

## **National Savings Bank - 2015**

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The audit of the financial statements of the National Savings Bank (“the Bank”), and the consolidated financial statements of the Bank, and its Subsidiary for the year ended 31 December 2015, comprising the statements of financial position as at 31 December 2015 and the statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended and a summary of significant accounting policies and other explanatory 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 37 of the National Savings Bank Act, No. 30 of 1971. The financial statements of the Subsidiary were audited by a firm of Chartered Accountants in public practice appointed by the Board of Directors of such Subsidiary.

This report is issued in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka

### **1.2 Management’s Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal controls as the management determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **1.3 Auditor’s Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank’s preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **2. Financial Statements**

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### **2.1 Opinion - Bank**

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In my opinion , the financial statements give a true and fair view of the financial position of the National Savings Bank as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **Opinion - Group**

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In my opinion, the consolidated financial statements give a true and fair view of the financial position of the National Savings Bank and its Subsidiary as at 31 December 2015 and their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

## **2.2 Comments on Financial Statements**

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### **2.2.1 Comply with Sri Lanka Accounting Standards (LKAS)**

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The Building construction works aggregating Rs. 42.47 million including in the work-in-progress shown in the financial statements as at the end of the year under review had been subsequently abandoned in various reasons. However, the cost incurred for the above had not been derecognized. Further, the expenditure incurred thereon could be cited as a fruitless expenditure.

### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) Two lands at Mahiyanganaya with an extent of 28.14 perches acquired by spending Rs.200,000 had not been brought to accounts. Although two buildings located on those lands were revalued at Rs.1.6 million, such lands had not been considered for revaluation.
- (b) The Bank had incurred Rs.13.6 million for the modification of six Branches which were completed as at 31 December 2015. However, this expenditure had not been capitalized to the relevant accounts.

### **2.2.3 Accounts Receivable and Payable**

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The following observations are made.

- (a) Out of Rs.716 million receivable from the General Treasury on account of dormant as at the end of the year under review, an amount of Rs.442.3 million had remained outstanding for over five years without being recovered.

- (b) Fraudulent withdrawals amounting to Rs.94.3 million were outstanding as at 31 December 2015 and it increased by Rs.67.8 million or 256 per cent as compared with the previous year. Out of that increase, an amount of Rs.43 million or 162 per cent was incurred mainly due to fraudulent cash withdrawals from ATM by IT hacking as a result of weaknesses in the IT control system of the Bank.
- (c) A balance of Rs. 2.7 million appeared in the Deposit Clearance Accounts had remained outstanding for more than five years without being settled.
- (d) The cashier's excess as at 31 December 2015 was Rs. 1.45 million and out of that Rs.1.4 million or 97 per cent was outstanding for more than five years without taking proper action in this regard.

#### **2.2.4 Non – Compliance with Laws, Rules, Regulations and Management Decisions etc.**

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Instances of non-compliance observed in audit are given below.

##### **Reference to Laws, Rules, Regulations and Management Decisions**

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##### **Non compliance**

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| (a) Section 47 of the National Savings Bank Act, No.30 of 1971.                     | Deposits which were inoperative over 10 years should have to be transferred to the "Unclaimed Deposit Reserves" account. However, it was observed that such amount of Rs.1,435.72 million were remained as dormant in the financial statements as at 31 December 2015 without being transferred to the said account. |
| (b) Chapter 8.7 of the Public Enterprises Circular No. PED /12 dated 02 June 2003   | The Bank had paid Pay as You Earn (PAYE) tax amounting to Rs.134.84 million from its own funds on behalf of the employees of the Bank in year 2015 as per the collective agreement in contrary to the provisions of the Circular.  |
| (c) Chapter 5.2.4 of the Public Enterprises Circular No. PED /12 dated 02 June 2003 | Though the draft budget should be submitted for the approval of Board of Directors three months before the commencement of the financial year, the Bank had not complied when getting Board approval for the Annual Budget over last five years.   |

(d) Government Procurement Guidelines of the National Procurement Agency Circular No. 8 of 25 January 2006 as amended by No. 06 of 05 October 2006

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(i) Guideline 2.8.4.

Though the Head of Department shall appoint the Technical Evaluation Committee (TEC), the Procurement Committee had appointed the TEC with regard to the following purchases in contrary to the guideline.

- Purchase of Steel Cupboards and Cabinets to the value of Rs. 6.82 million.
- Purchase of Firewall System valued at Rs.4.25 million.
- Purchase of IT Equipment for Branches and Division for Rs. 8.43 million.
- Purchase of Office Equipments amounting to Rs.12.37 million.

(ii) Guideline 2.12

All members of Procurement Committees and Technical Evaluation Committees are required to sign a declaration in the prescribe format at its first meeting, and such declaration shall be preserved for a period of at least 5 years. However, this had not been complied with the purchase of Steel Cupboards and Cabinets, Firewall System and IT Equipment for Branches and Division valued at Rs. 6.8 million, Rs.4.25 million and Rs.8.43 million respectively.

(iii) Guideline 8.9

A formal contract agreement should be signed with the contractor in respect of contract value exceeding Rs. 500,000. Nevertheless, this requirement had not been fulfilled with regard to the following procurements.

- Purchase of Gift Items for the Sinhala/ Tamil & Hindu New Year 2015 worth Rs. 33.1 million.
- Purchase of 05 Automated Teller Machine for Rs.6.89 million.
- Purchase of Office Equipment for Rs.12.37 million.

(iv) Guideline 8.12.3

Officer in charge shall issue a certificate that the goods supplied are in accordance with the specifications and other agreed terms. However, in respect of purchase of gift items worth Rs. 33.1 million for the Sinhala/ Tamil & Hindu New Year 2015, this had not been complied with.

(e) Section 7.1.2 (i) of Investment Policy Statement of the Bank

No more than 10 per cent of the Bank Equity portfolio shall be invested in any company. However, this had not been complied with regard to the investments of Rs.2,088 million made in a particular commercial bank and a leasing company as at 31 December 2015.

(f) Chapter 19 of General Manager's Circular No. 507/2001 dated 26 June 2007 and Chapter 14.2 of the Pawning Manual of the Bank.

- A separate register needs to be maintained to enter the details of pawning advances given to the staff on daily basis. However, it was observed that such register was not maintained with daily updating basis in the Branch at Head Office.
- According to paragraph 'A' of the Circular, staff member can obtain pawning advances in maximum of 3 times per year. However, at the sample audit check it was revealed that the pawning advances amounted to Rs.4.86 million were released for more than 3 times to the staff members in selected 4 Branches.
- It is a responsibility of the pawning manager to check each pawning article personally when presenting them for pawning and decide the amount of advance which could be offered. However, it was revealed during the Branch audit of Wellawatta and Head office in certain instances that the pawning articles were at lower of 18 karat.

(g) Chapter 07 of General Manager's Circular No. 614/2005 dated 18 July 2005

One per cent (1%) annual commission needs to be charged where the bank guarantees exceeding of Rs.1 million. However, only 0.25 per cent had been charged on the bank guarantee No. HOB/LG/2015/03 valued Rs.1,010.55 million issued for the period of 270 days on behalf of a particular Insurance company.

### **3. Financial Review.**

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#### **3.1 Financial Result**

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According to the financial statements presented, the operations of the Bank during the year under review had resulted in a pre-tax net profit of Rs. 13,034 million as compared with the corresponding pre-tax net profit of Rs. 10,472 million in the preceding year, thus indicating an improvement of Rs. 2,562 million or 24 per cent in financial results for the year under review.

The operations of the Subsidiary of the Bank during the year under review had resulted in a pre-tax net profit of Rs.253 million as compared with the corresponding pre-tax net profit of Rs. 307 million in the preceding year, thus indicating a deterioration of Rs. 54 million in financial results for the year under review.

According to the value addition statement of the Bank, the value addition in 2015 was Rs.25,886 million and it indicated 19 per cent increase as compared with the year 2014.

### 3.2 Analytical Financial Review

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#### 3.2.1 Profitability

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The following observations are made.

- (a) Profits of 174 Branches, 12 Postal Branches, 04 Divisions and Head Office aggregating to Rs.16,907 million and losses of 59 Branches and 01 Division aggregating Rs. 1,436 million consists of the pre-tax net profit of Rs.13,034 million for the year under review.
- (b) As compared with the preceding year income of Rs. 77,890 million, the overall income of the Bank for the year under review was Rs.79,282 million thus, showing an increase of Rs.1,392 million or 1.8 per cent in the overall income for the year under review.

#### 3.2.2 Significant Accounting Ratios

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

	<u>Sector Ratios *</u>	<u>2015</u>	<u>2014</u>
<b>(a) Profitability Ratio</b>			
(i) Return on Average Shareholder 's Funds (ROE) (Percentage)	14.58	31.15	30.2
(ii) Return on Average Assets (ROA) (Percentage)	2	1.6	1.5
(iii) Interest Margin	3.6	3.32	3.0
(iv) Staff Cost (Rs. in million)	6,853	5,910	4,797
<b>(b) Capital Adequacy</b>			
(i) Equity to Total Assets (Number of Times)		26.16	33.51
(ii) Capital Adequacy- Tier I (Minimum 5%)	21.97	17.83	20.46
(iii) Capital Adequacy- Tier II (Minimum 10%)	20.35	16.34	18.96
<b>(c) Liquid Assets Ratio</b>			
Liquidity Ratio (Percentage)	69.42	81.08	91.5

\*10 years average of annual statistics for Licensed Specialized Bank published by the Central Bank of Sri Lanka considered for sector ratio.

The following observations are made in this regard.

- Though the return on average assets (ROA) and the net interest margin had been increased by 6.66 per cent and 10.66 per cent respectively in the year 2015 when compared with previous year, those had been in below the industry average for the year 2015.
- The liquidity ratio had decreased by 11.38 per cent in the year 2015 when compared with the 2014 which was at higher of industry average.

#### **4. Operating Review**

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##### **4.1 Performance of the Bank**

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According to the information made available, the operating performance of the Bank during the year under review as compared with the preceding year is given below.

<b><u>Indicator</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Number of Branches	245	236
Number of Account Holders (million)	18.9	18.3
Number of ATMs	271	260
School Banking Units	2,287	2,287
Number of Agents Post offices and Sub-post Offices	4063	4063

Nine Branches had been newly opened during the year under review and the number of account holders had increased approximately by 0.6 million and the ATM network had increased from 260 to 271 during the year under review.

##### **4.2 International Bond Issue- 2013 and 2014**

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According to the Cabinet decision No.12/1767/504/163 of 19 December 2012, the Cabinet of Ministers granted its approval to issue the International Bonds amounting to US Dollars 1,000 million for the purpose of granting loans for the development of infrastructure projects. Accordingly, the Bank had issued the international bonds valued at US Dollars 750 million in the year 2013 and US Dollars 250 million in 2014 at an interest rate of 8.875 per cent and 5.15 per cent per annum respectively. According to the decision of the Cabinet of Ministers and the Offering Memorandum of the Bank, it had been directed to invest 50 per cent out of the bond proceed from US Dollar 750 million in Sri Lanka Development Bonds, 25 per cent in US Dollar denominated loans and 25 per cent in Sri Lankan rupee denominated loans.

The following observations are made in this connection.

- i. Though the balance 50 per cent of US Dollar 750 Million needs to be disbursed for dollar denominated loans and rupee denominated loans in same portion, only US Dollars 104.43 Million and Rs.13,669.05 Million had been disbursed respectively and balance had been invested in treasury bonds.
- ii. The entire amount of the proceeds of the bond issued in the year 2014 had been invested in treasury bonds without considering the requirement of the Offering Memorandum of the Bank.

#### **4.3 Delays in Construction of New Branches**

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Even though construction of 03 Branches at Bambalapitiya, Mount Lavinia and Negombo had been included in the Action Plan prepared since 2011, the construction works had not been completed even up to 31 December 2015. As a result, the rental amounting to Rs.44,452,000 had to be paid for the building obtained on rent basis to run those Branches in the year 2015 as well. However, the rent so paid could have been saved if the construction works completed within the stipulated time period.

#### **4.4 Loan Administration**

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##### **4.4.1 Non-performing Loans, Total Loans and Advances**

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Details of total loans and advances granted and loans fell to non- performing during the year 2015 as compared with the preceding year are given below.



Loan Category	Position as at 31 December 2015				Position as at 31 December 2014			
	Total Loan and Advances		Non - performing Loans		Total Loan And Advances		Non - performing Loans	
	Number of Loans	Amount	Number of Loans	Amount	Number of Loans	Amount	Number of Loans	Amount
		Rs. Mn.		Rs. Mn.		Rs. Mn.		Rs. Mn.
Alankara Loans	118	107	6	5	97	83	8	5
Auto Loans	9,280	648	520	44	9,516	787	299	30
Commercial Loans	1	1,000	1	1,000	1	1,000	-	-
Commuted	1	3,163	-	-	-	-	-	-
Foreign Loans	223	374	42	68	243	364	49	73
Government Loans	41,612	27,113	845	452	36,454	24,257	1,154	651
House and Property Loans	30,494	24,636	2,325	1,394	30,344	23,080	3,117	1,623
HPL- Mihindu	-	-	-	1	3	2	2	1
NHD Jana Sewana	8	3,627	-	-	7	3,576	-	-
Personal Loan on Guarantee	95,913	35,394	4,127	549	60,051	13,539	3,047	355
Personal Loans on Mortgage	152	146	18	21	165	143	29	36
Project Loans	51	79,917	-	-	66	79,418	1	30
Staff Loans	9,745	3,918	-	-	18,072	4,309	-	-
Staff vehicle Loans	521	380	-	-	400	141	-	-
Univrsty Staff Housing Loans	378	348	6	6	291	263	12	11
Staff Motorcycle Loans	-	1	-	-	29	2	-	-
Diripiyasa	-	3	-	-	14	4	-	-
Rata Ithuru Loans	329	31	-	6	742	46	498	26
Others	-	-	-	-	1	1,414	-	-
<b>Total</b>	<b>188,826</b>	<b>180,806</b>	<b>7,890</b>	<b>3,546</b>	<b>156,496</b>	<b>152,428</b>	<b>8,216</b>	<b>2,841</b>

The following observations are made.

- The Bank had granted loan facilities amounting to Rs.180,806 million at the end of the year 2015 and out of that Rs.3,546 million shown as non-performing loan balances as at 31 December 2015.
- The value of total non-performing loans represents 2 per cent out of total loans value as at the end of the year 2015.

#### 4.4.2 Age Analysis of Non-performing Loans

According to the information made available, the age analysis of non-performing loans of the Bank as at 31 December 2015 is as follows.

Loan Category	Age Analysis				Total
	Up to 1 year	1-3 years	3-5 years	Over 5 years	
	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.
Alankara Loans	3.82	1.06	0.36	-	5.24
Auto Loans	43.99	-	-	-	43.99
Commercial Loans	-	-	1,000	-	1,000
Foreign Loans	36.58	25.44	5.94	-	67.95
Government Loans	415.08	32.68	2.67	1.64	452.08
Housing and Property	1,011.39	198.79	86.90	97.00	1,394.09
Personal Loan on Guarantee	491.25	42.83	7.06	7.41	548.55
Personal Loans on Mortgage	3.55	10.30	2.67	4.81	21.33
University Staff Loans	5.70	-	-	-	5.70
Mihindu	-	1.20	-	-	1.20
Rata Ithuru Loans	0.64	0.54	0.22	4.78	6.18
<b>Total</b>	<b>2,012.00</b>	<b>312.84</b>	<b>1,105.82</b>	<b>115.64</b>	<b>3,546.31</b>

The following observations are made in this regard.

- Out of total non-performing loan as at 31 December 2015 an amount of Rs.1,221.47 million or 34 per cent was remained outstanding for more than 3 years.
- Ninety per cent of non-performing loans within the period of 3 to 5 years amounting to Rs.1,000 million had been represented a commercial loan granted to a particular organization.
- The housing loans felled to non-performing for over 5 years were Rs.97 million which represents 84 per cent of the total non-performing over five years.
- Out of the total non-performing loan balances of "Rata Ithuru Loans," 77 per cent remained outstanding for more than 5 years.

#### **4.4.3 Staff Loans of Officers Interdicted and Vacated Posts**

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A sum of Rs.4.64 million recoverable from 44 interdicted officers, officers vacated their posts, resigned and dismissed from services as at 31 December 2015 had been included in the Employees' Loans of Rs.1,337.49 million shown in the statement of financial position as at 31 December 2015.

#### **4.4.4 Project Loans**

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The following observations are made in respect of two loans amounting to Rs.50 million and Rs. 30 million granted to a private company during the year 1996 at an interest rate of 20 per cent for the Construction of a Housing Scheme.

- i. The entire loan had remained outstanding without being paid a single installment, although this loan was expected to be fully settled by July 1999.
- ii. The interests paid to the Bank with regard to the above loans as at 06 November 2004 were Rs.8,52 million and Rs.1,55 million respectively.
- iii. According to the Board decision taken on 10 March 2006, the extent of the land to be acquired by utilizing the loan was 6 acres, 3 roods and 21.75 perches. However, according to the relevant valuation reports and the survey plans, the extent of the land was 6 acres, 2 roods and 12.8 perches and as such a difference of 1 rood and 8.95 perches was observed in audit.
- iv. A part of the above property valued at Rs. 184 million had been vested by Sri Lanka Navy and the land worth Rs.113 million is belonging to the Bank. However, according to the valuation report obtained by the Bank, the actual value of the land was only Rs.70.3 million and accordingly, a sum of Rs 42.7 could not be obtained.
- v. Three blocks of the above lands valued at Rs.13.3 million had been acquired by the Government by publishing a notice in the Extra Ordinary Gazette No. 1604/ 16 of 02 June 2008. Any compensation in this regard had not been received by the Bank up to the end of the year 2015.

#### **4.4.5 Pawning Advances**

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The following observations are made.

- (a) Total pawning advances given by the Bank as at 31 December 2015 was Rs.26,489 million and the market value thereon was Rs.37,838 million. Out of that Rs.5,484 million was represented non-performing pawning advances as at 31 December 2015. When compare to the previous year it was observed that there was 20 per cent and 18 percent decrease in value of pawning advances and market value thereon respectively due to significant decrease in gold prices at the market. Further, a sum of Rs.380 million had been written off on non performing pawning advances during the year under review.

- (b) According to paragraph 14.2 of the Pawning Manual of the Bank, the Branches are not allowed to accept any gold articles which are lower 18 karate. However, at the physical verification carried out in selected 04 Branches, it was revealed that the advances of Rs.3.8 million had been given on gold articles which were lower 18 karate.

#### **4.5 Transactions of Fraudulent Nature**

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The transactions of fraudulent nature such as taken dud articles and low karate gold against the pawning loans, loans granted irregularly against the fixed deposits, fraudulent withdrawals of cash from ATM, improperly issuing the balance confirmations, fraudulent withdrawal of fixed deposit owed to death persons etc. aggregating Rs 204.44 million were observed during the investigation carried out at the Branches of Badulla, Bandarawella, Ragama, Rathnapura, Pothuvil and Kochchikade due to weaknesses in the areas of internal controls.

#### **4.6 Transactions in Contentious Nature**

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The Bank had spent Rs. 83.6 million for the construction of buildings in eight lands without being obtained the legal ownership of the lands to the Bank.

#### **4.7 Uneconomic Transactions**

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The following observations are made.

- (a) The Sri Lanka Navy had acquired the land with extent of 0.479 hectare valued at Rs.35 million at Chatham Street which had been purchased by the Bank on 29 January 2009. The acquisition of land had been published in the Gazette of the Democratic Socialist Republic of Sri Lanka and the inspection for compensation had been carried out on 28 June 2012. The Divisional Secretary of Colombo had stated that compensation and interest thereon should be paid on the valuation from the date of inspection. However, no any compensation had been received even up to the end of the year under review.
- (b) A sum of Rs.35.23 million had been spent since 2008 to build an 18 storied building for the Bank. This had been shown in the work in progress as at 31 December 2015 without any construction carried out during the previous years due to this area is coming under high security zone. Therefore the expenditure incurred thereon could be cited as a fruitless expenditure.
- (c) Land near to the Juliyana Hotel which bears plan No.2007/43 had been obtained through initial payment of Rs.82 million and annual ground rent of Rs.1,000 for 50 years of lease period. According to the financial statements for the year under review the value of the land was Rs.94.30 million and this was remained in unutilized to date.

## 4.8 Investments

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The following observations are made.

- (a) The overall cost of investments in shares of 46 quoted companies as at 31 December 2015 amounted to Rs.7,390,44 million. Of those, a sum of Rs.2,534.03 million representing 34.28 per cent had been invested in 3 quoted companies on long term basis. The market value of shares of 41 companies out of 46 quoted companies had diminished in value by Rs.1,414.26 million during the year 2015 whereas the market value of shares of 5 companies only had improved by Rs. 994.31 million. Accordingly, it was observed that the market value of overall shares invested had diminished by Rs.419.95 million as at 31 December 2015. The investment cost where the market value had diminished as at 31 December 2015 was Rs. 4,741.88 million and its represented 64 per cent of the overall investment cost.
- (b) Average dividend return (for last 5 years) on investments of Rs 1,747,487,382 made in a telecommunication company and a private commercial bank had been represented lower rate of 2.14 per cent and 4.56 per cent respectively.
- (c) Dividends on investments of Rs.1,362.97 million made in 16 companies had not been received in the year 2015 and it represents 18.44 per cent of the overall investments made in above mentioned 46 quoted companies.
- (d) There were four companies where the dividend had not been received for over last four years. The investment cost in those 4 companies as at 31 December 2015 amounted to Rs.200.06 million.
- (e) No dividend income had been received for over 3 years on investments made in 5 quoted companies which the market value had deteriorated continuously. The investment cost as at 31 December 2015 in those companies was Rs.668.09 million. The deterioration in the market value of those investments as at that date was Rs.409.55 million.
- (f) Though market value of 2 quoted companies was deteriorated by Rs.48.16 million during the year 2014, the Bank had made a further investment of Rs.8.75 million during the year 2015. The cost of investments in those companies as at 31 December 2015 was amounted to Rs.237.26 million and the deterioration in market value of those companies as at 31 December 2015 was Rs.51.85million.  
Further, new investments made in 11 quoted companies during the year 2015 amounted to Rs.645.04 million and out of that market value of 10 companies had diminished in value by Rs.95.70 million during the year 2015. Accordingly the overall investments cost in deteriorated shares were Rs.640.39 million and which represent 99 per cent of the overall new investments value of Rs.645.04 million made during the year 2015
- (g) The Bank had invested in 20,000 equity securities amounting to Rs.0.13 million in a particular company on 01 July 1974 and total dividend received from this investment was only Rs.0.94 million up to the end of the year 2010 and no dividend had been received thereafter.

#### 4.9 Human Resources Management

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The following observations are made.

- (a) The approved cadre of the Bank as at the end of the year under review was 4,113 and the Bank had deployed 2,813 employees on permanent basis and 823 employees on contract basis comprising 6 posts in executive grade and one post in supervising grade 681 posts in non-staff grade and 135 in minor grade during the year 2015.
- (b) Personal cost per employee had been continuously increased within last five years as follows.

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
				Rs.000	
Personnel Cost Per Employee (Total Personnel Cost / Number of Employees)	1,626	1,429	1,430	1,303	1,264

- (c) Out of actual carder 2009 posts or 55 per cent represent the post of banking assistants and the Bank had followed only the interview basis after year 2005 instead of competitive examination which followed before year 2005 as a recruitment procedure of such post. In the basis of examination suitable candidates should be below age 28 and should pass the competitive examination to be selected for interview. However, in the basis of interview, candidates will be selected from the list provided by the management. Further, under the new procedure age limit had been decreased to 25 years and open advertisements and competitive examinations had been abolished. As such, it was noted that equal opportunity to the eligible candidates to apply for this post had been lost with the replacement of new recruitment procedure.

#### 4.10 Market Share

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Particulars relating to the market share of the Bank as percentage of deposits and loans and advances in the Banking industry are as follows.

Market share	2015	2014	2013	2012	2011
Deposits	10.77	11.51	11.51	12.20	13.38
Loan and Advances	5.65	5.59	4.52	4.66	4.50

Even though the market share relating to deposits had been continuously decreased during the last five years, the market share of loan and advances had been decreased only in the year 2013 as compared with the year 2012.

#### 4.11 Management Weaknesses

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The following targets set out in the Action Plan for the year 2014 either completely or partly not achieved during the year under review. Details are shown below

The following observations are made.

- (a) The following targets set out in the Action Plan for the year 2015 either completely or partly had not been achieved during the year under review.

Description of Target	Annual Target	Achievement	Achievement as percentage of target
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<b>01. <u>Branch Management</u></b>			
<b><u>Enhance Deposit Mobilization</u></b>			
(i) Mobilization of deposits to reach the goal of achieving Rs.635 billion deposit base by 2015.			
Time Deposit	Rs.40,800 Mn	Rs.20,280 Mn	50
(ii) Relocation of Branches	9 Branches	4 Branches	44
(iii) Increase 'Diriya' Loan	4800 loans	596 loans	12
(iv) Maintain the Bank' NPL Ratio at			
a. Overall	4.00 %	5.38 %	Exceeded the target NPL ratio.
b. Pawning	5.11 %	20 %	
c. Auto loan	1.5 %	7.27 %	
d. Housing Loan	3.0 %	3.85 %	
e. Personal Loan	2.0 %	2.27 %	
(v) Increase the Savings Account balance which are below Rs.1,000 by 50 % in each branch.	Increase the balance by 50%	6 %	12
<b>02. <u>Postal Banking Operation</u></b>			
Mobilization through other deposits			
• Postal Smile	500	204	41
• Thepel Hapan	300	152	51
• Sthree Thepel Ithurum	100	75	75
• Postal Awruduwasana	50	9.57	19

**03. International Banking Operation**

(i)	Mobilization of foreign currency deposits	Rs.2,250Mn	Rs.1,003Mn	45
(ii)	Creating awareness among the public and prospective migrant workers	Conducting 40 programs	Not conducted	Nil

**04. Corporate Lending & Project Finance**

(i)	Net Increase	37,717 Mn	21,793Mn	58
(ii)	Kothalawala Defense University (Disbursement from proceeds of Bond1)	Us.\$ 60.05 Mn	Us.\$ 34.65 Mn	58
(iii)	Rupee Loan (Disbursement from proceeds of Bond1)	Rs 3,500 Mn	Rs 1,408.02 Mn	40

**05. Conducting Training Programs**

(i)	Marketing/Selling Techniques/ Cross Selling	8	4	50%
(ii)	Overseas Training (Number of Participants)	44	16	36%

**06. Audit and Vigilance**

i.	Surprise Audit	47	24	51%
ii.	Information System Audit	10	Not Completed	Nil

(b) The following targets set out in the Action Plan for the year 2015 had been subsequently withdrawn by the management.

**Description of Target**  
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**01. Branch Management**

- (a) Introduction of family savings accounts
- (b) Opening of savings outlets
- (c) Issuing of letter of guarantee on immovable property
- (d) Negotiations with institutions to arrange the facility of collecting fees

**02. Marketing Division**

- (a) A scholarship scheme for Ithuru Mithuru A/C holders on their success at O/L examination.



- (b) Advertising campaigns on family savings account.
- (c) Initiatives to increase the fee based income- Fees collecting arrangements with Department of Examinations, Department of Inland Revenue and Sri Lanka Customs, NSBM, etc.
- (d) Promotional program for the Easy Cash Card.

**03. Retail Lending**

- (a) Introduction of a new product
- (b) Review of loan scheme

**04. Corporate Lending & Project Finance**

- (a) Investor forums/discussions/ meetings
- (b) Granting project loans by regions
- (c) Issuing listed debentures

**05. Human Resource Development**

Implementation of HR Management System

**5. Accountability and Good Governance**

**Internal Audit**

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The following observations are made.

- a) Though 158 audit assignments were planned for the year 2015, out of that only 133 audits assignments had been completed during the year under review.
- b) Although the Internal Audit Division had planned to conduct 47 surprise audits during the year 2015, only 24 audits had been completed during the year under review.

**6. Systems and Controls**

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Deficiencies observed in systems and controls during the course of audit were brought to the notice of the Chairman through a detailed report issued in terms of Section 13 (7) (a) of the Finance Act. Special attention is needed in respect of the following areas of control.

## Areas of Control

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## Observations

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- |  |   |
|--|---|
| a) Loan and Pawning Administration             | Performance of recovering of staff loans on interdicted and vacated staff was at weak level.  |
| b) Compliance with Laws, Rules and Regulations | Non-compliance with the internal circulars issued with regard to Branch operations in the areas of dormant accounts, voucher bundling, acceptance of pawning articles, passbook main registers, passbook running stock registers, key holding, safety lockers handling, cash limits, ATM card handling, claim vouchers and branch advices registers including counter foils completion, loan administration, password deactivation, security systems etc. |
| c) Control over Fixed Assets                   | In some instances, the fixed assets items included in fixed asset register had not been physically available in some Branches. In the meantime, items available in the Branches had not been entered into the fixed assets register.  |
| d) Opening and Closing of Customer Accounts    | Absence of KYC forms, copies of identity cards, applicants and officer's signatures and official seals, written request for closing of accounts   |