

2022 අගෝස්තු 15
2022 ஆகஸ்ட் 15
15 August 2022



2018 අංක 19 දරණ ජාතික විගණන පනතේ
14 වන වගන්තිය ප්‍රකාරව පාර්ලිමේන්තුව වෙත
ඉදිරිපත් කරනු ලබන විගණකාධිපති ත්‍රෛවාර්ෂික වාර්තාව

2018 இன் 19 ஆம் இலக்க தேசிய கணக்காய்வு அதிகாரச்சட்டத்தின்
14 ஆவது பிரிவின் பிரகாரம் பாராளுமன்றத்திற்கு சமர்ப்பிக்கப்படுகின்ற
கணக்காய்வாளர் தலைமை அதிபதியின் மூன்றாண்டு அறிக்கை

**Triennial Report of the Auditor General presented in
parliament in terms of Section 14 of
the National Audit Act, No. 19 of 2018**

එකලොස් වන කාණ්ඩය - 02
பதினோராவது தொகுதி - 02
Eleventh Volume - 02

රාජ්‍ය බැංකු
அரசு வங்கிகள்
State Banks

ජාතික විගණන කාර්යාලය
தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE



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Triennial report relating to State owned Banks

Snapshot of the Banking Sector

By end of year 2020, the banking sector comprised 30 banks that are 24 Licensed Commercial Banks (LCBs) including 11 branches of foreign banks, and 6 Licensed Specialized Banks (LSBs). Bank of Ceylon, People's Bank, Housing Development Finance Corporation Bank, Pradeshiya Sanwardhana Bank, Sri Lanka Savings Bank, State Mortgage and Investment Bank and Merchant Bank of Sri Lanka are the state owned banks in Sri Lanka.

The banking sector dominated the financial sector accounting for 72.5 per cent of total assets as at end 2020. The banking sector asset base increased by Rs. 2.1 trillion during the year surpassing Rs. 14.6 trillion by end December 2020, recording a year-on-year growth of 17.1 per cent compared to that of 6.2 percent reported as at end 2019. Growth in loans and advances improved from 5.6 per cent in 2019 to 11.9 per cent in 2020. The state banks having almost 40 percent of total asset base and over 48 percent of total lending portfolio still dominate the banking sector in the country in 2020. The total government owned banks branch network including service delivery points has expanded to 1,922 by new 06 branches in 2020 while almost all the banks adopted digital platform to serve their customers under the social distancing phenomena.

The deposits continued to be the main source of funding followed by borrowings. Total Deposits at the end of year 2020 was 11,140.9 billion of which time deposits accounted for 63 per cent while savings and current deposits accounted for 28.3 per cent and 6.2 per cent respectively. Accordingly, Time deposits accounted for 47.0 per cent of increase in deposits during the year despite a decrease in its share in total deposits from 66.5 per cent as at the end of 2019 to 63.0 per cent as at the end of 2020.

Profit after tax of the banking industry was Rs. 136.0 billion during 2020 and increased by 21.7 per cent compared to the previous year due to changes in tax policies commencing from year of assessment 2020/21. The total profitability of the state owned banking sector has increased by 2 percent to Rs. 63.5 billion.

During the year 2019 and 2020, the Central Bank of Sri Lanka (CBSL) facilitated the consolidation process of small state-owned licensed banks. Accordingly, the CBSL granted the regulatory approvals to successfully complete the acquisition and absorption of the banking business of Lankaputhra Development Bank Limited (LDB) by Pradeshiya Sanwardhana Bank as proposed in the Government Budget 2016. Upon completing the consolidation process, the

Monetary Board of the CBSL has granted approval in terms of section 76F read with section 9(9) of the Banking Act No. 30 of 1988 (as amended), to cancel the licence issued to the LDB in terms of the Banking Act, No. 30 of 1988 (as amended), with effect from 01st April 2019. Accordingly, all assets and liabilities of LDB was acquired and merged with Pradeshiya Sanwardhana Bank with effect from 01st April 2019, and all banking business carried on by LDB shall be carried on by Pradeshiya Sanwardhana Bank. The merger process between the Housing Development Finance Corporation Bank of Sri Lanka and State Mortgage and Investment Bank, which commenced in 2018 continued during 2020. In addition, facilitation for the merger of Sri Lanka Savings Bank Limited with National Savings Bank continued in year 2020 in order to further strengthen the banking industry in Sri Lanka.

Profit and the net asset position of the state owned banks for the three years of 2018, 2019 and 2020 are as follows.

Name of the Institution	Profit for the year			Asset			
	2018	2019	2020		2018 (Rs.'000)	2019 (Rs.'000)	2020 (Rs.'000)
Bank of Ceylon				Total Assets	2,284,831,073	2,415,116,629	2,982,981,095
	21,002,660	23,098,035	17,765,132	Total Liabilities	(2,152,661,249)	(2,272,833,892)	(2,826,321,712)
				Net Assets	132,169,824	142,282,737	156,659,383
People's Bank PLC				Total Assets	1,734,702,989	1,873,406,218	2,230,118,665
	17,094,923	12,925,683	14,174,943	Total Liabilities	1,643,493,064	1,778,441,778	2,128,135,067
				Net Assets	91,209,925	94,964,440	101,983,598
Pradeshiya Sanwardhana Bank				Total Assets	176,937,319,425	199,978,929,186	221,109,150,524
	1,073,586,361	498,594,531	404,036,052	Total Liability	162,227,204,796	185,013,607,608	205,994,833,583
				Net Assets	14,710,114,629	14,965,321,578	15,114,316,941

Housing Development Finance Corporation Bank (HDFC Bank)	2018	2019	2020		2018	2019	2020	
	564,390,811	475,712,442	708,136,803		Total assets	49,285,291,088	55,954,646,348	61,029,785,590
					(Total liabilities)	(44,528,678,713)	(50,835,538,592)	(55,247,772,835)
					Net assets	4,756,612,375	5,119,107,756	5,782,012,755
Central Bank of Sri Lanka	2018 Rs. 000	2019 Rs. 000	2020 Rs. 000		2018 (Rs.'000)	2019 (Rs.'000)	2020 (Rs.'000)	
	125,352,549	65,625,454	67,277,480		Total Assets	1,917,440,331	1,919,417,439	2,421,597,167
					Total Liabilities	(1,678,671,932)	(1,615,232,047)	(2,074,431,595)
					Net Assets	238,768,399	304,185,392	347,165,572
Sri Lanka Savings Bank Limited	2018 Rs.	2019 Rs.	2020 Rs.		2020 Rs.	2019 Rs.	2018 Rs.	
	351,266,136	447,816,707	275,056,231		Total Assets	9,265,715,889	8,716,999,003	9,168,463,410
					Total liability	2,735,866,470	3,786,223,199	3781,467,926
					Net Asset	6,529,849,419	4,930,775,804	5,386,995,484
National Savings Bank	2018 Rs.'000	2019 Rs.'000	2020 Rs.'000		2018 (Rs.'000)	2019 (Rs.'000)	2020 (Rs.'000)	
	4,500,151	6,381,170	10,107,916		Total Assets	1,036,845,567	1,157,966,664	1,363,808,376
					Total Liabilities	-993,750,308	-1,112,041,403	-
					Net Assets	43,095,259	45,925,261	1,311,910,879
State Mortgage and Investment Bank	2018 Rs.'000	2019 Rs.'000	2020 Rs.'000		2018	2019	2020	
	244,472,029	419,073,544	355,834,458		Total assets	42,597,268,360	47,311,436,771	52,801,920,647
					Total Liabilities	37,410,284,396	41,652,768,226	46,782,411,960
					Net assets	5,186,983,964	5,658,668,545	6,019,508,687

Merchant Bank of Sri Lanka	2018	2019	2020		2018 (Rs.'000)	2019 (Rs.'000)	2020 (Rs.'000)
	81,285	102,584	(1,108,305)	Total Assets	35,659,527	36,975,116	32,359,209
				Total Liabilities	(33,135,423)	(34,367,328)	(30,891,358)
				Net Assets	2,524,104	2,607,788	1,467,851

Non-performing Ratio of State Owned Banks

	Year	Sector Ratios (Licensed Specialized Banks)	Bank						
			RDB	HDFC	NSB	BOC	Peoples Bank	SMIB	
								Including EPF Loans	Excluding EPF Loans
Non Performing Advance Ratio	2020	6.88	10.11	20.23	2.79	4.8	2.5	22.94	10.71
	2019	5.5	9.6	13.78	1.57	4.8	3.3	21.21	7.73
	2018	4.8	5.4	10.34	1.44	3.6	3.2	22	7

Loans given to public enterprises

RDB

Name of the Entity	Outstanding balance as at 31.12.2020 Rs.
Sri Lanka Handicraft Board	166,723,409
Janasewana National Housing and Resettlement Operation	46,961,137
Paddy Marketing Board	920,539
	214,605,086

HDFC

Name of the Entity	Outstanding balance as at 31.12.2020 Rs.
SEC ON ACCOUNT OF NEMO	53,381,091.49

STATE DEVELOPMENT AND CONSTRUCTION CORPORATION	57,454,967.00
Total	110,836,058.49

NSB

UDA	767.32
Lakdhanavi Ltd.	440.81
Sri Lanka Telecom PLC	4,485.00
KDU 11	8,866.00
Regional Development Bank	1,896.00
Weresganga Loan-Bond	1,897.00
Techno Park Development Co.(Pvt) Ltd	755.00
NWSDB	17,227.57
Ceylon Electricity Board	11,944.13
RDA -CEP 1 & 11	24,111.26
	72,390.09

BOC

Total Outstanding of SOEs as at 31 December 2020

Name of the Customer	Total Outstanding as at 31/12/2020 (Rs.)
Sri Lanka Handicraft Board	308,694,761.58
Airport & Aviation Services (SL) Ltd.	402,602,739.72
Cey- Nor Foundation Ltd	26,536,859.00
Ceylon Electricity Board	20,180,577,715.31
Ceylon Fishery Hornours Corporation	3,497,398.09
Ceylon Petroleum Corporation	180,120,673,544.38
Department of National Budget (Ministry of Finance)	32,934,217.68
Deputy Secretary to the Treasury (DST)	256,776,236,766.73
Government of Sri Lanka	

	112,582,757,315.33
Lanka Building Materials Corporation Ltd	553,342,465.75
Lanka Mineral Sands Limited	2,473,714.92
Lanka Sathosa Ltd	11,098,668,320.38
M/S Ceylon Fisheries Corporation	230,857,549.23
M/S Elkaduwa Plantation Ltd	121,115,489.46
Mihin Lanka (Pvt) Ltd	2,762,573,147.42
Milco Pvt Ltd	424,396,787.43
National Housing Development Authority	885,124,026.02
National School of Business Management	8,956,959,072.81
National Water Supply and Drainage Board	44,144,192,145.69
Northsea Limited	95,143,487.69
Road Development Authority	115,701,958,809.99
Sri Lanka Cement Corporation	68,122,374.54
Sri Lanka Ports Authority	5,315,104,041.32
Sri Lanka Rupavahini Corporation	493,936,829.82
Sri Lankan Airlines Limited	49,541,062,189.81
State Engineering Corporation Sri Lanka	3,042,421,803.23
State Pharmaceuticals Corporation	10,300,733,228.64
The Associated Newspapers of Ceylon Ltd.	119,505,309.74
The Secretary Ministry of High ways Ports & Ship	38,357,469.00
Urban Development Authority	244,779,864.04
A/G/M/Milk Product	6,145,826.00
Board of Investment of Sri Lanka.	164,865,921.97
Boc Travels (Private) Ltd.	10,428,516.40
Chairman Urben Council	11,201,216.91
Chief Secretary (NWP)	272,189,270.20
Commissioner General Of Agrarian Development	286,284,988.37
Commissioner General of Excise	

	320,791,003.19
Commissioner General of Inland Revenue	132,751,331.36
Department of National Planing	36,345,225.81
Department of Public Finance	50,918,335.65
Department of Treasury Operations	54,578,453.45
Director General Department of External Resources	28,700,289.54
Fatima Diwara CO-O	1,438,570.00
Hanguranketha MPCS	2,642,068.16
Housing Development Finance Corporation Bank of Sri Lanka	3,570,159.16
Jaffna Municipal Council	30,770,103.69
Ministry of Finance	535,099,062.86
National Housing Development Authority	3,280,485.43
Office of the Cabinet of Ministers	90,798,825.63
Office of The Leader of The Opposition of Parliament	97,275,213.27
Pay of Gray Pensio	20,656,916,350.16
Pradesiya Sabawa	921,208.68
Sangaruwanketha MI	1,398,565.51
Secretary Ministry of National Policies and Economic Affairs	11,824,056.40
Secretary Public Service Commission	54,434,955.08
Secretary To The President	326,424,467.54
Sri Lanka Tourism Promotion Bureau	27,772,245.05
Tea Research Institute	33,977,713.05
The Commisioner Of Municipal Council	65,885,257.72
University of Vocational Technology	19,567,899.73
Vocational Training Authority Of Sri Lanka	62,175,985.70
Wayamba Human Resour	2,948,974.80
Beralapanatara MPC	1,627,074.39
Central Cultural	343,347,668.11
Ceylon Fisheries	

	210,791.39
Chief Secretary - Western Province	19,041,476.00
Chief Secretary, Chief Secretary's Secretariat, Eastern Province	103,728,538.00
Chief Secretary-Southern Province	12,029,363.96
Chief Secretary-Uva Provincial Council	44,202,916.29
Construction Industry Development Authority	26,187,516.00
CO-OP Dairy Deve	372,455.91
Dehiwala Galkissa	2,728,953.19
Department of Buddhist Affairs	18,919,011.00
Department of Posts	10,687,720.00
Department of Probation and Child Care Service	8,309,751.41
Devop & Cons Corporation	1,491,851,507.36
Embilipitiya Urban Council	1,498,008.10
Geological Survey and Mines Bureau	47,280,141.00
J.E.D.B.Regional	139,633,111.21
Kotalawala Defence	344,319,610.09
Land Use Policy Planning Department	29,441,240.00
Lanka Sugar Company	431,127,833.65
Ministry of Finance	67,093,286.22
Ministry of Internal Home Affairs and Provincial Councils and Local Govt	90,957,040.00
Muli Purpose Corporation	4,285,885.64
National Institute of Business Management	19,577,448.00
National Livestock Development Board	3,575,723.87
National Police Commission	9,618,920.00
National Procurement Commission	8,971,649.00
National School of Business Management Limited	2,245,300.00
Paddy Marketing Board	11,174,518,770.85
Passenger Transport	1,952,399.04

Rakna Arakshaka	38,229,041.09
Road Passenger Transport Authority Western Province	38,030,475.00
S L B C	47,203,611.42
S L L R & Dev Co.	1,566,418,071.61
secretary general of parliament	8,767,260.00
Secretary, Ministry of Local Government - Western Province	9,986,340.00
Sri Lanka Bureau Of Foreign Employment	255,505,569.00
Sri Lanka State PL	7,000.00
State Timber Corporation	27,456,876.00
The Sri Lanka Tran	127,191.18
University of Colombo Sri Palee Campus	9,794,295.00
Total	864,440,528,831.21

PEOPLE BANK

NAME	Balance as per Bank's Audited Financials		
	Capital	Interest & Other charges	Total Receivables
DEPUTY SECRETARY TO TREASURY	333,977,682,970	6,513,575,775	340,491,258,744
CEYLON PETROLEUM CORPORATION	203,826,927,762	31,351,527	203,858,279,290
CEYLON ELECTRICITY BOARD	66,830,232,156	194,654,612	67,024,886,768
ROAD DEVELOPMENT AUTHORITY	58,204,023,307	2,044,394,949	60,248,418,256
SRILANKAN AIRLINES	37,756,906,549	118,544,903	37,875,451,452
CEYLON FERTILIZER COMPANY LTD	16,695,151,685	323,014,802	17,018,166,487
DIRECTOR PENSIONS	25,147,603,732	128,872,514	25,276,476,246
COLOMBO COMMERCIAL FERTILIZER	10,580,207,278	205,848,289	10,786,055,567
NATIONAL WATER SUPPLY	13,346,976,757	723,010,430	14,069,987,187
STATE PHARMACEUTICAL CORPORATION	6,000,000,000	36,247,196	6,036,247,196
CEYLON SHIPPING CORPORATION	12,423,260,290	285,103,139	12,708,363,429
URBAN DEVELOPMENT AUTHORITY	8,754,806,551	523,004,948	9,277,811,498
THE CO OPERATIVE WHOLESALE ESTABLISHMENT	5,765,182,028	903,014,756	6,668,196,784

PADDY MARKETING BOARD	4,884,607,695	103,822,236	4,988,429,930
LANKA SATHOSA LIMITED	4,527,855,961	37,355,337	4,565,211,298
SRI LANKA PORTS AUTHORITY	3,950,858,870	223,417,281	4,174,276,150
SRI LANKA TELECOM PLC	7,000,000,000	330,843,014	7,330,843,014
DEPARTMENT OF SAMURDHI	3,125,743,562	87,499,040	3,213,242,602
MIHIN LANKA (PRIVATE) LTD	2,500,545,936	1,573,782	2,502,119,718
HOTEL DEVELOPERS LANKA LTD	260,203,510	1,449,132	261,652,642
STATE PRINTING CORPORATON	1,117,960,128	6,241,891	1,124,202,019
COLOMBO MUNICIPAL COUNCIL	1,649,190,499	28,880,834	1,678,071,333
MINISTRY OF DEFENCE	753,818,473	4,923,571	758,742,044
NATIONAL HOUSING DEVELOPMENT AUTHORITY	656,345,554	5,720,380	662,065,935
STATE ENGINEERING CORPORATION	449,490,467	33,271,836	482,762,303
LANKA BUILDING MATERIALS CORPORATION	148,587,265	55,756,809	204,344,074
SRI LANKA STATE PLANTATION CORPORATION	99,978,265	1,288,494	101,266,759
SRI LANKA STATE TRADING GENERAL CORP	595,952,214	5,022,814	600,975,029
NATIONAL LIVESTOCK DEVELOPMENT BOARD	128,924,035	773,201	129,697,237
THE ASSOCIATED NEWSPAPERS OF CEYLON LTD	101,956,362	761,464	102,717,826
DAMBULLA MUNICIPAL COUNCIL	6,433,289	31,343	6,464,632
SL AYURVEDIC DRUGS CORPORATION	28,000,000	98,192	28,098,192
UNION CHEMISTS	15,444,657	129,419	15,574,076
MUNICIPAL COMMISSIONER	16,755,420	298,873	17,054,293
KANDY M P C S LTD	16,037,068	126,395	16,163,463
LANKA ELECTRICITY COMPANY	9,666,667	24,630	9,691,297
LANKA CEMENT PLC	4,950,463	2,209,331	7,159,794
CEYLON GOVERNMENT RAILWAYS	154,646,552	1,332,235	155,978,787
OTHER	223,518,738	800,952	224,319,690
Total	831,736,432,714	12,964,290,325	844,700,723,039

1. Bank of Ceylon

1. Name of the Institute **Bank of Ceylon**

2. Opinion for the years 2018 Unmodified Audit Opinion
2019 Unmodified Audit Opinion
2020 Unmodified Audit Opinion

3. Ratio Analysis

Ratio	2018 (%)	2019 (%)	2020 (%)
Performance Ratios			
Return on Equity (ROE)	17.3	16.8	11.9
Return on Assets (ROA)	1.6	1.3	0.9
Interest Margin	3.1	3.2	2.8
Assets Quality Ratio			
Gross Non performing Advance (NPL)	3.6	4.8	4.8
Capital Adequacy Ratios			
Tier 1 Capital	10.3	11.16	11.2
Total Capital	14.58	15.58	14.9
Statutory Ratio			
Liquid Assets Ratio	24.5	24.6	26.6

4. Net asset position

	2018 (Rs.'000)	2019 (Rs.'000)	2020 (Rs.'000)
Total Assets	2,284,831,073	2,415,116,629	2,982,981,095
Total Liabilities	(2,152,661,249)	(2,272,833,892)	(2,826,321,712)
Net Assets	132,169,824	142,282,737	156,659,383

5. Contribution given to the Government

Description	2018 (LKR Mn)	2019 (LKR Mn)	2020 (LKR Mn)
Dividend/ Levy paid to the Government	24,158	18,144	15,556

*Value created to government (Dividend+ Taxes)

6. Carder position

Description	2018	2019	2020
Approved Cadre	11497	11310	10356
Actual Cadre as at 31 st December	11535	10058	9842

7. Operating expenses as a percentage to the revenue/Income

Description	2018	2019	2020
Total Income (Rs.'000)	221,020,693	239,116,469	247,163,965
Total Operating Expenses (Rs.'000)	30,892,827	32,509,242	33,084,673
Total Operating Expenses as a % of Total Income	13.98	13.60	13.39

8. Audit observations

	Audit Observation	Auditor General's Recommendation	Management Comment Given	Preventive measures taken by the institution	Present position
	Year 2018				
01.	Information regarding fund transfer amounting USD 1,103,980 credited to account no. 8066387 maintained by Mr. J C Nammuni on 04 October 2017 and withdrawn Rs.30,000,000 on the same date has not been reported to Financial Intelligent Unit on time and subsequently reported	Bank should comply with the Section 7(1) and 7(2) of the Financial Transaction Reporting Act No. 6 of 2006.	Said lapses have now been rectified with the implementation of the Clari5 system, which is the new Anti – Money laundering and countering the Financing of	Awareness programs in this regard are being conducted on regular basis by the Compliance Division	Clar5 AML system is in place since 20.03.2019. Mandatory complianc

	<p>on 10 October 2017. Hence FIU has imposed a penalty payment to the Bank amounting to Rs.1,000,000 in term of section 15(1)(e) read with section 18(1) of the Financial Transaction Reporting Act, No. 6 of 2006.</p>		<p>Terrorism (AML/CFT) transaction monitoring system of the bank. Smart Remit System, which perform SWIFT transaction processing is now integrated with Clari5 and it generates STR alerts automatically. Further, Compliance division makes sure of the submission of the STR on timely manner to the FIU of the Central Bank of Sri Lanka.</p>	<p>to educate the staff on strict adherence to all regulations, with the assistance of FIU. Online compliance certification system has been introduced for all the staff members to ensure the effectiveness of the training programs.</p>	<p>certification has been in place for all staff.</p>
02.	<p>Loan officer of the Maradana branch had fraudulently created a loan account for Rs. 1.1 million in the system and loan funds had been used to settle other loan accounts through the system without following the formal procedures and bank circulars. Further, a sum of Rs. 19 million deposited as bank guarantees had been transferred to the relevant customer's savings account without a written approval from the customer in the aim of increasing the savings account balances as at the end of the year. Further, Temporary overdraft facilities relevant to 02 accounts totaling Rs.7.3 million had been granted exceeding the authority limit of</p>	<p>Bank should periodically evaluate and strength the internal control system which avoid fraudulent activities.</p>	<p>Based on the preliminary investigation, the credit officer was interdicted from the bank service</p> <p>Disciplinary actions are in progress against the credit officer of Maradana Branch and other staff members involved for their negligence</p> <p>The fraudulent loan of Rs.1.1million created by the credit officer of Maradana Branch</p>	<p>Preventive measures are already in place.</p>	<p>Investigation has been completed . Disciplinary actions have been imposed to the relevant staff.</p>

	<p>the Manager - Maradana branch and contravening the bank circulars. Permanent overdraft facilities relevant to 07 accounts totaling Rs.36.97 million had been granted in the aim of fulfilling deposit targets of the Maradana branch without obtaining a proper approval and recommendations.</p>		<p>is not paid off yet and it is in the regular section. The balance to be recovered as at 06.07.2019 is Rs. 690,042.</p>		
03.	<p>Loan officer of BOC Anuradhapura branch has misguided his bank officers and granted Loans and Overdrafts to his relatives in several occasions without any collateral. Also, he has overdrawn such customers' current accounts by using Branch Manager's Personal access with exceeding the authority of the Manager and misplaced even mandate relevant to the customers. Further, covering approval for aforesaid overdraft facility was not taken. That current account also has fraudulently transferred from another branch through the ICBS by using Branch Manager's Personal access. In this regard, the officer concerned act contrary to the provisions of bank circulars. Further, he has misplaced 86 loan files and due to that the recovery process of the relevant loans is pending and out of the granted amount of Rs.14 Mn, Rs.6.8 Mn is in the financial risk without taking any recovery action due to the aforesaid reason. Further, Rs.13 Mn Loans were transferred to</p>	<p>Bank should periodically evaluate and strength the internal control system which avoid fraudulent activities.</p>	<p>The credit officer was interdicted from the bank service.</p> <p>Disciplinary actions are in progress against the credit officer who committed the frauds and against 8 staff members for their negligent.</p> <p>Loss of Rs.14Mn to the bank is to be recovered by bank</p>	<p>Preventive measures are already in place.</p>	<p>Investigation has been completed .</p> <p>Disciplinary inquiry has not been completed yet.</p>

	Nonperforming Category.				
04.	Branch Manager of the Norochcholi branch has done many irregularities in the operation of Deposits, Loans and Pawning transactions. A fake loan account has been created and approved by Branch Manager on the name of his brother and father for the amount of Rs.2.5 Mn and Rs.490,000 respectively by using unauthorized access and fund also was released fraudulently. Further he has opened Senior Citizen Fixed Deposit Accounts on behalf of his Mother and Mother in law for Rs.2.7 Mn committing several frauds and closed aforesaid accounts in the system without a request of customer and finally he avoided giving relevant interest to such customers. Said Manager has forced an officer at the pawning section to accept low karatage gold articles value of which was Rs. 899,280. Also, he has withdrawn money amounting of Rs 2.5 Mn from the counter fraudulently. In addition to that, he cancelled the crossing of a Pay in order for purchasing a Motor Vehicle which cost of Rs.1,715,000 and made withdrawal from the counter without a written permission of the customer. In this regard, Mortgage Bond also has not been registered within 21 days.	Bank should periodically evaluate and strength the internal control system which avoid fraudulent activities.	The branch manager was interdicted from the bank service. Disciplinary actions are in progress against the Branch Manager who committed the frauds and other staff members for their negligence. Loss to the bank was fully recovered in all stated cases.	Preventive measures are already in place.	Investigation was completed Disciplinary inquiry has also been completed
05.	An extent of 163,890 square feet of a 6 storied building out of total extent of 261,610	After renovating the building, the	Based on the structural assessment report	Not applicable	The approval of Board

	<p>square feet situated at York Street belonging to the Bank had been used by the Metropolitan Branch and Western Province North Office up to the year 2013 and the rest of floor areas are still being used by the Hotels Colombo (1963) Ltd. A considerable area or more than 60 per cent of the building is being idle since 2013. As per the valuation report dated 17 October 2016, the value of the land and building was Rs.3,413 million.</p>	<p>Bank should take actions to utilize the idle area properly.</p>	<p>of the York Street Building, the Bank has decided to commence the structural strengthening of the building and the approval of the BOD had been obtained on 29.08.2019 to proceed with the works. A paper advertisement has been published on 27.09.2019 calling proposals from consultants for structural strengthening of the building. The Bank is planning to renovate the building after the completion of structural strengthening and the consent of the Ministry of Finance has been given for the matter.</p>		<p>of Directors was obtained to consolidate Hotels Colombo (1963) Limited (GOH) with Selendiva Investments Limited (SIL) and transfer the ownership of York Street Building (YSB) to SIL as per the cabinet approvals dated 04th March 2020 and 08th July 2020.</p> <p>Accordingly, the transferring process is progressing</p>
	<p>Year 2019</p>				

06.	<p>The total outstanding balance from Kaduwela Holdings (PVT) Ltd and its Directors were Rs.1,120.509 million as at 31 December 2019 and the loans were transferred to non performing category on 23 June 2017.</p> <p>A Forensic audit examination has been carried out by a private audit firm on 04 September 2018 against the loans granted to Kaduwela Holdings (PVT) Ltd and its directors by the Metropolitan Branch and Kaduwela Branch of the Bank. The examination revealed the following weaknesses of each branch.</p> <p><u>Metropolitan Branch</u></p> <ul style="list-style-type: none"> - Improper discharge of duties by the Metropolitan Branch officials when granting facilities and monitoring of the utilization of the proceeds by the company. - Misuse of delegated authority limits of the officers. - Granting unauthorized excess. - Settlement of facility via Bank's own funds. - Unsatisfactory actions taken to recover the outstanding amount related to Letter of Credit and Hypothecation loans. <p><u>Kaduwela Branch</u></p>	Ensure strict compliance with approved credit granting process of the Bank.	Letter of demand sent and cases filed against the borrower and guarantors in commercial high court.	Preventive measures are already in place.	Proceed with legal action already taken.
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	<ul style="list-style-type: none"> - Not obtaining relevant approvals. - Non-recovery of unauthorized TOD granted. - Misuse of delegated authority limits of the officers. - Granting of unauthorized excess. 				
07.	<p>The aggregated total loan outstanding balance of K D Ebert & Sons Holding (Pvt) Ltd was Rs.7,730.592 million. The forensic audit performed by a private audit firm in November 2018, against the facilities granted to K D Ebert & Sons Holding (Pvt) Ltd revealed the clear case of over-financing by the Bank. The Bank has issued certain terms and conditions and those have not been met by the customer and the bank has failed to ensure the compliance with those conditions by the customer, despite restructuring the facilities.</p>	<p>Ensure strict compliance with approved credit granting process of the Bank.</p>	<p>At time to time, the bank has informed the company the requirement for adherence to the terms and conditions imposed by the bank and the company was unable to meet them. However, with the view of closely monitoring the facilities, the credit files were transferred to the Business Revival Unit in September 2020.</p>	<p>Terms and conditions imposed by the approving authority are closely monitored by the business unit, Credit Quality assurance Unit and Risk Division</p>	<p>After file transferred to Business Revival unit in October 2020, all the loan facilities were rescheduled with concessions. Business Revival unit closely monitor the cash flows of the company and recovery of facilities.</p>
08.	<p>Foreign exchange buying and selling should be reported to the Central Bank using Form I and Form II. However, evidences were not available to audit to ensure that, the Bank had</p>	<p>Ensure compliance with the instructions given under relevant Acts.</p>	<p>Generally, all the inward remittances which are over one million are reported in every fortnight to the</p>	<p>Under the Interface Requirement of CBSL all the foreign</p>	<p>-All foreign currency conversions are reporting</p>

	<p>reported to CBSL inward remittances worth of Rs.504,710,570 relating to 04 number of accounts maintained by Kollupitiya and Kaththankudy Branches.</p>	<p>Foreign Exchange Act No. 12 of 2017 / Exchange Control Act No 24 of 1953.</p>	<p>Central Bank of Sri Lanka by the bank. Accordingly, all the remittances which have mentioned in observation have reported to the Central Bank. Further, when inward remittances have been reported to the Central Bank under Form II at the time of conversion and data submitted to Central Bank's Forex Net system. Now Forex net System was suspended by CBSL and hence Bank is not in a position to confirm the accuracy of the statement given. Further, the bank has now established a mechanism to maintain backups of the transactions reporting using Form II under new system of CBSL. Now a system is in place in the Bank to report foreign exchange buying and selling transactions through Form1/ Form2.</p>	<p>currency conversion s are reporting to the CBSL daily basis from 15.02.2019 . All the transaction s under Inward Remittance Department are also adhered to the said reporting mechanism . The bank has established the mechanism to back up all the reported transaction s to the CBSL. All exceptional and non-reported transaction s are also monitored by the Form 1 & 2 unit and</p>	<p>to CBSL. - Automate d Form1/ Form2 reporting system has been establishe d to report all foreign currency sales and purchase transactio ns of the Bank.</p>
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				taking necessary actions to rectify the issues and resubmit the transactions to the CBSL.																	
09.	<p>The Bank has made a contentious payment aggregating to Rs.32,039,733 to the former General Manager as premature retirement benefits during the year 2020 following a Board Decision on 04 March 2020. The details of the payments made are given in the below table.</p> <table border="1"> <thead> <tr> <th>Types of Payment</th> <th>Amount (Rs.)</th> </tr> </thead> <tbody> <tr> <td>Entertainment Allowances</td> <td>7,564,516</td> </tr> <tr> <td>Bonus</td> <td>9,007,169</td> </tr> <tr> <td>Bonus Advance payment on April 2020</td> <td>411,586</td> </tr> <tr> <td>Contribution to Pension Trust Fund</td> <td>5,814,877</td> </tr> <tr> <td>15% Difference of Salary & Pension</td> <td>7,049,516</td> </tr> <tr> <td>Contribution to Trust Fund</td> <td>1,453,719</td> </tr> <tr> <td>Under charge of Vehicle Benefit</td> <td>656,250</td> </tr> </tbody> </table>	Types of Payment	Amount (Rs.)	Entertainment Allowances	7,564,516	Bonus	9,007,169	Bonus Advance payment on April 2020	411,586	Contribution to Pension Trust Fund	5,814,877	15% Difference of Salary & Pension	7,049,516	Contribution to Trust Fund	1,453,719	Under charge of Vehicle Benefit	656,250	Avoid from contentious payments which gives wrong precedent.	No Comment.	N/A	Comments Noted
Types of Payment	Amount (Rs.)																				
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Vehicle Maintenance Cost	82,100										
Total	<u>32,039,733</u>										
	Year 2020										
10.	A difference of Rs.397,565,454 was reported between the General Ledger balance and the outstanding balances of the Bank Trade Finance System due to some system failures.	It is recommended to reconcile the balances between the general ledger and the subsystems on frequent basis.	These long outstanding items have been reported since 2006. The Bank is in the process of reconciling these items and need to reconcile each item on a case-by-case basis. Therefore, extended time would be required for this task. Further, the bank has made required provisions for these accounts accordingly.	-	Items have been reconciled and Memorandum will be submitted to ALCO to remove the Long O/S form respective G/Ls						
11.	There is a list of customers to whom loans were granted during the year 2020 and those loans are transferred to NPL category in the same year (Excluded rescheduled facilities). The following customers represent the top 20 customers of the above list.	It is recommended to ensure that satisfactory customer evaluations have been performed by the bank before granting loans to a particular customer.	<table border="1"> <tr> <td>K D Ebert and Ruhunu Development</td> <td>Downward trend of the industry has affected to repayment of facilities specially delay in payments from RDA.</td> </tr> <tr> <td>Senaro Motor company</td> <td>Declining trend of vehicle business.</td> </tr> <tr> <td>Nawalka Steel Industri</td> <td>This loan has been rescheduled</td> </tr> </table>	K D Ebert and Ruhunu Development	Downward trend of the industry has affected to repayment of facilities specially delay in payments from RDA.	Senaro Motor company	Declining trend of vehicle business.	Nawalka Steel Industri	This loan has been rescheduled	Preventive measures are already in place.	<u>K D Ebert & Ruhunu Development</u> After transferred to Business Revival, revival packages have been approved and implemented to both companies under several concession
K D Ebert and Ruhunu Development	Downward trend of the industry has affected to repayment of facilities specially delay in payments from RDA.										
Senaro Motor company	Declining trend of vehicle business.										
Nawalka Steel Industri	This loan has been rescheduled										

No	Name of the Customer	No. of Loans	Total Amount Disbursed (Rs. Mn)	Total Amount Outstanding as at 31.12.2020 (Rs. Mn)			es (Pvt) Ltd	ed on 26.07.2021.		s.
1	K D Ebert & Sons Hol Pvt Ltd	12	241.45	185.27			Trend Setters Pvt Ltd	The Facility has been taken out from NPA on 04.03.2021 and it is now in regular section.		Under revival package all the existing facilities have been rescheduled. Companies are repaying facilities positive manner.
2	Senaro Motor Company (Pvt) Ltd	11	64.58	64.58			Bela International (Pvt)Ltd	Legal action is to be initiated		<u>Senaro Motor Company</u>
3	Ruhunu Deve. Contractors & Eng. Pvt Ltd	8	95.00	32.50			Mr. D M P Chularatne	Due to the Covid-19 pandemic situation business was dropped. However in April 2021 the facility was settled in full.		Company has been transferred to Business Revival unit and comprehensive revival package has been approved by the Board of Directors on its meeting held at 20/01/2022. This package has been structured for
4	Nawaloka Steel Industries (Pvt) Ltd	3	30.00	30.00						
5	Trend Setters Pvt Ltd	1	25.00	25.00						
6	Bela International (Pvt)Ltd	1	18.52	18.52						
7	Mr D M P Chularatne	3	15.40	15.40			Mr W M A Abeyratne	Customer is not in a position to repay the loan installments as the rice mill is not functioning properly. Legal actions initiated.		
8	Mr W M A Abeyratne	1	15.00	14.97						
9	S V K Imports	2	13.85	12.19						
10	Sirimadura Hotels Ltd	1	12.00	12.00						
11	Mohksaha Ltd	1	11.96	11.96						
12	Kiddies And Toys International(P	2	10.50	10.50			S V K Imports	Proprietor of the SVK Imports is not in a		

	vt)Ltd			
13	Mr S S J P Fernando	4	9.10	8.87
14	Mr K U Sumana sena	2	8.68	8.68
15	Herathon Hospitality (Pvt) Ltd	2	6.64	6.64
16	Kalapuwa Nature Resort	5	6.23	6.23
17	Mr K A S Somapala	1	5.90	5.90
18	Mr W G P N L Weerasooriya	1	5.55	5.55
19	Freedent Ulu Kamhala	4	5.29	5.26

position to settle the Trust Receipts (TR) facilities in a single payment because the borrower was confronted some losses in his business. Therefore, the borrower has been granted a working capital loan of Rs.15.0 Mn for two years (up to September 2022) to restore his business and he is paying nearly Rs.650,000.00 monthly to service the said loan. In addition the borrower has agreed to deposit another Rs.50,000.00 as a monthly payment

rescheduling existing NPA facilities and future business proposal given by the company.

Revival package is under documentation process.

Nawaloka Steel Industries (Pvt) Ltd

Rs. 180.95 M has been received to the Current account during last three months' period and all reschedule term loans has been settled regularly without any arrears up

			<p>to recover NPA TR facilities and we have recovered Rs.150,000.00 (Rs.50,000 * 3) up to October 2021. After the settlement of said working capital loan, borrower agreed to continue the Rs.650,000.00 of monthly payment until the full settlement of NPA TR facilities.</p>	<p>to date.</p> <p>Hypothecation loans have also been settled prior to the due date. Hence, no outstanding as at 31st December 2020.</p> <p><u>Trend Setters Pvt Ltd</u></p> <p>Current outstanding Rs 14.4M and approval has been obtained to restructure the facility in January 2022.</p>
		<p>Sirimadura Hotels Ltd</p>	<p>Respective loan granted under Sawbagya loan scheme to manage the working capital requirement of the company under hotel sector.</p>	<p><u>Bela International (Pvt)Ltd</u></p> <p>Legal action is to be initiated.</p> <p><u>Mr. D M</u></p>

				Same loan has regularized on next day.		<u>P Chularatne</u>
			Mohksha Ltd	Company agreed to settle overdue amount within two months period.		Facilities were settled in full
			Kiddies And Toys International (Pvt) Ltd	No comment.		<u>Mr W M A Abeyratne</u>
			Mr S S J P Fernando	Fishing industry was badly affected by the covid-19 pandemic and the customer has spent the income to repair two multi-day boats. Customer agreed to settle the arrears before the end of the year 2021.		Legal action initiated. Case No.1935/m/21 Next hearing date 12.05.2022
			Mr K U Sumana sena	The facility will be settled by cancelling		<u>S V K Imports</u> Total of Rs.300,000.00 (Rs.50,000 * 6) from the NPA TR facilities have been recovered up to

				g the FD which is kept as security.	09.02.2022.
			Herathon Hospitality (Pvt) Ltd	Facilities have been granted for the purpose of constructing a hotel. However the constructions are yet to be completed. Hence the customer is not getting an income to repay the loans.	<u>Sirimadura Hotels Ltd</u> Loan is in regular Section.
			Kalapurawa Nature Resort	Customer is engaged in the business of reception hall which is affected by the Easter Sunday Attack and the Covid-19 pandemic. So the income has dropped. Discussions were held with the customer	<u>Mohksha Ltd</u> Company has requested to restructure entire credit package and it has been finalized on Jan-2022. Company has routed USD 20,000/- to their BFC Account and it will be applied to LKR loan recoveries after finalization of documentation

				to reschedule the facilities but the facilities were not rescheduled due to the inability to forecast the income with the pandemic situation prevailed in the country.		process of restructuring package
			Mr K A S Somapala	Facility has been granted for the purpose of Paddy Milling. Due to price fluctuations and climate changes yield has been reduced. Hence the mill is not functioning properly.		<u>Mr S S J P Fernando</u> Rs.1Mn deposited & 2 facilities were regularized. Customer agreed to regularized others as soon as possible
			Mr W G P N L Weerasooriya	Facility has been granted for the purpose of Paddy Milling. Due to price fluctuations and		<u>Mr K U Sumanasekera</u> Facilities settled on 8.12.21 <u>Herathon Hospitality (Pvt) Ltd</u>

			climate changes yield has been reduced. Hence the mill is not functioning properly.		Legal actions to be initiated after 31.3.2022
			<u>Freedent UIU Kamhala</u> These four loans are 2 nd loans granted under OIC 328/2019 Relief Package to Strengthen the Tourism Industry affected by the Easter Sunday Terrorist attack. Customer is Tourist Board registered Company supplying tiles to Tourist Hotels. Due to COVID 19 pandemic situation, customer was unable to service these loans as expected.		<u>Kalapuwa Nature Resort</u> Still the customer is reviving from his business failure. Branch is planning to visit him before rescheduling the existing NPAs <u>Mr K A S Somapala</u> Customer agreed to settle dues <u>Mr W G P N L Weerasoriya</u>

					<p>Customer agreed to settle dues</p> <p><u>Freudent UIU Kamhala</u></p> <p>Tourism moratorium has considered . Repayment has to start from the month of July onwards</p>
12.	Bank prevents loans extended to the several loss-making State Owned Enterprises from being classified as NPL even though there is no repayment of capital and interest. Hence loans disclosed under stage 3 may be understated.	It is recommended to correctly categorize the loans granted to State Owned Enterprises.	<p><u>Sri Lankan Airlines Ltd (SLAL)</u></p> <p>SLAL has been categorized under stage 2 for the purpose of impairment provisioning and has provided Rs.672.9 Mn on 30.09.2021 (For LKR Exposure: Rs.213.5 Mn and for USD exposure Rs.459.4Mn).</p> <p>Facilities granted to SLAL are covered by valid</p>	Facilities granted to SLAL are solely under national interest. All these term loans are covered by valid Letter of Comfort issued by Government Treasury (GT). GT is monitoring the situation and renewed	<p><u>Sri Lankan Airlines Ltd (SLAL)</u></p> <p>Interest component of Term loans are serviced on time upto 31.01.2022.</p> <p>With the removal of Covid</p>

Name of the SOE	Loan No.	No. of times Restructured	Amount Outstanding (Rs.) Mn As at 31/12/2020	Security	Remarks				
Sri Lanka Airlines	76913761	10 times	5,001	Letter of Comfort	As per the CBSL guideline on the adaption of Sri Lanka Accounting Standard – SLFRS 9, these credit facilities should be classified under Stage 3 since almost all facilities restructured more than two times.		Letter of Comfort issued by Government Treasury (GT). GT is monitoring the situation and renewed Letter of Comfort until the Balance Sheet improved and restructuring completed. Government approved USD 500 Mn to SLAL of which USD 150.0 Mn released in the year 2020 to pay USD 25.0Mn to CPC and to meet operational expenses.	Letter of Comfort until the Balance Sheet improves. Further, we have no experience, where Government guaranteed loans been defaulted and written off. Bank granted interest moratorium from 15.05.2021 to 31.08.2021 at the request of SLAL pursuant to the CBSL circular/guidelines subject to Letter of Comfort issued by the GT.	19 travel restrictions, SLAL has expanded its flight schedules which result in a company net profit of USD 9.25M and a group profit of USD 10.66M in December.
	78038701	8 times	4,001	Letter of Comfort					
	78038873	8 times	3,901	Letter of Comfort					
	85759786	1 times	450	Treasury Guarantee					
	79233764	8 times	6,059	Letter of Comfort					
	79930506	10 times	7,923	Letter of Comfort					
	80825777	7 times	4,661	Letter of Comfort					
Road Development Authority	73039168	2 times	1,499	Treasury Guarantee	As per the CBSL guideline on the adaption of Sri Lanka Accounting Standard – SLFRS 9, these credit facilities should be classified under Stage 2 since almost		Interest component relating to these facilities are served on time until May 2021. As per CBSL circular No. 05 of 2021 SLAL has already requested an interest		Please refer previous comment
	73044929	2 times	1,677	Treasury Guarantee					
	73378065	2 times	1,637	Treasury Guarantee					
	73	2	1,55	Tre					

	93 64 42	tim es	4	asu ry Gu ara nte e	all facilities restructu red more than twice.	moratorium for its USD and LKR term loans and the overdraft facilities. Accordingly interest moratorium granted up to 30 August 2021. Servicing of interest started from 1st September 2021 and paid without any arrears. Further, we have no experience, where Government guaranteed loans been defaulted and written off. On that basis, these facilities have been considered under stage 2. <u>Road Development Authority</u> RDA loans restructured based on the request of RDA by extending the repayment period up to 15 years and changing the repayment structure by postpone capital repayments as bullet payment. Facility wise loans have been	December 2021. <u>Governme nt of Sri Lanka</u> Total exposure to the GOSL is USD 375.0 M as at 11.02.202 2. USD 252.879M of loans has been settled by GOSL from 02.09.202 1 to date. Total impairmen t provisioni ng against GOSL foreign currency loan exposure is Rs.5,523 M. .
	74 01 88 17	2 tim es	998	Tre asu ry Gu ara nte e			
	74 08 61 64	2 tim es	1,69 1	Tre asu ry Gu ara nte e			
	74 12 93 60	2 tim es	842	Tre asu ry Gu ara nte e			
	75 09 86 30	2 tim es	1,84 9	Tre asu ry Gu ara nte e			
	75 11 91 95	2 tim es	2,85 3	Tre asu ry Gu ara nte e			
	75 80 10 82	2 tim es	1,03 9	Tre asu ry Gu ara nte e			
	76 07 94 42	2 tim es	448	Tre asu ry Gu ara nte e			
	76 21 50 38	2 tim es	1,76 5	Tre asu ry Gu ara nte e			
	76 66 32 67	2 tim es	1,98 6	Tre asu ry Gu ara nte e			
	76 87 41 98	2 tim es	1,10 4	Tre asu ry Gu ara nte e			
	83 00	2 tim	727	Tre asu			

	90 99	es		ry Gu ara nte e		restructured only one time. However entity wise RDA loans have been restricted for two times.
	84 15 76 20	2 tim es	26,0 57	Tre asu ry Gu ara nte e		
	82 97 56 61	2 tim es	23,2 08	Tre asu ry Gu ara nte e		
	75 49 44 62	2 tim es	2,36 1	Tre asu ry Gu ara nte e		
	83 58 47 64	2 tim es	9,36 5	Tre asu ry Gu ara nte e		
	85 13 84 55	2 tim es	3,05 7	Tre asu ry Gu ara nte e		
	85 91 89 10	2 tim es	11,5 08	Tre asu ry Gu ara nte e		
	85 99 15 42	2 tim es	14,5 89	Tre asu ry Gu ara nte e		
Lanka Sathosa Limited	TF - L4 88 96 1	1 tim e	1,21 9	Let ter of Un der tak ing	Two term loans of Rs.8,626 ,982,993 .38 and Rs.1,612 ,745,537 has been granted to recover capital and accrued interest up to 31.12.20 19 and waive off further accrued interest	<p><u>Lanka Sathosa Limited</u></p> <p>Two Terms loans of Rs.8,626,982,993.38 and Rs.1,612,745,537.00 have been granted to accommodate total liability under referred import loans against Letter of Undertaking issued by the General Treasury on 25.01.2021.</p> <p>The Bank has recovered loan installments up to 30thSeptember 2021 totaling Rs.3,829,027,254.20 under both loans.</p> <p><u>Government of Sri Lanka</u></p> <p>USD 497, 000/-, USD 14.0 Mn, USD 25.0 Mn, USD 28.0 Mn and USD 17.251Mn</p>

					up to the completion of granting two term loans. Therefore it seems that the Bank prevent Lanka Sathosa Limited from being classified as NPL.		facilities granted to GOSL have been fully settled. USD 100.0 Mn facility has been reduced to USD75.0 Mn and rolled-over. Total facility outstanding of USD 570.0Mn as at 30.12.2020 was reduced to USD 563.38 Mn by 12.11.2021. Total impairment against GOSL foreign currency loan exposure is as follows. Rs. 3,606.5Mn (prior to downgrading country rating on 30.09.2021). Rs.4,080.0 Mn (Subsequent to downgrading the country rating on 30.09.2021).	
	Government of Sri Lanka	4 times	USD 265	Loan Agreement	As per the CBSL guideline on the adaption of Sri Lanka Accounting Standard – SLFRS 9, these credit facilities should be classified under Stage 3 since almost all facilities restructured more than twice. But all facilities are classified under Stage 1 since granted to government of Sri Lanka.			
13.	As per the Banking Act Direction No.03 of 2008, the Bank shall classify the performing loans and advances as non-performing loans and advances where full recoverability in accordance with agreed term is in doubt due to circumstances affecting				It is recommended to classify the customers into correct category as per the instructions given under Banking Act	<u>Mihin Lanka</u> The Bank hasn't classified the customer due to the fact that the Loans are being secured by Treasury	The company is under liquidation process and a claim has been lodged under the	<u>Mihin Lanka</u> The Letter of Comfort extended by Governme

<p>the repayment capacity of the borrower. However it was observed that the Bank has not classified the following customers into correct category, though a significant increase in credit risk is visible. Details are given in the following table.</p>	<p>Direction No. 03 of 2008.</p>	<p>Guarantees covering total liabilities including the interest.</p>	<p>Treasury Guarantee.</p>	<p>nt Treasury up to 31.12.2022.</p>			
<table border="1"> <thead> <tr> <th data-bbox="229 495 331 600">Customer Name</th> <th data-bbox="338 495 464 779">Outstanding Balance as at 31 December 2020 (Rs.' Mn)</th> <th data-bbox="470 495 630 524">Remarks</th> </tr> </thead> </table>	Customer Name	Outstanding Balance as at 31 December 2020 (Rs.' Mn)	Remarks	<p><u>State Engineering Corporation</u></p>	<p>Loans are secured by Treasury Guarantees covering total liabilities including the interest.</p>	<p>The bank has arranged several meetings with SEC' officials and they agreed to submit a settlement plan to the bank.</p>	<p>However, the bank has classified the customer in stage III as at 31.12.2021 and fully impaired.</p>
Customer Name	Outstanding Balance as at 31 December 2020 (Rs.' Mn)	Remarks					
<p>Mihin Lanka</p>	<p>2,763</p>	<p>Restructured more than two times and should be categorized into Stage 3. However the bank has categorized in to stage 2 under Government FCY exposure category.</p>	<p>However, the bank has impaired the interest portion of the existing facilities in complying with SLFRS 9.</p>	<p>Further, a claim has been lodged under the Treasury Guarantee.</p>	<p><u>State Engineering Corporation</u></p>		
<p>State Engineering Corporation</p>	<p>2,652</p>	<p>SEC continuous to face several financial difficulties and canceled the Term Loan facility of Rs.566.9 million, POD 150 million and TOD of Rs.50 million upon the grant of term loan</p>			<p>A Treasury guarantee is available to cover total liability. However, the bank has classified the customer in stage III as at 31.12.202</p>		

		facility of Rs.2,000 million against the treasury guarantee for the same amount. It was observed that the significant credit risk has been increased and hence need to be categorized into non performing category.				1 and has impaired the interest portion.
14.	It is required to charge lending rate plus subsidy rate from non performing customers of Enterprise Sri Lanka Loan Scheme. However interest rate of 2030 non performing customers has not been changed in the system as at 31 December 2020. As well interest rate of 36 non performing customers has been decreased than the originally charged rate in the system.	It is recommended to charge lending rate plus subsidy rate from non performing customers of Enterprise Sri Lanka Loan Scheme as originally agreed.	Mechanism now in place as Branches is closely monitoring this matter on daily basis. Number of NPA loan accounts of which the Interest rate has not been changed as at 12.11.2021 are 1,101 and all those are now in order.	Continuous Mechanism already established to monitor this matter by the Head Office Dep. and Branches. Identified lapses will be attended immediately.	Strictly followed up the matter by the Credit Quality Assurance Units. Available facilities for rectification as at 10.02.2020 is only 15. We will follow up the progress continuously.	
15.	The Bank has not complied with the minimum of 6	It is recommended	This is a matter beyond the control	-	During the year 2021	

	<p>director's requirement as per the Bank of Ceylon Ordinance during the following periods.</p> <ul style="list-style-type: none"> • 1 January 2020 – 21 April 2020 • 08 December 2020 – 31 December 2020 	<p>to comply with the requirements of Bank of Ceylon Ordinance No. 53 of 1938.</p>	<p>of the Bank since the Directors are appointed by the Minister in charge of the Bank as per the enabling enactment.</p> <p>As at present, the Board consists of 6 Directors.</p>		<p>6 Directors were on the Board. From 01 Feb 2022, there is a vacancy on the Board and Ministry is expected to fill that.</p>
16.	<p>The Bank has not complied with the minimum 3 number of independent director's requirement for the period of 01 January 2020 to 13 January 2020.</p>	<p>It is recommended to comply with the requirements of Banking Act Direction No.11 of 2007 Section 3 (2) (iv)</p>	<p>This is a matter beyond the control of the Bank since the Directors are appointed by the Minister in charge of the Bank as per the enabling enactment.</p> <p>As at present the Board consists of 3 independent Directors.</p>		<p>During the year 2021 6 Directors were on the Board. From 01Feb 2022, there is a vacancy on the Board and Ministry is expected to fill that asap.</p>
17.	<p>According to Public Enterprise Circular No PED 03/2016 dated 29 April 2016 Paragraph (2), PAYE Tax of public officers including employees of state owned enterprises, should be deducted from tax liable employee earnings as per the relevant regulations of the IRD. However the collective agreement signed between the Bank and Ceylon Bank's</p>	<p>It is recommended to comply with the instructions given under Public Enterprise Circular No PED 03/2016.</p>	<p>Comments noted.</p>	N/A	<p>The said Circular, PED 03/2016 is not addressed to the Government Banks. Therefore, we have continued</p>

	employee union directs to pay the income tax liability of the employees by the Bank without being deducted from the employees' salary. Based on that, the Bank has paid Rs.22,324,700 as PAYE tax on behalf of employees for the year ended 31 December 2020, without deducting from employee's earnings.				to make payments based on the collective agreement .
18.	The branch manager of the Bibila branch has opened 29 loan accounts on the names of 29 employees who are working in a private company without their knowledge. The branch manager has created forged documents in order to open those loan accounts and disbursed Rs.14.5 million to the owner of the private company. As well the manager has changed the system by using her password to prevent those loans being classified as non-performing loans due to non-payment of installments.	It is recommended to initiate adequate steps to overcome such type of fraudulent activities in the future.	Investigation has been completed. Inquiry is in progress.	Loan origination process has now been automated with the implementation Document Management System (DMS) where all the loan documents should be uploaded to the system and user profiles have been defined as per the applicable delegated authority. Further workflow in the DMS can only be completed upon the independent	Investigation has been completed . Disciplinary inquiry has not been completed yet due to Covid 19.

				<p>verification of the Internal Control Officer (ICO) of the branch.</p> <p>Further IS Audit unit of Internal Audit Department daily monitors the attempts of bucket clearance and issue a report on daily basis to the Branch Manager, Area manager and the Assistant General manager as applicable.</p>	
19.	<p>The loan officer of the Lakeview branch has created 14 forged loan accounts and a saving account on her mother's name by using forged signature and forged identity card number. She has disbursed Rs.7,147,000 on 14 forged loan accounts and deposited that money to the created saving account. Then she has withdrew that money in the saving account by creating forged</p>	<p>It is recommended to initiate adequate steps to overcome such type of fraudulent activities in the future.</p>	<p>Investigation has been completed.</p>	<p>Loan origination process has now been automated with the implementation of Document Management System (DMS) where all</p>	<p>Investigation has been completed .</p> <p>Disciplinary inquiry has not been completed yet due to Covid 19.</p>

	<p>money withdrawal slips on her mother's name and use that money for the private purposes.</p>			<p>the loan documents should be uploaded to the system and user profiles have been defined as per the applicable delegated authority. Further workflow in the DMS can only be completed upon the independent verification of the Internal Control Officer (ICO) of the branch.</p> <p>Further IS Audit unit of Internal Audit Department daily monitors the attempts of bucket clearance and issue a report on daily basis to the Branch Manager,</p>	
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				Area manager and the Assistant General manager as applicable.	
20.	The Maradhana branch has disbursed loans amounting to Rs.6,525,000 to 5 borrowers who told that they are working in the Defense Ministry by accepting forged documents given by them. The branch staff had not either verified the accuracy of the documents provided by the borrowers or confirm their employment in the Defense Ministry and therefore acted negligently in this regard.	It is recommended to initiate adequate steps to overcome such type of fraudulent activities in the future.	Investigation & inquiry have been Completed.	Bank has strengthened the internal controls over loans granted to the employees where under the 08 th amendments to the OIC 319/2018 credit officer should obtain re-confirmation of the form 375 by respective employer.	Investigation & inquiry have been Completed.
21.	An officer has opened 3 current accounts and 2 saving accounts on forged documents by misleading other staff of the branch, while he is employing in the Nikaweratiya and Wariyapola branches. He has transferred the minimum deposit amount to the above accounts by misusing the password of the cashier and	It is recommended to initiate adequate steps to overcome such type of fraudulent activities in the future.	Investigation has been completed.	Loan origination process has now been automated with the implementation Document Management System	Investigation has been completed.

	also obtained 3 cheque books for the current accounts. Further he has created 2 loan accounts by providing forged documents to the bank's staff. He is responsible for putting Rs.15.5 million worth of bank's assets into a financial risk.			(DMS). Further, all the accounts opened on a day should be checked by A class officer by following day.	
22.	The Nugegoda Branch has granted a loan amounting to Rs.328.648 million to Tiyan Multi (Pvt) Ltd and a loan amounting to Rs.684 million to Gajaba City Centre. In these two instances, the officers of the branch had not properly discharged their duties and many irregularities were observed in the loan granting and post monitoring process. These loans were transferred to the NPL category on 31 May 2018 and 20 January 2020 respectively. The total outstanding balance of Tiyan Multi (Pvt) Ltd and Gajaba City Centre as at 31 December 2020 was Rs.476.446 million and Rs.834.407 million respectively.	It is recommended to initiate adequate steps to overcome such type of fraudulent activities in the future.	Investigation is in progress.	ICO has been deployed in every super grade branch and proper-delegated authority is in place.	Investigation is in progress.
23.	A staff member of the Thanamalwila branch has fraudulently debited a sum of Rs.15.95 million to Central Office Our Account of the branch and credited the said funds to 05 saving accounts of close relatives in five occasions during the period from 05 February 2020 to 10 March	It is recommended to initiate adequate steps to overcome such type of fraudulent activities in the future.	Investigation has been completed.	A well-established process is in place for the month end G/L account balancing in every branch and	Investigation has been completed. Disciplinary inquiry has not been

	<p>2020. Those credited amounts from all accounts have been withdrawn by the officer from time to time. Further this officer has obtained 3 loans amount aggregating to Rs.900,000 on the names of 3 relatives by giving forged documents. Those loans have not been fully paid and currently lying in the NPL category.</p>			<p>the same is monitored by Operation Manager of the province.</p> <p>In every instance A and B class officers should sign the G/L debit voucher before posting.</p>	<p>completed yet due to Covid 19.</p>
24.	<p>22 number of erroneous CEFT transactions amounting to Rs.283.1 million has been taken place during the period of 2019 and 2020 from 4 customer accounts. Erroneous CEFT transactions were occurred due to a 'system bug' appeared in 'EFT Service' software (in-house developed IT software) which was used to transfer transaction details to communicator with Core Banking system. These erroneous CEFT transactions had not been detected during the reconciliation process carried out by the Electronic Banking Division on daily basis.</p> <p>Even though the discussions were having between the officials of Electronic Banking Division and the IT Division since 2018 to develop a more accurate, user friendly and</p>	<p>It is recommender to develop a more accurate, user friendly reconciliation system to avoid such type of erroneous transactions in the future.</p>	<p>Investigation has been completed.</p>	<p>Bank has established CEFT reconciliation unit and introduced Reconciliation Process to be carried out on daily basis.</p>	<p>Investigation has been completed.</p>

<p>versatile reconciliation system by using a new parking account structure, IT Division could not complete the proposed development until the occurrence of said erroneous transactions in May 2020. Although alerts have been generated through AML Clari5 system pertaining to the high valued erroneous credit transactions, officers in those branches were unable to recognize those transactions as unusual or suspicious. All erroneously credited amounts to each customer account has been fully recovered and software has been modified and developed by addressing all possible scenarios in future.</p>				
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2. Peoples Bank

1. Name of the Institution

Peoples Bank

2. Opinion

Opinion for the years

2018

Unmodified Audit Opinion

2019

Unmodified Audit Opinion

2020

Unmodified Audit Opinion

3. Ratio Analysis

Ratio	2018	2019	2020
Performance Ratio			
i. Return on Equity (ROE)	20.3	13.9	14.4
ii. Return On Assets (ROA)	1.5	1.1	1.0
iii. Interest Margin	3.5	3.2	3.0
Assets Quality Ratio			
Gross Nonperforming Advances(NPL)	2.5	3.3	3.2
Capital Adequacy Ratio			
Tier 1 Capital (Minimum 10%)	11	10.7	9.5
Total Capital (Minimum 14%)	14.5	14.7	15.5
Statutory Ratio			
Liquidity Asset Ratio (Minimum Requirement 20%)	27.6	21.7	25.61
Liquidity Coverage Ratio (Minimum Requirement 100%)	Rupee-144.90 All Currency 100.42	Rupee-160.80 All Currency 132.10	Rupee - 166.82 All currency – 111.55

4. Net asset position

Rs.'000

	2018	2019	2020
Total Assets	1,734,702,989	1,873,406,218	2,230,118,665
Total Liabilities	1,643,493,064	1,778,441,778	2,128,135,067
Net Assets	91,209,925	94,964,440	101,983,598

5. Contribution given to the Government

Rs.Mn

Description	2018	2019	2020
Dividend/ Levy paid to the Government	19,814.6	19,817	14,444.9

6. Carder position

Staff Category	Actual Cadre(with acting) as at 31.12.2020		Approved Cadre
		Total	
CEO/General Manager	1	1	1
Senior Deputy General Manager	2	2	2
Deputy General Manager	8		
Acting Deputy General Manager	2		15
Deputy General Manager (Contracted)	4	14	
Assistant General Manger	25		
Assistant General Manger (Contracted)	2		33
Acting Assistant General Manger	4	31	
Chief Manager			
Chief Manager	46		
Senior Law Officer	7	53	59
Acting Regional Manager			
Acting Senior Manager			
Senior Manager	65	65	131
Manager (3-1)	267	267	510
Asst. & Dy. Mgr.(3-II & 3-III)			
Deputy Manager	1767	3199	3103
Assistant Manager	1430		
Management Trainee	2		
Staff Assistant + CSA			
Staff Assistant	2093	2095	4242
Customer Service Assistant	2		
Secretary			
Senior Confidential secretary	7	147	-
Confidential Secretary II	69		
Confidential Secretary I	71		

Executive Assistant(Contracted)			
Typist /Stenographer			566
Data Entry Operator			<u>274</u>
Assistant Secretary	139		840
Secretarial Assistant	220		
Service Assistant	361	735	
Trainee Confidential Secretary(Contracted)			
Typist(Contracted)	3		
Multy Duty Assistant(Contracted)	9		
Data Entry Operator(Contracted)	3		
Office Assistant/Labourer			
Records & Service Assiatant	96		
Office Assistant	247		
Labourer	105		
Skilled Labourer	11	533	621
Messengers(Contracted)	2		
Office Assistant(Contracted)	71		
Labourer(Contraced)	1		
Skilled Labourer(Contracted)			
Receptionist/Telephone Operator			
Communication Assistant	14	14	25
Receptionist/Telephone Operator(Contracted)			
Driver			
Driver	139	146	196
Driver(Contracted)	7		
Security			
Security Staff	134	142	148
Security Staff(Contracted)	8		
Special Posts	6	6	-
Dealers	8	8	-
Audit Staff	3	3	-
Finance Staff	6	6	-
Law Staff			
Law Staff (Permanent)	76		-
Law Officers(Contracted)	4	80	
IT Staff	102	102	-
Engineering Staff	15	15	-
Other Contract Employees	28	28	-
Total	7692	7692	9926

7. Administrative expenses as a percentage to the revenue/Income

LKR.'000

	2018	2019	2020
Total Income/Revenue (Gross Income)	181,283,878	199,728,985	190,981,708
Administrative Expenses	35,309,782	36,730,523	35,070,102
Administrative expenses as a percentage of revenue/income	19.48%	18.39%	18.36%

8. Major Audit observations

Year 2018

SeqNo.	Audit Observation	Auditor General's Recommendation	Preventive measures taken by the institution	Present position												
01.	<p>(i) It was observed that following assigned vehicles of bank are using by retired/ resigned officers of the bank without handing over those vehicles to the bank at their retirement/resignation. Approval for use of above vehicles was given by the CEO without prior approval of board of directors and subsequently forwarded to board for their rectification.</p> <table border="1"> <thead> <tr> <th>Designation</th> <th>Resigned/ Retired date</th> <th>Assigned vehicle Number</th> <th>Date of handed over of the vehicle</th> </tr> </thead> <tbody> <tr> <td>Chairman- Mr. Hemasiri Fernando</td> <td>2018.10.22</td> <td>KR-0117</td> <td>2018.11.02</td> </tr> <tr> <td>Head of</td> <td>2019.0</td> <td>CAH-</td> <td>2019.0</td> </tr> </tbody> </table>	Designation	Resigned/ Retired date	Assigned vehicle Number	Date of handed over of the vehicle	Chairman- Mr. Hemasiri Fernando	2018.10.22	KR-0117	2018.11.02	Head of	2019.0	CAH-	2019.0	Need to be established transparent, economical and unique policy on handling of bank's vehicle. Bank should perform comparison between market value of vehicle with discount value, before make decision of cash settlement value.	A new transport policy has been introduced covering all the areas highlighted (BP 723/2019 30.09.2019).	<p>In the past CEO/General Managers were given the opportunity to purchase the vehicle they used at "Book Value" at the time of retirement.</p> <p>In 2016 the Bank has approved a vehicle disposal policy in which a Corporate member with 7 years service is eligible to take possession of the vehicle he/she used at</p>
Designation	Resigned/ Retired date	Assigned vehicle Number	Date of handed over of the vehicle													
Chairman- Mr. Hemasiri Fernando	2018.10.22	KR-0117	2018.11.02													
Head of	2019.0	CAH-	2019.0													

IT-Mr. Sadamal	4.01	0702	7.24			no cost. This Policy was in place at the time Mr. Vasantha Kumar retired in April 2019.
DGM-International Banking-Ms. S. Prathapa singhe	2019.04.01	CAG-3450	Still not Hande d over			
Chief Executive Officer-Mr. Vasantha Kumara	2019.04.15	CAI-4646 KM-9238	Still not Hande d over			Having considered the applicable Policy approved by BHRRC No.89/2016, a Board Decision was taken via BP No.487/2019 that its prudent to adhere to the same. Therefore BOD approved to release vehicle No. CAI 4646 to Mr. N. Vasantha Kumar for a sum of Rs.113,698.63 which is the book value after depreciation subject to following terms and conditions;
<ol style="list-style-type: none"> 1. Return the possession of the vehicle No. KM-9238 2. Should settle overpayments made to him as repeatedly 						

highlighted by the Central Bank in their Statutory Examination as at 30.9.21018

3. Undertaking from Mr. Vasantha Kumar that he has no other claim from the Bank.

Mr. Vasantha Kumar handed over the Vehicle No. KM-9238 to the Bank on 24.09.2019 and has fulfilled other two conditions stipulated above.

Accordingly the vehicle bearing CAI 4646 was transferred to former CEO/GM on 20.07.2021.

Vehicle No.CAG 3450 was transferred to Mrs. S. Prathapasinghe former DGM (International

				Banking) accordingly after paying 50% on 19.06.2020 (As per BP – 487/19).
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02.	<p>i. By BHRRC paper no 51/2018 the committee has approved a new vehicle allowance and a vehicle loan to the Senior Deputy General Managers and Deputy General Managers, on 10 October 2018. An interest rate of 5 percent was introduced for this loan scheme which is 1.5 percent less than the existing vehicle loan scheme's interest rate. Although Board had ratified loan scheme on 17 May 2019, total loans amounting to Rs.215.5 million belongs to 12 number of loans were released prior to the board approval.</p> <p>ii. According to the conditions of the above vehicle loan scheme, Executives should have at least 2 years' service period left prior to retirement/ contract expiry. Contrary to this condition bank had issued loans to senior executives who do not have 2 years ahead to serve in the bank.</p>	<p>Approval of Board should be obtained prior to the implementation of major operational decisions.</p> <p>Should strictly adhere to the provisions of the circular.</p>	<p>Please refer the response given for the present position.</p> <p>Please refer the response given for the present position with regard to point 2 (II) above.</p>	<p>Eventhough, the interest rate was 5% at the time of initiation of special loans scheme for the executives above DGM grade and then normal staff loan scheme for vehicles was operated at the rate of 6.5%, upon the revision made in overall staff loan rates as per the Staff Circular 361/2003 (1) dated 03.11.2020, the interest rate of normal loan scheme for vehicles has now been reduced to a value of 4.5%.</p> <p>The special vehicle loan scheme for executives is no longer in effect though, under the present</p>
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				<p>circumstances, the interest rate charged on vehicle loans for executives was higher than the interest rate of normal vehicle loans scheme of the Bank, accordingly.</p> <p>At the meeting held on 10.10.2018 BHRRC made an exception to approved loan scheme under reference considering long and dedicated service of the officers with bank. This has been done with prior approval of BHRRC.</p>
03.	<p>As per the Charges account Rs. 36,620,606 and Rs. 38,400,343 had been paid as increment arrears on 30 March 2017 and 02 October 2017 to former CEO and former Senior Deputy General Manager (Wholesale Banking) respectively as per the condition of remunerations & payments in contract agreement. However it was observed that even the bank had renewed their terms of contract agreements on expiration, salary increments were not considered for initial salary. Thereby they were not entitled for such</p>	<p>Should strictly adhere with the conditions of the contract to avoid contrary payments.</p>		<p>The payments of Rs. 36.62 Mn to Mr. Wasantha Kumar, Former CEO/GM and Rs. 38.4 Mn to Mr. Sabry Ibrahim (SDGM Retired) have been made with approval then Board of Directors via</p>

	<p>payment as they are governing by the separate contract agreements signed for relevant periods.</p>		<p>BP No: 248/2017 which was based on BHRCC No: 41/2017, considering nonpayment of salary increments after the year 2010. The matter was subsequently investigated by a management committee appointed by CEO/GM in order to provide an opinion. The report of the management committee was tabled at the board meeting held on 23rd December 2020 and has instructed DGM (HR) to resubmit the same with recommendations. Based on the above the Board of Directors have decided that , the “ex-gratia payment and incremental benefit as indicated above have been approved and made by the former Board of Directors of the</p>
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				powers vested in them and thus payments are legitimate.”
04	Via the BHRRC meetings held on 27 April 2017 and 18 April 2018, the Bank had decided to pay an allowance amounting to Rs.75,000 and Rs.100,000 plus fuel allowance of Rs.30,000 per month to Ms.A.Segar and Ms.B.C.K.Mendis respectively to carry out the coordination work with the Ministry of Public Enterprises on contract basis for six months period. However it is doubt to the audit about the necessity of such employees whereas the other government banks have not recruited such employees.	Should strictly adhered with entitle payments.		The extract of the minutes of the meeting of BHHRC relevant to appointment of Ms. A. Segar and Ms. B.C.K. Mendis, ie. BHRRC No: 53/2017 and BHRRC No: 36/2018 respectively, which are self explanatory are annexed herewith (Annexure 1-2018 & 2-2018) . Further we wish to state here that no such employees are being employed at present.
05	Former branch manager of Liberty Plaza Branch had fraudulently engaged in purchase of a foreign bank draft worth to US Dollar 750,000 with the director of Kanko Araliya (Pvt) Ltd on 31 December 2008. The branch had purchased this draft at Rs. 84,083,122 contrary to the instructions of Operation Manager of Regional Head Office. Further the manger had purchased this bank draft exceeding his authorization limit and without	Legal actions should be followed up timely manner in order to claim the loss and bank staff should be thoroughly adhere to the ethical aspects in their profession.	Circular instructions have been issued time to time to avoid such instances of this nature in future. Further the respective officers have been	The Regional Manager – Colombo South in a memo dated 16.04.2021 has confirmed that the CID has conducted an investigation and based on the findings has arrested the

<p>checking the trustworthiness of this cheque from the foreign currency unit of the Bank. The Manager allowed this customer to withdraw money from his account amounting to Rs. 53,700,212 during the same day. However, this draft was returned on 21 January 2009 and RPC Royal bank had informed by their letter dated 04 February 2009, that has been lost and stolen during the normal course of collection and they stopped clearing of this cheque. Further by letter dated 13 August 2009, Criminal Investigation Department had informed that, the manager had done this transaction purposely together with the aforesaid customer. As a result, the Bank had write off Rs. 86,776,575 from the profit of the year 2011. Eventhough the bank had taken several attempts to claim this from the insurance it was not succeeded. Further this cheque purchased was not recorded in the foreign cheque purchase register of the branch.</p>		<p>strictly advised to adhere to the circular instructions.</p>	<p>Manager of Liberty Plaza Branch and two other suspects. They are currently released on bail. Further the CID has provided details to the Attorney General's Department for the purpose of filing indictment.</p> <p>Currently the file with state attorney (High Court case bearing No. HC 6427/13) and a situation has arisen where the final results of all investigations cannot be obtained.</p> <p>Six personnel who were identified to have been accountable for the incident and they have been disciplinary dealt with as follows.</p> <p>1. Mrs. B.I.A. Weerasekara (S.No. 13601-0)</p>
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				<p>Imposed with disciplinary decision “advice”</p> <p>2. Mrs. N. Manoranjani (S.No. 11486-8) Imposed with disciplinary decision “caution”</p> <p>3. Mr. E.P Mann (S.No. 6062-4)</p> <ul style="list-style-type: none"> • Imposed with disciplinary decision “severe warning” w.e.f 12.05.2009 • 50% of the commuted pension has been retained at the Bank (Rs. 660,180/36) <p>4. Mrs. P.K.A.Senarathne (S.No. 8375-8)</p> <ul style="list-style-type: none"> • Imposed with disciplinary decision “severe warning” w.e.f
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				<p>12.05.2009</p> <ul style="list-style-type: none"> • Suspension of Proportionate increments at the time of retirement. <p>5. Mrs. W.O.N.De Silva (S.No 13621-8)</p> <ul style="list-style-type: none"> • Imposed with disciplinary decision “severe warning” w.e.f 12.05.2009 • Suspension of two annual increments <p>6. Mr. M.A.E.S.Perera (S.No 4334-9)</p> <p>He has been interdicted w.e.f 04.06.2009 and a charge sheet consisting of 30 charges was issued. He was been identified accountable for 26 charges and has been</p>
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				<p>imposed with the following disciplinary decisions</p> <ul style="list-style-type: none"> • He has been dismissed from the service of the Bank w.e.f 04.06.2009 • The gratuity benefit has been retained to recover the loss to the Bank. <p>In the meantime Mr. Perera the former Manager of Liberty Plaza branch has filed a case at Labour Tribunal against the Bank and the case has been laid by pending the decision of the ongoing court case.</p>
06	Excess payments amounting to Rs.12,049,451 were made to former CEO when compare with the salary details of MSL (Pvt) Ltd and the signed agreements between the bank and the above employee. Further the bank had paid a salary arrears amounting to Rs.2, 505,060 from November 2005 to October 2017 to him in addition to the monthly salary.	Should strictly adhered with entitle payments.	Please refer the response given under present position column.	The highlighted payments amounting to Rs.12,049,451 (i.e. as excess payments) and RS. 2,505,060/= (i.e. as salary arrears payments) have been made in

				<p>line with the provisions in the service contract/s with the former CEO/GM and with the necessary approval of the Board of Directors.</p> <p>All the relevant documents (i.e Board Papers/BHRC Papers) are available at Secretaries Department for your perusal.</p>
07	<p>The total outstanding balance of Loans and Advances as at 31 December 2018 was Rs.1,271,018 million and out of that Rs.31,472 million or 2.48 percent shown as non-performing loan (NPL) balance. Total non-performing balance had been increased by Rs.11,899 million or 61 percent under during the year review comparing with the previous year.</p>	<p>Should take proper recovery actions on past dues and need to perform proper evaluation on customer and security prior to the loan approval in order to prevent defaults.</p>	<p>Following measures have been taken;</p> <ol style="list-style-type: none"> 1. Comprehensive “learning culture” was developed aiming to achieve knowledgeable recovery staff in all aspects. 2. Successfully outsourced many recovery functions with a view to 	<p>The gross loans & advances and NP portfolio as at 31.12.2021 are Rs. 1,808,829Mn and Rs. 59,955Mn respectively. The position reflects 3.3% of NPL Ratio which was stable for last 02 years. This was achieved consequent to the aggressive recovery mechanism implemented throughout the year.</p>

			<p>streamline recovery process of bad loans/ write off loans</p> <p>3. Many top level initiatives/ BELC/ BEIRMC/ CRMC/ BECC have been set up to monitor the periodical progress and make necessary rectifications accordingly.</p> <p>Methodology initiated to manage the loan and advances with “working signals” measuring segment (Recurrent slippage management) shows significant improvements. Time bound action plan</p>	
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			<p>was initiated to manage gross NPL was extremely successful.</p> <p>4. Ad-hoc reports are submitted to CRMC/BI RMC/ BECC/Bo ard etc by conductin g various portfolio analysis to ensure the asset quality.</p> <p>5. Continuou s evaluation of credit proposal with DCA CEO/GM, BECC and Board vigilantly and highlight any risks associated with recommen dations to mitigate such risks.</p> <p>6. In addition to above with regard to corporate</p>	
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			loans, credit evaluation process has been further strengthened by introducing cluster system in managing customer relationships. Each cluster is allocated with number of files and the ultimate responsibility of managing the allocated customers lies with the Relationship Manager.	
08.	<p><u>City Construction (Pvt) Ltd</u></p> <p>The bank had initially granted a credit facility of Rs. 350 million in the year 2007 to construct a luxury condominium apartment building and due to several reasons, the project was unsuccessful. The bank had rescheduled the existing facilities in several times. Later this project was converted to a hotel</p>	Need to take actions to recover the outstanding balance.	Continuous discussions with the customers & follow-ups are being made to recover the facility.	The total capital amount of Rs.732.70 granted to the company has been rescheduled with the capitalized accumulated interest loans to

project with the change of management of the company. Even though the project was completed on December 2015, the customer had defaulted all the credit facilities granted and bank had decided to auction the security. However, it was observed that bank had stopped the auction based on the customer's request for reschedule. Total outstanding balance of Rs. 890.64 million was remained, belongs to six facilities as at 12 November 2018 without recovering.

Although there is a special condition of the bank, indicating that the loan should not exceed 50% of total project cost at the time of granting the initial facility, bank had disbursed total loan facilities more than 50 % of total project cost.

be paid in monthly installments.

The company services the liability irregularly wherein the bank was able to recover Rs.571.3Mn which has been appropriate towards the capital and interest of Rs.63Mn and Rs.508.03Mn respectively.

The facility was fully secured with the immovable asset of Rs.1.2Bn

The present position of the facilities granted as at 14.02.2022 is as follows;

Loan Number	Granted Amount (Rs. Mn)	Balance as at 14.02.2022 (Rs. Mn)
309	506.2	49
800		5.4

				1 - 103 6		
				309 800 1 - 104 5	78.0	53. 8
				309 800 1 - 167 9	100.0	99. 3
				309 800 1 - 171 3	48.5	46. 8
				309 800 1 - 204 4	37.5	33. 3
				309 800 1 - 220 4	194.0	18 5.0
				309 800 1 - 221 3	14.4	12. 6
				309 800 1 - 222 2	69.2	60. 2
				309 800 1 - 223 1	12.5	10. 1
					1060. 3	99 6.5
				The debts were rescheduled and installments are paid regularly.		

Year 2019

Se q. No .	Audit Observation	Auditor General's Recommendation	Preventive measures taken by the institution	Present position
01.	The total outstanding Capital and interest amount of top 20 Non-Performing customers was Rs. 20,367.24 million and	Effective action need to be taken to minimize NPL.	—	Continuous recovery actions are being taken to recover the NP facilities. In addition, following

	<p>Rs.26, 039.59 million as at 31 December 2019 respectively and it represents 22.34 per cent of total non-performing loans and advances of the Bank as at that date.</p>		<p>measures have been taken to further strengthen the process of recovery and to enhance the quality of the loan portfolio;</p> <ol style="list-style-type: none"> 1. Comprehensive “learning culture” was developed aiming to achieve knowledgeable recovery staff in all aspects. 2. Successfully outsourced many recovery functions with a view to streamline recovery process of bad loans/ write off loans 3. Many top level initiatives/ BELC/ BEIRMC/ CRMC/ BECC have been set up to monitor the periodical progress and make necessary rectifications accordingly. Methodology initiated to manage the loan and advances with “working signals” measuring segment (Recurrent slippage management) shows significant improvements. Time bound action plan was initiated to manage gross NPL was extremely successful. 4. Ad-hoc reports are
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				<p>submitted to CRMC/BIRMC/ BECC/Board etc by conducting various portfolio analysis to ensure the asset quality.</p> <p>5. Continuous evaluation of credit proposal with DCA CEO/GM, BECC and Board vigilantly and highlight any risks associated with recommendations to mitigate such risks.</p> <p>6. In addition to above with regard to corporate loans, credit evaluation process has been further strengthened by introducing cluster system in managing customer relationships. Each cluster is allocated with number of files and the ultimate responsibility of managing the allocated customers lies with the Relationship Manager.</p>
02.	<p>Different credit packages were granted to MTD Walkers PLC and its subsidiaries with the Board approvals during the period of Group Deputy Chairman holding a directorship of the Bank's Board. However loans under the aforesaid credit package were transferred to Non</p>	<p>Ensure compliance with the credit instructions given under credit manual and circulars.</p>	—	<p>Judgment received in favour of the Bank for Rs, 1Bn granted to CML MTD Construction Ltd. 3 immovable properties owned by the borrowing company were already caveated and necessary cause of</p>

Performing category and balances outstanding as at 31 December 2019 is as follows.

Name of the Borrower	Total Granted Amount (Rs)	Total Outstanding as at 31/12/2019 (Interest, Penal & Other)
Walkers Equipment (Pvt) Ltd	298,630,006	362,860,136
Walkers Sons & Company Engineering (Pvt) Ltd	Approved 265,000,000	35,042,697
Walkers Pilling (Private) Limited	570,832,140	565,174,225
CML MTD Construction Ltd	2,762,727,041	3,278,147,582
Total		4,241,224,640

It was further observed that, since these loans had been granted without obtaining adequate strong securities and with certain lapses, the recoverability is in doubt.

As per the approved credit package, short term loan facilities should be repaid within maximum of 180 days from the date of grant. However it was observed that some loans were extended when they reached to the NPL status with the board approvals.

action will be instituted to recover the debt.

Machines mortgaged for the facilities granted to Walkers Piling (Pvt) Ltd were auctioned and vested with the Bank. Negotiations are going on to dispose the said machines. In this regard, an offer received to purchase the machinery for Rs. 150Mn is under consideration.

Property mortgaged for the facility granted to Walker Sons & Company Engineering (Pvt) Ltd was auctioned and vested with the Bank. Quit notice has been sent. Ejectment case filed.

Legal action is in progress for the remaining loans.

In addition to that, claims for the entire debt pertaining to CML MTD Construction Ltd and debt secured under the Corporate Guarantee of MTD Walkers PLC were already lodged in the ongoing liquidation cases of respective

				debtors/counter parties. Further, CID complaint was lodged regarding the influential behavior of this particular lending against those who are applicable.
03	<p>According to the Board Human Resources and Remuneration Committee (BHRRC) paper no.51/2018, BHRCC had approved the new vehicle loan scheme with vehicle allowance to the Senior Deputy General Managers(SDGMs) and Deputy General Managers(DGMs) on 10 October 2018.However it was observed that the bank had implemented the loan scheme without obtaining prior approval of the Board and subsequently the board had ratified the decision on 17 May 2019.Prior to the date of Board ratification the bank had issued 10 number of loans amounting to Rs.183.29Million to SDGMs and DGMs.</p> <p>According to the aforesaid paper, objective of the introduction of new loan schemes for SDGMs and DGMs is to reduce the cost of ownership, the maintenance and to encourage and facilitate executives to own their official vehicle.</p> <p>However the aforesaid new</p>	Need to be reconsider whether objective of loan scheme can be realize through adding loan installment as allowance due to ownership retained with themselves.	Please refer the response given for the present position.	<p>This loan scheme has been discontinued from 30/09/2019 (BHRRC paper 173/2019)</p> <p>No further new loans will be granted to Corporate Management under this scheme. However the terms and conditions of this vehicle loan scheme are still applicable to already granted loans to the Corporate Management who are still in service.</p>

<p>loan scheme itself contradicts to its objectives since it offers the loan installment, insurance and the maintenance cost of the vehicle. Further the loan installment had been added to the salary of the particular employee as an allowance by the bank which means the entire facility is giving free of charge.</p> <p>Further to above eligibility criteria is only to the executives who should have at least 2 years service period left prior to retirement/contract expiry, however the bank had granted this facility to executives who bearing service numbers 107763,107474 and 107839 without comply to the aforesaid new loan scheme.</p> <p>It was observed that the vehicle bearing No.CAI 4646 owned by the bank is using by the former Chief Executive Officer (Contract No.50404) without being handing over to the bank from 15 April 2019. As they are the assets of the Bank, fully owned by the government it may lead to misuse of public assets. This vehicle was released without obtaining the prior approval of the Board and subsequently ratified by the Board held on 09 April 2020 via Board Paper</p>			
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	No.315/2020.			
04	<p>It was observed that the vehicle bearing No.CAI 4646 owned by the bank is using by the former Chief Executive Officer (Contract No.50404) without being handing over to the bank from 15 April 2019. As they are the assets of the Bank, fully owned by the government it may lead to misuse of public assets. This vehicle was released without obtaining the prior approval of the Board and subsequently ratified by the Board held on 09 April 2020 via Board Paper No.315/2020.</p>	<p>Need to be follow up the process on corrective measures.</p>	<p>A new transport policy has been introduced covering all the areas highlighted (BP 723/2019 30.09.2019).</p>	<p>In the past CEO/General Managers were given the opportunity to purchase the vehicle they used at “Book Value” at the time of retirement.</p> <p>In 2016 the Bank has approved a vehicle disposal policy in which a Corporate member with 7 years service is eligible to take possession of the vehicle he/she used at no cost. This Policy was in place at the time Mr. Vasantha Kumar retired in April 2019.</p> <p>Having considered the applicable Policy approved by BHRC No.89/2016, a Board Decision was taken via BP No.487/2019 that its prudent to adhere to the same. Therefore BOD approved to release vehicle No. CAI 4646 to Mr. N. Vasantha Kumar for a sum of Rs.113,698.63 which is the book value after depreciation subject to following terms and conditions;</p> <ol style="list-style-type: none"> 4. Return the possession of the vehicle No. KM-9238 5. Should settle overpayments made to him as repeatedly highlighted by

the Central Bank in their Statutory Examination as at 30.9.21018

6. Undertaking from Mr. Vasantha Kumar that he has no other claim from the Bank.

Mr. Vasantha Kumar handed over the Vehicle No. KM-9238 to the Bank on 24.09.2019 and has fulfilled other two conditions stipulated above.

Accordingly the vehicle bearing CAI 4646 was transferred to former CEO/GM on 20.07.2021.

05

Although following non performing facilities were rescheduled in several times, it was observed that customers were defaulted subsequently.

Loan Numbers	Branch	Granted Amount Rs.
Kotagala Plantation	Head Quarters	511,000,000
Rathnaloka Tour Inns	Head Quarters	16,900,000
Micro Enterprises	Sea street	75,681,418
Ampere Electric (Pvt) Ltd	Sea street	22,990,237

Need to give more concentration on such customers, prior to approve the new reschedulement over such facilities.

Noted the recommendations for future actions.

Loan Numbers	Branch	Granted Amount Rs.	Present Position
Kotagal aPl antation	Head Quarters	511,000,000	Regular
Rathnaloka Tour Inns	Head Quarters	16,900,000	As an outcome of the continuous discussions held, the customer has

							agreed to pay Rs 100,000/- for 3 months and increase the payment gradually. Accordingly payments for 2 consecutive months have been paid.		
						Mic ro Ent erpr ises	Sea stre et	75,6 81,4 18	Resc hedul ed and paym ents are made as per the agree ment.
						Am per e Ele ctric (Pvt) Ltd	Sea stre et	22,9 90,2 37	Resc hedul ed and paym ents are made as per the agree ment.
06	Although amount of Rs.565,445,424 was incurred as an expense for	Need to followup	-						As per a Management decision it was temporarily suspended

	the construction of proposed Head Office Building at Hyde park Corner during the year 2017 to 2019, it was temporarily suspended and not yet completed up to now.			and the now project has started again.
07	Digitalization project had been awarded to Silverlake Company who is the current supplier of Core Banking at a cost of USD 11 Million. As per commercial proposal, USD 7.6 Million and USD 3.4 Million out of aforesaid cost was approved to Silverlake Digital Economy for Digitalization and to Silverlake Sprint for core banking upgrade respectively. Further the bank had awarded a tender to Just In Time Technologies (Pvt) Ltd for purchase of hardware for this project at a cost of USD 3.3137 Million. According to the analysis of payments it was observed that additional payments were made time to time based on the change requests made to the modules include in aforesaid project. Furthermore it was observed that there was no any reliable supporting documents to prove the additional payment of Rs.84,631,716 made to the Just in Time in addition to the agreed cost for	Need to ensure all the expenses supported along with the relevant documents that can be verifiable by third party. Further relevancy of expenses should be able to establish.		<p>According to our records tax payment at 10% had not been made on stated additional payment of Rs.84,631,716/-. As per the tax invoice dated 04/03/2018 produced by Just in Time, the entire additional payment was developed by their penalty claim and other expenses incurred by them excluding tax at 10%.</p> <p>The amount of Rs.452,725,561/- is the aggregate of the payments described below (Refer Annexure 3);</p> <ul style="list-style-type: none"> • Payments made on modules/Phase s of the Digital Banking Project (According to the agreement between the bank and the vendor, tax

	<p>hardware purchasing. Hence no evidence was available to prove the relevancy of this expense on this project. Furthermore these additional payments included the tax paid at 10 percent according to the section 94 of the Inland Revenue Act No.10 of 2006 which have to be paid by Silverlake Company on their profit/income derived from Sri Lanka, as a result of the bank had already signed the agreement including a condition to bear by the bank. This is the amount which had to be deducted from their payment and remit to the Inland Revenue Department which is not really a liability to the Bank. According to our calculation, total additional amount paid for the project was Rs.452,725,561 (excluding annual maintenance charges) as at 26 August 2019.</p>			<p>component to be borne by the bank.) - Rs.151,268,141/-</p> <ul style="list-style-type: none"> • Additional Payments made on change requests with tax - Rs.216,825,706/- • Additional Payments made for Hardware implementation project explained above. (Rs.84,631,716/-)
08	<p>Although the COPE meeting held on 17 July 2018, directed the CAO/AO not to extend the service period of the former Chief Executive Officer after the age of 60 years, the Bank had extended an additional six months service period to him after completion of 60 years of age. With the service extension of six months</p>	<p>Need to adhere with relevant regulations.</p>	<p>Please refer the response given for the present position.</p>	<p>The Bank will strictly adhere to the relevant regulations in the future.</p>

period bank had incurred a cost of Rs.15, 410,266.45 as salary for him.			
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Year 2020

Seq. No.	Audit Observation	Auditor General's Recommendation	Preventive measures taken by the institution	Present position
01	<p>Suspense A/C – Amount paid to suppliers on pending delivery</p> <p>Accumulated balance amounting to Rs.1,643 Mn was remained in outstanding more than two years without clearing.</p>	Need to be carry out proper assessment on such balances and clear them earliest.	The matter is being looked with a target to resolve before September 30, 2022.	
02	<p>Suspense A/C-Money Retain O/A Contra Perform</p> <p>The balance of Rs.22.6 Mn or 40 percent, from the total balance of Rs.56.3 Mn was remained in outstanding for more than 3 years period.</p>	Need to be clear earliest.		Necessary arrangements have been made to inform the contractors. Target is to clear before December 31, 2022.

03	Even though the bank had paid an advance amounting to Rs. 486,202 and Rs. 795,121 to Silver Lake Structured Services SDN.BHD for two projects during the year under review, those projects were abandoned.	Transactions should be economic.		The matter is being looked with a target to resolve before September 30, 2022.
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04

Although the number of cases of loss events of the bank was reduced, value of Loss events were increased by 812 percent comparing to the previous year due to two major frauds classified under the “External Frauds” and “Client, Product & business practices” amounting to Rs. Rs.718.395 million and Rs.25.384 million respectively.

- Aforesaid external fraud involved with the considerable number of overseas debit card transactions (VISA & Master) originated from particular merchant category codes (MCCs) through Automated Fuel Dispenser (AFDs) at Japan, have not been debited to the relevant customers’ accounts and able to perform transactions in excess of available balances of the accounts .Bank was unable to prevent and detect these fraudulent transactions as because of the certain deficiencies in the card system and not following certain internal controls.

- Aforesaid loss event categorized under the category of “Client, Product & Business Practices” was related to

Need to strengthen the fraud monitoring system and strictly adhere to internal control systems as preventive measures.

The swift remedial measures has been undertaken.

At present, pursuant to Visa/MasterCard chargeback process, customer accounts, Insurance and Visa/MasterCard support deal, LKR 713 million has been recovered with net loss close to LKR 5.0 million.

<ul style="list-style-type: none"> • Total outstanding balance of loans & advances belongs to State Owned Enterprises (SOEs) were Rs. 845 billion which represent 49.02 percent out of the total loan and advance of the bank. This indicates Rs. 244 billion or 40.50 percent increment during the year under review comparing with the previous year. Although the bank's total asset base increased by 357 billion or 19.04 percent to 2,230 billion as at 31 December 2020 compared to the previous year, 37.88 percent represent by the loan and advance to SOE's. • The total outstanding balance of loans and advances of Off-shore Banking Unit as at 31 December 2020 was Rs. 374,821 million and out of that Rs. 329,445 million or 87.89 percent belongs to the SOEs which represents increment by Rs. 76,501 million or 30.24 percent during the year under review comparing with the previous year. The total of Rs. 9,086 million or 2.42 percent shown as non-performing loan (NPL) balance. Total non-performing balance had been increased by Rs. 524 million or 6.12 percent during the year under review comparing with the previous year. Top 10 non-performing loans and advances of Off- 	<p>Need continuous follow ups on non performing loans.</p>	<p>At December 31, 2021 - OBU SOE exposure reduced to 64% as a result of the following;</p> <p>a. Settlement of USD 471 million (Rs. 94,553 Mn) FCY DST loans during 2021. This has reduced FCY DST lending to USD 200 million from over USD 650 million at December 31, 2020</p> <p>b. Pursuant to ALCO decision of October 7, 2021 - transfer of CPC capital outstanding of USD 716 million from OBU to DBU. To save any doubt, this was for better liquidity management purposes and was carried out post the Board of Directors approval and CBSL clearance</p> <p>c. Total NP O/S as at 31.12.2021 was USD 39.68 million (or Rs. 7,967 Mn). Efforts are being made to collaboratively with the Recoveries Department to recover/reduce the NP position(s) in a time and manner soonest reasonably possible.</p>
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 • Total outstanding of top 10 non-performing loans as at 31 December 2020 was Rs.47,366 million including the capital of Rs.21,902 million and interest of Rs.25,463 million which represents 40.75% of total gross non-performing loans and advances. Out of that Rs. 26,568 million or 56.1 percent from above advances do not have any securities and Rs.2,235 million or 4.7 percent from above advances do not have adequate securities.

No	Name of the customer	Capital Balance	Interest Balance	Total Balance
1	CML GROUP	3,596	1,084	4,680
2	THE GRAND MOUNTAIN GROUP	3,136.9	427	3,563.9
3	WM MENDIS AND COMPANY LTD	3,063	812.7	3,875.7
4	YASHODA GROUP	3,030.4	209.52	23,980.6
5	MIHIN LANKA(PVT) LTD	2,500.5	1.5	2,502
6	HURAVEE INTERNATIONAL PVT LTD	1,785	393.8	2,179
7	DAYA APPERALL GROUP	1,159.8	783.4	1,943.2
8	NAWAL OKA GROUP	1,577.4	118	1,699.3
9	GOOD FELLOWS (PVT) LTD	1032.5	872.7	1905.3

<p>06</p>	<p>According to the analysis of published financial statements, personnel expenses as a percentage of net operating income of the bank was 32.79 per cent for the year 2020 representing highest value comparison with other commercial banks of Bank of Ceylon, Commercial Bank, Sampath Bank and Hatton National Bank which reported ranging from 27.24 per cent to 29.72 percent, which resulted to reduction in the contribution to the profit per employee.</p>	<p>Need necessary actions to effectively use the bank funds while increasing the efficiency of employees.</p>		<p>Not commented.</p>
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<p>07</p>	<p>According to the Public Enterprise Circular No PED 03/2016 dated 29 April 2016 Paragraph (2) PAYE Tax of public officers including employees of state owned enterprises should be deducted from tax liable employee earnings as per the relevant regulations of the IRD. However, the collective agreement signed between the Bank and People’s Bank’s employee union directs to pay the income tax liability of the employees by the Bank without being deducted from the employees’ salary. Based on that, the Bank has paid Rs.26 Mn as PAYE tax on behalf of employees for the year ended 31 December 2020, without deducting from employee’s earnings.</p>	<p>Need to adhere with relevant regulations.</p>		<p>PAYE tax being borne by the Bank has been a permanent fixture in the collective agreements entered into between the State Banks and the respective Trade Unions for over two decades.</p>
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3. Pradeshiya Sanwardana Bank

1. Name of the Institution- Pradeshiya Sanwardana Bank

2. Opinion for the years

Year	Opinion
2018	Unmodified Audit Opinion with emphasis of matter
2019	Unmodified Audit Opinion
2020	Unmodified Audit Opinion with emphasis of matter

3. Ratio Analysis

Ratio	2018	2019	2020
Profitability			
Net Profit Ratio (PAT)	4.12	1.81	1.66
Net Interest Margin	7.07	6.85	5.39
Net Interest Income on Interest Income	47.88	47.25	46.97
Non-Interest Income to Total Income	4.62	4.18	4.81
Interest Cost to Interest Income	52.12	52.75	53.03
Staff Cost to Operating Expenses	75.01	74.55	77.54
Return on Average Assets (PAT)	0.62	0.26	0.19
Return on Equity	7.30	3.33	2.67
Leverage	7.57	6.87	6.31
Liquidity			
Statutory Liquidity Assets Ratio	24.27	32.38	29.3

4. Net asset position

Year	Rs.
2018	14,710,114,630
2019	14,965,321,578
2020	15,114,316,941

5. Contribution given to the Government for the years 2018, 2019 and 2020

Year	Dividend (Rs.)
2018	-
2019	193,546,847
2020	-

6. Carder position

Grade	Headcount as at 31.12.2020		Approved as at 31.12.2020
Grade 5-I	63	1352	1382
Grade 5-I(Trainee)	326		
Grade 5-II	429		
Grade 5-III	517		
Grade 6-I	5		
Grade 6-II	5		
Grade 6-III	7		
Grade 7-I	23	65	69
Grade 7-II	23		
Grade 7-III	19		
Grade 8-I	13	81	44
Grade 8-II	23		
Grade 8-III	27		
Grade 9-I	6		
Grade 9-II	5		
Grade 9-III	7		
Officer Grade 3-I	424		
Officer Grade 3-II	196		
Officer Grade 3-III	261		
Officer Grade IV(mgt trainee)	124		
Officer Grade I	48	48	59
Officer Grade II	74	74	102
Special Grade II	4	4	8
Special Grade III	8	8	12
Special Grade IV	21	21	25
Total	2658	2658	2715

7. Administrative expenses as a percentage to the revenue/Income

Description	As at 31.12.2020
Personnel expenses	5,983,362,037
Depreciation & Amortization	616,792,758
Other expenses	1,115,987,925
Total expenses	7,716,142,720
Gross Income	24,354,246,869
Administrative expenses as a percentage to the revenue/Income	31.7

8. Major Audit Observation

1. Documentary Evidence not made available for Audit				
Reference	Audit Issue	AG's Recommendation	Actions Taken by the Institute	Present position
2020	Evidences were not available to verify the stock of Lankaputhra Development Bank amounting to Rs.11,106,023 and minus balance of Rs.952,007 of stock in transit.	Take necessary actions to check the accuracy of stocks value and make required adjustments.	A committee has been nominated by GM/CEO to verify the mentioned stock.	The verification process is in progress.

2. Receivables								
Reference	Audit Issue	AG's Recommendation	Actions Taken by the Institute	Present position				
2020	I. 704,048 number of loans amounting to Rs.65,043 million had been disbursed by the bank during the year 2020. Out of that, 569,819 number of loans or 80.9 per cent from the total number of loans disbursed amounting to Rs.26,153.4 million were	Take necessary actions to diversify the loan portfolio and reduce the NPL levels at least up to industry standards.	Pradeshya Sanwardana Bank has recorded a significant growth in lending portfolio amounting to Rs. 187.05 billion outstanding balance as	Lending Portfolio during 2021				
				Loan Category	No of Acc	%	Rs. Mn	%
				Pawning	573,835	62	35,058.48	30
				Loan against deposits	32,031	3	9,724.01	8
				Others	313,011	35	73,466.38	62
				Total	918,877		118,248.87	

	<p>pawning advances. Further, another 5.1 percent from total number of loans or 35,697 number of loans amounting to Rs.9,308.6 million had been disbursed as loans against deposits. Therefore, 98,532 number of loans or 14 percent from the total number of loans amounting to Rs.29,580.9 million only had been disbursed as all other types of loans.</p> <p>II. Gross NPL ratio of the bank had been continuously increased from Rs.3 billion or 2.85 percent from the year 2016 to Rs.16.7 billion or 10.11 percent as at the end of year 2020. However, the average NPL of Licensed</p>		<p>at 31.12.2021 in comparison to outstanding balance recorded Rs. 164.50 billion as at 31.12.2020 with the Covid 19 Pandemic. On the other hand, bank has been able to disburse amounting to Rs. 118.24 billion loans during 2021. As a development bank, RDB has been supporting to government in order to achieve its macroeconomic</p>	<p>RDB customers can be classified into different base; namely: Marginal farmers, small traders, Livestock & dairy farmers, Fisheries, Beauty culture including Saloons, Floriculture, Horticulture, Household and cottage industries, Tourism & tourism related small scale businesses, MSME & Mobile Trading etc. According to our total lending portfolio, ticket size is about Rs 300,000. Most of them were hit by Covid 19 Pandemic. Therefore, NPL Ratio was somewhat higher level than benchmark ratio. NPL Ratio as at 31.12.2021 is 8.72%.</p>
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	<p>Specialized Banks and Banking sector as at 31 December 2020 was 6.8 percent and 4.9 percent respectively.</p>		<p>objectives.</p> <p>Actions has been taken to reduce this NPL ratio in accordance with guidelines, directions of Central Bank of Sri Lanka.</p>	
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3. Payables				
Year	Audit Issue	AG's Recommendation	Actions Taken by the Institute	Present position
2020	I. As per the agreement signed between SME Bank and General Treasury on 27 October	Take necessary actions to act as per the conditions of the signed agreements.	The matter was discussed with the officials of Mahaweli Authority and	Awaiting a reply from Mahaweli Authority.

	<p>2006 and the letter no LDB/INF/19/035 dated 31 January 2019 of LDB General Manager, Rs. 50 million had been given by Mahaweli Authority to LDB on 12 November 2009 to continue stage III of Mahaweli Loan Scheme.</p> <p>According to the section 2 (a) & (b) of the above agreement, LDB should pay the loan by four annual instalments within 5 years including a one-year grace period with 4 per cent annual interest. However, the bank had not complied in this regard and remained the loan balance of Rs.</p>	<p>Take necessary actions to settle the payables without any further delay.</p>	<p>verbally informed that balances due from former LDB are shown in their books as receivables and therefore our plan to issue shares in favour of General Treasury will be referred to General Treasury by Mahaweli Authority.</p>	<p>Actions are taken to implement the ALCO decision.</p>
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	<p>50 million as a payable balance in the financial statement more than 11 years with the merger of RDB & LDB effected on 01.04.2019.</p> <p>II. Capital outstanding of Rs.117,613,802 and interest outstanding of Rs.72,248, 586 in relation to 12 loan schemes/ revolving funds had been remained over a long period without taking actions to clear.</p>		<p>This matter was discussed at a ALCO recently to look in to creation of a common revolving fund using loan outstanding balances.</p>	
2018	<p>Details of composition of the Credit Guarantee Indemnity balance, credit guarantee amounts received and paid to the Central Bank and repayments recovered amounts was not available. A sum of</p>	<p>Take necessary steps to prepare appropriate reconciliations and adhere with relevant guidelines issued by the Central Bank.</p>	<p>Actions are being taken to reconcile this issue in accordance with guidelines issued by CBSL</p>	<p>A balance of Rs.22,777,998.58 is available as at 22.02.2022.</p>

	Rs.25,371,311 had been paid to the central bank from 2015 to march 2019 as repayments of CG 1 & CG 2 due to non-performance of recoveries.			
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4. Advances				
Year	Audit Issue	AG's Recommendation	Actions Taken by the Institute	Present position
2020	I. Closed garment factory (i) Out of the received amount Rs. 700,000,000 for closed garment factory, LDB had disbursed only Rs. 580,865,369 and therefore, Rs. 119,134,631 had been available	Take necessary actions to recover the loan outstanding balances and remit the collected money to the General Treasury.	Out of received amount of Rs. 700 Mn for Tri Star Apparel, former LDB had initially disbursed Rs. 550 Mn and arranged a revolving Trade Finance Facility of Rs. 150 Mn (including Letter of Credit facility) through government commercial bank for which no disbursement involved. The said company had utilized Rs. 30.87 Mn in the said Trade Finance	A board paper would be submitted in February 2022 proposing ordinary share issue in favour of General Treasury subject to concurrence of the General Treasury along with Mahaweli Authority pending matter which should also go along with this matter.

	<p>with the bank without disbursing or reimbursing to the treasury.</p> <p>(ii) Further, contrary to the section 7 of the above Cabinet memorandum, Rs.5,500,0</p>		<p>facility and defaulted when the settlement was due. As a result, said Rs.30.87 Mn too had been treated as a disbursement to the said company and no further transactions took place through the said facility. Hence, there had not been any requirement to disburse the balance amount of Rs. 119.13 to the company.</p> <p>Former LDB had collected Rs. 20 Mn from Tri Star Apparel and remitted to General Treasury. In addition, further sum of Rs. 5.5Mn was also collected from the company by installments over a loan period which too to be remitted to</p>	
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	<p>00 had been retained by the LDB out of the total collection of Rs. 25,500,000 from closed garment factory without reimbursing to the treasury.</p> <p>II. Other factories</p> <p>(i) Out of the received amount of Rs. 50,000,000 for other</p>		<p>General Treasury. Pending further payments from the company as committed former LDB had retained the said amount temporary since the amount was insignificant and shown in the books as payable to General Treasury.</p> <p>Even though, Rs. 49 Mn was scheduled to be granted out of Rs. 50 Mn received, only Rs. 25,354,516.92 was granted due to unsatisfactory creditworthiness of certain proposed facilities.</p> <p>Rs. 16,000,482 had been recovered through recovery action and however recovered amount</p>	
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	<p>factories, Rs.49,000,000 facilities were approved. However, only Rs.25,354,516.92 had been disbursed to the companies as per the customer loan statements from the LDB.</p> <p>(ii) Contrary to the section 7 of the above Cabinet memorandum, the bank had retained collected money from other factories of Rs.16,000,481.92</p>		<p>had not been remitted to the General Treasury. This amount too has been shown in the accounts under payable to General Treasury at RDB and it was revealed that no amount is due from former LDB as per the books of General Treasury with regard to reopening of closed down garment factories. Hence board paper will be submitted to the next board meeting to get approval from board of directors to issue ordinary shares in favor of General treasury for such balances payable.</p>	
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	without reimbursing to the treasury.			
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5. Non-compliance with Laws, Rules, Regulations and Management Decisions etc.					
Reference	Reference to Laws, Rules Regulations etc.	Non-compliance	AG's Recommendation	Actions Taken by the Institute	Present position
2020	I. Procurement Guideline reference 2.1.1 and Public Finance circular PF/429 (i)	Bank has used their own developed procurement manual without obtaining approvals from Director General of Public Finance.	Take necessary actions to adhere with the cited direction.		A letter to be sent to the Director General of Public Finance within a week.

6. Non-compliance with Tax Regulations				
Year	Audit Issue	AG's Recommendation	Actions Taken by the Institute	Present position
2020	PAYE tax /APIT Every Employer is required to deduct income tax from the gains and profits from employment of each employee who is liable to pay income tax with his consent. Contrary to Public Enterprises Circular No. PED 03/2016 of 29 April	Take necessary actions to adhere with the cited circular.	Before merging in to one entity in 2010 as RDB, permanent employees in the six provincial banks had been enjoying the benefit of bearing the PAYE tax component by the employer, Further, Section 45 (2) (d) of Pradeshiya Sanwardena Bank Act No. 41 of 2008 states offering of employment on terms and conditions not less favorable	

<p>2016, the Bank had paid APIT tax amounting to Rs.10,064,824.89 for the year 2020 out of its own funds on behalf of its employees instead of being deducted from the salaries of the respective employees.</p>		<p>than the terms and conditions which were previously enjoyed by them with the acquiring bank. On this basis RDB has continued the bearing of PAYE tax liability of employees as an expense of the Bank. In addition we have noted that many state owned banks have the policy of bearing the PAYE tax liability of employees as an expense of the respective banks.</p>	
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7. Management Inefficiencies				
Year	Audit Issue	AG's Recommendation	Actions Taken by the Institute	Present position
2020	<p>I. Appointment of General Manager</p> <p>(i) As per the letter No. MF1/BOD/P SB dated 26.10.2020 issued by secretary to the Ministry of Finance, Director of Treasury Operations Department had been appointed as acting General Manager of</p>	<p>Select a suitable person for the post of General Manager without any further delay.</p>		<p>General Manager/CEO of PSB has been appointed with effect from February 01, 2022 by the Board of Directors.</p>

	<p>the bank and informed the chairman regarding the recruitment of permanent employee in accordance with the PSB Act with a copy of above letter. Further, the Board has the responsibility to appoint the General Manager as per the section 26.1 of PSB Act. However, suitable employee had not been recruited for the post of General Manager though 10 months lapsed with the above acting</p>	<p>Take every step to adhere with the applicable directions.</p> <p>Take every step to adhere with the applicable rules and regulations.</p>		<p>The Acting General Manager /CEO had been appointed by the Ministry of Finance.</p> <p>Necessary arrangements have been implemented to prevent such incidents and will adhere to Corporate Government Practices in future.</p> <p>As per the Management Services Department letter dated March 25,</p>
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	<p>appointment.</p> <p>(ii) Director or CEO shall not be appointed as a Director or a CEO of another Licensed Bank operating in Sri Lanka prior to expiry of 6 months cooling off period from the date of cessation of his/her office at a Licensed Bank as per the CBSL Direction No.09 of 2019 dated 19.12.2019. However, the above Acting General Manager had been appointed contrary to</p>			<p>2015 the authority to determining the applicable allowances is vested with Board of Directors. As such payment of acting allowances to the Actg. General Manager position has been determined by the BHRRC and approved by the Board of PSB.</p>
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	<p>this.</p> <p>(iii) As per the Banking Act Determination No.01 of 2019 dated 19.12.2019 issued by CBSL, CEO and such other officers performing executive functions of licensed banks shall be fit and proper persons. However, Acting General Manager's fitness & propriety had not been submitted to CBSL as at the audited date. Further, above Acting General Manager's appointment</p>			
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	<p>is contradictory with the Section 26 of the PSB Act No.41 of 2008.</p> <p>(iv) As per the Section 12.5.4 of Chapter VII of Establishmen t Code, 25 per cent of basic salary of acting post should be paid to an officer performing duties of both permanent post and acting post. Contradictor y to the above, 1/3 of the basic salary and 50 per cent of the entertainmen t allowances</p>			
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	<p>of the post of General Manager had been paid by the Bank as per the decision of the BHRRC paper No.BHRRC/2020/M-06/P10 dated 25.11.2020.</p>			
2020	<p>II. The inquiry against the Employee No.1906 had been conducted over 6 years. Following observations are made.</p> <p>(i) Cost of Rs.357,580 (approximately) had been incurred for the inquiries of the above employee. Out of the total 43</p>	<p>Take necessary actions to use bank funds effectively and efficiently.</p>		<p>At present, investigations are being conducted timely to prevent unnecessary delays.</p> <p>The bank has acted according to Legal advice.</p>

	<p>callings, 19 was postponed due to the absenteeism of the officers and deferment.</p> <p>(ii) The bank had spent Rs. 2,203,940 (approximately) with related to the writ application presented by above employee. However, it was dismissed by the Court of Appeal ordering to pay the expenses made by the bank and only Rs.40,000 had been</p>			
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	<p>recovered based on the scale of fees to be paid to counsel and registered attorneys in Court of Appeal. Further, the board had decided to withdraw the ongoing inquiry based on the request made by the employee and special board approval received from Wayamba Sanwardan a Bank for private practice as a Chartered Accountant</p>			
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	<p>excluding normal office hours. Therefore, the cost incurred haven't any value addition in this regard.</p>			
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8. Operational Inefficiencies

Year	Audit Issue	AG's Recommendation	Actions Taken by the Institute	Present position
2018	The bank had maintained fixed deposits amounting to Rs.95,664,238 manually without entering it to the core banking system as at 31 December 2018.	Take necessary steps to maintain all transactions through the system.		The face value of many deposit certificates is insignificant, and many does not attract interest even and for some deposits, relevant branches accrue interest. This portfolio is getting settled gradually and the current outstanding balance as at 31.01.2021 is Rs.88,420,423.05. Settling process is monitored by the Finance Department of head office.

9. Transactions of Contentious Nature				
Year	Audit Issue	AG's Recommendation	Actions Taken by the Institute	Present position
2020	<p>I. Staff motor vehicle loan of Rs.4,750,000 and staff housing loan of Rs. 1,536,858.79 had been disbursed by the bank on 23.04.2020 and 18.02.2020 respectively to a Key Management Personnel responsible for granting loans at 5 percent rate of interest. Following observations are made.</p> <p>(i) As per the Section 8 of Office Instructions Circular (Development Loan) No.2010/40 dated</p>	<p>Chapter II of the Circular No.2013-84 had been cancelled by the Chapter VI of the Circular No.2013-84 dated 29.11.2017.</p> <p>Therefore, take necessary actions against responsible parties and recover loan instalments as per the applicable circulars. Further, actions should be taken to strengthen the internal control of the bank.</p>		<p>As per the circular No:2010-40 dated 27.12.2010; section 08, loan should be recovered using equal monthly installment method (EMI). However, we noted that this loan has been disbursed 40 months and loan recovery is as follows.</p> <p>Rs. 76,798.43 per month is recovered through equal 39 installments whereas Rs.2,430,507.77 would be recovered at the end of the loan tenure as a balloon payment. Further, as per public administration circular in compliance with minimum retirement age, bank issued a credit</p>

	<p>27.12.2010, loan should be repaid by equal monthly installments. However, as per the loan agreement dated 23.04.2020, motor vehicle loan should be repaid through 39 installments each amounting to Rs.76,498.43 and one installment of Rs.2,430,507.77 at the end. However, the monthly installment should be Rs.129,167 (approximately) as per the aforesaid circular.</p>	<p>However, related registered mortgage bond had not been provided.</p>		<p>circular 2013-84 (XV) dated 27.01.2022 for employees who had borrowed credit facilities in order to restructure accordingly, if necessary. Therefore, this said employee has made a request for restructuring the credit facility and it will be done using EMI without taking into consideration of balloon payment method. In this case, this request is to be submitted for approval and actions will be taken according to the circular instructions.</p>
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	<p>(ii) As per the Section 4 Chapter II of Office Instructions Circular (Development Loan) No.2013-84 dated 06.04.2015, the special condition of outstanding loan and related interest should be recovered at the retirement of the employee. However, the above condition was not mentioned in the motor vehicle loan agreement and the special condition of</p>			<p>The purpose of obtaining a housing loan is to living in that house and not any other purpose. He is living in the house purchased using the loan obtained. He can't live close to the office if the additional loan obtained for repairs of the firstly built house. This is humanity matter and circulars provide only guidelines.</p>
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	<p>changing interest from 5 to 20 percent was only mentioned.</p> <p>(iii)A staff housing loan amounting to Rs. 1,536,858.79 had been granted on 18.02.2020 for the purchase of a new property at a rate of 5 percent referring to the Section 5 of Chapter II Circular No.2013/84 and Section 2-II of Chapter IV Circular No.2011/51. However, those refers granting of loan for residence</p>			<p>He is not in a position to obtain the mortgage bond since the file is available in the branch.</p> <p>Remarks- Only agreement to mortgage is available.</p>
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	<p>changed due to merger of provincial banks and residencies become inappropriate due to floods, earthquakes. Prior to the merger of provincial banks three housing loans amounting to Rs. 1000,000 and after the merger another housing loan of Rs. 500,000 had been obtained by the above employee. As per the circulars of the bank, an additional loan can be assessed for completing</p>			
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	<p>the remaining work of the firstly built house only.</p> <p>(iv) Further, the registered mortgage bond of the above property was not available.</p>			
2020	<p>II. A payment of Rs.3,720,000 being the salary arrears and reinstatement in the service with effect from 15.08.2019 had been ordered by the Labor Tribunal on 09.08.2019 for case filed by an employee against the bank. Petition of appeal against the order of the Labor Tribunal had been made by the bank on</p>	<p>The merger of RDB and LDB had been taken place with effect from 01.04.2019 and therefore, legal division has the access for all documents. Therefore, issuing</p>		<p>The LT ordered a reinstatement of this officer. The Bank had no option other than to comply with this order since the facts and the legal submissions submitted by the</p>

	<p>12.09.2019 and deposited Rs. 5,115,000 as a Bond. Following observations are made.</p> <p>(i) Legal department is of the view that above order could be challenged in appeal and accordingly, Board of Directors had granted approval to appeal against the order of Labor Tribunal and to handover the appeal of the case to a Senior Counsel based on the recommendation of the Legal</p>	<p>of different opinions from time to time may mislead the Board. Further investigation regarding the legal background and taking actions against responsible parties needed in this regard.</p> <p>Board instructed to obtain the clearance from the bribery commission prior to any settlement with the related</p>		<p>Bank at the LT inquiry had not been accepted by the LT as they have not been established. Petition of Appeal had been submitted because of the time restrictions in law. However, when the matter was studied with Senior Counsel. He was of the opinion that based on the facts and law the Bank may not be successful at the appeal. Therefore, the management decided to reinstate.</p> <p>With reference to this comment, the Bank wish to say that the letter of the Legal Consultant should be carefully interpreted. It</p>
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	<p>Consultant. However, later Chief Legal Officer and Legal Consultant mentioned that since the bank cannot adduce new evidence the chances of success are either marginal or probability of success in favor of the applicant may be more. Therefore, it is questionable of providing separate opinions by the legal division from time to time.</p> <p>(ii) The letter submitted by Legal Consultant to</p>	<p>employee. Therefore, further investigation and taking actions against the responsible parties is needed.</p>		<p>highlights certain areas of the LT proceedings as a guideline for the senior counsel to make his own decision. The Senior Counsel had studied the entire file and made his final opinion independently.</p> <p>The second paragraph of the Board Minute No.2020/2150 is as follows, “Considering all these matters it was suggested by the Legal Department that if the management decides to recall Mr. Ranathunga to the Bank’s service, it should be without any payment to avoid any unnecessary audit</p>
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	<p>the Senior Counsel, mentioned that the above employee had met the new chairman and the Chairman discussed with the Legal Department very confidentially with regard to any possibility of settlement of this case and Chairman informed Legal Consultant to submit a letter. As a reply to the above-mentioned letter, reaching a settlement had been mentioned</p>			<p>queries and intervention of Bribery Commission etc. It is also advised to obtain a clearance certificate from the Bribery Commission with regard to this matter to avoid unnecessary issues related” Thereafter Board decided to recruit Mr. Ranathunga on settlement terms and at this stage the Board has not raised the issue of a clearance certificate. Our view is the Bank is bound to comply with the LT decision. And the Commission had not up to date indicated that there is any allegation of bribery against this officer and requesting a clearance certificate has no bearing on</p>
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	<p>by the Senior Counsel.</p> <p>(iii) A complaint had been made to the Bribery Commission regarding the transaction related to the aforesaid case at wennappuwa branch under the no.BC/685/2016 and advised by the board to obtain a clearance certificate from the Bribery Commission to avoid unnecessary issues. However, evidence of such clearance obtained were not</p>			<p>the reinstatement. The Commission even now has a right to indict this officer if it can establish the bribery charges.</p>
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	made available.			
2019	<p>III. The Chairman served for the period from 01 May 2018 to 31 August 2018,</p> <p>(i) has used 1358.10 fuel liters exceeding the approved limits and apartment at a cost of Rs.319,150. Since no Board of Directors was constituted during that period, Board had declined granting</p>	<p>Take necessary actions to recover the cost as per the board decision without further delay.</p> <p>Since any approval letter has not been received take necessary steps to adhere with the board decision.</p>	<p>Legal advice is being sought from Legal Dept. for the next steps.</p>	<p>Necessary arrangements have been implemented to prevent such incidents and will adhere to PED circulars for the payments of allowances to all Chairmen in future.</p> <p>Necessary arrangements have been implemented to prevent such incidents and will adhere to PED circulars for the payments of</p>
2018				

	<p>approval and instructed to recover the above-mentioned dues. However, bank had not recovered above mentioned dues as at the audited date.</p> <p>(ii) Provide an apartment at a monthly rent of Rs.73,250 for 3 months from July to September 2018 and due to</p>			<p>allowances to all Chairmen in future.</p>
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	<p>resignation on one month rent in lieu of one month notice had been paid by the bank.</p> <p>(iii) Board had informed to obtain approval from the Secretary, Ministry of Public Enterprise and Kandy City Development for the payment of allowances and</p>			
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	<p>other facilities provided to chairman. However, such approval was not available to the audit.</p>			
2019	<p>IV. Former chairman appointed with effect from 01 October 2018, (i) had been allocated official vehicle with a driver, another vehicle with a driver to the Chairman's office and another two pool vehicles</p>	<p>Take necessary actions to adhere with cited directions.</p>		<p>Necessary arrangements have been implemented to prevent such incidents and will adhere to PED circulars for the payments of allowances to all Chairmen in future.</p> <p>Necessary arrangements have been implemented</p>

	<p>were given when one of above two vehicles sent to service or repair. Chairman has utilized 8,436.10 liters of fuel for 12 months period from October 2018 to September 2019 at a cost of Rs.1,115,289. Since monthly fuel limit entitled for the chairman is 170 liters as per the Section 3.1 of PED 1/2015</p>			<p>to prevent such incidents and will adhere to PED circulars for the payments of allowances to all Chairmen in future.</p>
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dated
25 May
2015,
above
chairman
had
utilized
6,396.10
liters
exceeding
the limits
of the
above
circular.

(ii) As per the
Section 2
of the
Circular
No. PED
2/ 2015, all
communication bills
of eligible
officers
including
official
and
residential
telephone
are paid up
to the
maximum
limit per
month.

	<p>However, the office telephone bills are taken out from the above limit and paid as bank expenses for the Chairman and other officials who are entitled the similar facilities. Further, it is observed that telephone bills of other person had been paid on behalf of the chairman.</p>			
2018	<p>Saviya loan scheme was implemented in North Western Province with a fund of Rs.500 million as per the Cabinet</p>	<p>Take necessary steps to implement loan schemes in accordance with cabinet decisions and board</p>	<p>Actions have already been taken in compliance with Attorney General's decision by setting up a loan scheme and would be finalized as soon as</p>	<p>According to Attorney General's legal opinion, they have informed that money received by recovery division</p>

2019	<p>decision on 25 October 2016. However, bank had signed an additional agreement with the Wayamba Development Co-operative society on 10 March 2017 contrary to the Cabinet decision to implement the above scheme with government bank. Further, by the above agreement it was agreed to remit 5 out of 7 percent interest income and bank had paid Rs.22,892,254 to the Wayamba Development Co-operative society up to 31 March 2019 contrary to the letter dated 25 November 2016 of Director General of Department of Development Finance. As per the request of Chairman on 15 May 2019, legal opinion had</p>	<p>decisions.</p> <p>Take necessary actions for the effective use of funds.</p>	<p>possible.</p>	<p>after deducting all administrative expenses should be given to Treasury Department. Further, they have informed that agreement entered into Wayamba Development Co-operative Society and bank is not a legal agreement. If there was not a legal agreement, all funds would have been credited to a revolving fund. Therefore, all money that has been kept in Wayamba Development Co-operative Society A/C should be transferred to a revolving fund.</p> <p>The query of the on perusing this opinion, since there were adverse</p>
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<p>been obtained for Rs.490,000 from President's Counsel in relation to agreement of Saviya loan scheme. However, a copy of the opinion of the Attorney General had been already received through Ministry of Buddasasana and Wayamba Development on 10 April 2019 and a legal consultant is also available in the bank. Due to not submitting all necessary documents to the President's Counsel, given opinion was subjected to certain observations and calculated assumptions. Therefore, it is questionable to the audit obtaining additional legal opinion at a high cost.</p>			<p>remarks made against the Bank and its officers, the Chairman was of the view that a legal opinion should be obtained in order to identify the errors made by the Bank and its officers and the methodology to remedy this situation. The legal consultant of the Bank was on approved overseas leave from 19 April 2019 for a period of one month. In his absence a meeting was summoned by the Deputy Solicitor General and at this meeting too, the bank officers were blamed regarding this matter.</p>
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10. Identified Losses				
Year	Audit Issue	AG's Recommendation	Actions Taken by the Institute	Present position
2018	Capital loss of Rs.7,580,500 had been done by an employee while performing the duties as pawning officer of Gandara and Devinuwara branches. Service of accused employee had been terminated with effect from 12 August 2013 as per the disciplinary order no. RDB/SP/INV/ALS/GM/13/30 dated 03 August 2015. However, action had not been mentioned in the above order regarding the recovery of loss incurred to the Bank.	Actions had not been mentioned in the related disciplinary order of accused employee regarding the recovery of loss incurred to the Bank and therefore, take necessary steps to recover the loss incurred to the bank.		Legal advice is being sought from Legal Dept. for the next steps to be followed.
11. Human Resources Management				
Year	Audit Issue	AG's Recommendation	Actions Taken by the Institute	Present position
2020	I. Salary revisions of other state banks had been considered when deciding the	Take necessary actions to effectively use the bank funds while increasing the		

	<p>salary revision of the bank. However, the salary revisions of those banks cannot be applied directly with RDB since the asset base, profit levels, number of employees and number of branches are not similar.</p> <p>(i) It was observed that though the bank had incurred Rs.2.25 million per employee per year, the profit generated per employee was only Rs.0.15 million for the year 2020.</p>	<p>efficiency of employees.</p>		<p>The collective agreement for 2021-2023 between the PSB Management and the Trade Union was signed already. This Collective agreement which the salary revision was approved by the Board of PSB and the Ministry of Finance by taking into consideration the possible cost increment.</p>
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	<p>However, other government banks had reported profit per employee amounting to Rs.1.12 million to Rs.2.1 million.</p> <p>(ii) Personnel expenses as a percentage of net operating income of the bank was 61 per cent for the year 2020 representing highest value and other government banks reported personnel expenses as a</p>			
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	percentage of net operating income ranging from 28.56 per cent to 34.72 percent.			
2019	<p>II. Salary revisions of the Bank</p> <p>Salaries of the Bank have been revised on every three years based on the collective agreement signed between the bank and the Ceylon Bank Employee Union. Personnel expenses of the bank have been increased by 97.5 percent as at 31 December 2019 as compared with 2014 year end with the two salary revisions taken place on 2015 and 2018.</p>	<p>Take necessary actions to effectively use the bank funds while increasing the efficiency of employees.</p>		<p>The collective agreement for 2021-2023 between the PSB Management and the Trade Union was signed already. This Collective agreement which the salary revision was approved by the Board of PSB and the Ministry of Finance by taking into consideration the possible cost increment.</p>
	III. Appointment of			

2019	<p>General Manager</p> <p>(i) Since appointments are prohibited during the election period, request had been made to the election commission by the chairman to carry on the interview as scheduled and to process the recruitment of General Manager. As per the reply, it was informed that election commission does not have objection to hold the</p>	<p>Take necessary actions to adhere with the prevailed regulations</p> <p>Amendments to the existing circulars of the bank after calling applications for any post may create doubt on the transparency of selection process. Therefore, take necessary actions to maintain transparency in the selection process without changing selection criteria frequently.</p>		<p>Bank is adhered to the Good Governance practices currently.</p> <p>Experience of the Senior managerial level of the bank defines as Assistant General Manager and above for General Manager /CEO and Deputy Managerial levels. Board approval has been obtained on 23rd September 2021.</p> <p>Board approval is being taken to each and every recruitment and for</p>
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	<p>interview as scheduled.</p> <p>By considering this letter as an approval for the recruitment, the General Manager had been appointed with effect from 01 November 2019.</p> <p>(ii) As per the succession planning policy communicated through circular no.2017/92 dated 27 February 2017, senior managerial level of the bank</p>			<p>the relevant marking sheets.</p>
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	<p>defines as Assistant General Manager and above. However, as per the opinion of Attorney General's Department, the Board considered management structure, capital and the number of employees of the institutions present and previous employments. Accordingly, contradictory to the above circular Board had considered Chief Manager</p>			
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	<p>position as senior managerial experience after calling applications for the above post.</p> <p>(iii)As per the minute of the Board HR Paper No.2016/03 /03 dated 08.08.2016, marking scheme for Assistant General Manager and above grades have been changed as 40 marks for the interview and balance 60 marks for relevant qualifications and experience. However,</p>			
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	<p>above marking scheme had been changed by the board as 60 marks for the interview and 40 marks for qualifications after shortlisted of 8 candidates for the interview. Further, selected applicant have been given highest marks for the interview while others only have been given 28.33 marks to 32.83 marks.</p>			
2020	Succession plan had	Take necessary		Already reviewed in

	not been reviewed and updated properly and as a result, senior managerial posts are remained vacant.	actions to prepare updated succession plan considering the competencies of employees.		2021 and will be reviewed again in 2022.
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4. Housing Development Finance Corporation Bank (HDFC Bank)

1. Name of the institution: Housing Development Finance Corporation Bank (**HDFC Bank**)

2. Opinion

Year	Opinion
2018	Unmodified Opinion
2019	Unmodified Opinion
2020	Unmodified Opinion

3. Ratio Analysis

Profitability	2018	2019	2020
Net profit ratio	7.92	5.88	9.01
Return on average assets	1.14	0.90	1.21
Return on average shareholder fund	12.56	9.63	12.99
Leverage			
Debt to Equity ratio	1.39	1.34	0.96
Liquidity			
Liquid asset ratio	20.56	26.07	37.2
Capital adequacy ratio			
Tier i	16.41	19.14	20.20
Tier ii	16.41	19.14	20.67
Net Assets Position			
Total assets	49,285,291,088	55,954,646,348	61,029,785,590
(Total liabilities)	(44,528,678,713)	(50,835,538,592)	(55,247,772,835)
Net assets	4,756,612,375	5,119,107,756	5,782,012,755
Net asset value per share	73.51	79.11	89.35

4. Net Asset position

Description	2018	2019	2020
Total assets	49,285,291,088	55,954,646,348	61,029,785,590
(Total liabilities)	(44,528,678,713)	(50,835,538,592)	(55,247,772,835)
Net assets	4,756,612,375	5,119,107,756	5,782,012,755

5. Contribution given to the Government

Description	2018	2019	2020
Dividend	--	--	--

* Dividend has not been paid

6. Carder position

Description	2018	2019	2020
Approved carder	638	638	634
Actual carder	633	647	640

7. Administrative expenses as a percentage to the revenue/income

	2018	2019	2020
Administrative Expense	159,295,429	76,279,538	75,738,535
Income	2,679,559,629	3,307,230,031	3,381,152,806
Ratio	.059	.023	.022

8. Audit Observation

	Audit Observation	Auditor General's Recommendation	Preventive Measures taken by the Institution	Present Position
2019				
Non-compliance with Laws, Rules, Regulations and Management decisions				
Section 4.1.1 of Loan Recovery Manual of the Bank,	Capital with interest outstanding balance of loans categorized under Vested Properties as at 31 December 2019 was Rs. 161,951,448. Out of that Rs.31,864,980 or 20 percent were remained over five years period.	Land value of the property should be properly evaluated before granting the Mortgage loans and steps should be taken to recover the outstanding balance.	Properties vested by the Bank from 1995, which had high demand, have already been sold. But there are other properties which are of poor demand due to the infrastructure of the surrounding area which has not been developed, and also offers made do not cover the Bank dues. However, we are awaiting in	112 no of vested properties worth of capital with interest outstanding balances amounting to Rs.380,454,546.34 are available as at 2021 December 31. We have sold 22 properties related to the capital with interest outstanding

			anticipation of offers which will at least cover the Bank dues.	balances amounting to Rs.21,346,209.16 and out of that properties 20 no of properties amounted to Rs.3,209,086.19 related to over five year period. Reasons for properties remaining over five year period are due to a boundary dispute difficulty to identified properties and the property situated in rural areas.
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Management Inefficiencies

(a)	The Bank had invested Rs.50.95 million in debenture at the rate of 11.75 percent at MTD Walkers PLC on 01 October 2018 with one year maturity period. However, the capital of Rs.50,956,700 and	Suitable decisions need to be taken not to occur this type of situations in the future.	Since, the other banks in the industry including BOC, Peoples Bank and other commercial banks have invested in the MTD Walkers debentures, HDFC is participating to recover the investment	This is a defaulted investment and no reschedule was done. However, recovery process is going on by the trustee bank (BOC). Further, as per the SLFRS, the contracted interest should be
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	<p>the interest of Rs.7,512,188 had not been repaid by the company as at date of audit. Further, issuing company's rating had been downgraded during 2019 and negative financial positions were reported in 2018 and 2019 respectively. The recoverability of this investment is questionable. However, bank had made 100 percent impairment as at 31 December 2019</p>		<p>collectively with those banks. However, in HDFC, we have made 100% impairments</p>	<p>recognized by the bank and due to the impairment implications, the respective accruals were fully provided for impairment. Therefore, this is not an over/under statements in financial statements</p>
(b)	<p>As per the circular No.GCL/2016/210 dated 28 September 2016 the bank had introduced housing loan facilities to Very Important Professionals (VIP) and 140 loans amounting to Rs.282,985,000 had been granted under this scheme.</p>	<p>Necessary preventive actions need to be taken not to occur this type of situations in the future.</p>	<p>This loan scheme was introduced in September 2016 for the first time. Majority of clients were Lawyers. Most of the Lawyers were not paying the loan not because of their income but purposely. We try our best to recover these loans by getting the support of respective Bar</p>	<p>We have taken legal actions against some customers under Civil Procedure Court and we take same action if we cannot get support of respective Bar Associations. We have temporally suspended this loan scheme at the moment.</p>

	<p>Fourteen loans amounting to Rs.42,255,020 or 12 per cent had categorized as nonperforming as at 31December 2019. There is no any secondary recovery option to the bank due to unavailability of security.</p>		<p>Association prior to take legal actions against the customers. But we have taken legal actions against some customers under Civil Procedure Court and we take same action if we cannot get support of respective Bar Associations. We have temporally suspended this loan scheme at the moment.</p>	
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Operational Inefficiencies

Operational Inefficiencies				
<p>Loans granted to Army officials by Ja-ela branch</p>	<p>The Ja-ela branch had granted 101 Guarantor Loans valued to Rs.110,700,000 for Army officials without getting relevant authority from the employer and verifying the repayable capacity of the customer. Therefore, these loans were turn in to non-performing category and total</p>	<p>Take necessary steps to recover these loans</p>	<p>Due to irregularities done by the some army officers the, salary remittances have not been transferred as agreed. Therefore action has been taken to recover the loan under the supervision of Chief Manager Credit, Area Manager, Branch Manager and Senior Manager Recoveries.</p>	<p>Action has been taken to recover the loan under the supervision of Chief Manager Credit, Area Manager, Branch Manager and Senior Manager Recoveries.</p>

	capital outstanding balance as at 31 December 2019 was Rs.98,464,870 and it was 89 percent of the original loan disbursed. Further satisfactory recovery actions were not taken to recover the outstanding balances from guarantors.			
Advance on leasing facilities	The total outstanding balance of advances on Leasing as at 31 December 2019 was Rs.1,312,448,256 and non-performing balance of advances on Leasing as at that date was Rs.167,496,981 or 13 per cent of total outstanding balance of advances on Leasing. Further it was observed that 174 leasing facilities valued to Rs.221,859,148 were categorized under watch status which had a risk of	Proper actions need to be taken to reduce the NPL balances.	Total watch capital outstanding as at 31/12/2019 is Rs.60,586,078.50 from 36 facilities. Therefore it is observed that even though there had been Rs.60.57 Mn in watch as at 31 December 2019 there is no tendency in bulk of these facilities transferring to NPL. However we will strictly instruct Embilipitiya branch to reduce their Watch category and monitor same	The total lease portfolio was reduced to Rs.936,365,592 by 31 December 2021 due to the impact of Covid 19 pandemic. There were many premature settlements by customers and new granting was not done aggressively considering the risk. The Watch Category by 31 December 2021 was Rs.128,510,686 and NPL Leases stood at Rs.

	<p>subsequently become Non performing status, out of that 36 leasing facilities valued to Rs.62,623,507 or 28 per cent were represented by Embilipitiya Branch.</p>			<p>159,698,619. Both Watch and NPL categories reduced amount wise compared to 31 December 2019 figures. Watch category reduced percentage wise also to 14% (2019-17%). The NPL ratio increased to 17% by 31 December 2021 compared to 31 December 2019. The increase was due to the reduction in the total Lease portfolio. However this was a reduction compared to 31 June 2021 NPL figure of 27%. The Bank is continuously making every effort to reduce the NPL ratio further. Once the CBSL restrictions on legal actions are removed asset</p>
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				<p>repossession will commence to bring down the NPL further.</p> <p>Embilipitiya branch also reduced their watch list to Rs.35,594,231 (27 cases) by 31 December 2021 compared to the 31 December 2019 figures.</p>
2020				
Non-compliance with Laws, Rules, Regulations and Management Decisions etc.				
Section 16(2) Part IV of Housing Development Finance Corporation Act, No 7 of 1997	<p>Issued capital of the bank should be Rs.1,000 million. However, stated capital of the bank as at 31 December 2020 was Rs.962 million. The bank had failed to fulfill the balance capital.</p>	<p>Necessary action need to be taken to comply with the relevant act.</p>	<p>This matter has been discussed at several meetings with Treasury officials and waiting for a favorable answer.</p>	<p>This matter has been discussed at several meetings with Treasury officials and waiting for a favorable answer.</p>
Banking Act Direction No 05 of 2017 dated 26 October 2017 section 02 of the Central Bank	<p>Minimum Capital of the bank should be Rs.7,500 million commencing from 31 December 2020. As per the paragraph 3 of letter dated 16 March 2020 issued</p>	<p>Necessary action need to be taken to comply with the relevant direction.</p>	<p>The Bank had made a request for the extension of the deadline for meeting Rs.7,500 million capital requirements. Nevertheless, by the letter issued by the</p>	<p>The Bank had made a request for the extension of the deadline for meeting Rs. 7500 million capital requirement. Nevertheless, by</p>

	by the Governor of Central Bank Sri Lanka, said this requirement is differed until end of 2022. However, the bank was able to raise only up to Rs.5,957 million of capital as at the end of the year 2020.		CBSL dated 27 March 2020 (attached) the deadline has been extended up to end of 2022.	the letter issued by the CBSL dated 27/03/2020 (attached) the deadline has been extended up to the end of 2022.
Section 15 (7) of the Pawning Direction issued by CBSL	It was observed that excess money amounted to Rs.1,520,408 received from pawning auction had been remained more than one year without returning to the respective customers.	Need to follow cited Direction	There are ongoing settlement actions taken by the bank and we expect to complete the process in 2021.	There are ongoing settlement actions taken by the bank.

Loan Recovery Manual

Section 4.1.1	Total outstanding balance (Capital with interest) of the loans categorized under Vested Properties as at 31 December 2020 was Rs.178,297,149 out of that Rs.36,731,157 or 20.60 percent of above balance were	Land value of the property should be properly evaluated before granting the Mortgage loans and steps should be taken to	As per our records 135 no of vested properties worth of capital with interest outstanding balances amounting to Rs.154,856,755.38 available as at 31 December2020. According to the new sale of vested property policy, we	We have sold 22 number of properties related to capital with interest outstanding balances amounting to Rs.21,346,209.16 and out of that properties 20 no of
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	remained over five years period.	recover the outstanding balance.	have sold 21 number of properties related to capital with interest outstanding balances amounting to Rs.21,194,390.35 and out of that properties, 19 no of properties amounted to Rs.3,057,267.38 related to over five year period. Further, above mentioned Rs.178,297,149 includes Capital, interest and penal charges too.	properties amounted to Rs.3,209,086.19 related to over five year period. Reasons for remained over five year period properties are due to boundary dispute, difficult to identified properties and the property situated in rural area.
Section 4.1.5	Revaluation on Vested Properties should be done at least in every 2 years by an internal valuer or 4 years by an external valuer. However, vested properties related to capital with interest outstanding balances amounting to Rs.12,453,423 remained for the period between 2-8 years without being revalued as requested.	Necessary action need to be taken to amend the relevant manual.	Avoid unnecessary costs, revaluation of vested properties is done after receiving the tenders and also for potential salable properties.	Avoid unnecessary costs and difficult to identify boundaries of the property, revaluation of vested properties is done after receiving the tenders.

Section 4.1.9	At the time of obtaining the tender a refundable deposit at least amounting to Rs.10,000 and a non-refundable tender deposit of Rs.500 should be obtained, if in any case the tender is not approved by the tender board to the tenderer, the tender amount should be returned to the relevant depositors within a reasonable time. However, the bank had not complied with said requirement. The excess money amounted to Rs.7,051,817 appeared in the Advanced Received on auction properties for more than one year without paying them to the respective customers.	Action need to be taken to repay the excess money to the respective customers.	These are under approval process and after receiving approval, bank will disburse the refundable deposits to the respective customers at least in 2021.	Most of transactions appeared in the Advanced Received on auction properties are unidentified and the amount exist for a long period of time. According to the New vested property policy, we will refund tender deposit to the relevant customers immediately.
IT General Controls				

Non utilized user accounts	It was observed that 37 number of user accounts were not utilized for a long period of time in the Polaris-Core banking system. The bank had failed to take necessary actions to deactivate those user accounts.	Take necessary actions to deactivate user accounts were not utilized for a long period of time.	Base on management decision, relevant user will be disabled.	As per the management decision, user names for existing employees should available for future usage.
Maturity Analysis	Analysis of Financial Assets and Financial Liabilities by remaining contractual maturities as at 31 December 2020 revealed that Financial Liabilities for months 3-12 was far in excess over total assets, and the liquidity gap was Rs.7,272 million.	Take necessary steps to minimize the maturity gap in future.	This is due to respective contractual maturities of Assets and Liabilities	The maturity of remaining Assets and liabilities are presented as per their actual maturity period.
Operational Review				
Identified Losses	Seven fraudulent loans were granted to staffs in an organization by a branch in 2018 and	Suitable actions need to be taken to prevent this type of	A complaint has been lodged against customers except loan no. 801650000408 in	Auditors' comments are accepted, we were able to know that loans were

	subsequently it had been transferred to non performing category. The outstanding balance as at 31 December 2020 was Rs. 8,250,131.	situations in the future.	Special Crime Division in Teldeniya and case is being heard in District Court, Mayiyanganaya regarding this matter.	“fraudulent loans” after these loans were transferred to nonperforming.
Management Inefficiencies	Even though there is an Investment Property valued at Rs.759.5.million owned by the bank located in the premises of the Building Material Corporation, the ownership of the property has been transferred to the bank on 31 December 2008, the vacant possession of the land was not handed over to the bank by Building Material Corporation (BMC). In order to obtain the vacant possession of the land the bank had decided to obtain the Writ order decision and accordingly	Immediate action need to be taken to obtain the vacant possession of the land to the bank	GM/CEO, COO, DGM Legal and AGM HRM visited BMC Chairman and CEO and the present status of the BMC property was discussed. A letter was sent to BMC Chairman requesting to handover the possession to the Bank. No response has been received. Further, our Chairman has sent another letter to the Prime Minister’s office. A letter was sent to Additional Sectary Ministry of Housing (HDFC Bank Director) informing the present status of BMC Land and awaiting a	Since there was no response from the BMC with regard to the handing over of the vacant possession of BMC Land, Court Order was obtained on 20/12/2021 to execute the writ. Registrar of the District Court & 04 other Court Officials went to the BMC property on 21/01/2022 to execute the writ. But due to severe resistance from the employees & members of the Jathika Sevaka Sangamaya attached to BMC, Registrar could not

	<p>Writ papers filled on 15 August 2017. As per the section 75 (i) (a) and (b) of the Cabinet Decision paper No 18/፳፻፱/ (019) dated 31 May 2018, bank had to refrain from taking legal action and bank failed to obtain vacant possession through negotiation procedures until the end of 2020.</p>		<p>response.</p>	<p>execute the writ. The Bank has to execute the writ before 19/12/2022.</p>
	<p>As per the circular No.GCL/2016/210 dated 28 September 2016 the bank had introduced housing loan facilities to Very Important Professionals (VIP) and 140 loans amounting to Rs.282,985,000 had been granted under this scheme. 33 loans amounting to Rs.52,777,346 or 18.65 percent had categorized as non-performing as at 31 December 2020. However, there is no</p>	<p>Suitable actions need to be taken to prevent this type of situations in the future.</p>	<p>This loan scheme was introduced in September 2016 for the first time. Most of the Lawyers were not paying the loan not because of their income but purposely. We try our best to recover these loans by getting the support of respective Bar Association prior to take legal actions against the customers. But we have taken legal actions against some customers under Civil</p>	<p>We have taken legal actions against some customers under Civil Procedure Court and we take same action if we cannot get support of respective Bar Associations. We have temporarily suspended this loan scheme at the moment.</p>

	any secondary recovery option to the bank due to the unavailability of security.		Procedure Court and we take same action if we cannot get support of respective Bar Associations. We have temporally suspended this loan scheme at the moment.	
	Bank had invested Rs.50.95.million in debenture at the rate of 11.75 percent at the MTD Walkers PLC on 01 October 2018 with one-year maturity period. However, capital of Rs. 50,956,700and interest of Rs.13,533,630 had not been repaid by the company. Therefore no any returns had been received to the bank even at 31 December 2020.	Suitable decisions need to be taken not occur this type of situations in the future.	This is a defaulted investment and no reschedule was done. However, recovery process is going on by the trustee bank (BOC). Further, as per the SLFRS, the contracted interest should be recognized by the bank and due to the impairment implications, the respective accruals were fully provided for impairment. Therefore, this is not an over/under statements in financial statements	This is a defaulted investment and no reschedule was done. However, recovery process is going on by the trustee bank (BOC). Further, as per the SLFRS, the contracted interest should be recognized by the bank and due to the impairment implications, the respective accruals were fully provided for impairment. Therefore, this is not an over/under statements in financial statements

Operational Inefficiencies

<p>Loans and Advances – Performing & Non Performing Loans</p>	<p>The total capital outstanding balance of loans and advances excluding EPF as at 31 December 2020 was Rs.28,670 million and non-performing loans and advances as at that date was Rs.5,800 million or 20.23percent of total outstanding balance and which was higher than the sector ratio of 6.8 percent. Following weaknesses were observed in branch audit.</p>			
	<p>A branch had granted Rs. 50 million to a customer at a concessionary rate of 9 percent for a period of 5 years with a grace period of 2 years on 13 September 2016. Total outstanding balance as at 31</p>	<p>Project proposal and customer's income sauces should be evaluated properly before granting the mortgage loans and</p>	<p>The Company has been running at a loss after giving the loan due to the failure of achieving expected manufacturing targets and achieving expected export income. Bank has rescheduled this facility twice on request of the</p>	<p>As company has been running at a loss while operating the mills, Director and his wife entered in to the contract with a private company to set up Solar power project in the mortgaged land in</p>

	<p>December 2020 was Rs. 56,969,235. The company had failed to achieve their manufacturing targets as per their project proposal. After obtaining the loan the company had recorded a loss of Rs.23.14.million in the year 2018. Even though the grace period was extended by branch in 2 times and loan repayment period also extended, the customer had failed to repay the loan.</p>	<p>steps should be taken to recover the outstanding balance.</p>	<p>customer. It has been planned to take legal action against the company in December 2021 after the Debt Moratorium period granted by CBSL. Letter of Demand has already been sent.</p>	<p>Veralupitiya estate. As per the discussion had with the Bank they have deposited a sum of Rs 1 Mn as an initial payment on 26 November 2021.And they have agreed by their letter dated 26 November 2021 to directly credit the sales proceeds in connection with uproot value of existing rubber trees income approximately Rs. 5Mn income to Loan account. As at 31-01-2022 Total arrears of the loan is Rs 20,671,717.84. HDFC bank has requested the company to</p> <ol style="list-style-type: none"> 1- Deposit 15Mn to the loan account 2- HDFC bank to be
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				<p>made party to the agreement to be signed related to solar power project and credit generated income directly to HDFC account until the company loan is fully settled.</p> <p>If not observed any progress of loan repayment legal action will be taken against the company in future.</p>
	<p>A credit facility of Rs.350 million requested by a customer for working capital requirement was approved at the Special Board Meeting held on 07 June 2019.</p>	<p>Suitable actions need to be taken to prevent this type of situations in the future.</p>	<p>This is in relation to answer given 1.7 viii. the company has deposited Rs.21.million approximately from sales proceeds of gravel extracts and Rs.200,000 for cash build up account for</p>	<p>- As per the Board paper submitted B P No 08/237/2020 (Doc 284), Board has approved the bank to proceed with the legal action for the above loan at Board meeting</p>

	<p>Accordingly, the branch had granted Rs.100 million and Rs.150 million credit facilities to the said company on 08 July 2019 and 28 October 2019 respectively. Subsequently it had been transferred to non performing category on 07 January 2020 at the early stage of granting. As at 31 December 2020 total outstanding amount is Rs.289.41 million and it was remaining without recovering. Further the customer had failed to follow the conditions mentioned in the special agreement entered with the bank at the time of granting loan.</p>		<p>initial two months after the grace period. The main issue faced by the company was not receiving money from Government Institutions for construction work done to pay the loan.</p>	<p>Held on 28 February 2020. Letter of demand sent for the company and Directors on 12/03/2020- Reminders for the letter of demand send for the company and directors on 2020-11-11- Board resolution was passed for execution of Parate powers in November 2020- Auctioned was done on 24/03/2021 at Alawwa- No successful bids were received at the auction since the bids received below upset price 500Mn and Bank has acquired the property.-After that tender was called, however the offer received is not enough, tender committee</p>
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				<p>rejected the offer and inform the bidder by the registered post .All possible attempts were taken to recover the said loan, and power of Parate execution is enforced for the sale of the property mortgaged to the Bank as security.A case has filed and Legal action was initiated against Guarantors.</p>
	<p>It was observed that a branch had granted five leasing facilities valued at Rs.12,950,000 during the period 2015 and 2016 without proper evaluation of the income of the customer and the delay in recovery process, led to fail the seizing attempt and total non-performing balance as at 31December</p>	<p>Appropriate actions need to be taken to avoid this type of situations in the future.</p>	<p>Subsequent to several attempts from the branch to get the customers to pay the lease rentals the Lease Termination process was initiated. The Termination notices, Terminations and Seizing orders were issued as below. These customers did not respond to any of these recovery initiatives positively. The Seizers also failed to repossess the</p>	<p>Subsequent to several attempts from the branch to get the customers to pay the lease rentals the Lease Termination process was initiated. The Termination notices, Terminations and Seizing orders were issued as below. These customers did not respond to any of</p>

	<p>2020 was Rs.22,989,757.</p>		<p>vehicle after several attempts. Thereafter legal action has been initiated subsequent to sending letters of demand</p>	<p>these recovery initiatives positively. The Seizers also failed to repossess the vehicle after several attempts. Thereafter legal action has been initiated subsequent to sending letters of demand as below:</p>
	<p>A branch had granted a leasing facility amounting to Rs.8, 450,000 on 20 October 2017 and subsequently it had been transferred to non performing category on 18 December 2018 due to improper evaluation of the customer income. The outstanding balance as at 31 December 2020 was Rs.11,573,229.</p>	<p>Customers income sauces should to be evaluate properly before granting the leasing facility and steps should be taken to recover the outstanding balance</p>	<p>The applicant has been a palmtop customer since 2013 and the first guarantor also had a banking relationship since 2010. After the checking the daily income records of the customer and physical observation of the business income has been considered. Other than the palm top deposits no other documentary evidence has been obtained by the branch. However Bank has strengthened the</p>	<p>Strict instructions have been given to branches on evaluating customer properly combined with several training programs. Further an updated Customer Evaluation and Site visit report has been introduced. For particular cases legal action has been initiated.</p>

			Branch income evaluation process through trainings to avoid inaccurate income evaluations from happening in the future.	
(i) Loans and Advances – Employees’ Provident Fund (EPF)	Total outstanding value of loans which were granted against the Employee Provident Fund as at 31 December 2020 was Rs.11,085 million and out of that, a sum of Rs.7,334 million had been treated as non-performing loans and it is represented 66.16 percent of the total outstanding. However, it was noticed that non-performing ratio of EPF loans had been increased by 6.86 percent compared with previous year and EPF loans amounting to Rs.176,074,165 was in arrears for more than 540 days as at 31 December 2020.	Take necessary steps to recover these loans	Due to the Covid-19 pandemic situation the income resources of most of the clients had been affected, anyway we’ll be able to recover the arrears by claim through EPF. When the situation comes back to normal, we’ll follow up recovery with normal recovery procedures.	All arrears will be recovered from CBSL annually. This is the normal practice bank will apply. Bank always advice the customers “the importance of paying” the EPF loan on time at the time of granting the loan and to reduce the NPL ratio as much as possible.

\5. Central Bank of Sri Lanka

1. Name of the Institute Central Bank of Sri Lanka

2. Opinion for the years

2018	Unmodified Audit Opinion
2019	Unmodified Audit Opinion
2020	Unmodified Audit Opinion

3. Net asset position

	2018 (Rs.'000)	2019 (Rs.'000)	2020 (Rs.'000)
Total Assets	1,917,440,331	1,919,417,439	2,421,597,167
Total Liabilities	(1,678,671,932)	(1,615,232,047)	(2,074,431,595)
Net Assets	238,768,399	304,185,392	347,165,572

4. Contribution given to the Government.

Description	2018 (LKR Mn)	2019 (LKR Mn)	2020 (LKR Mn)
Amount credited to the Consolidated Fund as per the Section 39 Monetary Law Act (Profit distribution)	No distribution	24,000	15,000

*Value created to government (Dividend+ Taxes)

5. Carder position

Description	2018	2019	2020
Approved Cadre	-	-	-
Actual Cadre as at 31 st December	1421	1366	1355

- Approved cade is not available for positions below head of Departments.

6. Operating expenses as a percentage to the revenue/Income

Description	2018	2019	2020
Total Net Operating Income (Rs.'000)	152,565,259	69,507,019	74,636,550
Total Operating Expenses (Rs.'000)	13,518,255	13,611,292	11,203,789
Total Operating Expenses as a % of Total Income	8.86	19.58	15.01

7. **Audit observations**

	Audit Issue	Year of Observation	Recommendation	Preventive measures taken by the institution	Present position
a	The Financial Sector Consolidation Programme				
	The Bank had unveiled the Master Plan on Financial Sector Consolidation on 17 January 2014 with the objective of developing a strong Banking/ Non-Banking Financial Institutions sector with enhanced resilience to internal and external shocks in order to cater to the growing demands of the economy. Accordingly, the 12 Consolidation Plans including Banks, Financial companies and Leasing companies had been completed as at 12 May 2021 by spending Rs.105.58 million. However, the Consolidation	2019, 2020	Need to expedite the consolidation process.	Under the financial sector consolidation program, due diligences were done on all Non-Bank Financial Institutions (NBFIs) with a view of finding suitable consolidation partners. The Bank facilitated the consolidation	Under the phase I of 2020 master plan for consolidation of non-bank financial institutions, the Bank has identified 11 NBFIs (based on regulatory non-compliances with capital requirements) as target entities for merger with a

<p>Plans with 4 institutions had not been completed as at 12 May 2021, though the Bank had incurred a sum of Rs.21.44 million in this regard.</p> <p>In addition to the above expenditure, the Bank had incurred an additional sum of Rs.59.25 million for preparing Information Memorandum, Due Diligence, Valuation reports and other matters relating to 19 institutions which were not completed as at 31.12.2021.</p> <p>Further to the above Consolidation Plan, a separate “Masterplan for consolidation of Non-Bank Financial Institutions” was commenced by the Bank in year 2020 and a sum of Rs. 21.68 million had been incurred as at 30 April 2021 for preparing Information Memorandum, Due Diligence, Valuation reports.</p> <p>The merger process of Housing Development Finance Corporation Bank and State Mortgage and Investment Bank was commenced in 2018 was not completed as at 31.12.2021.</p>			<p>programme by incurring the cost related to professional mergers & acquisition services offered by the external auditors from the panel appointed by the Bank.</p> <p>12 NBFIs completed the consolidation transactions for which the Central Bank incurred Rs.105.58 mn as due diligence and transaction fees to the external auditors.</p> <p>Due to the changeover of the government in 2015, the policy on the</p>	<p>strong and stable NBFIs.</p>
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	<p>Further, the merger process of Sri Lanka Savings Bank Limited which was initially proposed and finalized to continue as a subsidiary of National Savings Bank (NSB), with NSB is also not completed as at 31 December 2021.</p>			<p>consolidation programme also was amended and was made optional for NBFIs. This situation resulted in the Bank not being able to enforce the mergers and further acquisitions.</p> <p>4 transactions could not be concluded due to the policy change although the initial stakes were acquired by the acquirers. Further, consolidation of 19 NBFIs were not successful due to absence of prospective</p>	
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				buyers. However, the Bank incurred Rs. 59.25 mn to conduct due diligence (including valuations) through by external auditors with respect of these 19 NBFIs.	
b	Winding up process of Finance companies which licenses were cancelled by the Bank				
	Winding up process (Appointment of a liquidator) of the four finance companies whose licenses were cancelled by the Monetary Board of the Bank in the year 2018, 2019 and 2020 have not been initiated even up to the end of year 2021. A direction was made to a finance company whose license was cancelled with effect from 05 March 2018 to initiate winding up process within 30 workings days from the date of	2019, 2020	Ned to expedite the process.	The Bank was of the view that preferential claims set out in the Ninth Schedule of the Companies Act, No. 7 of 2007 is not adequate to fulfill the winding up	Winding up process (Appointment of a liquidator) of the four finance companies whose licenses were cancelled by the Monetary Board of the Bank in the year 2018,

	<p>cancellation and the said company failed to initiate winding up process within the said time frame. Also, a direction was made to another finance company whose license was cancelled with effect from 25 July 2018 to initiate the winding up process within 30 workings days from the date of cancellation and the said company failed to initiate the winding up process within the said time frame.</p>			<p>requirements of LFCs and accordingly, it was decided to issue a new regulation on priority of claim in winding up of LFCs in terms of the Section 33 of Finance Business Act No. 42 of 2011. Subsequently, Finance Minister Gazetted the Finance Business (Priority of Claims in a winding up of finance company) Regulations No. 01 of 2019 on 31 May 2019 and thereafter Director of</p>	<p>2019 and 2020 have not been completed as at the end of year 2021.</p>
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				the Department of Supervision of Non Bank financial institutions initiated to file applications for winding up of LFCs without any delay.	
c	The Licensing, Regulation and Supervision of Companies carrying on Microfinance Business				
	The Licensing, Regulation and Supervision of Companies carrying on Microfinance Business are carried out by the Monetary Board of the Bank under the Microfinance Act No. 06 of 2016 (Act) with effect from 15 July 2016. Companies which are accepting deposits and providing financial services mainly to low-income persons and micro enterprises (Micro Finance Business) should obtain a license under the Act. Accordingly, only four	2019, 2020	Need to expedite the process of enacting the Act	To license, regulate and supervise entities engaged in the businesses of microfinance and money lending, it has been proposed to establish the Microfinance and Credit Regulatory Authority	The Bank is in the process of finalizing the draft Bill with the Legal Draftsman and the Ministry of Finance. It is expected that the proposed Act will be enacted in the year 2022.

	<p>companies had obtained the licenses to carry on microfinance business from the effective date of the aforesaid Act to 30 June 2021. Companies which are not accepting deposits but providing financial services to low-income persons and micro enterprises in the country do not require to obtain a license under the Act. Therefore, those companies are not regulated and supervised by the Monetary Board of the Bank under the Act. As a response to Auditor General Report for the year 2019, it was mentioned that a Credit Regulatory Authority will be established to license, regulate and supervise entities engaged in the business of micro finance and money lending through a separate Act and draft of the said proposed act was forwarded to the Ministry of Finance on 26 November 2019. However, it has not been enacted as at end of year 2021.</p>			<p>through an Act of Parliament namely Microfinance and Credit Regulatory Authority Act (proposed Act). The Bank is in the process of finalizing the draft Bill with the Legal Draftsman and the Ministry of Finance. It is expected that the proposed Act will be enacted in the year 2022.</p>	
d	Public Debt Management				
i	According to Section 113 of the Monetary Law Act, the	2019, 2020	To take necessary actions	The Bank is required to	The Bank has informed that

	<p>Central Bank of Sri Lanka is responsible for the management of public debt. However, the Monetary Law Act or any other written law does not define the types of debt that public debt includes, or the definition of public debt, the purposes and functions of public debt management.</p>		<p>to define the types of debt that public debt includes, the definition of public debt, the purposes and function of public debt management.</p>	<p>perform an agency function with respect to public debt management as per the Monetary Law Act (MLA) in terms of Section 113. It is reckoned that MLA does not sufficiently elaborate on the purposes and the functions of public debt management entrusted with the Bank. In view of certain observations over the debt management functionality, an exercise in forming a single debt management</p>	<p>a fresh dialogue to further establishing clarity in respect of the purposes and functions of public debt management assigned to the Bank could be initiated among relevant stakeholders.</p>
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				office was initiated a few years ago in consultation with the Treasury and the Bank and with technical assistance from an International agency but was not continued further.	
ii	The Bank reports the outstanding Central Government debt using the loan information on the issuances of government securities and the loan information received from the Ministry of Finance and other relevant Departments of the Bank on the other loans which are obtained on behalf of the government by the respective parties. However, it was not observed that the Bank had obtained the confirmation the accuracy of bank overdrafts balances and outstanding foreign loans other than	2019	To take necessary actions to confirm the accuracy of bank overdrafts balances and outstanding foreign loans other than outstanding international sovereign bonds.	The Bank compiles details of public debt directly from its own sources and through secondary sources. All details, where primary source is the Bank are compiled and shared with stakeholders	Bank had not obtained the confirmation of the accuracy of bank overdrafts balances and outstanding foreign loans other than outstanding international sovereign bonds in compiling outstanding Central

	outstanding international sovereign bonds in compiling outstanding Central Government debt balance.			promptly. There are few components of public debt where the primary source is the Ministry of Finance and reporting to the Central Bank periodically. It is expected other agencies reporting data to the Bank do report such data accurately and a need to verify such data by CBSL does not arise.	Government debt balance.
iii	Section 2.2 of Lanka Settle System Rules Version 2.1 (2013) which was issued for the operations of the Lanka Settle System by the Bank stated that fines can be imposed against Primary	2019, 2020	Need to expedite the process	The Legal and Compliance Department of the Bank has raised concerns	The Bank has informed that it will consider alternative arrangements to address the

	Dealers when a Primary dealer violates rules and regulations that they are required to follow. Further, as per the Section 8 of the Registered Stock and Securities Ordinance and Local Treasury Bills Ordinance Direction No. 01 of 2019 dated 20 December 2019 (Repurchase and Reverse Repurchase Transactions), penalties can be imposed against Dealer Direct Participants (DDP) for non-compliance with the said direction. However, fines/penalties had not been imposed against any Primary Dealer or DDP as the Bank was unable to enforce the said provisions.			over the legality of imposing penalties through subordinate legislation (i.e. Regulation and Direction issued based on the Acts under reference) in the absence of explicit empowerment to impose such penalties directly through the said Acts .In this regard,	said matter.
iv	The Monetary Board instructed the PDD in September 2015 to develop an appropriate framework to impose fines against Primary Dealers who act against the interest of customer. However, such appropriate framework had not been completed even up to the end of year 2020.	2019, 2020	Need to expedite the process	Registered Stock and Securities Ordinance and Local Treasury Bills Ordinance Direction No. 01 of 2019 on	The Bank is contemplating on several approaches at present to address the said matter.

				<p>Repurchase and Reverse Repurchase transactions of Dealer Direct Participants on Scripless Treasury Bills and Treasury Bonds, was issued on 20.12.2019, to strengthen the current regulatory framework on penalty provisions in government securities market. However, relevant Acts need to be amended to incorporate the penal provisions in order to make them more resilient in the legal</p>	
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				arena.	
v	As per the Section 4 of the Registered Stock and Securities Ordinance No. 07 of 1937 as amended, the Minister in charge of the subject of Finance shall, in respect of each loan (issuance of treasury bonds) to be raised under this Ordinance, specify by Order published in the Gazette. However, such kind of order for the year 2018, 2019 and 2020 had not been published in the Gazette even up to the end of December 2020. Further, order for the year 2008 to 2017 had been published in the Gazette at the following year of each respective year based on the actual results of the issuance of Treasury Bonds in contrary to the Section 4 of the Ordinance.	2018,2019,2020	Need to expedite the process.	The order papers for 2018 and 2019 for the signature of the Minister of Finance and the schedules were forwarded to the Ministry of Finance and CBSL awaits the duly signed Order Papers to make necessary arrangements for the publication of the Gazette for T-bond issuances in 2018 and 2019. The Gazettes for T-bond issuances during 2020 would be made	Relevant amendments to the Registered Stock and Securities Ordinance have been proposed to the Ministry of Finance.

				available in 2021 with the orders of the relevant Minister of Finance.	
e	Investments made by the departments of the Bank which handle internal funds.				
	A loss of Rs. 2,586 million was occurred as at 10.12.2018 to the funds managed by four departments of the Bank due to investment in unsecure Reverse Repo with a particular primary dealer. The total amount of investment which was reclassified as Receivable from the said primary dealer as at 18 September 2020 was Rs. 2,953.6 million.	2019, 2020	Need to recover the loss.	At present, the Bank has initiated legal actions to recover the due amount from the particular primary dealer. Since early 2016 onwards, the investment departments of the Bank have taken measures in order to strengthen the investment process of Internal Investment Funds.	Legal proceedings are going on.

6. Sri Lanka Savings Bank Limited

1. Name of the Institution – Sri Lanka Savings Bank Limited

2. Opinion

Year	Opinion
2018	Unmodified Opinion
2019	Unmodified Opinion
2020	Unmodified Opinion

3. Ratio Analysis

Ratio	2018	2019	2020
Profitability			
ROA	5.22	7.09	4.62
ROE	6.52	8.68	4.8
Net interest Margin	11	11.48	7.94
Leverage			
Capital Adequacy-Tier 1	90	83	82.04
Liquidity			
Liquidity Coverage Ratio	110	514	511.32

4. Net asset position

2020 Rs.	2019 Rs.	2018 Rs.
6,529,849,419	4,930,775,804	5,386,995,484

5. Carder position (Approved, Actual, Excess/Shortage)

	2018	2019	2020
Approved Cadre	183	183	183
Actual Cadre	109	103	107

6. Contribution given to the Government for the years 2018, 2019 and 2020.

N/A

7. Administrative expenses as a percentage to the revenue/Income

	Expense Rs.	Revenue Rs	Percentage to the revenue %
2018	324,988,496	1,019,059,257	31.89
2019	249,325,315	1,019,645,665	24.45
2020	244,928,082	789,309,230	31.03

8. Major Audit observations.

	Audit Observation	Auditor General's Recommendation	Preventive measures taken by the institution	Present position
01	As per the Letter No: 02/19/319/0001/004 dated 05 January 2021 of Director of Bank Supervision of Central Bank of Sri Lanka, the bank is going to liquidate or merge with National Savings Bank (NSB) by 30 September 2021. However, i. No any disclosure has been made under the topic of going concern in the financial statements for the year ended 31 December 2020. ii. Further	If any event after the balance sheet date which affects to going concern of the business, the bank should disclose under going concern policy. In addition, management should inform about the said risk of discontinuation in the management representation.	The Director - Bank Supervision of Central Bank of Sri Lanka has informed by their letter dated 05th January, 2021 that the Monetary Board of the Central Bank of Sri Lanka has taken a policy decision to fully merge the SLSB with the NSB. Accordingly, a resolution that has been adopted by the Monetary Board directing	The Bank has held several meetings with the Central Bank of Sri Lanka (CBSL) with a view to get the business operations recommenced until the merger takes place. Accordingly, CBSL has requested the Bank to present a five-year Strategic Business Plan to consider granting approval to recommence

<p>according to the management representation, it was stated that “there is no material uncertainty exists related to events or conditions that may cast significant doubt on the Board’s ability to continue as a going concern”.</p>		<p>SLSB refraining from granting any new loans, accepting deposits, recruiting new staff and entering in to new contracts with any party. Hence, the said policy decision has been taken after the balance sheet date i.e 31st December 2020 but this event has been reported under Note No.39- Events after the Reporting Period.</p> <p>The National Savings Bank, the Parent of SLSB has informed the Central Bank that action will be taken to fully merge the SLSB with NSB. And also NSB has requested CBSL to allow SLSB to</p>	<p>business. Bank has developed the five year Strategic Business Plan in consultation with the Parent, National Savings Bank (NSB). And Plan had been forwarded to CBSL for their approval. As Bank expects CBSL to consider this request favorably we don’t foresee any threat to Bank’s going concern so far. The Bank has expressed this position under Note No 39 “Events After the Reporting Period” in Annual Report 2020. However, if deemed necessary Bank will arrange to give a disclosure under Going Concern.</p>
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			continue its business operations until the merger process is completed.	
02.	Receivable balances totaling Rs.2,866,959 were outstanding since several years without recovering. Stamp duty receivable balance of Rs.1,999,000 was included in the above balance.	Actions should be taken to settle the outstanding balances.	The stamp duty receivable of Rs. 1,999,000/- has been paid at the transfer of a PSDB land vested to SLSB. This could be recovered at the disposal of the said land. Other items would be forwarded to Board of Directors to seek their instructions to take necessary action.	Except stamp duty amount, all other balances have been rectified. The stamp duty balance of Rs1,999,000/- could only be recovered at the disposal of lands.
03	An amount of Rs. 1,765,404 deducted from employees for their pension fund during the year 2008 was stated under payable balances. However, the Bank had not taken any actions to pay such money to those employees even after	Keep proper records and documents for pension funds in future.	As there is no proper source to identify how much money has been deducted from which employee during the year 2008, it was decided to transfer the	As there is no proper source to identify how much money has been deducted from each employee during the year 2008, it was decided to transfer the deducted

	their retirement.		deducted amount to proposed pension fund of the permanent employees.	amount to propose pension fund of the permanent employees which Bank intends to set up in the future.
04.	The loan outstanding balance of Rs.99,992,620 which is recoverable from six community-based organizations had not been recovered since 2015. These borrowers had not provided any security against loan balances. Therefore, the recoverability is doubtful.	Take necessary actions to recover the outstanding loan balances from relevant organizations.	Loans have been granted to Social Service Organization by NDTF Company before merge with SLS Bank and according to the company policies no security has been taken while granting loans. However currently legal actions have been taken for these loans by recovery department of SLS Bank.	Loans have been granted to Social Service Organizations by National Development Trust Fund (NDTF) before the merge with SLS Bank and according to the company policies no security has been taken while granting loans. However, currently legal actions have been taken for the loans amounting to Rs. 91,780,017/- by Recovery Department of SLS Bank.
05.	As per section 11 of the Inland Revenue Act, No. 24 of 2017 rent paid for the right of use assets	Bank should comply with the Inland Revenue Act.	Agreed and will be corrected in annual return for Y/A 2019/2020.	Rectified.

	has not been adjusted and Rs.1,886,442 had been over claimed.			
06.	<p>Out of the total loan portfolio of the bank, a sum of Rs.1,226 million or 32.6 percent represented the micro finance loan as at 31st December 2019 and it was Rs.1319 million or 33.3 per cent as at 31 December 2018.</p> <p>Out of total outstanding amount of micro finance loans, a sum of Rs.520 million or 42 per cent in 2019 and Rs.568 million or 43 per cent in 2018 had been granted to five community-based organizations and this creates a considerable concentration risk to the Bank. In addition, due to insufficient security coverage of above balances as at 31 December 2019, it may difficult to recover the loan balances.</p>	Take necessary actions to reduce the dependency on few community-based organizations when granting micro finance loans.	<p>Following Risk mitigation factors had been followed by the bank. SLS Bank has granted the Loans to these PO's considering the following factors:</p> <ul style="list-style-type: none"> • Financial performance of the Community base Organization. • Past performance of the PO in Credit activities with the SLS Bank. • SLSB borrowings as a % of Total loan portfolio of the PO. • Loan Security Deposit percentage against the Loan portfolio. • NPL position 	Same risk mitigation factors had been followed by the bank.

			of the PO CRIB status of the PO	
07.	The Bank had maintained nearly 66 per cent of its total assets in different investments such as repo, fixed deposits, debentures and equity instruments and only 26 per cent on loans and advances which is opposed to main objective of the Bank of identify, develop, promote, catalyze and support sustainable income generating opportunities and a higher quality of life for the poor through a range of activities including productive self-employment micro enterprises and rural work by the provision of financial assistance and services.	Ensure that more focus is given on the main objective of the Bank.	Noted.	Noted. As the Bank could not grant loans with the CBSL decision to discontinue its business operations with effect from 05.01.2021, making investment of funds has become one and only option at this point.
08.	The Bank recorded a growth rate of 6 per cent of its asset base since 2014 to 2018 which is far below the growth rate of 31 per cent of Licensed Specialized Banking sector for the same period	Take necessary actions to increase the growth rate of Bank's asset base as par with the industry growth rate.	Noted	Noted.

7. National Savings Bank

1. Name of the Institution: **National Savings Bank**

2. Opinion

2018 Unmodified Opinion

2019 Unmodified Opinion

2020 Unmodified Opinion

3. Ratio Analysis

Ratio	2018	2019	2020
Profitability,			
- ROE	10.87	15.32	20.67
- ROA	0.78	0.95	1.24
Leverage	4.86	5.13	6.64
Liquidity	54.9	60.2	69.10

4. Net asset position

	2018 (Rs.'000)	2019 (Rs.'000)	2020 (Rs.'000)
Total Assets	1,036,845,567	1,157,966,664	1,363,808,376
Total Liabilities	-993,750,308	-1,112,041,403	-1,311,910,879
,Net Assets	43,095,259	45,925,261	51,897,497

5. Contribution given to the Government.

	2018 Rs.'000	2019 Rs.'000	2020 Rs.'000
Dividend/Levy	500,000	2,000,000	1,000,000

6. Carder position

	2018	2019	2020
Approved	4,978	5,407	5,408
Actual	4,512	4,715	4,641

7. Administrative expenses as a percentage to the revenue/income

	2018	2019	2020
Administrative expenses as a percentage to the revenue/Income	12.59	12.85	12.12

8. Major Audit observations

	Audit Observation	Auditor General's Recommendation	Preventive measures taken by the institution	Present position
01.	Receivable amount to the Bank from fraudulent withdrawals as at 31 December 2020 was Rs.134.4 million. Out of that, a sum of Rs.103,963,153 was outstanding for more than 5 years. Further there is a balance amounting to Rs.77,292,906 which had not been recovered from insurance or other	Disciplinary actions relating to the frauds done by staff should be expedite and internal	Administratio n Division is continuously following up fraudulent withdrawal account and necessary	As at 31.12.2021 Loss incurred from fraudulent withdrawals was Rs.81,556,657

	recovering method.	control system should be strengthened to minimize frauds.	actions are taken to clear balances. Further, the bank has strengthened internal control system by introducing circulars, strict supervisions, and performing internal audits.	after considering Ex-gratia received from Sri Lanka Insurance Company during the renewal of BI policy.
0 2.	<p>A sum of Rs.35.23 million had been spent for professional services obtained for construction of 18 storied building in 2008.</p> <p>However, the said construction work had been abandoned and expenditure incurred thereon had become a fruitless expenditure and this balance is stated in the financial statements as at 31 December 2020 under advance.</p>	Bank should take immediate actions to minimize loss to the bank through this transaction.	The project for 18 storied building has been initiated with the outside professional institution including the Central Engineering Consultancy Bureau (CECB) and this capital expenditure represents the	Current position is the same.

			<p>payment made to them for their professional services.</p> <p>The possibility of obtaining the adjoining 106 perch land on long term lease is being discussed with UDA to plan a major development at the Head Office Premises.</p> <p>The possibility of getting the services of CECB will be looked into and accordingly, service fee for the newly prepared project will be discussed and negotiated with them for</p>	
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			suitable reduction, if they will be selected for the project.	
03	The file containing the original documents of a loan amounting to Rs. 900,000 was misplaced. Said loan has been granted on 11 May 2012 and transferred to non-performing category on 31 October 2012 and the total outstanding as at 31 December 2021 was Rs.3,022,817.No investigations was carried out against the credit officer who handles the loan file and no legal action had been taken to recover the loan as per section 8 and 9 of the loan recovery policy of the Bank or from guarantors.	Bank has a high risk of missing loan files and actions should be taken to implement sound internal control system to reduce the risk.	The Bank is unable to contact the borrower as they have relocated from the place where they were at the time of granting the loan.	Current position is the same.
04.	According to the inquiry made by the internal audit division in January 2021 from 258 branches, 390 loan files to the outstanding value of Rs.195,365,919 had misplaced. a. Out of those misplaced files, 100 files to the loan value of Rs. 29,846,707 were non-performing loan files.Said 100 misplaced loan files in non-performing category consists of 02 legal files, 38 housing loan files and 60 personal loan files to the value of Rs.1,506,770, Rs.19,032,365 and	Internal control procedures should be strengthened related to maintaining loan files.	Instructions have already been given to the Branch Managers / Regional Managers to carry out physical verification of loan files in their branches biannually, on or around 30 th June & 31 st	Current position is the same.

	<p>Rs. 9,307,572 respectively.</p> <p>b. Actions against responsible parties had not been taken by the Bank regarding missing files up to the reporting date.</p>		<p>December biannually.</p> <p>In addition to that, further instructions have also been issued vide the DGM (Operations)'s Instruction Letter No. 469/2018 and Senior Deputy General Manager's Instruction Letter No. 535/2019 to branches about the importance of safety and security of these loan files and adhering to the relevant instructions.</p> <p>-If there are any lapses in the safety and security and the significance</p>	
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			<p>of the loan files, actions will be taken to rectify the situation by educating the branch staff about the mechanism that will be in place and the procedures to be followed in the staff training sessions to be conducted for the year 2022.</p> <p>-The lapses and weaknesses of the current internal controlling system will be identified via the Internal Audit Division of the bank and based on their recommendations; a proper mechanism</p>	
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			shall be devised in line with the implementation of the proposed Core Banking system	
05	Without obtaining the legal ownership of eight lands, Bank had spent Rs.83.6 million for the construction activities on those lands situated in Anuradhapura, Elpitiya, Galnewa, Katharagama, Kiridiwela, Monaragala, Rathnapura, Kekirawa. This audit observation was reported since 2014 and the buildings were constructed prior to that year. A COPE direction had been issued to discuss the matter with the Land Settlement Department to obtain legal ownership of them. However, bank had not obtained the legal ownership of those lands even as at the end of the year 2020.	Bank is trying to take lease hold right since 2014. Prompt actions should be taken to obtain lease agreements for these lands.	Bank is in the process of obtaining long term lease agreements by communication with the relevant responsible parties, Commissioner of. Municipal council of Anuradhapura, Divisional Secretariat of Dompe, Manaragala, Elpitiya, Galnewa, Kekirawa,	Not yet taken the legal ownership.
06	The land with an extent of 38.8 perches was leased from the Urban Development Authority in the year 2008 for a 50-year period had not been used for effective purpose for last 11	Bank should invest in a land with a special	The Board of Directors has decided to develop a new building in	

	years.	purpose.	<p>this premises for the use of banking operations.</p> <p>However, the government has decided to hold the new building projects till 2022 and therefore, the Corporate Management Committee has decided to postpone this project.</p>	
07	<p>The Bank had issued 1,955,432 number of ATM cards during the period of 2008-2019. Out of that 81 per cent were Mag Stripe Cards while 19 per cent were EMV Cards. All reported ATM skimming frauds had happened through Mag Stripe Cards. Total value of ATM skimming frauds as at 31 December 2019 was Rs. 2,300,290.</p>	<p>Action should be taken to issue EMV card for existing Mag Stripe Card holders to prevent ATM skimming frauds in future.</p>	<p>Since May 2018 onwards Bank issues only EMV cards to customers. Migration of existing Mag Stripe Cards to EMV Cards could not be commenced from 2018 since required EMV Cards</p>	<p>Cards other than those in use at least once from 01 October 2021 to date (6 months) will be purged by 30 May 2022. After a final notice over SMS and media advertisement all remaining cards will be</p>

			stocks were not available at that time.	purged by 30 th May 2022.																								
08	<p>a. Without identifying exact staff requirement of each function, the bank has changed approved cadre year by year. Number of approved staff for executive level AGM and</p> <table border="1"> <thead> <tr> <th>Post</th> <th>2020</th> <th>2019</th> <th>2018</th> <th>2017</th> <th>2016</th> </tr> </thead> <tbody> <tr> <td>SDG M</td> <td>02</td> <td>02</td> <td>02</td> <td>02</td> <td>02</td> </tr> <tr> <td>DG M</td> <td>12</td> <td>12</td> <td>13</td> <td>13</td> <td>13</td> </tr> <tr> <td>AG M</td> <td>26</td> <td>26</td> <td>21</td> <td>19</td> <td></td> </tr> </tbody> </table> <p>DGM positions has been changed in following manner during last 5 years.</p>	Post	2020	2019	2018	2017	2016	SDG M	02	02	02	02	02	DG M	12	12	13	13	13	AG M	26	26	21	19		<p>Annual changes to man power plan may lead to make unnecessary posts and abnormal recruitments. Hence bank should maintain effective controls on this.</p>	<p>The Bank's Manpower Plan is revised annually based on the requirements in the areas of business operations obtained from the Heads of Divisions. Accordingly, the approval of the Board of Directors is obtained annually for the Manpower Plan.</p>	<p>Status is the same. The man power plan for the year 2021 has been approved by the board of Directors on 19.07.2021.</p>
Post	2020	2019	2018	2017	2016																							
SDG M	02	02	02	02	02																							
DG M	12	12	13	13	13																							
AG M	26	26	21	19																								
09	<p>Interest receivable on pawning advance balance in the pawning system was different with the general ledger balance by Rs.637 million as at 31 December 2019. Without finalizing the investigation for the above difference, a provision had been made by adjusting the equity balance.</p>	<p>Provision should be made on reasonable and acceptable basis.</p>	<p>This amount is appeared in the General Ledger as Interest Receivable, which was related to the</p>	<p>The approval to write off the net difference of Rs.637 million in interest receivable on pawning had</p>																								

			<p>previous years.</p> <p>Considering the possible losses arising out of the receivable, a provision of Rs.637,405,736/- has been made as at 31/12/2019.</p>	<p>been sought , based on the instruction given vide the board paper No. 180/2021 dated 02.06.2021.</p>
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8. State Mortgage and Investment Bank

1. Name of the Institution- State Mortgage and Investment Bank

2. Opinion for the years 2018, 2019 and 2020

2018	Qualified opinion
2019	Unmodified Opinion
2020	Unmodified Opinion

3. Ratio Analysis

Ratio	2018	2019	2020
Profitability			
ROA	1.13	1.11	1.15
ROE	4.82	7.73	6.09
Net interest Margin	4.72	4.52	4.24
Leverage			
Capital Adequacy-Tier 1	21.69	21.04	21.58
Liquidity			
Liquidity Coverage Ratio	83.91	121.05	116

4. Net asset position

	2018	2019	2020
Total assets	42,597,268,360	47,311,436,771	52,801,920,647
Total Liabilities	37,410,284,396	41,652,768,226	46,782,411,961
Net assets	5,186,983,964	5,658,668,546	6,019,508,686

5. Contribution given to the Government for the years 2018, 2019 and 2020.

	2020	2019	2018
Dividend			
Levy or other			
Subsidiaries or grants received from Government	Not Paid	Not Paid	Not Paid
Government guaranteed loans received to finance expenses			

6. Carder position (Approved, Actual, Excess/Shortage)

	2020	2019	2018
Approved	467	467	467
Actual	369	378	389

8. Administrative expenses as a percentage to the revenue/Income

	Expense Rs.	Revenue Rs	Percentage to the revenue %
2020	1,509,807,674	6,076,716,152	25%
2019	1,357,752,801	5,981,510,158	23%
2018	1,348,957,453	5,524,856,523	24%

9. Major Audit observations.

	Audit Observation	Auditor General's Recommendation	Preventive measures taken by the institution	Present position
01.	An unreconciled balance of Rs.3,008,166 had been carried forward in EPF and ETF payable accounts since more than 12 years.	Take necessary actions to clear the said amount.	Action will be taken to clear above difference before end of 2019.	The amount has been cleared
02.	An amount of Rs.2,400,000 was recorded in frauds account and disclosed under other assets in the Financial Statements. The balance reflects the amount relating to two frauds occurred in 1999. However, the recoverability of this balance	Take necessary actions to write off the said amount after confirming the non-recoverability from the legal division of the bank.	Recoverability of the above frauds is very remote; action will be taken to write off before end of December 2019.	Balance has been written off.

	is doubtful.			
03	The credit division of the Bank during the period from 01 September 2016 to 31 March 2017 had granted loans amounting to Rs.66.34 million to forty seven (47) applicants who were presenting themselves as the employees of two fake private organizations. It was revealed that the applicants presenting themselves as employees of the two fake organizations had submitted forge documents in applying for respective loans. Out of the above loan Rs 61,506,617 was recorded as the balance payment outstanding as at 31 December 2020.	Take necessary actions against culprits to recover the said amount and identify the responsible employees and take necessary actions	Case has been filed in the criminal investigation division against relevant suspects and disciplinary actions were taken against relevant employees those involved in granting of such loans.	CID investigation is ongoing
04.	Even though a sum of Rs.38,312,700 had been paid as rental of the head office building for the year under review, most of the facilities such as office and parking space, wash room, lunch room, stores, wiring systems etc. of the building are not in a satisfactory level as the building is very old. Further, the Bank had failed to obtain	Take necessary actions to purchase new building after receiving the cabinet decision.	On request of the Bank, Ministry of Finance has appointed a Cabinet procurement committee and TEC to purchase new building, even though the procurement committee has	Actions had not been taken yet.

	an insurance coverage as per provisions in the rent agreement. Hence, the staff, assets and customers' safety is at a risk.		selected a building and furnished their recommendation to Ministry on October 2018, however so far, we have not received the cabinet decision for new building.	
05	There is an un reconcile credit amount recorded in the "slip control account" amounting to Rs 1,871,997 as at 31 December 2020.	Take necessary actions to reconcile the un reconciled balance or write off or do the necessary adjustment in the accounts.	This balance to be write of due to unavailability of documentary evidence.	Slip Control Account has been cleared Now.
06	The management has paid Rs 12,609,581 as the final payment of the VAT on financial services for the year of 2019 on 30 June 2020 without considering excess payment already made for the year 2019 amounting to Rs.12,450,865	Pay the final payments with the confirmed information	Bank has paid Rs.12,609,581 as final VAT on Financial services for the period 2019/2020 as per the technical advice given by the our tax consultant, this computation included the nonfinancial VAT income on	Now Settled

			<p>Dividend income, Fair value gain and investment income on placement with financial institution and also they have advised us to exclude income on above sources from the Final VAT return for the Y/A 2019/2020 on the ground the appeal court case is still being in progress on the case file by the challenging of considering the above sources under Financial VAT . In case judgment would issue in favor of the plaintiff bank can claim such benefit, nevertheless bank would not incur any penalty on nonpayment of Financial VAT on aforesaid sources</p>	
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			of income in the event of the judgment would issue against the plaintiff	
07	Though the process for purchasing a core banking solution begins in June 2016, the Bank was unable to purchase the new core banking solution up to the date of audit.	Take necessary actions to purchase the core banking solution for the bank as soon as possible.	Bank has opened the Bids on the 16-July-2020 and received 5 bid proposals. Thereafter, Technical Evaluation Committee has started Evaluation on Technical Evaluation (Phase I) and completed the Technical Evaluation Report and submitted to Ministry Procurement Committee (“State Ministry of Money and Capital Market and State Enterprise Reforms”) on the 02-Dec-2020. This report is an interim report to MPC to report progress of the	Process is in initialized

			<p>evaluation process after completion of Technical evaluation phases and requested approval to Open financial and hardware proposals to continue with Financial Evaluation. Once TEC committee receives MPC approval, TEC will arrange to open financial bids and continue with the Financial Evaluation which is the final phase of the evaluation.</p>	
08	<p>According to the cadre position of the Bank, approved cadre and actual cadre was 467 and 369 respectively resulting 98 vacancies as at 31.12.2020. It was further revealed that 17 key managerial positions are vacant as at 31 December 2020 which affect for the smooth operation of the Bank.</p>	<p>Take necessary actions to fill the vacancies in approved cadre to ensure the smooth operations of the bank.</p>	<p>Cadre of the bank originally designed in lign with proposed branches expansion of the bank. However CBSI has withheld granting permission to opening of new branches until</p>	<p>Same position</p>

			meeting with minimum regulatory capital of the bank, filling of the vacancies has been deferred	
09	Bank had paid Pay as You Earn (PAYE) tax amounting to Rs.1,756,213 for the year 2020 out of its own funds on behalf of its employees instead of being deducted from the salary.	Should adhere to “Public Enterprises Circular No. PED 03/2016 dated 29 April 2016” in relation to PAYE Tax of the bank	PAYE(APT) are paid as per condition in the collective agreement.	Same position
10	The Banking Act Direction No 12 of 2007 Section 3.1.i.e the Board should review the adequacy and the integrity of the Bank’s internal control systems and management information systems. AS 400 does not facilitate the industry requirement in terms of generating information and reports.	Should comply with the regulation of the Banking Act Direction No 12 of 2007 Section 3.1.i.e	Bank has made arrangement to purchase New Core Banking system. Paper Advertisement published for Invitation of Bids on 16.12.2021 and bids closing on 03.02.2022.	Same position
11	The Banking Act Direction No 12 of 2007 Section 3.2.i the board’s composition, the no of Directors of the Board shall not be less than 7 and no more than 13. As per the Banking Act, minimum no of directors	Should comply with the regulation of the Banking Act Direction No 12 of 2007 Section 3.2.i	Noted, Now complied	Same Position

	<p>should be seven (7). However actual no of directors in the board were five (5) as at 31 December 2020.</p>			
12	<p>The Banking Act Direction No 12 of 2007 Section 3.5.ix The chairman, shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.</p> <p>It was observed that Appointment letters of the CIA, Assistant Manager (Credit) and Assistant Internal Auditor have been signed by the Chairman in 2020</p>	<p>The Chairman should not be exercised executive duties of the Bank.</p>	<p>Noted. We have requested clarification from the GA on this matter by the letter dated 31st December 2021</p>	<p>Same position</p>
14	<p>The Banking Act Direction No 12 of 2007 Section 3.6.iii.c of the Human Resources and Remuneration Committee shall evaluate the performance of the CEO and key management personnel against the set targets and goals periodically.</p> <p>It was observed that the Bank has not considered goals and target set at the beginning for the performance evaluation of</p>	<p>Should comply with the regulation of the Banking Act Direction No 12 of 2007 Section 3.6.iii.c.</p>	<p>Noted for future actions. The Board has decided to monitor the performance of the KMPs by monitoring their performance against the agreed KPIs in future.</p>	<p>Same position</p>

	the CEO and KMPs.			
15	Long outstanding customer refund balances were observed amounting to Rs 72,103,281 as at 31 December 2020	Long outstanding customer refund balances should be settled as soon as possible.	As at 31.12.2021 balance of this account was reduced to Rs. 50,739,909.	
16	There are two long outstanding advance balances amounting to Rs 1,563,966 and Rs 1,233,723 respectively as at 31 December 2020 reference to the ledger account 2/22/4703 and 2/22/4702	Take necessary actions to recover long outstanding advance balance as soon as possible.		

9. Merchant Bank of Sri Lanka & Finance PLC

1. Name of the Institute **Merchant Bank of Sri Lanka & Finance PLC**

2. Opinion for the years

	2018	Unmodified Audit Opinion (Emphasis of Matter)
	2019	Unmodified Audit Opinion (Emphasis of Matter)
	2020	Unmodified Audit Opinion (Emphasis of Matter)

8. Ratio Analysis

Ratio	2018 (%)	2019 (%)	2020 (%)
Performance Ratios			
Return on Equity (ROE)	6.30	4.0	(54.39)
Return on Assets (ROA)	0.51	0.28	(3.20)
Interest Margin	7.83	6.52	4.50
Assets Quality Ratio			
Gross Non performing Advance (NPL)	11.46	14.53	16.84
Capital Adequacy Ratios			
Tier 1 Capital	4.70	5.64	4.41
Total Capital	8.98	8.64	5.59
Statutory Ratio			
Liquid Assets Ratio	10.20	12.30	8.17

9. Net asset position

	2018 (Rs.'000)	2019 (Rs.'000)	2020 (Rs.'000)
Total Assets	35,659,527	36,975,116	32,359,209
Total Liabilities	(33,135,423)	(34,367,328)	(30,891,358)
Net Assets	2,524,104	2,607,788	1,467,851

10. Contribution given to the Government for the years 2018, 2019 and 2020.

Description	2018	2019	2020
Dividend/ Levy paid to the Government	NIL	NIL	NIL

11. Carder position (Approved, Actual, Excess/Shortage)

Description	2018	2019	2020
Approved Carder	Not given	1338	1299
Actual Carder	Not given	1000	976
Excess/Shortage	Not given	338	414

12. Administrative expenses as a percentage to the revenue/Income

Description	2018	2019	2020
Total Income (Rs.'000)	6,549,905	6,839,015	5,188,013
Total Operating Expenses (Rs.'000)	2,005,619	2,122,317	1,955,140
Total Operating Expenses as a % of Total Income	30.6	31.0	37.7

13. Audit observations

	Audit Observation	Year of the Audit Observation	Auditor General's Recommendation	Management Comment Given	Preventive measures taken by the institution	Present position
01	There was a long outstanding balance of Rs.10,994,432 in the Creditors' balance for more than a year. That includes unidentified direct deposits and unrepresented payments.	2018	It is recommended that management should further enhance its systems in the preparation of monthly and yearend reconciliations and emphasis should be placed on in-depth review of the reconciliations and approving	The identified portfolio will be reconciled and required adjustments will be made before December 2019, except court cases and personal loans paid in excess.	Recovery Division and branch team regularly monitor direct deposits of customers and clear.	Long outstanding balance of Rs. 14 Mn cleared in October 2021 after obtaining Board approval.

			of the adjusted entries and ensure that there aren't any long outstanding balances which may distort the figures in the Financial Statements.			
02	From 1 July 2018 onwards the company should maintain their Tier 1 capital above 6 per cent and total capital above 10 per cent. However, the Company has failed to comply with the aforesaid requirement. Further, currently the Company does not have a comprehensive plan to explain the remedial actions against this non-compliance.	2018	It is recommended that the Company's management should take remedial action to overcome this situation.	A comprehensive plan has been presented and discussed with Board of Directors. The same procedure has been presented to BOC as the parent company for advice and approval. Meanwhile CBSL has indicated in writing the possibility of allowing recognition of IFRS 9 day 1 impact over a period of 4 years.	Infusion of fresh capital of Rs. 2,100mn. Increasing retained earnings by achieving budgeted yearly profits.	All CBSL regulatory capital ratios are complied, as at 31.12.2021
03	During the period, the Company has disposed one of their properties at Wattala for Rs.94,297,500. As per the valuation done by the Mr. S.A.M.A. Perera dated 7 August 2018, forced sale value of the above property was Rs.98,250,000. It is noted that the valuation is greater than the Rs.3,952,500 than the actual sold price. This property has been sold to one of the existing customer of MBSL by granting a new loan	2018	It is recommended to evaluate these transactions properly, before executing them.	The said property was acquired due to non-payment of loan facility from a customer. The Company disposed the said property due to following reasons. 1. To recover the loan given to the customer. 2. To liquidate the non-yielding asset. The said property was not taken on rent after selling.	Board approved 'Guidelines on Disposal of Acquired Property' is in operation to strengthen transparency	The Board approved Policy is being followed.

	<p>amounting to Rs.64, 297,500. Subsequently the same property has been rented out by the customer to MBSL. The Company had recognized a disposal profit of Rs. 83,199,014 in the Statement of Profit or Loss which leads to the suspicion that the transaction took place in order to boost the bottom line of the Company.</p>			<p>The loan was granted to the buyer after proper credit evaluation and also due to providing credit is our core business. This generates the main income to the company. However, the loan has been settled by the customer in full before the granted period. This is a normal business activity of a Finance Company.</p>		
04	<p>Documentary evidence not made available for audit for the suspense account balance of Rs.40,279,985.</p>	2018	<p>It is recommended that the management should further enhance its systems in the preparation of monthly and year-end reconciliations and emphasis should be placed on in depth review of the reconciliations and approving of the adjusted entries. Management should ensure that there aren't any long outstanding balances which may distort the figures in the statement of the Financial Statements.</p>	<p>Management is in the process of clearing balances in Suspense accounts and can be finalized by end of October 2019.</p>	<p>Board approved 'Long Outstanding Balance Clearance Policy' is in operation. As per the Policy, Internal Audit Division has to recommend any approvals seeking Board approval.</p>	<p>Balance cleared as at 31.12.2021 As per the Board approval.</p>

05	Though there are 13,379 number of facilities amounting to Rs.2,375 million flagged in the system as non performing facilities, no legal action has been taken against them.	2019	Recommended to take legal actions against defaulted customers.	Due to several defects in the documentation this was delayed.	All facilities which are flagged in the system as “Non-Performing Facilities” are not referred to the Legal Department to initiate legal action. Company initiates legal action only in respect of the facilities which are referred to the Legal Department to initiate legal action.	Company initiates legal action only in respect of the facilities which are referred to the Legal Department to initiate legal action.
06	The Company was unable to reconcile Rs.2,867,968 worth of debit balances and Rs.2,525,500 worth of credit balance included in the suspense account and also unable to provide the origin or supporting documents for the relevant balances.	2019	Recommended to reconcile and clear the balances included in the suspense account.	A balance amounting to Rs.1,418,425 was rectified on 30 January 2020 and other balances will be rectified by the year end 31 December 2020.	Board approved ‘Long Outstanding Balance Clearance Policy’ is in operation. As per the Policy, Internal Audit Division has to recommend any approvals seeking Board approval.	Balance cleared as at 31.12.2021 as per Board approved Policy.

07	<p>Long outstanding balances were observed in temporary accounts of creditors, unidentified direct deposit, un-presented payments and unscheduled payment collection accounts. The age analysis of the long outstanding balances is given in the below table..</p> <table border="1" data-bbox="204 589 494 1998"> <thead> <tr> <th rowspan="2">Description</th> <th colspan="4">Outstanding Period (Years)</th> </tr> <tr> <th>0-1</th> <th>1-3</th> <th>3-5</th> <th>More than 5</th> </tr> </thead> <tbody> <tr> <td>Creditors</td> <td>2,75,977</td> <td>3,385,165</td> <td>3,51,725</td> <td>1,31,399</td> </tr> <tr> <td>Unidentified Direct Deposit</td> <td>3,828,498</td> <td>20,178,176</td> <td>1,34,884</td> <td>3,32,465</td> </tr> <tr> <td>Un-presented Payments</td> <td>22,705</td> <td>4,144,888</td> <td>5,69,646</td> <td>4,841,919</td> </tr> </tbody> </table>	Description	Outstanding Period (Years)				0-1	1-3	3-5	More than 5	Creditors	2,75,977	3,385,165	3,51,725	1,31,399	Unidentified Direct Deposit	3,828,498	20,178,176	1,34,884	3,32,465	Un-presented Payments	22,705	4,144,888	5,69,646	4,841,919	2019	Recommended to clear the long outstanding balances in temporary accounts.	Reconciliation is in progress with the relevant divisions. In additions, a policy is to be developed and approved by the end of the year 2020 to clear all un-reconciled balances at the year end.	Board approved 'Long Outstanding Balance Clearance Policy' is in operation. As per the Policy, Internal Audit Division has to recommend any approvals seeking Board approval.	<p>Creditors: All possible long outstanding balances were cleared after the Board approval.</p> <p>Unidentified Direct Deposits: Out of the Balance mentioned, more than 5 years amount of Rs.18 Mn has been cleared in October & November 2021 as per the Board approved policy.</p> <p>Unpresented Payments: Out of the Balance mentioned</p>
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08	<p>The Company has recorded losses amounting to Rs.45,203,058 due to frauds and errors in 2019 and was able to recover a sum of Rs. 8,056,058. The Company had terminated 18 no. of employees who are related for the fraud cases during the year.</p>	2019	<p>Recommended to strengthen the internal control process of the company to avoid frauds.</p>	<p>Whatever amounts recoverable without any litigations have been recovered whilst other are subject to legal process.</p>	<p>At institution level</p> <p>a. Personal Loans - All undertaking and salary confirmations are re-verified by the PL Unit @ CCD (before disbursement)</p> <p>b. Strengthen and given more responsibility to the "Branch operation officer" in addition to the BM.</p>	<p>Statements were given to CID by AGM R2, CEO and the Internal Auditors . The CID investigators informed that they are to carry out necessary field investigations with related parties and</p>														

				<p>Documentation of all credit files needed to be certified by the Branch Operation Officer before send to head office.</p> <p>c. Specially for leasing and other high value facilities -Customer inspection photos must be attached to the SKALE system and visited officer should submit google map to confirm his visit.</p> <p>At Branch Level/Regional Level</p> <p>d: Temporarily stopped granting Personal Loan facilities from Thissa Branch.</p> <p>5. e: 1st rental monitoring process is carried out by regional level and if there is</p>	<p>suspects.</p> <p>LKR 37 Mn provided as at 31.12.2021</p>
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					<p>any delays BM and RO are informed to confirm the reason to Regional Head.</p> <p>f: Other than PL facilities, customers & guarantors of all other facilities are being verified by the regional office over the phone before recommend for disbursement.</p> <p>1. Hold gratuity entitlement of Rs.1,135,000/- of accused BM. And it is to be set off against the damaged committed by himself.</p> <p>2. Not allowed to maintain welfare accounts or any other personal savings account without one official staff savings account.</p> <p>3. Transactions</p>	
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					<p>of staff savings are closely monitored and special approval should be taken for staff saving limits.</p> <p>4. All related suspected employees were dismissed and appoint new staff . New graduate trained Operation Officer appointed to overlook the branch operations.</p>	
09	The Company has fully depreciated property, plant and equipment which are still in use amounting to Rs.521 million. The Company has not taken necessary arrangements to reassess the useful life of those assets based on the useable condition.	2020	Recommended to reassess the useful life of fully depreciated assets which are still in use.	Once the physical verification and fixed assets cording completed, necessary action will be taken depending on the amount and cost involved in revaluation.	After the physical verification, useful life of fully depreciated assets was reassessed as per External Auditors advice.	Based on the reassessed useful life, necessary adjustments in the 2021 financials were made.
10	A long outstanding receivable balance of Rs.14,147,683 was observed which is categorized as “Insurance Agency Commission Receivable”. The balance consists of a VAT portion of insurance companies which the client has not received.	2020		A Board approved policy has been developed to clear the long outstanding balances with the Internal Audit Division’s recommendation. Internal Audit has submitted write off paper to the Audit Committee and it has been approved	Board approved ‘Long Outstanding Balance Clearance Policy’ is in operation. As per the Policy, Internal Audit Division has to recommend any approvals seeking Board	Long outstanding balance of Rs.14Mn cleared in October 2021 after obtaining Board approval.

				by the Audit Committee to write off the long outstanding balance as per write off policy.	approval.																								
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	d D i r e c t D e p o s i t				9						Rs.11Mn has been cleared in October & November 2021 after obtaining Board approval.
	U n p r e s e n t e d P a y m e n t s	-	1 3 9 9 6 7 8	2 3 5 4 9 8 1	9, 94 7, 38 9 0 2 0 4 8	1 3 7 0 2 8					
	T o t a l	1 2 6 0 0	9 2 5 2 3 2 2	9 7 0 5 6 9 6	13 1, 18 7, 43 4	1 5 0 1 5 8 0 5 2					
12.	The major fraudulent activities investigated by the Internal Audit division during the year 2020 are summarized below.	2020	Recommended to take necessary actions to prevent from occurring such type of fraudulent activities in the future.	According to the instruction given by Legal Division, legal actions have been initiated against the customers and way forward for other cases depending on	At institution level a. Personal Loans - All undertaking and	Statements were given to CID by AGM R2, CEO and the Internal Auditors . The CID					

Branch	Description	Total Financial Loss Incurred (Rs.)			the progress of the cases. Branch Manager has been transferred to Hatton Branch and presently working in the Recovery Division.	salary confirmations are re-verified by the PL Unit @ CCD (before disbursement)	investigators informed that they are to carry out necessary field investigations with related parties and suspects.
Mona ragala	11 leasing facilities were granted on forged documents.	16.63 Mn			The Branch Manager has been terminated with effect from 20-02-2020 (Letter Dated 15-07-2021) based on disciplinary inquiry. Further, case has been filed with CID on 13-07-2021 against the Branch Manager and the third party involved in this fraud.	b. Strengthen and given more responsibility to the "Branch operation officer" in addition to the BM. Documentations of all credit files needed to be certified by the Branch Operation Officer before send to head office.	LKR 37 Mn provided as at 31.12.2021
Tissamaharama	Obtaining 21 no. of loans and leasing facilities by presenting forged and false documents	32.17 Mn			Complaint made to Fraud Bureau on 25 June 2021 to recover the loss from former Galle branch manager.	c. Specially for leasing and other high value facilities - Customer inspection photos must be attached to the SKALE system and visited officer should submit google map to confirm his visit.	
Galle	Misappropriation of Mass Eco Cabana cheque.	5.215 Mn				At Branch Level/Regional Level d: Temporarily stopped granting Personal Loan facilities from Thissa Branch.	
						e: 1st rental monitoring	

					<p>process is carried out by regional level and if there is any delays BM and RO are informed to confirm the reason to Regional Head.</p> <p>f: Other than PL facilities, customers & guarantors of all other facilities are being verified by the regional office over the phone before recommend for disbursement.</p> <p>1. Hold gratuity entitlement of Rs.1,135,000/- of accused BM. And it is to be set off against the damaged committed by himself.</p> <p>2. Not allowed to maintain welfare accounts or any other personal savings account without one official staff savings account.</p> <p>3. Transactions of staff savings are closely monitored and special approval should be taken for staff saving limits.</p> <p>4. All related suspected employees were dismissed and</p>	
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					<p>appoint new staff . New graduate trained Operation Officer appointed to overlook the branch operations.</p> <p>Statements were given to CID by AGM R2, CEO and the Internal Auditors . The CID investigators informed that they are to carry out necessary field investigations with related parties and suspects.</p> <p>LKR 37 Mn provided as at 31.12.2021</p>	
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