

People's Bank – 2018

1.1 Opinion

The audit of the financial statements of the People's Bank ("Bank") and the Consolidated Financial Statements of the Bank and its Subsidiary ("Group") for the year ended 31 December 2018 comprising the statement of financial positions as at 31 December 2018 and income statement, statement of changes in equity and statement of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

In my opinion, the accompanying financial statements of the Bank and the Group give a true and fair view of the financial position of the Bank and the Group as at 31 December 2018 and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

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

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

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

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

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

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

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

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

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

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

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

1.5 Accounts Receivable and Payable

1.5.1 Receivables

Audit Issue	Management Comment	Recommendation
(i) Long outstanding Receivable balances relating to 07 general ledger accounts aggregating to Rs 24,048,256 were remained over a long period and the recoverability and the existence cannot be verified.	G/L 397020 already cleared necessary measures are currently being taken to clear those.	Need to review these balances and take necessary actions to clear the balances.

1.5.2 Payables

Audit Issue	Management Comment	Recommendation
(i) Suspense Account Payable to Suppliers consists of long outstanding balance of Rs. 5,221,467 which relates to Desktop Publishing Department.	The correction actions are being taken.	Need to review this balance and take necessary actions to clear the balance.
(ii) The difference of Rs. 4,187,382 were observed between VAT return and VAT payable ledger account as at 31 December 2018.	The system of collecting the VAT and NBT is automated. However, in certain instances, branches collect VAT and NBT manually and hence the system data is not matched with the GL balance. The same applies for FCBU transactions where VAT and NBT is collected manually. However, the Bank is currently in the process of formulating a mechanism to eliminate this anomaly.	Need to formulate a mechanism to eliminate this anomaly immediately.

1.6 Related Parties and Related Party Transactions not disclosed

Audit Issue	Management Comment	Recommendation
(i) Actions had not been taken to flag the related party transactions carried out through the core banking system.	Improvement measures are ongoing. A related party transaction policy has been put in place with the approval of the Board of Directors. As per therein, the Board Integrated Risk Management Committee is tasked with overseeing/ reviewing such transactions. In addition, a mechanism for identifying transactions entered into by related parties is carried out on a monthly basis. For the avoidance of any doubt, further improvement(s) in this connection are necessary and efforts for the said purpose are systematically currently being made.	It is vital that management take necessary steps in order to address these concerns and stream line the process and ensure that a proper policy has been documented, approved and in place. Further, we stress the importance of having Related Party Transactions Committee for the better governance of the said process.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(i) Direction 4(5) issued by the Central Bank of Sri Lanka (CBSL) in non – compliance 30% - 70% rule.	Total credit facilities need to be classified as Non-Performing Loans (NPL), when the aggregate amount of outstanding classified as NPL exceed 30 percent of total credit facilities extend to a single borrower, when multiple credit facilities were granted. However, it was noted that several loans belong to such customers were not classified as NPL.	Matter will be looked into with a target to resolve by end 2019.	Actions should be taken to comply with 30% -70% rules with regarding to categorization of NPL.
(ii) Section 4(2) iii of Banking Act Direction No.3 of 2008 for categorization of NPL.	The maximum days past due, that a customer can accumulate without being flagged as NPL is 180 days (Cash backed / Margin Loans). However, several facilities which had more than 180 days past due, were not categorized as NPL.	Matter is currently being looked into with a target to resolve in a time and manner reasonably possible.	Actions need to be taken to comply with the said direction.

(iii) Bank Circular- Deputy General Manager- (Operations) Circular No.6970/2010	Branch should transfer outstanding items exceeding six months in “Suspense Account - Creditors accounts” to “Unclaimed Balances Account” immediately. However, during the branch audit, it was observed that excess cash transactions included in suspense creditors which exceeded six months period had not been transferred to the said account.	These all are not only cash excess in the counter, but cash excess at ATM, CDM. So we are unable to transfer to unclaimed balance account. We have informed to NOVUS company to clear the outstanding as soon as possible.	Immediate actions need to be taken to clear these balances.
(iv) Bank Circular- Deputy General Manager Circular No.5208/99	When the branch identified dud articles it should be published and reported to Regional office and take actions to recover loss from insurance. However, during the branch audit it was observed that, there were no any insurance claims obtained or letters submitted to Regional Head Office (RHO) related to the pawning of dud articles.	We have sent a letter to Finance Department- insurance, inquiring about this matter and we will try our best to collect the documentary evidence, if any.	All the mangers at branches and RHOs need to be strictly adhere with relevant circulars.
(v) Bank Circular- General Instruction Circular No.688/2003 (88)	Managers and Officers in charge of Service Centers should physically check and confirm the accuracy of gold content of the articles which selected randomly at least 10 percent among the articles for which advances granted daily and maintain a transfer book with given format in the aforesaid circular. However, several instances were noted where the branch had not adhered to the said instructions.	As a practice manager physically checks the accuracy of gold content of the articles which are selected randomly and recorded in the pawning stock book daily.	All the branch managers need to be strictly adhered with relevant circulars, due to several instances were noted where mangers were not adhered.
(vi) Credit Procedure Manual of the Bank Section 9.3.1	It is required to maintain the current account with satisfactory deposits for minimum period of six months to be eligible for obtaining overdraft facility. However certain instances were observed where the bank had not adhered to the said instructions.	TODs were settled before 90 days, customers have failed to settle before 30 days because the adverse trend of their business	Need to be grant facilities only that possessed minimum requirements for eligibility.

(vii) Bank Circular- Manager's circular No 614/2007 (4)	Temporary Overdrafts (TOD) should be recovered without any delay. However significant delays were observed regarding the recovering of TOD facilities.	TODs were settled before 90 days, customers have failed to settle before 30 days because the adverse trend of their business.	Need to implement close follow up actions to recovery the TODs by the branch managers.
(viii) Prevention of Money Laundering Act No 5 of 2006	It needs to be closely monitored the Pre-loading / Overpayment of Credit Cards to avoid abuse of credit cards for money laundering or terrorist financing purposes. And also, suspicious transactions need to be identified and evaluated. However, such monitoring is not functioned effectively.	At present, the Card Center has already put in place system control(s) to prevent any over payments. Steps have already been taken to refund over payments made by customers.	Need to closely monitor the Pre-loading / Overpayment of Credit cards to avoid abuse of credit cards.

1.8 Cash Management

Audit Issue	Management Comment	Recommendation
During the physical verification of damaged cash in hand at Gampha Regional Office ,it was observed that total damaged cash in hand as at 21 May 2018 was Rs.135.4 million. According to the comparison with six months period, it indicated significant increment in damaged cash after transfer of Rs. 80.8 million to head office during last 4 months.	It has been increase in damaged and defaced notes as the bank is very strict on such note due to the government adopting a clean notes policy.	Need to be take proper action through contacting relevant government officials.

1.9 Non -compliance with Tax Regulations

Reference to Laws, Non-compliance Rules Regulations etc.	Management Comment	Recommendation	
(i) Value Added Tax No.14 of 2002 and amendments there to.	It was noted that the bank has not collected VAT on some revenue items and due to that the bank has to bear an output tax of Rs. 19,412,393.	The system of collecting the VAT and NBT is automated. However, in certain instances, branches collect VAT and NBT manually and hence the system data is not matched with the GL balance. The same applies	Need to check the mapping of revenue accounts with VAT payable.

for FCBU transactions where VAT and NBT is collected manually. However, the Bank is currently in the process of formulating a mechanism to eliminate this anomaly.

- | | | | |
|--|---|---|--|
| (ii) Nations Building Tax Act, No.09 of 2009 and amendments thereto. | As per the Act, “liable turnover” means the sum received or receivable from the provision of service in Sri Lanka. Accordingly, NBT collected should be a part of liable turnover. It was noted that the bank has collected NBT from its customers, but such amount has not been considered as a part of the revenue. Hence NBT expense was understated by Rs. 763,695. | The system of collecting the VAT and NBT is automated. However, in certain instances, branches collect VAT and NBT manually and hence the system data is not matched with the GL balance. The same applies for FCBU transactions where VAT and NBT is collected manually. However, the Bank is currently in the process of formulating a mechanism to eliminate this anomaly. | Need to formulate a mechanism to eliminate this anomaly. |
|--|---|---|--|

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit before tax of Rs.24,406 million and the corresponding profit in the preceding year amounted to Rs.25,913 million. Therefore, a decline amounting to Rs.1,507 million of the financial result was observed. The reasons for the decline are increasing of interest expense, impairment charge, personal expenses and other expense by Rs.12,316 million, Rs.5,969 million, Rs.4,677 million and Rs.2,311 million respectively and decrease of other operating income by Rs.405 million.

2.2 Trend Analysis of major Income and Expenditure items

Net interest income and net gain from trading of the bank has increased by Rs.9,634 million or 19.1 per cent and Rs.1,773 million or 63.7 per cent respectively as compared with the previous year. The net operating income also increased by Rs.6,754 million or 11.2 per cent compare to the previous year. Impairment charges for loan and other losses increased by Rs.5,969 million or 442.7 per cent due to converting impairment provision method from incurred loss approach to expected credit loss approach. Personal expenses of the bank have increased by Rs.4,677 million or 30.7 per cent due to salary increments granted to employees as per the collective agreements with effect from 01 January 2018.

2.3 Ratio Analysis

Following observations are made on some important accounting ratios of the Bank for the year under review as compared with Central Bank annual statistics of Licensed Commercial Banks.

- (i) Return on Average Assets and Return on Equity had decreased by 21.05 per cent and 23.7 per cent respectively in the year 2018 compared with previous year.
- (ii) Although, Tier 1 and Total Capital Adequacy Ratios of the Bank had increased up to 11.1 per cent and 14.5 per cent during the year 2018, it indicates slightly below the sector ratio by 0.8 per cent and 0.5 per cent respectively.
- (iii) Interest income of Licensed Commercial Bank reported as Rs.948,171 million for the year 2018 and bank's contribution for the above was Rs.171,135 million or 18 per cent. Further profits of all Licensed Commercial Banks for the year 2018 were Rs.119,527 million and bank's contribution for the above was Rs.17,095 million or 14.3 per cent.

3. Operational Review

3.1 Uneconomic Transactions

3.1.1 Misuse of Vehicles

Audit Issue				Management Comment	Recommendation
(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.				The vehicle used by the Head of IT was returned to the bank on 24.07.2019.	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.
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.				The decision has been taken via BP No.487/2019, the vehicle used by former DGM (International Banking) and former CEO/GM will be purchased by them after paying 50% of the value.	
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 IT- Mr. Sadamal	2019.04.01	CAH-0702	2019.07.24		

DGM- International Banking-	2019.04.01	CAG- 3450	Still not Handed over
-----------------------------------	------------	--------------	-----------------------------

Ms.S.
Prathapasinghe

Chief Executive Officer-	2019.04.15	CAI- 4646 KM- 9238	Still not Handed over
--------------------------------	------------	-----------------------------	-----------------------------

Mr. Vasantha
Kumara

(ii) 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 per cent was introduced for this loan scheme which is 1.5 per cent 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.

BHRRC decided to offer an interest rate of 5 percent to provide an incentive considering the relatively small number of loans – less than 25 loans. BHRRC has the discretion to decide the interest rate including revising the interest rates as well.

Minutes of the BHRRC meeting held on 16 May 2018 has been adopted by the Board of Directors.

(iii) 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.

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.

Should strictly adhere to the provisions of the circular.

3.1.2 Remuneration to Employees on contract

Audit Issue	Management Comment	Recommendation
(i) 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 payment as they are governing by the separate contract agreements signed for relevant periods.	Not commented.	Should strictly adhere with the conditions of the contract to avoid contrary payments.
(ii) 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 two ladies officers 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.	Not commented.	Should strictly adhered with entitle payments.

3.2 Identified Losses

Audit Issue	Management Comment	Recommendation
(i) Dud Articles There was a court case against outside person regarding pawning of 96 dud bangles to bank in 2005. He started this fraud from 25 July 2005 by pawned 01pound of bangle to bank for Rs. 9,500 which had an assessed value of Rs. 9,787. Subsequently this accused continuously pawned articles every day up to 96 bangles with the support of the pawning officer and he was	we have already informed to the Finance Department to investigate as the insurance sum were claim for the above articles.	Necessary actions should be taken to claim for the loss.

granted over 90 per cent from assessed value of articles. However after obtaining the court order only Rs. 320,600 were recovered out of the total advance granted amount of Rs.991,200 without due interest.

Bank had not maintained any register to enter the articles which were handed over to the court.

Further fourteen dud bangles were physically available in the safe without following procedures mentioned in the section 13 of pawning manual.

(ii) Foreign Cheque Purchase

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 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.

Legal action initiated to claim the loss (50%) from Ceylinco Insurance Company.

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.

3.3 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(i) Branch network of the bank had reported a profit of Rs.10,904 million in 2018. Profit of Rs.75,145 million was generated by 199 branches while loss of Rs.64,241 million reported by 157 branches during the year under review.	Noted	Need to convert loss making branches into profit making.
(ii) 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.	Not commented.	Should strictly adhered with entitle payments.
(iii) Several instances were observed where branches had exceeded their insurance limits with related to Cash, ATM Cash & Gold Articles.	Managers were advised to be vigilant on the insurance limit and act accordingly.	Need to increase the insurance limits adequately.

3.4 Loans and Advances

Audit Issue	Management Comment	Recommendation
(i) 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 per cent shown as non-performing loan (NPL) balance. Total non-performing balance had been increased by Rs.11,899 million or 61 per cent under the year review comparing with the previous year.	Noted.	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.
(ii) Top 10 non-performing loans and advances of the Bank as at 31 December 2018 had been recorded as Rs.39,300.7 million with capital of Rs.13,119 million and interest of Rs.26,109 million.	Noted	Should take actions to recover the outstanding balances satisfactorily.

(iii) An amount of Rs.895.91 million non – performing loans and advances had been written off during the year 2018 which consisting capital of Rs.254.8 million and interest and other charges of Rs.641 million.	Noted	Should closely follow up the loan repayment on defaults immediately in order to prevent write off balances.
(iv)		
<p>a) <u>Loan Number: 1428001000005462</u> Above loan had been granted to purchase a Salt Powdering plant amounted to USD 120,000 (Rs.15.6 million) on 13 February 2015 based on the security of salt powdering plant and two personal guarantees of directors. Facility had been transferred to NPL on 13 November 2016 and outstanding amount as at 30 May 2018 was Rs.7.7 million. Though the several auctions had been held by the bank, bank had failed to resell the above machine at reasonable price because the serious damages occurred to the machine due to the flood at that area. Further it was observed that personal guarantees had no any repayment capacity with themselves at present.</p>	Legal action is being taken against the company directors to recover the O/S balance.	Need to take actions to recover the outstanding balances.
<p>b) <u>Loan Number: 1428001000005499 and 1428001000005453</u> Loan facilities amounting to Rs.5 million and Rs.15 million were issued for working capital requirement and to purchase of a land for business by mortgaging the proposed land to be purchase which has a market value of Rs.19 million according to the valuation of DGM evaluation committee dated 24 December 2014. Accordingly, the security was not sufficient to secure the two facilities. Although bank had done feasibility study & site visit on business and location of building, bank had not included flood damages into the special condition in the agreement to insure this land and building as this land & building was situated closed to a river. Subsequently these facilities were transferred to non-performing</p>	<p>Rs.5Mn-for working capital requirement Rs.15Mn-for purchase of land and building construction Through the land was purchased for the value of Rs.19Mn which was offered as security for the said loan facilities, after the building construction FSV was Rs.25.9Mn. therefore, facility was granted based on the property value after the construction.</p>	Need to take actions to recover the outstanding balance.

and customer had informed the bank about flood damages faced by the business by letter date 27 November 2016. Due to the aforesaid flood the operations of the business were discontinued and the value of property was diminished. Therefore, bank was unable to sell this land at reasonable value during the auction to recover the outstanding loan balances. It was observed that the bank had incurred a loss of Rs. 4.6 million and Rs.19.5 million respectively due to the weaknesses of the loan granting process.

In the insurance policy they have covered all the damages including floods. At the time this incident happened the insurance Company had agreed to pay around of Rs.400,000/- to repair the machine, but applicant refused that amount mentioning it is insufficient.

Usually this is not a flood effected area and it was mentioned in the external valuation report which was done prior to granting the loan facility. But due to subsequent unforeseen phenomena and conditions that came into existence in the area this land was floods affected.

(v) **Loan Number: 239100160874409**

The bank had granted Rs. 93.34 million as Temporarily Overdraft (TOD) facility to the customer bearing the above loan within 9 days from the date of opening the current account contrary to the requirement of maintain the current account with satisfactory deposits for minimum periods of six months to eligible to obtain bank overdraft as per the section 9.3.1 of pawning manual. Subsequently the above facility had been transferred to non- performing on 08 September 2008 and total outstanding balance as at the date of audit was Rs. 333.56 million consisting with capital of Rs. 95.90 million and interest of Rs. 237.65 million.

Ranasinghe Homes (Pvt) limited was a customer in Ja-ela branch during the period of concern and the manager who was on duty at the period was suspended from service due to violation of bank's Disciplinary Code.

Need to take actions to recover the outstanding balances.

Bank had taken steps upon the violation of circulars and bad management practices being revealed by suspending the responsible staff and court action was initiated against Ranasinghe Homes and its Directors to recovers the dues. Still there are no write off facilities. (391/12/MR)

(vi) **Loan Number: 239100180786341**

A customer worked as a director of a particular company had opened a current account on 09 August 1999 by depositing

All the above mentioned loans and TODs of Ja-ela branch

Need to take actions to recover the outstanding

Rs. 15,000 and the overdraft balance as at 02 September 2005 was Rs. 3.25 million. Thereafter remaining overdraft balance was transferred to new current account by increasing overdraft limit and the facility was further utilized up to Rs. 82 million. Subsequently facility was transferred to non-performing on 29 December 2008. The outstanding balance as at 31 May 2018 was Rs. 290 million.

were granted during 2008. Branch manager who worked during that period was suspended from service under the bank disciplinary code.

balances.

(vii) **Hiat Steel (Pvt) Ltd**

The company was allowed a credit package including seven facilities with capital amount of Rs. 153,054,406 during the years 1993 to 1996 and subsequently those facilities were transferred to non-performing category. The company has ceased its operations on 20 October 2005. Bank could not recover the total outstanding by disposing mortgaged asset and total outstanding was Rs.333,161,760 as at 25 June 2018.

Subsequent approvals has been received by B/P Nos 015/96,453/98 and 925/98.

Need to take actions to recover the outstanding balances.

Repayment capacity along with the cash flow has taken into consideration when approving the facility.

Bank has decided to write-off the debt amounting to Rs.81.07Mn as there was no means of recovery.

Operation of the Hiatt Steel (Pvt) limited was ceased immediate after the parate execution of the mortgage asset on 29/12/2005. The acquired mortgage asset consists of land, Steel structures, machinery, equipment and most of which are easily movable. Therefore outsourced security personal has been deployed to protect the properties as much as possible. Further valuation report has now been taken.

Dispose of the acquired mortgaged assets is difficult due to ongoing litigation by third party. However the bank is in the process of ascertaining possibilities to

have a compromise settlement for litigation and dispose the acquired assets to minimize the loss to the bank.

In view of the situation, the bank has decided to dispose the asset in the midst of 3rd party litigation. Accordingly, public tenders were called but disposal is not yet finalized.

(viii) Combo Lanka Industries LTD

The company was a family concerned limited liability and incorporated for the purpose of engaging a business of garment project under 200 garment scheme and the facilities granted by International Division were transferred to non-performing Category in the year 2000. The total outstanding balance was amounting to Rs.45, 363,519 as at 25 June 2018. Although the bank has filed a case against the company, bank was unable to precede due to incompleteness of the documents such as trust receipt, application and promissory note.

One director of the company and mortgagor expired. The Director Mr.Thambawita and their three children were substituted as defendants in the testamentary proceedings filed by the bank.

Need to take actions to recover the outstanding balance.

However, it is difficult to serve summons on them due to difficulty of ascertaining their correct addresses. In the meantime, we submitted a proposal to settle the debt availed by Combo Lanka (Pvt) Limited which is under consideration.

Debts availed by Galaxy Group Garments (Pvt) Limited which was incorporated under 200 garment scheme has been written-off.

(ix) City Construction (Pvt) Ltd

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 project with the change of management of the company. Even though the project was

The company has operated a current account No.309100352536720 and transfer the hotel income daily to his account.

Need to take actions to recover the outstanding balance.

The customer has agreed to pay Rs.100.00Mn from the accrued interest, considering

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.

their request the bank has made the reschedule proposal approved by BECC No.88/2012

As per the proposal out of the accrued interest up to 31.03.2012 (with concessionary rate of 14% & 10%) was Rs.181.72Mn

As per approved paper the bank has recovered Rs.100.00Mn from accrued interest and interest capitalized loan granted for Rs.50.00Mn.

As a concession the bank waived Rs.31.72Mn of accrued interest. (it is 17.45% of accrued interest)

(x) **Zaid Tea (Pvt) Ltd**

The bank had granted credit facilities to the above customer and subsequently those loans had been categorized as non-performing. Total due amounts as at 25 June 2018 was Rs.98, 798,666 without recovering due to the absence of recoverability of the securities.

Mortgaged assets was disposed and sale proceeds have been apportioned of the export proceed on collection basis has resulted to collapse the business and facilities were defaulted.

Need to take actions to recover the outstanding balance.

According to the available information recovery is very remote as Mr.Jamaldeen and Mrs.Naushad, husband and wife are not financially sound and no valuable assets to meet the liability.