussions had with officials of UDA and Waters Edge Ltd. Upon Bank Legal Officers instructions given on 03.06.2021, Deed of Rectification was executed on 05.10.2023.

Thereafter for further corrections, Panel Lawyer has instructed to execute Deed of Connection and registered Deed of Connection received by us on 27.05.2025.

Accordingly, Panel Lawyer has submitted Title Report to the Bank on 07.07.2025. Bank's Legal Officer has accepted the title by her letter dated 18.08.2025 subject to obtaining documents.

a. Board paper bearing no. 240/2019 of the

meeting no. 11/2019  
dated 11<sup>th</sup> June 2019

- b. Approval of Ministers of Mega Polis & Western Development granted on 11<sup>th</sup> June 2019
- c. Cabinet paper bearing no. 18/0606/724/028 dated 21.03.2018 of it's meeting held on 3<sup>rd</sup> April 2018
- d. Project development plan and the project implementation program the certified copy mentioned in clause 1.5 of the Lease Agreement No. 325
- e. Recently obtained Local Authority Document
- f. Certified copies of recently obtained Company documents
- g. Certified copy of extract of folio no. LDO B /7/157 obtained from Land Registry, Kaduwela.
- h. Certified copies of extract of folio no. LDO B /7/55,56,57,58
- i. Confirmation of Urban Development Authority, confirming whether the Lot no. 13 of plan no. 2365A is a common road
- j. Confirmation from Commissioner of Agrarian Department confirming the subject land is a high land.

Once the Bank receive the above documents, respective mortgage bond will be executed for securitizing facilities with the approval of Board of Directors of BOC.

3. The required Certificate of Conformity (COC) has not been obtained despite the hotel commencing partial operations. In addition, the Bank has failed to renew and properly execute caveats over the property, while enforceable undertakings from the Urban Development Authority and Waters Edge Limited regarding the mortgage of leasehold rights have not been submitted even after three years. These lapses expose the Bank to legal, regulatory, and credit risks.

3. Partly completed hotel was opened on 04<sup>th</sup> May 2025. Before obtaining Certificate of Conformity (COC), an approval from National Building Research Organization (NBRO) and Sri Lanka Land Development Corporation (SLLDC) need to be obtained. According to Banking practice, 5% of the loan amount (Rs. Rs.70.28 Mn) should be retained until receipt of COC, but we have retained Rs.245.86Mn being the 17.5% of loan amount. Caveat is tendered to the Land Registry, Kaduwela on 01.08.2025 under the day book no. 23802.

4. The original repayment capacity was assessed based on income from a fully operational 48-room hotel. Given the scale-down to 20 rooms, actual revenue falls significantly short of projections. Available cash flows, as reflected in the 2023 financial statements, are insufficient to service the loan installments. Coupled with the extension of the grace period beyond the original approval, these issues indicate deterioration in the credit quality of the facilities and increased risk to the Bank's on recoverability.

4. At the time of approving facilities, we have projected the interest component during the grace period as Rs.240.0Mn assuming an interest rate of 8%p.a. However, due to the continuous increase in interest rates, loan of Rs. 240.0Mn was not sufficient to meet the interest of grace period of 24 months. Hence applicant was servicing the interest of both loans

from January 2024 by their own funds.

Moreover, due to unfavorable economic conditions prevailed in the country and due to the de-valuation of LKR against USD and with imposition of import restrictions together with the limited availability of building materials, the price of the construction materials has escalated. Hence, in order to mitigate the unexpected cost escalations of the project, customer decided to complete only two stories of the building covering 20 rooms including the total structure of the project.

Hence in order to complete rest of the project successfully, applicant requested to extend the tenure and grace period by further 12 months and approval for the same has been obtained from the Board of Directors on 18.06.2024. Now the project is fully completed and started the commercial operations in May 2025.

Since the initial project was scaled down, the Bank analyzed overall hotel income to ascertain repayment capacity of the applicant which is much sufficient for servicing loan facilities.

On perusal of the financial accounts submitted by applicant, Turnover has been increased throughout previous years and facilities are being serviced without any arrears at the moment.

**Global Transportation and Logistics (Pvt) Ltd** Need to ensure that satisfactory customer evaluations have been performed by the bank before granting loans to particular customers.

(vi) 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 performed towards the top 10 customers who are falling into the above category, it was observed that Rs.1,118.73 million has been disbursed to these 10 customers during the year 2024 and out of that 97.1 percent or Rs. 1,086.29 million has been transferred to the Non-Performing category with in the same year.

As at 31 December 2024

	Name of the Customer	No of Loans	Total Disbursed during the year 2024 (Rs.Mn)	Total Outstanding as at 31.12.2024 (Rs.Mn)
1	Global Transportation and Logistics (Pvt) Ltd	2	785.11	769.49
2	FIBC Lanka (Pvt) Ltd	11	107.36	105.86
3	Hingurana Agro (Pvt) Ltd	16	81.98	81.22
4	Suhada Lanka Hardware	1	30.00	30.00
5	Northwest Marine Lanks (Pvt) Ltd	1	32.53	25.98
6	Kolega Engineering (Pvt) Ltd	11	32.52	25.67
7	Gamini Enterprises	5	15.33	14.39
8	Kitchen & Bedroom (Pvt) Ltd	1	14.33	14.33
9	Mr. P A D M Priyashantha	2	10.57	10.52
10	Mrs. K H P Samarasinghe	1	9.00	8.83

On perusal of the financial accounts submitted by applicant, Turnover has been increased throughout previous years and facilities are being serviced without any arrears at the moment.

**Global Transportation and Logistics (Pvt) Ltd**

Negotiations going on with customer to reschedule the facilities. In the meantime, filed the court case against the borrower and the guarantors pertaining to the TOD facility on 05.08.2025 (Case No. CHC/101/2025/MR)

**FIBC Lanka (Pvt) Ltd**

All the facilities of the transferred to NPA as at 30.09.2025. LD served for 09 facilities on 07.08.2025. Final notice is being prepared by Province Legal Unit. Meanwhile rescheduling negotiations are in progress at the customer's request

**Hingurana Agro (Pvt) Ltd**

Business revival package was implemented to the borrower under the guidelines of CBSL Circular No. 01 of 2022 for the establishment of business revival units in Licensed Banks.

Accordingly, fresh facilities have been granted to customer based on the projected cash flow submitted by the

Company.

The Company has pledged Rs. 310Mn worth of paddy for the Yala 2025 season with a 20% equity contribution, with the intention of restarting the mill and generating cash flow to achieve the projected sales.

Continuous review meetings chaired by DGM Business Revival & Rehabilitation have conducted with the Company to review the facilities and continuously requested to reduce the existing debts as agreed.

Further an undertaking has already been submitted by the Company stating that the Company will be deposited Rs. 200Mn on or before 31.12.2025 for recovery of the existing facilities.

Even though the revival package has been implemented, the Company has been unable to achieve the projected turnover to date. As a result, the rescheduled facilities have not been serviced as agreed.

#### Suhada Lanka Hardware

Sole proprietor business. Party deceased. Testamentary case on going. Once the case finalized third party has agreed to purchase the property and settle all the

facilities

Northwest Marine Lanks (Pvt) Ltd

Customer engaged in manufacturing fiber glass boats to local and export market. Loans granted to construct boats against confirmed order.

However, owner of foreign buyer has deceased and buying company has to undergone testamentary procedure and not able to purchase the boat manufactured at scheduled time period. That leads to transfer facilities to NPA. However now the facility has rescheduled and paying satisfactory.

Kolega Engineering (Pvt) Ltd

Customer engaged in construction of Road Project by RDA, Water Board and Agriculture Ministry. Short Term Loan limit has granted against Interim Payment Certificates of relevant project to meet the working capital requirement of projects and customer was unable to complete projects as expected and progress payments not routed through BOC accounts as agreed by the customer and beneficiary. That leads facilities transferred to NPA and at present Legal action has been

initiated at present.

Gamini Enterprises

Customer deceased on 13.05.2024. Testamentary Case filed by Customer party. Last court hearing date was 28.07.2025 for issuing administrative license for his property. Papers are being prepared by lawyers for obtaining permission from court for selling customer's legacy. Next court date will be during first week of November by a motion.

Kitchen & Bedroom (Pvt) Ltd

Kitchen & Bedroom (Pvt) Ltd was established in year 2018 and engaged in the business of interior designing. They imported raw materials especially from Turkey for their final product of modern kitchen & bedroom furniture.

The Company had faced financial drawback due to fluctuations in the exchange rates, downturn constructions industry & inappropriate pricing mechanisms.

As the internal pricing strategy prevailed at the time of granting the loan, the Company received 50% advance from their clients based on the price they negotiate with them. However due to unfavorable movement in the exchange rates, the cost of raw materials

hiked and which ultimately eroded the margins resulting heavy financial losses. These facts impacted customer for loan repayment and ultimately transferred to NPA.

The said facility was granted by absorbing outstanding balances of two underperforming facilities as a restructure facility as the customer was unable to service the instalment.

The bank has informed the customer to settle all arrears before 15.12.2025 and to take suitable recovery action if the customer fails to settle the facility.

Mr. P A D M  
Priyashantha

Customer engaged in tourism industry. Loan granted to construct additional hotel rooms to increase capacity and to meet working Capital requirement. However, customer has undergone a severe health problem and unable to engage in the business. At present he is recovering and agreed to settle total arrears during the 2<sup>nd</sup> week of December 2025.

Mrs. K H P Samarasinghe  
Borrower has engaged in poultry farm business but due to technical issues business activities have been halted. Borrower

(vii) When analyzing the Non-Performing ratio on loans granted for various sectors of the Bank during the last five years period, it was observed that the non-performing ratios of the Manufacturing, Construction, Wholesale & Retail and Tourism sectors are still recorded significant ratios comparing to the other sectors. The details are given below.

Sector	NPA Ratio (%)				
	2024	2023	2022	2021	2020
Manufacturing	18.34	20.29	23.44	18.73	20.13
Construction	16.57	18.19	16.87	11.72	13.40
Wholesale & Retail Trade	14.62	16.10	18.04	18.80	20.93
Tourism	14.03	11.69	7.85	3.49	3.93

has negotiated with branch to settle the facilities with interest concession before 31.12.2025 by selling his property.

#### **Manufacturing Sector**

Sector shows positive trend of reducing NPL ratio of the bank with establishment of economic activities. But in 2021, 2022, 2023 period manufacturing sector faced severe challenges. Facilities granted to sector have been treated under moratorium facilities and several deferments during the period. Expect to change the trend from 2025 with the existing boost of the industry in the country.

#### **Tourism Sector**

Tourism sector heavily affected from the Easter Sunday attack, COVID 19 outbreak and economic Crisis in the country. Most of the hotels have been closed for a long period and cash flows were minimized.

#### **Construction Sector**

Due to economic crisis in the country most of Government construction projects were terminated. RDA, NWSDB mutually terminated most of the projects while settling their dues through work done bills. Contractors received only the balance payments and facilities

granted to projects transferred to NPA. At current context also, industry is growing slowly and repayment of facilities obtained previously is not satisfactory.

#### **Wholesale & Retail**

Sector shows high NPL ratios in continuously in given period but declining trend of the NPL ratios can be observed with turnover of the economy in the country.

**(viii) Top non-performing Loan and advances granted to customers of Bank of Ceylon Chennai Branch.**

**a. Sri Raghuvir Timber and Plywoods Pvt Ltd**

Sri Raghuvir Timber and Plywoods Pvt Ltd, engaged in trading and distribution of timber, plywood, laminates, and allied products for large scale projects in Chennai, had been availing facilities from the branch since 2012, with several enhancements over time. As of 31 March 2021, two facilities, a Cash Credit of INR 8.32 million and a Demand Loan of INR 125 million were classified as NPA. The Company's operations were severely affected by the Covid-19 pandemic, during which the Supreme Court of India temporarily barred NPA classification until April 2021. Subsequently, the branch wrote off INR 22.30 million and waived further late interest of INR 59,041 in December 2021. As of 30 November 2024, the Company's total outstanding was INR 198.32 million (Rs.682.84 million), comprising capital of INR 139.66 million (Rs.480.86 million) and interest of INR 58.66 million (Rs.201.97 million). The facilities were originally secured against three immovable properties, of which one commercial property was realized to partially settle dues, leaving two vacant land parcels in Madhavaram and Aangadu villages (distress value INR 48.05 million and INR 32 million) as security, providing a coverage ratio of only 40.37 per cent. .

Further several non-compliances with key conditions of the 2019 credit approval, were observed including failure to renew insurance on stock/debtors after 2020, non-submission of audited financial statements after 2021, and

Facility settled and closed by both OTS and grant additional facility of INR 20 Mn only against new security.

Out of the total outstanding of 139.60 Mn the customer has repaid INR 111 Mn and has separate collateral to an extent of INR 20 Mn (11.03.2025) for restructuring. An amount INR 8.3 Mn which was in the nature of interest on COVID moratorium was written off with the approval of Board of Directors.

Branch has reversed a provision of INR 75 Mn which will be reflected in the bottom line profit.

Customer is paying the restructured loan INR 20 Mn. as per repayment plan.

Implement stricter monitoring and follow-up mechanisms and to accelerate the recovery efforts to reduce the NPL customers.

absence of stock/receivable statements after 2020. Legal recovery action has been initiated under SARFAESI, with a 13(4) notice issued on 10 May 2024 to the borrower.

Branch has obtained the insurance policy for the year 2020 from M/s United India Insurance Company and also have obtained audited Financials along with stock and receivable for the year 2020. However after transferring the facilities to NPA, customer has not provided financials later on despite of bank's request.

#### **b. KRM Home Makers Private Limited**

KRM Home Makers Pvt Ltd, engaged in civil engineering and building construction, was sanctioned a cash credit facility of INR 190 million by the Chennai branch on 09 November 2015 for a nine storied residential project with 99 apartments. The project, scheduled to be completed on 2020, and get delayed due to COVID19, unsold flats, rising construction costs, price increases, demographic changes, and unemployment shocks, resulting in the facility being classified as NPA on 31 March 2020. As of 30 November 2024, the outstanding was INR 145.02 million, comprising capital of INR 104.38 million and interest of INR 40.64 million. The loan is secured by 69.77 cents of land at Madhavaram Village, Ambattur Taluk, which was valued at INR 500 million with 76.33 per cent coverage. However, recovery has been hindered by disputes between the property owner and the Company, with the Power of Attorney cancelled and a stay petition filed in court. The bank has notified directors and guarantors on 22 November 2024 and is coordinating with legal counsel for further action.

Legal action initiated adhering the advice of the legal counsel of the bank. The Branch is in the process of filing an application under Sec 14 of the SARFAESI Act, 2002 with District Magistrate / Chief Metropolitan Magistrate for taking possession of the property.

The dispute between the Directors and the land owners on cancellation of power of attorney is pending before supreme court of India for the final judgement. Once judgement received both the parties has to act accordingly which is beyond bank's control.

Implement stricter monitoring and follow-up mechanisms and to accelerate the recovery efforts to reduce the NPL customers.

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

Reference to Laws, Rules Regulation s etc.	Non-Compliance	Management Comment	Recommendati on
(i) Bank of Ceylon Ordinance No.53 of 1938	There was no Chairman appointed during the period from 23 September 2024 to 03 November 2024.	Noted. The Chairman is appointed by the Minister under whose purview the Bank falls in terms of the Bank of Ceylon Ordinance No. 53 of 1938 and its amendments.	It is recommended to comply with the requirement of Bank of Ceylon Ordinance.
(ii) As per Banking Act Direction No. 03 of 2024 issued by the Central Bank of Sri Lanka on September 11, 2024	According to the Bank of Ceylon Ordinance No. 53 of 1938 and its amendments the number of Directors permitted on the Board of Bank of Ceylon is six.	Since the amendment to the Bank of Ceylon Ordinance is currently in progress and beyond the control of the Bank, the issue will be resolved once the amendment is finalized. However, compliance with CBSL Determination No. 03 of 2024 regarding the appointment of Directors will have to be carried out by the Bank in consultation with the Ministry of Finance.	It is recommended to comply with the requirement of Corporate Governance Directives.
(iii) Section 4.2.1, (a, b, c, and d) of the Procurement Manual of the Bank of Ceylon 2014 amended by the Board of Directors at meeting held on 15 October 2019	<p>The Procurement Committee of the Bank has not complied with following requirements;</p> <ul style="list-style-type: none"> <li>- Prepare the Master Procurement Plan (MPP),</li> <li>- Procurement activities envisaged at least for a period of three years</li> <li>- Procurement activities for the immediately succeeding years prepared in detail,</li> <li>- Regularly updated MPP intervals not exceeding six months</li> </ul>	<p>Rectified.</p> <p>Master Procurement Plan (MPP) and detailed procurement plans have been prepared for year 2025 and approval of the Board of Directors (BOD) was obtained at its meeting held on 27.06.2025 (Board Minute: 11.6.01/27.06.2025). Approval of the BOD obtained for the reviewed MPP for 2025 on 26.09.2025.</p>	Need to adhere with relevant regulation.
		<p>In line with the Procurement Guidelines and Procurement Manual 2024 of the National Procurement Commission (NPC), the Bank is in the process of developing the MPP for the three-year period from 2026 to 2028. As per the instructions of the Ministry of Finance,</p>	

		Planning & Economic Development, the three-year procurement plan (2026-2028) will be submitted to the Ministry before 30.11.2025 for approval.
(iv)	Regulatory Framework on Technology Risk Management and Resilience for Licensed Banks, Issued by Monetary Board, Central bank of Sri Lanka dated 09 December 2021.	<p>Section 5.3.1 - 1 Licensed Banks shall implement a computer security and user activity log management policy adhering to the requirements in 5.3.2 to 5.3.7, to manage computer security and user activity logs of critical information systems and information systems exposed to customer data. Such policy may be extended to other information systems at the discretion of the bank's Board of Directors”</p> <p>5.3.2 - The policy shall include types of logs to be maintained, retention period, frequency of review, method of review and tools to be used, event identification and response, and responsibilities for the maintenance and review of logs.”</p> <p>5.3.7 – The policy shall be approved by the Board of Directors based on the recommendations of Board Integrated Risk Management Committee (BIRMC) and Information Security Committee (ISC).”</p> <p>It was observed that, there were no policies and procedures implemented on activity log management in the bank which leads to the noncompliance with "Regulatory Framework on Technology Risk Management and Resilience for Licensed Banks".</p>
		Covered by following policies.
		<p>i) 5.3.1 - BOC-IIRMD-POL-016- Remote Access Security Policy (issued)</p> <p>ii) 5.3.2 - BOC-IIRMD-POL-026-Cloud Computing Policy (draft)</p> <p>iii) BOC-IIRMD-POL-010- Network Security and Use Policy (issued)</p>
		A dedicated “Computer security and user activity log management policy” has been drafted and will be finalized with the comments of related stakeholders.
		Action should be taken to comply with relevant directions.

## 1.8 Non -Compliance with Tax Regulations

Audit Observation	Management Comment	Recommendation
According to the confirmation of the Inland Revenue Department (IRD) total tax liability of the bank is Rs. 5,205.45 million as at 31 December 2024. However, the bank has	As per the bank's records, the tax liability related to the assessments amounts to Rs. 4,086,250,806/- (including interest payable and excluding penalty payable), which differs from the figure of Rs. 5,205,451,254/- mentioned in the audit report. In	Need to make adequate provision in Financial Statements

provided a provision of Rs.4.086 billion in the financial statements for the year ended 31 December 2024.

accordance with the actual tax liability, the bank has made a provision of Rs. 4,086,250,806/- in the financial statements to date, excluding any penalties. However, the following discrepancies have been identified based on our records:

A new assessment for VAT on Financial Services for the year of assessment 2019/2020 was issued on 28 December 2022 and the tax payable without penalty is required to be Rs. 189,153,717/-. Accordingly, it is noticed that the assessment was inadvertently considered for the tax payables.

With the issuance of the determination of Commissioner General of Inland Revenue, the case for income tax for the year 2016/2017 was appealed to Tax Appeals Commission and as per the letter of IRD dated 11 May 2021, tax payable should be Rs. 652,213,542/-.

Please note that the tax payable on income tax for the year 2015/2016 was set off against the refund brought forward of Rs. 198,894,244/- for the year of assessment 2012/2013 and the balance Rs. 10,910,850/- was withholding tax credits. Accordingly, the bank has not made any provision in this regard.

A pending decision at Tax Appeals Commission for the year of assessment 2019/2020 in relation to withholding tax credits due from IRD. Therefore, no provision has been recognized by the bank in this respect.

Moreover, the income tax liability of Rs. 779,681,406/- for the year of assessment 2020/2021 was reduced and outstanding balance has to be changed as Rs. 404,319,230/-.

## 1.9 IT General Controls

### 1.9.1 Lapses in IT General Control.

	Audit Observation	Management Comment	Recommendation
(i)	Bank does not maintain a system generated change log for Internet Banking, Finacle treasury, IFRS, DMS, FTI, MCS Inward, MCS Outward, Base24, Prime4, ICBS, T4s Systems.	Internet Banking/Finacle Treasury/IFRS/Prime4 - System has no capability in maintaining system generated change logs.	Action should be taken to maintain a system generated change log.

DMS - Need to check Logging and Auditing settings in FileNet and evaluate the

		feasibility of enabling all event logs without affecting system performance.
		MCS Inward/MCS Outward - Application must be upgraded and integrated for monitoring.
		Base24 - Due to the system infrastructure, we are unable to extract the requested type of change logs from Base24.
		T4s - Due to the system infrastructure, we are unable to extract the requested type of change logs for the T4S Application.
(ii)	There is no Standard Operating Procedures (SOP) in place for managing and utilizing the Thycotic Delhenia tool and the BTracker tool, which is employed for reporting incidents within the Bank.	SOC uses SOP for incident management. For PAM creating a SOP is in progress. Action should be taken to introduce SOP.
(iii)	Absence of Pre-implementation security testing – ICBS, T4s, Prime4, Base24, MCS Inward, MCS Outward, Finacle Treasury, Trade Finance, DMS, Internet Banking, IFRS systems.  Bank has not conducted pre-implementation security testing for all change implementations performed for ICBS, T4s, Prime4, Base24, MCS Inward, MCS Outward, Finacle Treasury, Trade Finance, DMS, Internet Banking, and IFRS systems during the financial period.	Pre-security testing is conducted for solutions like Internet Banking, server hardening, VAs, given external party for PTs. Bank has approved Managed services for security related activities by 31.12.2025. Action should be taken to carried out Pre-implementation security testing when required.
(iv)	Absence of password security parameters defined in “Information Security Policy (Version 7.0)” document.  Following password parameters are not defined in “Information Security Policy (Version 7.0)” document. <ul style="list-style-type: none"> <li>• Minimum password length</li> <li>• Initial log-on user a one-time password</li> <li>• Frequency of forced password changes</li> <li>• No. of passwords that must be used before using a password again</li> <li>• No. of unsuccessful log-on attempts allowed before lockout</li> <li>• Ability of users to assign their own passwords</li> <li>• Password complexity</li> </ul>	Some systems require revamping or upgrade by 31.12.2025. Action should be taken to upgrade the Information Security Policy Version 7.0.
(v)	Availability of active non-utilized user accounts in Base24 - These two users are	Action should be

Base24 system, MCS outward system and Active Directory.

Following user accounts are active but non-utilized in the Base24 system, MCS outward system, and Active Directory.

special Security Users in the System Security Module, therefore unable to turn off the expiry mode of these SEC users taken to eliminate the availability of active non-utilized user accounts in relevant systems.

MCS Outward - Active non-utilized user accounts in MCS outward system were already disabled.

AD - These are either system users or UAT users. UAT users were disabled.

### Active non-utilised users accounts

#### **Base24 System**

Base24 System	DEPART MENT1	LASTLOGIND ATE1 (DD/MM/YYYY Y)	STATUS1 (Note )
PF139401	SEC- IT139401	15/12/2021	THAWED
PF203810	SEC- IT203810	22/11/2023	THAWED

Note : Based on the user status defined in the system generated user list of Base24 system, the status value "THAWED" implies that the user is an active user in the system.

USER ID	ROLE_ NAME	LAST_LOGO N_DATE (DD/MM/YY YY)	STATUS (Note )
pf197922	Operator	25/09/2023	A
pf162537	Officer	12/05/2015	A
pf176562	Officer	03/08/2023	A
pf210906	Officer	23/10/2023	A

Note : Based on the user status defined in the system generated user list of MCS Outward system, the status value "A" implies that the user is an active user in the system.

#### Active Directory

#### **Active non-utilised user accounts**

Sam Account Name	Last Logon Date (DD/MM/YYYY)	Enabled (Note )
pf167256	09/11/2023	TRUE
pf174110	13/11/2023	TRUE
pf147688	17/11/2023	TRUE
pf137865	09/10/2015	TRUE
pf139061	21/12/2023	TRUE
pf156671	09/11/2023	TRUE
pf183260	18/12/2023	TRUE

Note : Based on the user status defined in the system generated user list of Active Directory, the status value "True" implies that the user is an active user in

the system.

(vi) Delay exists in the user account deactivation process in FTI system.  
Resigned employees user accounts were not deactivated on timely manner in FTI system.  
Details are given below.

HR department has introduced a new procedure through the HCM by creating a workflow which was combined with all the authorized users of password deactivation.

User account deactivation process in FTI system should be implemented without delay.

This was tested in HCM live environment and system reports in this regard to be developed by 31.03.2026.

#### **Delay exist in user account deactivation process**

##### **FTI System**

<b>Profile</b>	<b>Resign date (DD/MM/YY YY)</b>	<b>Deactivated date (DD/MM/YY YY)</b>	<b>Delay in Days</b>
PF221	25/01/2024	31/01/2024	6 052

(vii) Inadequate activity logs management – DMS and Finacle Treasury system  
It was observed that, the application-level activity logs of DMS system only captures log in and log out information. Further, the operating system level activity logs of Finacle Treasury system has not been enabled during the financial period. However, according to the “Regulatory Framework on Technology Risk Management and Resilience for Licensed Banks”, it is specified that:

- “5.3.3 Computer security logs shall include logs generated by security software, operating systems, and applications.”
- “5.3.4 Computer security logs maintained shall be adequate to successfully identify and investigate information security incidents.”
- “5.3.5 User activity logs maintained shall be adequate to establish accountability without repudiation for any access or modification to customer data or critical information systems.”

Therefore, the above inadequacy led to the noncompliance of “Regulatory Framework on Technology Risk Management and Resilience for Licensed Banks”.

(viii) Absence of license for Data Center Infrastructure monitoring (DCIM) system.  
Bank has implemented a DCIM system in order to monitor the resources and infrastructure of the data center environment in a real time basis. However, it

Finacle Treasury - Operating System Level logs will be integrated to SIEM with the upgrade.

Action should be taken to comply with the Regulatory Framework.

DMS - In DMS, currently only high-severity logs are enabled to prevent performance degradation. However, if all activity logs are required, we need to assess the feasibility of enabling additional logging without impacting server performance. During the planned upgrade we need to ensure hardware is scaled to handle the additional log data (e.g., increasing disk I/O capacity, adding memory). Additionally, consider distributing log storage if necessary.

Looking for a new solution. A Memorandum was submitted to the Board ICTC for their approval. This will be completed by 31.12.2025.

Action should be taken to obtain license for DCIM system.

was noted that the Company has not renewed the license for the DCIM system pertaining to the financial period.

(ix) Unable to extract access log from Data Center fingerprint system.  
Extracting access logs from the Fingerprint machine is not facilitated since the fingerprint machine license was expired and not renewed during the financial period.

(x) Obsolete Operating Systems – Prime4, MCS Inward, IFRS and DMS systems.

User versions of Operating Systems for Prime4, MCS Inward, IFRS and DMS systems which are in End of Support (EOS) terms of software assurance.  
Obsolete Operating Systems and Versions:

- Windows Server 2008 R2
- Windows Server 2012 R2
- Windows 7
- AIX V7.1

System	Operating system version	End of Support Date (DD/MM/YY YYYY)
Prime4	Windows Server 2008 R2	14/01/2020
MCS Inward	Windows Server 2012 R2	10/10/2023
IFRS	Windows 7	14/01/2020
DMS	14/01/2020	DMS A 30/04/2023

(xi) Obsolete Database Management Systems - Finacle Treasury System, Prime4, Internet Banking, IFRS, MCS inward and MCS outward (Repeat Observation).

Bank uses versions of databases for Finacle Treasury System, Prime4, Internet Banking, IFRS, MCS inward and MCS outward which are in End of Support (EOS) terms of software assurance. Details are as follows.

IT Application	Database version	End of Life (DD/MM/YY YY)
Finacle Treasury	Oracle 11g	31/12/ 2020
Prime4 Internet		

This can be addressed with the ongoing project DCIM. Action should be taken to acquire

A Memorandum was submitted to the Board ICTC for their approval. This will be completed by 31.12.2025.

Will be upgraded latest Operating Systems by 31.12.2025. Action should be taken to upgrade.

MCS Inward/MCS Outward - Upgrading to the latest possible versions. Action should be taken to upgrade.

Finacle Treasury - Upgrade the DB to Oracle 19C

Prime4 - We are planning to upgrade the Database Management System related to the Prime4 System.

Internet Banking/IFRS - Existing Internet banking version is not supported. Current application will be

	Banking IFRS MCS Inward	replaced with new solutions. (Retail solution was implemented March, cooperative solution will be implemented). IFRS-Will upgrade the DB to Oracle 19C
(xii)	<p>Absence of Recovery Time Objective (RTO) defined in "Unit Business Continuity Plan (Version 2023/01)" document.</p> <p>As per the "Regulatory Framework on Technology Risk Management and Resilience for Licensed Banks", it is specified that:</p> <p>“6.3.1 - Licensed banks shall ensure Disaster Recovery (DR) arrangements for critical information systems comply with Recovery Time Objectives (RTO) and Recovery Point Objectives (RPO) determined by the Board of Directors on the recommendation of BIRMC confirming to following minimum requirements: RTO of less than 4 hours for critical information systems of licensed banks that are D-SIBs and RTO of less than 6 hours for critical information systems of licensed banks that are not D-SIBs; and RPO of zero (i.e., no data loss during a disaster) or near zero”.</p> <p>However, the Recovery Time Objective (RTO) values are not defined in "Unit Business Continuity Plan (Version 2023/01)" document during the financial year</p>	<p>Annual Revision of Business Continuity Management and Business Continuity Plan (including IT Disaster Recovery Plan) 2024/2025 was approved by Board on 13.02.2025.</p>
(xiii)	<p>Absence of a process to obtain ISO/IEC 22301 - Business continuity management systems certification.</p> <p>As per the "Regulatory Framework on Technology Risk Management and Resilience for Licensed Banks", it is specified that the licensed bank shall implement ISO/IEC 22301, Business continuity management systems.</p> <p>8. Compliance with International standers</p> <p>8.1 The licensed bank shall implement following standards by International Organization for Standardization (ISO) and obtain certification or assurance as outlined below:</p> <p>8.1.3 Latest edition of ISO/IEC 22301, Business continuity management systems “Unquote”</p>	<p>The implementation of ISO 27001 for the data center is currently underway and is expected to be completed by 31.03.2026.</p>
(xiv)	<p>Absence of PCI DSS Certification obtained for Credit Card Operations.</p> <p>Bank is currently not certified with Payment Card Industry Data Security Standards (PCI DSS).</p>	<p>Commenced internal assessment to identify and remediate gaps. Once the initial gap assessment and</p>

rectification is done Data Security consultancy service will be Standards. obtained for support and certification.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.64.39 Billion and the corresponding profit in the preceding year amounted to Rs.26.69 Billion. Therefore, an increase amounting to Rs.37.7 Billion of the financial result was observed. The main reasons for the increase was deposit repriced at lower interest rate and Rs.14.1 billion of Impairment reversal of International Sovereign Bonds in the year under review when compare with the corresponding year.

### 2.2 Trend Analysis of major Income and Expenditure items

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

Description	Variance Amount	Variance %	Reason for the Variance
	Increase/ (Decrease) (Rs' Bn)		
Interest Income	(63.68)	(12.1)	During the year under review, the Bank reported decrease in interest income across its investment and lending portfolios. Mainly due to, Financial assets recognized through profit or loss measured at fair value declined by 64 per cent ( Rs. 3.4 billion), mainly due to a reduction of Rs. 17 billion in HFT Treasury bill investments. Interest income from loans and advances also decreased by 25 per cent ( Rs. 83.65 billion), primarily driven by lower market interest rates (AWPLR) and adverse exchange rate fluctuations affecting foreign currency loans.
Interest expense	(140.05)	(32.30)	During the year 2024, the Bank of Ceylon recorded a significant decline in interest expenses across major funding sources. Securities sold under repurchase agreements dropped by 71% (LKR 23 billion) mainly due to lower interest rates compared to the previous year. Interest expenses on depositors decreased by 28% (LKR 105 billion), reflecting a sharp reduction in fixed deposit rates from an average of 25% in 2023 to 8% in 2024. Similarly, other borrowings declined by 76% (LKR 8.2 billion), primarily driven by a 114% reduction in interest expenses on currency swaps. In addition,

subordinated liability expenses decreased by 23% (LKR 2.7 billion), mainly due to a lower rate of 13.5% on new debenture issuances compared to the previous 29%.

Impairment Charges/ (reversal) for loan and other losses	15.44	314.64
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During the year, the Bank evaluated objective evidence for impairment by considering factors related to the economic downturn, such as employment dismissals, resignations without re-employment, and borrowers' financial mismanagement, including qualified audit opinions due to going concern issues, liquidity actions, and bankruptcy indicators. Based on these assessments, the Bank adopted a LKR 100 million threshold for determining individual impairment, and from December 2024 onward, Stage 2 customers above LKR 500 million are also evaluated individually, leading to an increase in individual impairment provisions compared to 2023. Collective impairment charges also rose during the year, mainly due to the reclassification of unrecognized restructured loans into Stage 2 and a management overlay provision of LKR 6.6 billion for moratorium-converted facilities. Additionally, a variance of LKR 38.65 billion was noted, primarily attributable to the reversal of impairment on international sovereign bonds following the annual impairment review.

### 2.3 Ratio Analysis

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

Description	Sector Ratio *	Bank	
		2024	2023
<b>Performance Ratios</b>			
Return on Equity (ROE)	15.6	23.2	10.6
Return on Assets (ROA)	2.6	2.3	0.9
Interest Margin	4.3	3.6	2.1
<b>Assets Quality Ratio</b>			
<b>Capital Adequacy Ratios</b>			
Tier 1 Capital (Minimum 10%)	14.9	13.00	12.76
Total Capital (Minimum 14%)	18.4	16.55	15.84

\* Sector ratios were extracted from the Annual Statistics published by the Central Bank of Sri Lanka.

### 3. Operational Review

#### 3.1 Identified Losses

##### Audit Observation

Loss Event	Year 2024		Year 2023		<b>Management Comment</b>	<b>Recommendation</b>
	Amount Written Off/Provision made (Rs.)	%	Amount Written Off/Provision made (Rs.)	%		
Business Disruption and System failures	30,000,631.01	29.80	11,983,450.04	14.12%	Internal loss events are reported to the IRMC and recommendations are provided. Critical internal loss events are discussed at the ORMEC in detail to analyse, identify the root cause and to take precautionary actions. In addition, other Management committees such as CMC are updated about the internal loss events for their information and necessary actions. Regular trainings are carried out by the bank. Frequent RCSAs are carried out to identify the gaps in the control environment and appraise the management.	Need to strictly adhere with internal control procedures and need mechanism to monitor their compliance.
Clients, Product and Business Practices	523,934.10	0.52	51,796,509.82	61.03%		
Execution, Delivery and Process management	1,022,879.64	1.02	13,024,993.80	15.35%		
External Fraud	63,794,010.00	63.37	7,115,068.00	8.38%		
Internal Fraud	5,322,368.97	5.29	945,597.88	1.11%		
<b>Total</b>	<b>100,663,823.72</b>		<b>84,865,619.54</b>			

Actual losses and provision for losses made during the year 2024 and 2023 with risk level categorization are as follows.

The overall losses and provisions reported in year 2024 increased to Rs. 100.66 million compared to Rs. 84.87 million in 2023, mainly due to the significant rise in External Fraud and Business Disruption and System Failures, together with an increase in Internal Fraud. Meanwhile, in 2023, the highest losses were recorded under Clients, Product and Business Practices and Execution, Delivery and Process Management, which showed a sharp decline in 2024, reflecting improved compliance and operational controls. The main provision was Rs.61.485 million made for low cartage gold articles and bank was unable to claim insurance reimbursement of those incidents.

##### Management

##### Comment

Risk management Division has established a mechanism where the responsibility is assigned through the reports/Memorandums. The Bank is in the process of developing new addendum of OIC for pawning operations covering all key concerns. Meanwhile all province Operations managers have been

instructed to strengthen Monitoring Mechanism through Cluster ICOs at branch level.

Items related to Business disruption and system failure was cleared for the year 2021/2023 with management approval and action were taken to mitigate such event in future with the required system development.

## 3.2 Operational Inefficiencies

### Audit Observation

#### 3.2.1 Foreclosed Properties

Following 06 devolved properties had been temporary handed over to Sri Lanka army in years 2020 and 2021 to maintain quarantine centers. Covering approval had been granted by the board on 03 December 2020 (Board Minute No: 03.12.2020/11.5.02) and 18 March 2021 (Board Minute No: 18.03.2021/9.8.01) for temporary handed over the six properties as per the request made by Secretary to Ministry of Urban Development & Housing and Additional Secretary to the Ministry of Defense respectively. However significant delays were identified in taking actions on reacquisition of properties or claiming on devolved properties and settling outstanding balances of respective non performing facilities. The details relating to the handed over properties are given below.

### Management Comment      Recommendation

The Ministry of Defence Need to take is in the process of prompt actions on acquiring the properties. A meeting was conducted bank owned properties. at Ministry of Defence on 03.09.2025 with the participation of all relevant parties and it has been informed that budgetary allocations are in place to repay the bank. Bank will conduct a meeting with the Director General of Budgets shortly to expedite this re- payment.

Name of the property	Date of Transfer	Board Approval Date	Valuation (Rs. Mn)
Tri-Star, No.30 Maligawa Para, Rathmalana	06.11.2020	03.12.2020	441.6
Tri Star No. 154,	16.02.2020	18.03.2020	120.2

Katubedda	Road,	1	21	
Moratuwa.				
Tri Star	No.88,	14.12.202	03.12.20	52.2
Maligawa	Road,	0	20	
Rathmalana	(Lot			
	No 22)			
Tri Star	No.88,	14.12.202	03.12.20	49.7
Maligawa	Road,	0	20	
Rathmalana	(Lot			
	No 23)			
Tri Sta	No. 29/5,	16.02.202	18.03.20	80.7
Kandawala	Road,	1	21	
Rathmalana				
Kamal	cables,	06.11.202	03.12.20	480.0
No.56,	Kandawala	0	20	
Mawatha,				
Rathmalana.				

### 3.2.2 Concerns related to ATM operations

(i) Personalized cards and PINs are delivered in the same courier, Therefore though the card is not activated, frauds could occur. The Personalized card and the PIN's (Both) cannot be sent to the branch therefore the card should be sent to the branch, and the PIN should be posted to the customer's address.

Comment is noted. Due to customer reachability and customer convenience, personalized cards and the pins are delivered to the requesting branch only, in inactive mode. The respective card can be activated with dual authorization by the requesting branch only.

All branches are advised to ensure the secrecy of the PIN in the circular guideline when issuing PIN to the customer. Also, all customers are notified in the PIN mailer itself to inform the bank if the PIN mailer envelope is not sealed.

(ii) Person printing the cards cannot sort/print the PIN codes. However, in BOC the same person does both the processes. There should have a segregation of duties for above mentioned tasks.

Comment is noted. Printed cards assigned to the branch do not contain any customer data (account number) at the time of dispatching to the respective branch. Inserting customer data and card activations are done by the allocated branch with dual

Action should be taken to implement proper internal control over ATM cards.

Action should be taken to implement proper internal control over card printing.

		authorizations.
		Also, PIN printing process and Card printing process have been segregated and separate staff are deployed to cover up duties.
(iii)	The Data Management System does not have a Dual Authority. The officer entering the details has the capability of authorizing the details as well, which need to be restricted. . Moreover, an officer who was an inputter before has become an authorizer in two different instances.	Dual authentication available for Card issuing for existing accounts. Dual authentication for issuing cards for new accounts – Necessary changes to the workflow is in progress.
		Action should be taken to implement proper internal control over card issuing.
<b>3.2.3</b>	<b>Concerns related to payroll</b>	
(i)	Currently, the same employee is responsible for both initiating salary holds upon resignations and approving them in the system. To strengthen internal controls and ensure proper segregation of duties, these functions should be assigned to different individuals, thereby reducing potential risks and enhancing process integrity.	Comment is noted and rectified with effect from May 2025. Now, all the “Salary Stop” records have been checked in the system and confirmed/ verified by the next higher authority.
		Action should be taken to strengthen internal controls over payroll operations.
<b>3.2.4</b>	<b>Problems to enhance the Business Operations of BOC Chennai</b>	
	Commercial Banks in India have moved towards technology by way of Bank Mechanization and Automation with the introduction to MICR based cheque processing, Electronic Funds transfer, Inter-connectivity among bank Branches and implementation of ATM (Automated Teller Machine) Channel have resulted in the convenience of anytime banking. However, while most of the competitors are offering new technology driven products and services to their customers, the branch is still in the process of implementing an Internet Banking solution. This was observed as a challenge for attraction of customers in most competitive business environment and the business expansion of the Branch.	In order to implement the Internet and mobile Banking is required to complete at least 80% of the Cyber security Information Technology Examination (RBI Audit) C-site concerns. As at date update as follows, <ul style="list-style-type: none"> <li>• Items rectified and approved by RBI – 21</li> <li>• Items submitted (pending approval) – 94</li> <li>• Items yet to be completed – 04</li> </ul> Total 119 At present, price negotiations are in progress with the Head Office IMB vendor to implement the solution.
		Action should be taken to bring required new technology driven products to the foreign branches.

### 3.2.5 System Down

It was observed 196 number of instances aggregating to 729 hours and 49 minutes of system down time (Both partial & Full system) was recorded relating to the 15 systems as per the IT system down time report 2024. Unplanned system down time is higher than the planned system down time and according to the aforesaid report the times were respectively 404 hours 27 Minutes and 352 hours 22 minutes. Highest system down times was reported in Fusion Trade Finance System, Credit Card Management System (PRIME4), Internet & Mobile Banking System, and BOC Smart Passbook System. The system downtimes were 253 hours 43 minutes, 116 hours 11 minutes, 83 hours and 22 minutes and 59 hours 11 minutes respectively.

The bank has taken and continues to take measures to address these concerns across the identified systems. Need to take prompt action to reduce system down time in the future.

1. Fusion Trade Finance System: Necessary actions have already been implemented, including technology stack upgrades and other enhancements. These initiatives have resulted in significant improvements in user experience and system stability.
2. Credit Card Management System (PRIME 4): A comprehensive technology refresh has been initiated with capacity improvements. The project is currently in progress and is expected to be completed by mid-November 2025, which will address the root causes of downtime and improve resilience.
3. Internet & Mobile Banking System: A new digital application (FLEX) has been introduced to customers. Early indicators show significant improvement in performance,

stability, and customer experience compare to the legacy platform.

4. BOC Smart Passbook System: The management is engaged in active discussions on system enhancement and modernization options to address current performance challenges. An implementation decision will be finalized in line with the bank's digital roadmap.

### **3.3 Procurement Management**

#### **Audit Observation**

**3.3.1** According to the details made available for the audit, significant variations were observed between the Capital Budget and actual capital expenditure of the bank from year 2019 to 2024. In 2024, overall budget utilization improved slightly compared to previous years, though significant under spending persisted in several areas. Major shortfalls were seen in Purchase of Land, and Contingencies, each recording 100 per cent underutilization. Constructions and IT Equipment also remained behind budget by 55 per cent and 36 per cent, respectively, indicating project delays. However, Security Equipment exceeded its budget by 12 per cent, and Office Equipment and Furniture showed better utilization than in 2023.

#### **Management Comment**

During this period under review, the Covid-19 pandemic followed by the subsequent economic crisis significantly constrained capital expenditure, resulting in reduced procurement activities across all areas. Furthermore, the government-imposed restrictions on vehicle imports led to the complete underutilization of vehicle-related procurements. Following the pandemic and economic crisis, several recommenced projects were subjected to scope revisions, causing further delays in implementation and consequently deferring the related expenditures to future periods.

Noted the marginal increase in expenditure on security equipment, as efforts were focused on strengthening the Bank's security infrastructure to

#### **Recommendation**

Action should be taken to prepare the capital budget with rational and utilize the budget properly.

address the gaps identified in previous years.

#### 4. Accountability and Good Governance

##### 4.1 Corporate Plan

The progress achieved for selected target activities of the Bank as per the Corporate Plan prepared for year 2024 – 2028 are given below.

Strategy	Objectives	Status as 31.12.2024	at	Remark	Management Comment	Recommendation
<b>Stability, Governance and Sustainable Growth</b>						
Achieve better margins via management and growing high margin businesses	Maintain cost of funds budget of 10.04%	Recorded Cost of Funds during the year 2024.	13.57%	Achieve target Cost of Funds below 10.04%.	Cost of Funds is made up of two components, Financial cost and the Administrative cost. The Bank is entrusted with managing the Financial cost and gradually reduced the Financial cost from 6.22% to 10.09% in January 2024 to 7.35% by December 2024. Staff payments has contributed to the increase in Cost of Funds in 2024 where the administrative cost has been increased from 2.5% to 6.22% in December 2024.	Action should be taken to achieve the objectives incorporated into the Corporate Plan.
Grow gross commission income up to 22%	Recorded percentage in 2024	-17.8%	Decreased	Gross Commision Income 31.12.2024 Actual - Rs. 30,425 Mn	Commission income growth for the Total Bank at 31.12.2024 is 18%. However, the provinces only have achieved 42 % growth. Although the Budget achievement for total bank is 96%, budget achievement for the total provinces is 116%.	Action should be taken to achieve the objectives incorporated into the Corporate Plan.
				Budget - Rs. 31,825 Mn	Further, commission income in trade finance is	

Achieve behind the target due to  
ment - following reasons.

96% • Reduced tariff rates to  
be competitive with  
other Banks.

• Appreciation of LKR  
Strategies

• Monitoring and  
enhancement of Limit  
utilization

• Volume based  
business canvassing  
through cost-based  
pricing.

• Promoting New  
Businesses Lines

- Forfeiting (Other  
Banks Export  
Bills)

- Risk Participation  
(Board approval  
obtained)

- Insurance cover  
canvassing.

### Accelerate Overseas Branches Operations

Expedite Increase  
Digital Road overseas  
map of branches  
overseas Contribution

branches and at  
capital  
augmentations  
to overseas

Least up to  
30% of the  
PBT of the

branches.  
bank.

Maintain the  
annually target  
20% -2024 of  
total

PBT of bank

25% - 2025

27% - 2026

28% - 2027

30% - 2028

Achievement in the  
year 2024 are as  
follows.

Branch	Actual Profit	Budget Profit	Achieve Men %	LKR (Mn)
Chennai	622.87	1,113.34	55.94	
Male	6,403.65	8,732.13	73.33	
Seychelles	124.37	205.83	60.42	
Total	7,150.89	10,051.3	71.14	

Budget achievement in  
their local currency as  
at  
31.12.2024

Chennai – 70.7%,  
Male – 81.2%,  
Seychelles – 70.8%

Achieve Progress as of 30.09.2025

ment is As at 30.09.2025  
below LKR (Mn)

the target. Budget achievement in

Branch	Actual Profit	Budget Profit	Achieve Men %
Chennai	1,025.5	837.8	122.4

Male	4,985.4	5,431.0	91.8
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Seychelles	108.8	102.8	105.8
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Total	6,119.7	6,371.6	96.0
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their local currency as at  
30.09.2025

Chennai – 125.43%,

Male – 89.87%,

Seychelles – 112.5%

Action should  
be taken to  
achieve the  
objectives  
incorporated  
into the  
Corporate Plan.

Maintain Cost to income ratio below the	Maldives Branch - 8.40% (as at 31.12.2024)	Achieve	Favorable ratio below peer banks. Cost to Income ratio compared with peer banks are given below.	Action should be taken to achieve the objectives
Peer banks in respective overseas country.	Bank of Maldives - 21.00% Maldives Islamic Bank - 44.92% Commercial Bank of Maldives - 35.23% (source- 2023)	target.	Maldives Branch - 16.27% (as at 30.09.2025)	incorporated into the Corporate Plan.
	Chennai Branch - 41.23% (as at 31.12.2024)	Peer Bank - 57.71% (Source – 2022)	• Bank of Maldives - 21.2% • Maldives Islamic Bank - 43.6% • Commercial Bank of Maldives – 32.4% (source- peer 2024 F/S)	
	Seychelles Branch - 64.69% (as at 31.12.2024)	Peer Bank - Other bank data not available.	Chennai Branch - 47.72% (as at 30.09.2025) • Peer Bank – 61.29% (source- peer 2024 F/S)	
			Seychelles Branch - 60.87% (as at 30.09.2025) • Alsalam- 90.42% • Bank of Baroda- 14.09% (source :peer 2024 F/S)	

### Maintain Market leadership in advances

Achieving the budgeted loan product mix	<u>Achievement in 2024</u>	Achieve	Position of Corporate segment as at 30.09.2025	Action should be taken to achieve the targets
<ul style="list-style-type: none"> <li>- Increase Commercial loan portfolio by 32%</li> <li>- Increase Housing and Real Estate loan portfolio by 17%</li> <li>- Increase Developmen t/ SME loan</li> </ul>	<ul style="list-style-type: none"> <li>- Commercial loans (-ve) growth of (0.7%)</li> <li>- Housing &amp; Real est. (-ve) growth of 6.9%</li> <li>- SME (-ve) growth of 40.1%</li> <li>- Ransurekum growth of 12.8%</li> <li>- Leasing (-ve) growth of 25.16%</li> </ul>	target	<ul style="list-style-type: none"> <li>• Commercial loans (-ve) growth of (2.8%)</li> <li>• Housing &amp; Real est. (-ve) growth of (10.29%)</li> <li>• SME growth of 1.5%</li> <li>• Ransurekum growth of 15.9%</li> <li>• Leasing growth of 123.0%</li> </ul>	

Corporate Segment has recorded negative growth in Loans and advances during the year mainly

portfolio by 40%

- Increase “Ransureku m” loan portfolio by 27%
- Increase Leasing loan portfolio by 9%

due to following reasons,

- Movement in Money Market Portfolio
- Major Unscheduled Settlements
- Restrictions in Male
- Seasonal impact of Lanka Coal operations
- Impact on RPT Guidelines and Banking Act Determination
- Missed facilities
- Inability / Delay to accommodate Letter of Credit / Letter of Guarantee facility requests due to related party limitations
- Early settlements in SOEs and Subsidiaries

Strategies to achieve loan growth

- Alert on upcoming projects
- Penetrate the existing portfolio
- Big Tickets
- Acquisitions
- B/S Re-structuring
- Monitoring Limit utilization
- A new special loan scheme “BizLift” introduced CPEX financing to resume or accelerate business expansion projects that were delayed due to the country's economic situation
- Approval of the Board of Directors has obtained to restructure the country exposure limits of Male Branch.

- Explore the possibilities to diversify the Credit Portfolio geographically via syndicate arrangements with International Banks.

### **Bring down the Non-Performing Loan (NPA) Portfolio below the industry level**

Maintain 85% Bring down of the loan portfolio in performing category by 0.5% than the industry average level

Corporate  
12%  
BCO RI –  
15%  
BCO RII –  
16%

Maintain collection efficiency ratio above 90%

Business Segment	Reduction %
Corporate	17.2 %
BCR I	12.1 %
BCR II	13.3 %

Range II – Total No. of Branches	Achievement –
265	70.57%
Range I	Achievement
	78.52%

Achievement is below the target except the corporate segment. The BCR-I of the Bank has maintained 92.54% of the loan portfolio in performing category as at 30.09.2025 (stage III ratio with impairment – 7.46%).

Achievement is below the target. The Bank has maintained collection efficiency ratio achievement as at 30.09.2025 is 74.60%.

Action should be taken to achieve the targets.

Action should be taken to achieve the targets.